

Západoslovenská energetika, a.s.

**Separate Financial Statements
and Independent Auditor's Report
31 December 2018**

March 2019

Translation note:

This version of our report is a translation from the original, which was prepared in Slovak. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

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Independent Auditor's Report

To the Shareholders, Supervisory Board, and Board of Directors of
Západoslovenská energetika, a.s.

Report on the audit of the 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 2018, 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 18 March 2019.

What we have audited

The Company's separate financial statements comprise:

- the separate statement of financial position as at 31 December 2018;
- 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. 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 other requirements of legislation 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 these requirements and the Code of Ethics.

To the best of our knowledge and belief, we declare that non-audit services that we have provided are in accordance with the applicable law and regulations in the Slovak Republic and that we have not provided non-audit services that are prohibited under Regulation (EU) No. 537/2014.

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The firm's ID No. (IČO): 35 739 347.

Tax Identification No. of PricewaterhouseCoopers Slovensko, s.r.o. (DIČ): 2020270021.

VAT Reg. No. of PricewaterhouseCoopers Slovensko, s.r.o. (IČ DPH): SK2020270021.

Spoločnosť je zapísaná v Obchodnom registri Okresného súdu Bratislava I, pod Vložkou č.: 16611/B, Oddiel: Sro.
The firm is registered in the Commercial Register of Bratislava I District Court, Ref. No.: 16611/B, Section: Sro.

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

Our audit approach

Overview

Materiality	<ul style="list-style-type: none"> Overall Company materiality: EUR 3,300 thousand, which represents approximately 5% of profit before tax.
Key audit matters	<ul style="list-style-type: none"> Bonds issue and related transaction costs

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 as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the separate financial statements as a whole.

<i>Overall materiality</i>	EUR 3,300 thousand (2017: EUR 3,590 thousand)
<i>How we determined it</i>	approximately 5% of profit before tax
<i>Rationale for the materiality benchmark applied</i>	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. 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

Bonds issue and related transaction costs

As described in Note 15, the Company issued bonds with a nominal value of EUR 315,000 thousand on 2 March 2018. The bonds are traded on the Irish Stock Exchange.

We focused our attention on this transaction due to its materiality and impact on the financial statements.

We have obtained understanding of the terms and conditions of the issued bonds by inspecting the prospectus and other related documentation. We tested transactions costs that were deducted from the amortised cost of the liability for the issued bonds by tracing them to underlying documentation. We inspected bank statements and verified that the issue proceeds are correctly presented in the cash flow statement on a gross basis.

The financial statements reflect the results of our work and no further adjustments or changes relating to this transaction are required in the accompanying financial statements.

Reporting on other information in the annual report

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

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

When the annual report becomes available to us, our responsibility will be to read the other information identified above and, in doing so, to consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the annual report, we will also consider whether it includes the disclosures required by the Accounting Act, when it becomes available to us. This will include checking the consistency of the annual report with the separate financial statements, and whether the annual report has been prepared in accordance with the Accounting Act.

In addition, our updated report will either state that we have nothing to report in respect of the above, or will describe any material misstatements we identified in the annual report based on our knowledge and understanding of the Company and its environment, which we obtained during our audit.

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 the 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 International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit, 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


Our appointment as independent auditors

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


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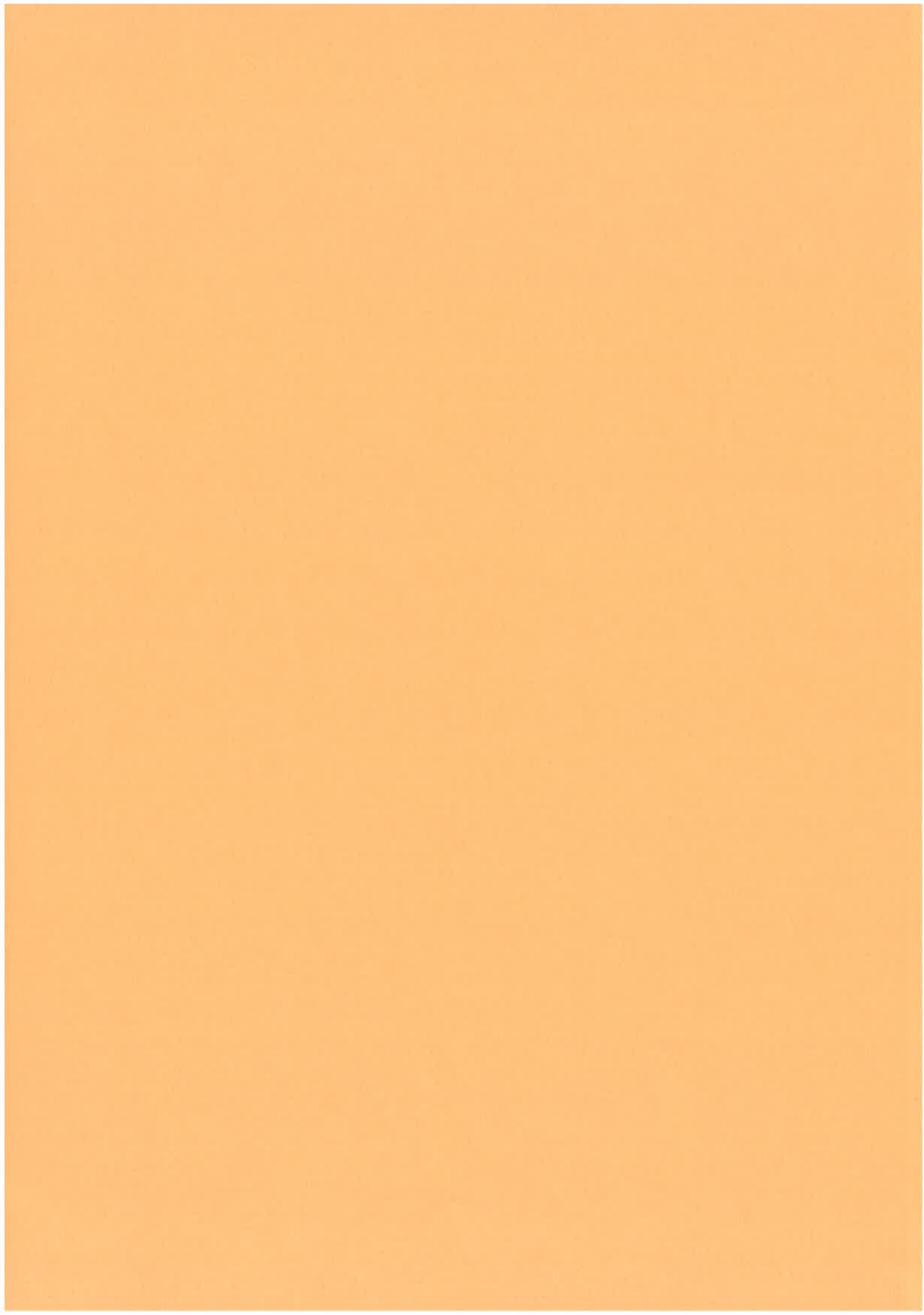
Bratislava, 20 March 2019




Mgr. Juraj Tučný, FCCA
UDVA licence No. 1059



Our report has been prepared in Slovak and in English languages. In all matters of interpretation of information, views or opinions, the Slovak language version of our report takes precedence over the English language version.



Západoslovenská energetika, a.s.
Separate Statement of Financial Position

<i>In thousands of EUR</i>	Note	31 December 2018	31 December 2017
ASSETS			
Non-current assets			
Property, plant and equipment	5	32,412	33,835
Intangible assets	6	637	298
Investment properties	7	13,681	10,655
Investments in subsidiaries, associates and joint ventures	8	284,736	286,736
Loans provided	9	621,281	315,000
Deferred income tax asset	15	167	-
Total non-current assets		952,914	646,524
Current assets			
Inventories	10	262	27
Loans provided and accrued interest on loans receivable within one year	9	4,875	319,833
Trade and other receivables	11	5,648	2,112
Current income tax refund receivable		622	122
Receivables from cash pooling	20	1,267	1,296
Cash and cash equivalents	12	37,378	89,963
Assets held for sale and discontinued operations	30	36,868	8,861
Total current assets		86,920	422,214
TOTAL ASSETS		1,039,834	1,068,738
EQUITY			
Share capital	13	196,969	196,969
Legal reserve fund	14	39,421	39,421
Retained earnings		108,614	118,434
TOTAL EQUITY		345,004	354,824
LIABILITIES			
Non-current liabilities			
Issued bonds	15	626,911	314,396
Deferred income tax liabilities	16	-	1,551
Post-employment defined benefit obligations	17	604	761
Other long term employee benefits	18	157	177
Total non-current liabilities		627,672	316,885
Current liabilities			
Issued bonds and accrued interest on issued bonds payable within one year	15	6,882	319,114
Trade and other payables	19	8,109	7,293
Liabilities from cash pooling	20	52,167	68,241
Liabilities directly associated with assets held for sale and discontinued operations	30	-	2,381
Total current liabilities		67,158	397 029
TOTAL LIABILITIES		694,830	713,914
TOTAL LIABILITIES AND EQUITY		1,039,834	1,068,738

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

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

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

Západoslovenská energetika, a.s.
Separate Statement of Profit or Loss and Other Comprehensive Income

<i>In thousands of EUR</i>	Note	2018	2017
Continuing operations			
Revenues	21	16,545	18,248
Raw material, energy and other consumption	22	(1,477)	(1,232)
Employee benefits	23	(7,767)	(7,782)
Depreciation of property, plant and equipment and investment properties	5, 7	(2,633)	(2,437)
Amortisation of intangible assets	6	(134)	(153)
Other operating expenses	24	(15,508)	(9,323)
Dividend income	25	66,560	67,175
Other operating income	26	11,283	4,874
Profit from operations		66,869	69,370
Finance income / (costs)			
Interest income	28	22,146	22,699
Interest and similar expenses	27	(25,316)	(22,615)
Finance income / (costs), net		(3,170)	84
Profit before tax		63,699	69,454
Income tax expense	16	338	(620)
Profit for the year from continuing operations		64,037	68,834
Profit for the year from discontinued operations	30	-	1,860
Profit for the year		64,037	70,694
Other comprehensive income			
<i>Items that will not be subsequently reclassified to profit or loss</i>			
Actuarial remeasurements of post-employment defined benefit obligations	17	146	(140)
Deferred tax on actuarial remeasurements of post-employment defined benefit obligations	16	(31)	29
Total other comprehensive income for the year		115	(111)
Total comprehensive income for the year		64,152	70,583
Total comprehensive income for the year from continuing operations		64,152	68,776
Total comprehensive income for the year from discontinued operations	30	-	1,807

Západoslovenská energetika, a.s.
Separate Statement of Changes in Equity

<i>In thousands of EUR</i>	Share capital	Legal reserve fund	Retained earnings	Total equity
Balance at 1 January 2017	196,969	39,421	98,315	334,705
Profit for the year	-	-	70,694	70,694
Other comprehensive income for the year	-	-	(111)	(111)
Total comprehensive income for 2017	-	-	70,583	70,583
Dividends declared and paid (Note 13)	-	-	(50,465)	(50,465)
Other	-	-	1	1
Balance at 31 December 2017	196,969	39,421	118,434	354,824
The first adoption of new standard IFRS 9, net of deferred tax	-	-	(3,482)	(3,482)
Balance at 31 December 2017	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 13)	-	-	(70,490)	(70,490)
Balance at 31 December 2018	196,969	39,421	108,614	345,004

Západoslovenská energetika, a.s.
Separate Statement of Cash Flows

<i>In thousands of EUR</i>	Note	2018	2017
Cash flows from operating activities			
Profit before tax from continuing operations		63,699	69,454
Profit before tax from discontinued operations	30	-	2,413
Profit before tax		63,699	71,867
Adjustments for non-cash items:			
- Depreciation of property, plant and equipment and investment properties	5, 7	2,633	3,575
- Loss / (gain) on disposal of property, plant and equipment	5	(386)	124
- Amortisation of intangible assets	6	134	394
- Gain on disposal part of business	38	(2,153)	-
- Interest income		(22,146)	(22,699)
- Interest and similar expense		25,113	22,621
- Dividend income	25	(66,560)	(67,175)
- Provision for granted loan under IFRS 9		4,312	-
- Other non-cash items		66	300
Cash generated from operations before changes in working capital		4,712	9,007
Changes in working capital:			
- Inventories		(235)	22
- Trade and other receivables		(3,259)	(950)
- Receivables and liabilities from cash pooling	20,30	(44,427)	(3,554)
- Trade and other payables		(1,491)	(3,244)
- Provisions for liabilities and charges and deferred income		(719)	114
Cash generated from operations before interest and taxes		(45,419)	1,395
Interest income received		22,104	22,699
Interest expense paid		(21,697)	(21,979)
Income tax paid	39	(914)	(342)
Net cash from operating activities		(45,926)	1,773
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(3,627)	(6,140)
Dividend income received	25	66,560	66,863
Proceeds from sale of property, plant and equipment and intangible assets	5	606	61
Proceeds from sale of part of the business	38	9,902	-
Proceeds from liquidation of an associate	8	-	507
Proceeds from sale of other financial investments	8	-	33
Proceeds from decrease of financial investments in subsidiaries	8	2,000	-
Payment for acquisition of subsidiary	30	(8,486)	-
Net cash used in investing activities		66,955	61,324
Cash flows from financing activities			
Dividends paid	13	(70,490)	(50,465)
Proceeds from issued bonds		312,556	-
Other expenditure related to issued bonds		(680)	-
Expenditure on repayment of issued bonds		(315,000)	-
Net cash used in financing activities		(73,614)	(50,465)
Net change in cash and cash equivalents		(52,585)	12,632
Cash and cash equivalents at the beginning of the year		89,830	77,198
Cash and cash equivalents at the end of the year	12	37,245	89,830

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 2018 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. which is a company providing services and ZSE Elektrárne, s.r.o. (till 16 August 2018: E.ON Elektrárne s.r.o.), which operates gas-steam power plant. All of the subsidiaries are incorporated in the Slovak Republic and are wholly owned by the Company.

Registered address and place of business. The Company's registered address is Čulenova 6, Bratislava 816 47, Slovak Republic. Its identification number (IČO) is: 35 823 551 and its tax identification number (IČ DPH) is: SK2020285256.

Presentation currency. These 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 2018 and 31 December 2017. The Company is jointly controlled by E.ON and the Slovak government as a result of a shareholders agreement, which requires the parties to act jointly together to direct the activities that significantly affect the returns of the reporting entity. Refer to Note 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 Company employed 166 staff on average during 2018, of which 8 were management (2017: 306 employees on average, of which 15 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. Apart from the accounting policy changes resulting from the adoption of IFRS 9 and IFRS 15 effective from 1 January 2018, these policies have been consistently applied to all the periods presented, unless otherwise stated.

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

Subsidiaries, associates 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.

Associates are all entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

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

Investments in subsidiaries, associates and in 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.

2 Significant Accounting Policies (continued)

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.

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.

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 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 fair value and subsequently measured at amortised cost using the effective interest method, net of provision for impairment.

When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against impairment losses within "other operating expenses".

Value added tax. Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the statement of financial position on a net basis. Where provision has been made for the impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

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

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. For assets that are purchased or originated credit impaired ("POCI") at initial recognition, the effective interest rate is adjusted for credit risk, i.e. it is calculated based on the expected cash flows on initial recognition instead of contractual payments.

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

Financial assets – classification and subsequent measurement – measurement categories. The Company 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 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 disclosed in statement of profit or loss and other comprehensive income and measured at FVTPL.

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the 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 critical judgements applied by the Company in determining the business models for its financial assets.

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. Refer to Note 4 for critical judgements applied by the Company in performing the SPPI test for its financial assets.

The Company holds only trade receivables, contractual assets 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 Company 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 accounting 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 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. Given that almost all receivables are against group companies, the Company has considered the expected development of GDP growth in Slovakia and 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 the indicators corresponds to the development of previous years. Receivables against third parties are insignificant.

In 2017 provision for impairment of receivables was established when there was objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy or financial reorganisation, default or delinquency in payments (more than 1 month overdue) were considered objective evidence that the trade receivable was impaired.

The amount of the provision was the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset was reduced using an allowance account, and the amount of the loss 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 the financial assets to an unrelated third party.

2 Significant Accounting Policies (continued)

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

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 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 an unconditional 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.

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

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. The amount of revenue is not considered reliably measurable until all contingencies relating to the sale have been resolved.

The Company provides supporting services for its subsidiaries Západoslovenská distribučná, a.s. and ZSE Energia, a.s. 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.

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.

2 Significant Accounting Policies (continued)

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

3 New Accounting Pronouncements

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

The significant new accounting policies applied in the current period are described in Note 9. Accounting policies applied prior to 1 January 2018 and applicable to the comparative information are disclosed in Note 9.

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

	Measurement category		Carrying value under IAS 39 - 31. december 2017	Effect of adopting IFRS 9				Carrying value under IFRS 9 - 1 January 2018
<i>In thousands of EUR</i>	IAS 39*	IFRS 9*		Reclassification		Remeasurement		
				Mandatory	Voluntary	ECL	Other	
Cash and cash equivalents	L&R	AC	89,963	-	-	-	-	89,963
Trade and other receivables:	L&R	AC	2,112	-	-	-	-	2,112
Loans Provided	L&R	AC	634,833	-	-	(4,407)	-	630,426
Receivables from cash pooling	L&R	AC	1,296	-	-	-	-	1,296
Total financial assets			728,204	-	-	(4,407)	-	723,797

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

3 New Accounting Pronouncements (continued)

(a) Cash and cash equivalents

All classes of cash and cash equivalents as disclosed in Note 12 were reclassified from loans and receivables ("L&R") measurement category under IAS 39 to AC measurement category under IFRS 9 at the adoption date of the standard. The ECLs for cash and cash equivalents balances were insignificant.

(b) Trade and other receivables

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

The following table reconciles the prior period's closing provision for impairment measured in accordance with incurred loss model under IAS 39 to the new credit loss allowance measured in accordance with expected loss model under IFRS 9 at 1 January 2018:

<i>In thousands of EUR</i>	ECL under IAS 39 at 31 December 2017	Effect of adopting IFRS 9	ECL under IFRS 9 at 1 Januar 2018
Loans Provided	-	4,407	4,407
Total	-	4,407	4,407

The impact of the Standard on the Financial Statements of the Company was significant mainly due to impairment provisions for loans provided.

At 31 December 2018, all Company's financial liabilities were carried at AC. The income tax effect of the transition to IFRS 9 as at 1 January 2018 is shown in the Separate Statement of Changes in Equity.

IFRS 15, Revenue from Customer Contracts (Standard issued on 28 May 2014 and effective in the EU for accounting periods beginning on or after 1 January 2018). This new standard introduces the principle that revenues are to be recorded at the transaction price at the time the goods or services are transferred to the customer. Any bundled goods or services that are distinguishable must be billed separately and discounts or pay-backs from the sales price must be allocated to individual items. If the price is for any reason variable, a minimum value that is highly unlikely to be derecognised must be posted. The cost of purchasing a contract from customers must be capitalized and depreciated over a period of time during which the Company carries out the economic benefits of the contract with the customer. The company does not offer any discounts or guarantees. Accounting of revenues is from time point of view not significantly different from the accounting for IAS 11 and IAS 18. The Company assessed the impact of this Standard on its financial statements as not significant.

The following revised Standards and Interpretations entered into force for the Company from 1 January 2018 but did not have a significant impact on the Company:

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

3 New Accounting Pronouncements (continued)

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2019 or later, and which the Company has not early adopted

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. IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the statement of profit or loss and other comprehensive income. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The impact of IFRS 16 on the Company 's financial statements IFRS 16

The Company has created a project team that has reviewed the Company's lease contracts for the previous period in view of the new lease accounting rules in IFRS 16. This Standard will have an impact on accounting for the group of Operating Leases. At the balance sheet date, the Company has irrevocable commitments from operating leases of 3,129 thousand EUR (Note 37). Of these commitments the short-term leases and low value leases are insignificant and will be reported on a straight-line basis as an expenses in the Statement of Profit and Loss.

For remaining leases, the Company expects to recognize an asset with a right of use of approximately 3,424 thousand EUR (without discounting) as of 1 January 2019 and a lease liability of 3,424 thousand EUR (without discounting). Total net assets will not change.

The Company expects the net profit after tax to be reduced by approximately 0 thousand. EUR as a result of the adoption of new accounting policies. It is expected that adjusted EBITDA will increase by approximately 656 thousand EUR, since operating lease costs were included in EBITDA, but the depreciation of the asset with the right to use and interest on the lease liability is excluded in the calculation of this indicator.

Cash flows from operating activities will increase and cash flows from financial activities will decrease by approximately 656 thousand EUR, since repayments of principal as parts of a lease liability are classified as cash flows from financing activities.

The activities of the Company as a lessee are material and therefore the Company expects material impact on the financial statements.

The following table shows the comparison of future payments from operating leases disclosed in Note. 37 to lease liability:

<i>In thousands of EUR</i>	31 December 2018
Total future payments from non-cancellable operating leases (Note 37)	3,424
Total lease liability	3,424

3 New Accounting Pronouncements (continued)

First-time Adoption of IFRS 16

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

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

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

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).
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2015-2017 cycle - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).
- Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).
- Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).

4 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.

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

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 takes into account the amount of receivables turnover during the current period, revenues for the current period and the amount of receivables written off. The Company has considered the expected GDP development in Slovakia and the expected payment discipline for the next 12 months. Based on these indicators, it was decided that the creation of impairment provisions for trade receivables based on historical data is sufficient, as the development of the indicators corresponds to the development of previous years. The expected development of individual macroeconomic indicators has an insignificant impact on the value of expected credit losses.

5 Property, Plant and Equipment

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

<i>In thousands of EUR</i>	Land	Buildings	Equipment, vehicles and other assets	Capital work in progress	Total
Cost at 1 January 2017	4,114	33,907	32,676	4,842	75,539
Accumulated depreciation and impairment losses	-	(12,772)	(23,756)	-	(36,528)
Carrying amount at 1 January 2017	4,114	21,135	8,920	4,842	39,011
Transfer to investment property	-	(156)	-	-	(156)
Additions	-	-	-	3,923	3,923
Transfers	26	1,462	2,307	(3,795)	-
Depreciation charge	-	(771)	(2,299)	-	(3,070)
Disposals	(5)	(110)	(70)	(299)	(484)
Transfer to assets held for sale and discontinued operations	-	(1)	(4,495)	(893)	(5,389)
Cost at 31 December 2017	4,135	35,092	23,963	3,778	66,968
Accumulated depreciation and impairment losses	-	(13,533)	(19,600)	-	(33,133)
Carrying amount at 31 December 2017	4,135	21,559	4,363	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	-	(826)	(1,334)	-	(2,160)
Disposals	-	-	-	(65)	(65)
Transfer to assets held for sale and discontinued operations	-	-	-	-	-
Cost at 31 December 2018	4,138	33,841	24,788	3,922	66,689
Accumulated depreciation and impairment losses	-	(13,348)	(20,929)	-	(34,277)
Carrying amount at 31 December 2018	4,138	20,493	3,859	3,922	32,412

The Company holds insurance against damages caused by natural disasters up to EUR 244,278 thousand for buildings and up to amount of EUR 42,881 thousand for equipment, fixtures, fittings and other assets (2017: EUR 243,719 thousand and EUR 36,633 thousand).

5 Property, Plant and Equipment (continued)

The above disclosures include carrying value of assets leased out under operating leases as follows:

<i>In thousands of EUR</i>	2018	2017
Equipment, vehicles and other assets	5,962	11,277
Total carrying value of assets leased out under operating leases	5,962	11,277

Above stated rental income is presented in Note 26. Future rental income due within one year from non-cancellable operating leases is EUR 980 thousand (2017: EUR 224 thousand), amount due from two to five years is EUR 1,960 thousand (2017: EUR 0 thousand) and the amount due after five years is EUR 0 thousand (2017: EUR 0 thousand).

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

<i>In thousands of EUR</i>	2018	2017
Net book value of disposals	65	484
(Loss) / gain on disposal of property, plant and equipment	386	(124)
Other non-cash movements	(65)	(299)
Net book value of assets related to disposal part of business	220	-
Proceeds from disposals	606	61

6 Intangible Assets

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

<i>In thousands of EUR</i>	Software and similar assets	Assets not yet available for use	Total
Cost at 1 January 2017	27,811	89	27,900
Accumulated amortisation and impairment losses	(27,239)	-	(27,239)
Carrying amount at 1 January 2017	572	89	661
Additions	-	128	128
Transfers	102	(102)	-
Amortisation charge	(394)	-	(394)
Transfer to assets held for sale and discontinued operations	(80)	(17)	(97)
Cost at 31 December 2017	27,075	98	27,173
Accumulated amortisation and impairment losses	(26,875)	-	(26,875)
Carrying amount at 31 December 2017	200	98	298

6 Intangible Assets (continued)

<i>In thousands of EUR</i>	Software and similar assets	Assets not yet available for use	Total
Cost at 1 January 2017	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 Investment Properties

The Company leases out part of its administrative and operational buildings under operating leases mainly to its subsidiaries.

Movements in the carrying amount of the investment properties were as follows:

<i>In thousands of EUR</i>	2018	2017
Cost at 1 January	15,777	15,158
Accumulated depreciation and impairment losses	(5,122)	(4,751)
Carrying amount at 1 January	10,655	10,407
Transfer from property, plant and equipment to investment property	1,709	156
Additions	1,790	597
Depreciation charge	(473)	(505)
Cost at 31 December	20,137	15,777
Accumulated depreciation and impairment losses	(6,456)	(5,122)
Carrying amount at 31 December	13,681	10,655

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.

Above stated rental income is presented in Note 26. Future rental income due within one year from non-cancellable operating leases is EUR 770 thousand (2017: EUR 482 thousand), amount due from two to five years is EUR 1,477 thousand (2017: EUR 1,279 thousand) and the amount due after five years is EUR 86 thousand (2017: EUR 123 thousand).

8 Investments in Subsidiaries, Associates and Joint Ventures

<i>In thousands of EUR</i>	2018	2017
Total investments at the beginning of the year	286,736	287,337
Additions	-	-
Disposals	(2,000)	(600)
Impairment	-	-
Other	-	(1)
Total investments at the end of the year	284,736	286,736

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.

Disposals during the year 2017 represent the completion of liquidation of the associate E.ON Business Services Slovakia spol. s r. o. v likvidácii on 30 November 2017 and the sale of the whole ownership interest held in company EFR CEE Szolgáltató Kft., Hungary. All of the subsidiaries, associates and joint ventures were incorporated and operate in the Slovak Republic.

<i>In thousands of EUR</i>	% *	Activities	2018	2017
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	2,200
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
Total investments in subsidiaries			284,179	286,179
Energotel, a.s.	20	Telecommunication services	525	525
Total investments in joint ventures			525	525
Other			32	32
Total investments in subsidiaries, associates and joint ventures			284,736	286,736

* 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.

9 Loans Provided

An overview of loans provided is as follows:

<i>In thousands of EUR</i>	2018	2017
Loan 1 provided to Západoslovenská distribučná, a.s. - principal	315,000	-
Loan 2 provided to Západoslovenská distribučná, a.s. - principal	315,000	315,000
Impairment provision for loans under IFRS 9	(8,719)	-
Total loans provided – non-current	621,281	315,000
Loan 1 provided to Západoslovenská distribučná, a.s. - principal	-	315,000
Accrued interest on loans receivable within one year	4,875	4,833
Total loans provided – current	4,875	319,833
Total loans provided	626,156	634,833

The movements in the provision for loans granted were as follows:

<i>In thousands of EUR</i>	Credit loss allowance	Gross carrying amount
At 1 January 2018	4,407	630,000
<i>Movements with impact on credit loss allowance charge for the period:</i>		
New originated or purchased	4,586	315,000
Changes to ECL measurement model assumptions	1,361	-
Unwinding due to asset approaching maturity	(1,635)	(315,000)
At 31 December 2018	8,719	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 of 3.04 % p.a. under the Amended Agreement issued on 27 September 2018 was extended to 2 March 2028 and shall bear interest of 2.00% p.a. The loan 2 is due on 1 October 2023 and carries a coupon 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 new IFRS 9, the Company created a provision for long-term loans of EUR 8,719 thousand at 31 December 2018. 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 34.

10 Inventories

The inventory items included material, spare parts and goods and are shown after provision for slow-moving materials and spare parts of EUR 262 thousand (2017: EUR 1 thousand). The cost of inventories recognized as expense and included in 'Raw materials, energy and other consumption' is disclosed in Note 22.

11 Trade and Other Receivables

<i>In thousands of EUR</i>	2018	2017
Trade receivables	5,197	1,800
Less impairment provision for trade receivables	(109)	(134)
Trade receivables, net	5,088	1,666
Prepayments	560	446
Total trade and other receivables	5,648	2,112

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

<i>In thousands of EUR</i>	2018	2017
Provision for impairment at 1 January	134	87
Impairment loss expense	(20)	47
Amounts written off during the year as uncollectible	(5)	-
Provision for impairment at 31 December	109	134

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 of other receivables is calculated based on ageing analysis of individual receivables and the type of the customer.

The credit quality of trade receivables is as follows:

<i>In thousands of EUR</i>	2018	2017
<i>Neither past due nor impaired</i>		
- collected by 31 January after the reporting period	608	307
- not collected by 31 January after the reporting period and not overdue	2,787	1,334
- amounts that became overdue after the reporting period	739	1
Total neither past due nor impaired	4,134	1,642
<i>Individually impaired</i>		
1 to 30 days past due	509	28
31 to 60 days past due	428	1
61 to 90 days past due	1	-
91 to 120 days past due	18	17
121 to 360 days past due	29	19
Over 360 days past due	78	93
Total individually impaired before provision for impairment	1,063	158
Less provision for impairment	(109)	(134)
Total trade receivables, net of provision	5,088	1,666

11 Trade and Other Receivables (continued)

The Company has a concentration of credit risk towards its subsidiaries and other related parties. Refer to Note 39. 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 maturity analysis of previous periods, taking into account the probability of repayment for subsequent periods.

The credit loss allowance for trade and other receivables at 31 December 2018 is presented in the table below:

At 31 December 2018	Loss rate	Gross carrying amount	ECL
Trade receivables			
- current	0.01%	4,134	-
- less than 30 days overdue	0.40%	509	2
- 31 to 60 days overdue	0.01%	428	-
- 61 to 90 days overdue	0.01%	1	-
- 91 to 120 days overdue	61.12%	18	11
- 121 to 360 days overdue	62.07%	29	18
- over 360 days overdue	100.00%	78	78
Total trade receivables (gross carrying amount)		5,197	
Credit loss allowance		(109)	
Total trade receivables from contracts with customers (carrying amount)		5,088	

12 Cash and Cash Equivalents

<i>In thousands of EUR</i>	2018	2017
Current accounts with banks	37,378	89,963
Total cash and cash equivalents in the statement of financial position	37,378	89,963
Less restricted cash balances	(133)	(133)
Total cash and cash equivalents in the statement of cash flows	37,245	89,830

The Company has a concentration of cash and cash equivalents balances towards 4 banks (2017: 4 banks).

12 Cash and Cash Equivalents (continued)

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

<i>In thousands of EUR</i>	2018	2017
<i>Neither past due nor impaired</i>		
Credit rating A1 by Moody's	22	63
Credit rating A2 by Moody's	5,549	54,007
Credit rating A3 by Moody's	31,672	35,890
Credit rating A- by Fitch	2	3
Total cash and cash equivalents	37,245	89,963

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

As at 31 December 2018, the Company issued guarantees in favour of its subsidiary ZSE Energia, a.s. in total amount of EUR 10,403 thousand (2017: 8,341 thousand). Given that the issued guarantees were issued in favor of the subsidiary, the risk was assessed as negligible and therefore the Company does not expect any future losses. The fair value of issued guarantees is insignificant.

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.

13 Share Capital

The Company issued and has outstanding 5,934,594 ordinary shares (2017: 5,934,594 shares) with a par value of EUR 33.19 each. All issued shares are fully paid in.

The Company is jointly controlled by E.ON and the Slovak government as a result of a shareholders agreement, which requires the parties to act together to direct the activities that significantly affect the returns of the reporting entity. The entity's governance structure dictates that the entity's strategic plan be approved by representatives of both E.ON and the Slovak government. Further, any decisions by general meeting of shareholders must be made jointly by the existing shareholders, because a qualified two thirds majority of votes is required to pass any decision, while contractual restrictions exist for transfer of shares to parties not under control of existing shareholders.

The general meeting of the Company's shareholders approved the Company's prior year separate financial statements and declared dividends of EUR 70,490 thousand or EUR 11.88 per share (2017: dividends of EUR 50,465 thousand or EUR 8.50 per share). Slovak legislation identifies distributable reserves as retained earnings reported in the separate financial statements of the Company which amount to EUR 108,614 thousand (2017: EUR 118,434 thousand).

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 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:

<i>In thousands of EUR</i>	2018	2017
Issued bonds – non-current	626,911	314,396
Total issued bonds – non-current	626,911	314,396
Issued bonds – current	-	315,000
Accrued interest on issued bonds payable within one year and amortised transaction costs of the bonds	6,882	4,114
Total issued bonds – current, accrued interest on issued bonds payable within one year and amortised transaction costs of the bonds	6,882	319,114
Amortised cost carrying value of the bonds	633,793	633,510

16 Income Taxes

Income tax expense comprises the following:

<i>In thousands of EUR</i>	2018	2017
Current tax at standard rate of 21% (2017: 21%)	414	1,000
Deferred tax	(752)	173
Income tax expense for the year	(338)	1,173
Income tax expense for the year from continuing operations	(338)	620
Income tax expense for the year from discontinued operations	-	553

16 Income Taxes (continued)

In 2018, the applicable standard income tax rate was 21% (2017: 21%). A reconciliation between the reported income tax charge and the theoretical amount that would arise using the applicable tax rates is as follows:

<i>In thousands of EUR</i>	2018	2017
Profit before tax from continuing operations	63,699	69,454
Profit before tax from discontinued operations	-	2,413
Profit before tax	63,699	71,867
Theoretical tax charge at applicable tax rate of 21% (2017: 21%)	13,377	15,092
Non-deductible expenses / (non-taxable income) for which deferred tax was not recognised		
- dividend income not subject to tax	(13,978)	(14,107)
- expenses not deductible for tax purposes	294	159
Other	(31)	29
Income tax expense for the period	(338)	1,173

The deferred taxes are expected to be recovered or settled after more than twelve months after the end of the reporting period because income tax returns are due annually, that is, the deferred tax outstanding at 31 December 2018, that will become current tax in 2019, will be settled in 2020 upon filing the 2019 tax return. The corporate tax advance payments are calculated based on prior year taxes and are thus unrelated to deferred tax balances or the current tax expense expected for subsequent years.

Deferred income tax assets and liabilities are 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:

<i>In thousands of EUR</i>	2018	2017
Differences between tax base and carrying value of property, plant and equipment	2,440	2,344
Post-employment defined benefit obligation	(127)	(160)
Other long term employee benefits	(33)	(37)
Other liabilities	(546)	(515)
Provision for impairment of trade receivables	(9)	(11)
Provision for impairment of long-term loans (IFRS 9)	(1,831)	-
Other	(61)	(70)
Total net deferred tax assets and liability	(167)	1,551

The movements in deferred taxes for temporary differences were recognised in profit or loss except for EUR (31) thousand (from this EUR (31) thousand is related to continuing operations and EUR 0 thousand to discontinued operations) (2017: EUR (29) thousand, from this EUR (15) thousand is related to continuing operations and EUR (14) thousand to discontinued operations) for actuarial remeasurements of post-employment defined benefit obligation, which was recognised in other comprehensive income and (925) thousand EUR, which relates to the provision for a loan granted under IFRS 9, which was recognized in retain earnings at 1 January 2018.

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) 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, 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.

17 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:

<i>In thousands of EUR</i>	2018	2017
Present value of unfunded post-employment defined benefit obligations at the beginning of the year	761	1,260
Current service cost from continuing operations	67	53
Interest cost from continuing operations	9	7
Past service costs due to changes in the defined benefit plan rules from continuing operations	-	-11
Total expense from continuing operations (Note 23)	76	49
Current service cost from discontinued operations	-	48
Interest cost from discontinued operations	-	6
Past service costs due to changes in the defined benefit plan rules from discontinued operations	-	-11
Total expense from discontinued operations	-	43
Total expense	76	92
<i>Actuarial remeasurements from continuing operations:</i>		
attributable to changes in financial assumptions	(97)	45
attributable to changes in demographic assumptions	(64)	-
attributable to experience adjustments	15	28
Total actuarial remeasurements from continuing operations recognised in other comprehensive income	(146)	73
<i>Actuarial remeasurements from discontinued operations:</i>		
attributable to changes in financial assumptions	-	41
attributable to changes in demographic assumptions	-	-
attributable to experience adjustments	-	26
Total actuarial remeasurements from discontinued operations recognised in other comprehensive income	-	67
Total actuarial remeasurements recognised in other comprehensive income	(146)	140
Benefits paid during the year	(32)	(29)
Transfer to liabilities directly associated with assets held for sale and discontinued operations (Note 30)	-	(702)
Other changes	(55)	-
Present value of unfunded post-employment defined benefit obligations at the end of the year	604	761

17 Post-Employment Defined Benefit Obligations (continued)

The principal actuarial assumptions were as follows:

	2018	2017
Number of employees at 31 December	168	314
Staff turnover	5.29% p.a.	4.55% p.a.
Expected salary increases short-term	4.00% p.a.	5.00% p.a.
Expected salary increases long-term	2.00% p.a.	4.00% p.a.
Discount rate	1.50% p.a.	1.30% p.a.

In 2018, Slovak legislation also increased a cap on social security tax payable on the post-employment benefits, which in combination with salary level assumptions resulted in an actuarial loss presented above as a loss attributable to changes in demographic assumptions. Management applied its judgement in determining that the changes in legislation are not past service costs caused by changes in the benefit plan rules and thus recognised the effects in other comprehensive income as an actuarial remeasurement caused by changes in social security tax assumptions.

18 Other Long Term Employee Benefits

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

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

19 Trade and Other Payables

<i>In thousands of EUR</i>	2018	2017
Trade payables	3,105	39
Other accrued liabilities	2,254	2,225
Other financial liabilities	609	2,342
Total financial instruments within trade and other payables	5,968	4,606
Employee benefits payable	339	299
Social security on employee benefits	239	187
Accrued staff costs	1,147	1,154
Advance payments	19	16
Value added tax payable	191	831
Other payables	206	200
Total trade and other payables	8,109	7,293

The Company had overdue trade payables of EUR 24 thousand (2017: EUR 13 thousand).

20 Receivables and Liabilities from Cash Pooling

<i>In thousands of EUR</i>	2018	2017
ZSE MVE, s. r. o.	1,088	1,229
ZSE Business Services, s. r. o.	179	67
Total receivables from cash pooling	1,267	1,296
ZSE Energia, a.s.	6,587	13,475
ZSE Energy Solutions, s.r.o.	98	2,064
ZSE Development, s.r.o.	612	556
Západoslovenská distribučná, a.s.	44,870	52,146
Total liabilities from cash pooling	52,167	68,241

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. (2017: 0.4% p.a.). The interest rate on liabilities from cash pooling was 0.05% p.a. (2017: 0.05% p.a.).

The cash pooling receivables are neither past due nor impaired and are presented above in descending order of their credit quality. Under the new IFRS 9 standard, a cash pooling receivable is payable on demand, the counterparties are subsidiaries with sufficient amount of assets, therefore the performance risk is assessed as negligible and the Company does not expects any losses.

21 Revenues

Revenues comprise the following:

<i>In thousands of EUR</i>	2018	2017
Services provided to subsidiaries, associates and to the shareholder	15,601	16,850
Other revenues	944	1,398
Total revenues	16,545	18,248

* The revenues shown in the table above are included in segment other in the segmen reporting (Note 29)

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

<i>In thousands of EUR</i>	2018	2017
At a point in time	-	-
Over time	16,545	18,248
Total revenue	16,545	18,248

22 Raw Materials, Energy and Other Consumption

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

<i>In thousands of EUR</i>	2018	2017
Fuel consumption	-	1
Energy consumption	1,045	962
Consumption of other materials and spare parts	432	269
Total raw materials, energy and other consumption	1,477	1,232

23 Employee Benefits

<i>In thousands of EUR</i>	2018	2017
Wages and salaries	5,161	4,873
Defined contribution pension costs	335	786
Post-employment defined benefit plan expense (Note 17)	76	49
Other long-term employee benefit plans - current service and interest cost	25	23
Actuarial remeasurements of other long-term employee benefit plans	(11)	9
Other social costs	2,181	2,042
Total employee benefits expense	7,767	7,782

24 Other Operating Expenses

<i>In thousands of EUR</i>	2018	2017
Information technology and software maintenance costs	639	599
Repairs and maintenance costs	717	630
Operating lease expense	984	1,222
Postal and telecommunication services	27	3
Security services	1,167	937
Advertising services	553	392
Marketing	-	3
Facility management expenses	542	1,226
Project management expenses	1,109	1,377
Operation and maintenance of telecommunication network	-	668
Travel expenses	153	96
Gifts	467	325
Insurance	105	55
Advisory services	986	479
Statutory audit	116	112
Non-audit services provided by the audit firm	176	20
Services related to issued bonds	459	-
Central services	480	-
Communication services	261	173
Other operating expenses	285	469
Property and motor vehicle tax	153	143
Impairment loss expense under IFRS 9	4,312	-
Other purchased services	1,817	394
Total other operating expenses	15,508	9,323

24 Other Operating Expenses (continued)

The PwC network provided the following non-audit services during the current accounting 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 amount of EUR 236 thousand (2017: EUR 17 thousand) was for the Company;
- consulting services in area of human resources in amount EUR 14 thousand (2017: EUR 12 thousand) for the Company, which was not a cost control service;
- trainings in amount of EUR 2 thousand (2017: EUR 1 thousand) for the Company.

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

25 Dividend Income

<i>In thousands of EUR</i>	2018	2017
Západoslovenská distribučná, a.s.	56,771	55,294
ZSE Energia, a.s.	9,530	11,098
Energotel, a.s.	259	782
Other	-	1
Total dividend income	66,560	67,175

26 Other Operating Income

<i>In thousands of EUR</i>	2018	2017
Operating lease income (Note 5 and 7)	7,578	4,167
(Loss) / gain on disposal of property, plant and equipment	386	(121)
Grants	1,067	769
Gain on disposal part of business	2,153	-
Other	99	59
Total other operating income	11,283	4,874

27 Interest and Similar Expenses

<i>In thousands of EUR</i>	2018	2017
Interest expense on bonds	24,302	21,656
Amortisation of bonds transaction costs and similar costs	868	667
Other interest expense	51	47
Other finance costs	95	245
Total interest and similar expenses	25,316	22,615

28 Interest Income

<i>In thousands of EUR</i>	2018	2017
Interests income from loans to Západoslovenská distribučná, a.s.	21,791	22,617
Other interest income	355	82
Total interest income	22,146	22,699

29 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".

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 94% (2017: 94%) of the Group's EBITDA and 92% of the Group's EBIT (2017: 94%) were generated from sales to customers who are subject to the price regulation.

Other. Segment Other includes activities provided by the Company together with its subsidiaries ZSE Energy Solutions, s.r.o., ZSE MVE, s. r. o. and ZSE Business Services, s. r. o. Board of Directors does not assess activities and results of the Company separately but within segment Other. Segment Other provides mainly headquarter type functions, as central services, accounting, controlling, HR and other services, to both supply and distribution businesses. The segment realizes also electricity production in two small hydroelectric plants, trading activities and generates also some external revenues from projecting and engineering activities in investment construction for third parties.

29 Segment Reporting (continued)

Reportable segments information for 2018 is as follows:

<i>In thousands of EUR</i>	Distribution	Supply	Other	Eliminations and consolidation adjustments	Total Group
Revenue from external customers	311,469	823,059	659	-	1,135,187
Inter-segment revenues	192,237	26,235	17,197	(235,669)	-
Total segment revenues	503,706	849,294	17,856	(235,669)	1,135,187
Purchases of electricity and related fees	(224,945)	(715,249)	(2,358)	217,772	(724,780)
Purchases of natural gas	-	(88,381)	-	85	(88,296)
Employee benefits expense	(49,966)	(10,258)	(8,068)	-	(68,292)
Other operating expenses	(75,873)	(15,994)	(15,882)	31,777	(75,972)
Share of profit of equity method investees	-	-	66,560	(66,301)	259
Other operating income	4,171	2,405	11,505	(10,700)	7,381
Own work capitalized	17,626	-	-	454	18,080
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	174,719	21,817	69,613	(62,582)	203,567
Depreciation of property, plant and equipment	(64,410)	(13)	(2,701)	21,881	(45,243)
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	4,774	(5,873)	102,072

29 Segment Reporting (continued)

Reportable segments information for 2017 is as follows:

<i>In thousands of EUR</i>	Distribution	Supply	Other	Eliminations and consolidation adjustments	Total Group
Revenue from external customers	310,639	753,071	1,287	-	1,064,997
Inter-segment revenues	191,546	27,536	38,768	(257,850)	-
Total segment revenues	502,185	780,607	40,055	(257,850)	1,064,997
Purchases of electricity and related fees	(243,355)	(652,915)	(3,330)	216,453	(683,147)
Purchases of natural gas	-	(90,183)	-	64	(90,119)
Employee benefits expense	(42,198)	(8,336)	(13,028)	12	(63,550)
Other operating expenses	(61,044)	(17,140)	(20,149)	45,289	(53,044)
Share of profit of equity method investees	-	-	67,175	(66,413)	762
Other operating income	1,917	2,112	5,096	(2,619)	6,506
Own work capitalized	17,815	-	-	(171)	17,644
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	175,320	14,145	75,819	-65,235	200,049
Depreciation of property, plant and equipment	(65,503)	(12)	(3,644)	24,329	(44,830)
Amortisation of intangible assets	(2,627)	(1,314)	(394)	72	(4,263)
Earnings before interest and taxes (EBIT)	107,190	12,819	71,781	(40,834)	150,956
Capital expenditures	74,812	2,029	4,648	(548)	80,941

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:

<i>In thousands of EUR</i>	2018	2017
Total EBIT for all operating segments	153,893	150,956
Interest income of the Group	357	84
Interest and similar expense of the Group	(23,783)	(21,106)
Elimination of impact of consolidation of subsidiaries	(66,768)	(58 067)
Profit before tax of the Company	63,699	71,867

29 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:

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

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

30 Assets Held for Sale and Discontinued Operations

Assets held for sale and discontinued operations at 31 December 2017

In order to strengthen the overall independence of the subsidiary Západoslovenská distribučná, a.s. as the distribution system operator, the extraordinary General Meeting of shareholders in the Company on its session held on 18 December 2017 approved several organisational changes in the Company effective from 1 January 2018. As part of these organisational changes, the Company transferred the Facility Management Department performing facility management services for the ZSE Group into the subsidiary Západoslovenská distribučná, a.s. within the sale of part of the business.

The Company also transferred activities and tasks of organisational units dealing with occupational health and safety, protection of environment, crisis management, administration support of IT and telco activities, logistics and travel management performed by the Company for the ZSE Group into the subsidiary Západoslovenská distribučná, a.s., and activities and tasks of organisational units dealing with billing, cash collection and accounts receivable, customer complaints, and system and quality support performed by the Company into subsidiaries Západoslovenská distribučná, a.s. and ZSE Energia, a.s. The transfer of employees was also part of all organisational changes. The transaction was completed during the year 2018.

Based on the decision of the extraordinary General Meeting of shareholders of the Company dated 18 December 2017, the assets and liabilities of the above stated organisational units of the Company were presented as held for sale in these separate financial statements.

Assets held for sale and discontinued operations at 31. December 2018

On July 26, 2018, the Company purchased a 100% stake in ZSE Elektrárne, s.r.o. (until 16 August 2018: E.ON Elektrárne s.r.o.) from its shareholder E.ON Slovensko, a.s. The transaction also included repayment of the loan to the creditor on behalf of ZSE Elektrárne, s.r.o. The change of shareholder was registered in the Commercial Register on August 16, 2018. The Company is interested in selling its subsidiary ZSE Elektrárne, s.r.o. in the course of 2019 and therefore this Company's investment in these separate financial statements is recognized as held for sale. Due to ZSE Elektrárne, s.r.o. was during the year 2018 acquired with the view to resale, the Company in accordance with the IFRS 5 Standard decided to disclose the subsidiary in the financial statements using the short-cut method. ZSE Elektrárne, s.r.o. for the year 2018 generated lost amounted to EUR 5,624 thousand (EUR 2,372 thousand).

30 Assets Held for Sale and Discontinued Operations (continued)

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

<i>In thousands of EUR</i>	2018	2017
Property, plant and equipment	-	5,389
Intangible assets	-	97
Deferred income tax receivables	-	71
Trade and other receivables	-	3,304
Financial investment in subsidiary acquired with the view to resale (ZSE Elektrárne, s.r.o.)	8,486	-
Receivables from Cash Pooling to subsidiary held for sale (ZSE Elektrárne, s.r.o.)	28,382	-
Total	36,868	8,861

Liabilities directly associated with assets classified as held for sale and discontinued operations are as follows:

<i>In thousands of EUR</i>	2018	2017
Post-employment defined benefit obligations	-	702
Other long term employee benefits	-	181
Trade and other payables	-	1,498
Total	-	2,381

30 Assets Held for Sale and Discontinued Operations (continued)

An analysis of the result of discontinued operations, and the result recognised on the remeasurement of assets or the disposal group is as follows:

<i>In thousands of EUR</i>	2018	2017
Discontinued operations		
Revenues	-	20,898
Raw material, energy and other consumption	-	(1,621)
Employee benefits	-	(4,986)
Depreciation of property, plant and equipment	-	(1,138)
Amortisation of intangible assets	-	(241)
Other operating expenses	-	(10,544)
Other operating income	-	51
Profit from operations	-	2,419
Finance income / (costs)		
Interest and similar expenses	-	(6)
Finance costs, net	-	(6)
Profit before tax	-	2,413
Income tax expense	-	(553)
Profit for the year from discontinued operations	-	1,860
Other comprehensive income		
<i>Items that will not be subsequently reclassified to profit or loss</i>		
Actuarial remeasurements of post-employment defined benefit obligations	-	(67)
Deferred tax on actuarial remeasurements of post-employment defined benefit obligations	-	14
Total other comprehensive income for the year from discontinued operations	-	(53)
Total comprehensive income for the year from discontinued operations	-	1,807

30 Assets Held for Sale and Discontinued Operations (continued)

An analysis of the cash flows of discontinued operations is as follows:

<i>In thousands of EUR</i>	2018	2017
Cash flows from operating activities	-	4,378
Cash flows from investing activities	-	(850)
Cash flows from financing activities	-	-
Total cash flows	-	3,528

31 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 12 and credit quality information about trade receivables is included in Note 11.

The maximum exposure to credit risk is limited by the carrying value of receivables. As of 31 December 2018 and 2017, 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.

31 Financial Risk Management (continued)

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 loan commitments contracts, it is the contractual period over which an entity has a present contractual obligation to extend credit.

When assessment is performed on a portfolio basis, the 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 2018:

<i>In thousands of EUR</i>	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
Issued bonds – principal due	-	-	-	315,000	315,000	630,000
Issued bonds – future interest payments	-	5,513	12,600	72,450	27,562	118,125
Trade payables (Note 19)	2,090	1,015	-	-	-	3,105
Other accrued liabilities (Note 19)	2,141	113	-	-	-	2,254
Other financial liabilities (Note 19)	609	-	-	-	-	609
Liabilities from cash pooling (Note 20)	52,167	-	-	-	-	52,167
Issued guarantees	10,403	-	-	-	-	10,403
Total future payments, including future principal and interest payments	67,410	6,641	12,600	387,450	342,562	816,663

31 Financial Risk Management (continued)

The maturity analysis is as follows at 31 December 2017:

<i>In thousands of EUR</i>	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
Issued bonds – principal due	-	-	315,000	-	315,000	630,000
Issued bonds – future interest payments	-	-	21,656	50,400	12,600	84,656
Trade payables (Note 19)	33	6	-	-	-	39
Other accrued liabilities (Note 19)	238	1,391	346	38	212	2,225
Other financial liabilities (Note 19)	-	2,342	-	-	-	2,342
Liabilities from cash pooling (Note 20)	68,241	-	-	-	-	68,241
Issued guarantees	8,341	-	-	-	-	8,341
Total future payments, including future principal and interest payments	76,853	3,739	337,002	50,438	327,812	795,844

32 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 345,004 thousand at 31 December 2018 (2017: EUR 354,824 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.

33 Net Debt Reconciliation

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

<i>In thousands of EUR</i>	Issued bonds
At 1 January 2017	632,942
Interest expense paid	(21,656)
Interest expense on bonds	21,656
Amortisation of bonds transaction costs and similar costs	568
At 31 December 2017	633,510
Issued bonds	315,000
Paid bonds	(315,000)
Interest expense paid	(21,656)
Interest expense on bonds (Note 27)	24,302
Amortisation of bonds transaction costs	761
Transaction costs related to issued bonds	(3,124)
At 31 December 2018 (Note 15)	633,793

34 Offsetting Financial Assets and Financial Liabilities

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

	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	
<i>In thousands of EUR</i>	(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	1,267	-	1,267	1,267	-	-
TOTAL ASSETS SUBJECT TO POSSIBLE OFFSETTING AND SIMILAR ARRANGEMENT	627,423	-	627,423	46,137	-	581,286
LIABILITIES						
Liabilities from cash pooling	52,167	-	52,167	46,137	-	6,030
TOTAL LIABILITIES SUBJECT TO POSSIBLE OFFSETTING, AND SIMILAR ARRANGEMENT	52,167	-	52,167	46,137	-	6,030

34 Offsetting Financial Assets and Financial Liabilities (continued)

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2017:

	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	
<i>In thousands of EUR</i>	(a)	(b)	(c) = (a) - (b)	(d)	(e)	(c) - (d) - (e)
ASSETS						
Loans provided	634,833	-	634,833	52,146	-	582,687
Receivables from cash pooling	1,296	-	1,296	1,296	-	-
TOTAL ASSETS SUBJECT TO POSSIBLE OFFSETTING, AND SIMILAR ARRANGEMENT	636,129	-	636,129	53,442	-	582,687
LIABILITIES						
Liabilities from cash pooling	68,241	-	68,241	53,442	-	14,799
TOTAL LIABILITIES SUBJECT TO POSSIBLE OFFSETTING AND SIMILAR ARRANGEMENT	68,241	-	68,241	53,442	-	14,799

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.

35 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.

35 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:

<i>In thousands of EUR</i>	31 December 2018			31 December 2017		
	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 9)	-	675,732	626,156	-	695,066	634,833
Trade receivables, net (Note 11)	-	5,088	5,088	-	1,666	1,666
Receivables from cash pooling (Note 20)	-	1,267	1,267	-	1,296	1,296
Cash and cash equivalents (Note 12)	-	37,378	37,378	-	89,963	89,963
TOTAL ASSETS	-	719,465	669,889	-	787,991	727,758
LIABILITIES						
Issued bonds (Note 15)	675,732	-	633,793	695,066	-	633,510
Trade payables (Note 19)	-	3,105	3,105	-	39	39
Other accrued liabilities (Note 19)	-	2,254	2,254	-	2,225	2,225
Other financial liabilities (Note 19)	-	609	609	-	2,342	2,342
Liabilities from cash pooling (Note 20)	-	52,167	52,167	-	68,241	68,241
TOTAL LIABILITIES	675,732	58,135	691,928	695,066	72,847	706,357

The fair value of provided loans (Note 9) was estimated based on the price development of the related issued bonds on the financial market.

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 amounts.

36 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.

37 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 2012 to 2018 remain open to tax inspection.

Capital expenditure commitments. At 31 December 2018, the Company had outstanding contractual commitments for purchases of property, plant and equipment of EUR 2,182 thousand (2017: EUR 1,996 thousand). Outstanding contractual commitments for purchases of intangible assets were EUR 80 thousand (2017: EUR 0 thousand).

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

<i>In thousands of EUR</i>	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 mentioned are the future minimum payments extended during the estimated rental period determined by taking into account the contractual right if the extension is considered sufficiently certain by the Company. Minimum future payments that cannot be avoided, for example, by not extending the lease term were EUR 3,129 thousand (2017: EUR 9,107 thousand).

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

38 Sale of Part of the Business

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

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

The carrying amounts of assets and liabilities sold <i>In thousands of EUR</i>	At 31 December 2017
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
Profit before tax on sale of part of the business (Note 26)	2,153
Proceeds from sale of part of the business	9,902

The Company engaged an independent professional appraiser to determine fair values of identifiable assets, liabilities and contingent liabilities sold.

39 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 13: (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 2018:

<i>In thousands of EUR</i>	Ministry of Economy of the Slovak Republic	E.ON Slovensko, a.s.	E.ON Group**	Slovak government*	Slovak Subsidiaries (Note 8)	Associate (Note 8)	Joint venture (Note 8)
Revenues, financial and other revenues	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.

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 19. Property and motor vehicle taxes are disclosed in Note 24.

Information on loans provided to the subsidiary is presented in Note 9. Information on receivables and liabilities from cash pooling is presented in Note 20.

The Company's sales 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 2018 and 2017 other than disclosed.

The income tax paid was as follows:

<i>In thousands of EUR</i>	2018	2017
Current income tax expense at standard rate of 21% (2017: 21%) – refer to Note 16	414	1,000
Income tax refund (receivable) / liability at the beginning of the period	122	(780)
Income tax refund receivable at the end of the reporting period	622	122
Income tax paid	1,158	(342)

39 Balances and Transactions with Related Parties (continued)

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

<i>In thousands of EUR</i>	Ministry of Economy of the Slovak Republic	E.ON Slovensko, a.s.	E.ON Group**	Slovak government*	Slovak Subsidiaries (Note 8)	Associate (Note 8)	Joint venture (Note 8)
Revenue	32	268	168	-	63,513	-	966
Dividend income	-	-	-	-	66,392	-	782
Purchases and expenses	-	-11	658	-	2,732	-	1,905
Receivables other than taxes	-	14	51	-	639,443	-	-
Payables other than taxes	-	-	562	-	68,304	-	2
Dividends declared and paid	25,737	19,681	5,047	-	-	-	-

* The Slovak government caption represents individually material transactions with entities under control, joint control or significant influence of the Slovak government.

** E.ON Group caption represents transactions with entities under control, joint control or significant influence of the E.ON Group.

The tables with related party transactions above and on the previous page exclude individually immaterial transactions such 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.

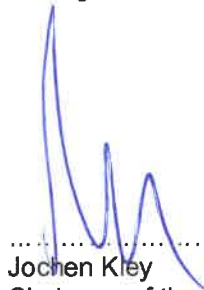
Key management personnel comprises (a) members of the Board of Directors, (b) members of the supervisory board and (c) divisional directors. Key management personnel remuneration comprised:

<i>In thousands of EUR</i>	2018	2017
<i>Board of directors and other key management personnel</i>		
Salaries and other short-term employee benefits	615	639
Defined contribution pension costs	63	73
Total remuneration of board of directors and other key management personnel	678	712
<i>Supervisory board</i>		
Salaries and other short-term employee benefits	103	95
Defined contribution pension costs	17	17
Total remuneration of supervisory board	120	112

40 Events after the End of the Reporting Period

After 31 December 2018, 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 19 March 2019:



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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