

**Západoslovenská distribučná, a.s.**

**Financial Statements for the year ended  
31 December 2018  
and Independent Auditor's Report**

**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.

## CONTENTS

### INDEPENDENT AUDITOR'S REPORT

#### FINANCIAL STATEMENTS..... Page

Statement of Financial Position .....	1
Statement of Profit or Loss and Other Comprehensive Income.....	2
Statement of Changes in Equity .....	3
Statement of Cash Flows.....	4

#### Notes to the Financial Statements

1	Introduction .....	5
2	Significant Accounting Policies.....	5
3	Applying new and amended standards and interpretations .....	14
4	New Accounting Pronouncements .....	14
5	Critical Accounting Estimates and Judgements in Applying Accounting Policies .....	17
6	Property, Plant and Equipment .....	18
7	Intangible Assets .....	20
8	Borrowings.....	21
9	Inventories .....	22
10	Trade and Other Receivables .....	22
11	Receivables from Cash Pooling .....	24
12	Cash and Cash Equivalents .....	24
13	Share Capital.....	25
14	Legal Reserve Fund .....	25
15	Income Taxes .....	25
16	Post-Employment Defined Benefit Obligations .....	27
17	Other Long Term Employee Benefits .....	28
18	Provisions for liabilities and charges .....	28
19	Contract Liabilities from Deferred Connection Fees and Customer Contribution .....	29
20	Trade and Other Payables .....	30
21	Revenue .....	32
22	Employee Benefits.....	32
23	Other Operating Expenses .....	33
24	Other Operating Income .....	33
25	Interest and Similar Expense .....	33
26	Financial Risk Management .....	34
27	Management of Capital .....	36
28	Offsetting Financial Assets and Financial Liabilities .....	36
29	Debt Reconciliation.....	37
30	Fair Value Disclosures.....	38
31	Presentation of Financial Instruments by Measurement Category .....	38
32	Contingencies and Commitments .....	39
33	Purchase of part of the business.....	39
34	Balances and Transactions with Related Parties .....	40
35	Events after the End of the Reporting Period.....	42

# Independent Auditor's Report

To the Shareholder, Supervisory Board, and Board of Directors of  
Západoslovenská distribučná, a.s.:

## Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Západoslovenská distribučná, 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.

## What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2018;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the 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 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 financial statements in the Slovak Republic. We have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics.

## 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 financial statements and (b) other information. Management has not prepared the annual report by the date of our audit report.

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

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PricewaterhouseCoopers Slovensko, s.r.o., Karadžičova 2, Bratislava, 815 32, Slovak Republic  
T: +421 (0) 2 59350 111, F: +421 (0) 2 59350 222, [www.pwc.com/sk](http://www.pwc.com/sk)

The company's ID (IČO) No. 35739347.  
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 1, pod vložkou č. 16611/B, oddiel: Sro.  
The company is registered in the Commercial Register of Bratislava 1 District Court, ref. No. 16611/B, Section: Sro.



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 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 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.

### *Management's responsibilities for the financial statements*

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

In preparing the 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.

### *Auditor's responsibilities for the audit of the financial statements*


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

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

- Identify and assess the risks of material misstatement of the 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.

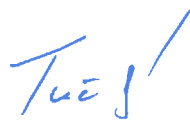
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the management 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.

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

Bratislava, 21 March 2019



  
Mgr. Juraj Tučný, FCCA  
UDVA licence No. 1059



**Západoslovenská distribučná, a.s.**  
**Statement of Financial Position**

<i>In thousands of EUR</i>	<b>Note</b>	<b>31 December 2018</b>	<b>31 December</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	6	1,018,336	983,170
Intangible assets	7	9,768	7,204
<b>Total non-current assets</b>		<b>1,028,104</b>	<b>990,374</b>
<b>Current assets</b>			
Inventories	9	652	811
Trade and other receivables	10	35,847	27,903
Income tax receivables		3,140	-
Cash and cash equivalents	12	3,877	3,719
Receivables from cash pooling	11	44,870	52,146
<b>Total current assets</b>		<b>88,386</b>	<b>84,579</b>
<b>TOTAL ASSETS</b>		<b>1,116,490</b>	<b>1,074,953</b>
<b>EQUITY</b>			
Share capital	13	33,227	33,227
Legal reserve fund	14	71,052	64,598
Retained earnings		73,067	72,354
<b>TOTAL EQUITY</b>		<b>177,346</b>	<b>170,179</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	8	630,000	315,000
Deferred income tax liabilities	15	85,685	86,563
Post-employment defined benefit obligations	16	7,352	7,622
Other long term employee benefits	17	1,856	1,883
Contract liabilities from connection fees and customer contributions	19	80,373	75,029
<b>Total non-current liabilities</b>		<b>805,266</b>	<b>486,097</b>
<b>Current liabilities</b>			
Borrowings	8	4,875	319,833
Trade and other payables	20	103,666	89,909
Contract liabilities from connection fees and customer contributions	19	5,365	4,742
Provisions for liabilities and charges	18	19,972	-
Income tax liabilities		-	4,193
<b>Total current liabilities</b>		<b>133,878</b>	<b>418,677</b>
<b>TOTAL LIABILITIES</b>		<b>939,144</b>	<b>904,774</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>1,116,490</b>	<b>1,074,953</b>

These financial statements have been approved for issue by the Board of Directors on 21st March 2019.

.....  
Ing. Andrej Juris  
Chairman of the Board of Directors

.....  
Ing. Marian Kapec  
Member of the Board of Directors

**Západoslovenská distribučná, a.s.**  
**Statement of Profit or Loss and Other Comprehensive Income**

<i>In thousands of EUR</i>	<b>Note</b>	<b>2018</b>	<b>2017</b>
<b>Revenue</b>	21	<b>503,706</b>	<b>502,185</b>
Transmission fees payable to SEPS and charges for electricity produced from renewable sources		(59,785)	(57,258)
Purchases of electricity for losses and other purchases		(165,160)	(186,097)
Employee benefits	22	(49,966)	(42,198)
Depreciation of property, plant and equipment	6	(64,410)	(65,503)
Amortisation of intangible assets	7	(2,639)	(2,627)
Other operating expenses	23	(75,873)	(61,044)
Other operating income	24	4,171	1,917
Capitalized own costs		17,626	17,815
<b>Profit from operations</b>		<b>107,670</b>	<b>107,190</b>
<b>Finance income / (costs)</b>			
Interest income		28	26
Interest and similar expense	25	(20,282)	(21,129)
<b>Finance costs, net</b>		<b>(20,254)</b>	<b>(21,103)</b>
<b>Profit before tax</b>		<b>87,416</b>	<b>86,087</b>
Income tax expense	15	(22,361)	(21,542)
<b>Profit for the year</b>		<b>65,055</b>	<b>64,545</b>
<b>Other comprehensive income</b>			
<i>Items that will not be subsequently reclassified to profit or loss</i>			
Actuarial remeasurements of post-employment defined benefit obligations	16	1,089	161
Deferred tax on actuarial remeasurements of post-employment defined benefit obligations	15	(229)	(34)
<b>Total other comprehensive income for the year</b>		<b>860</b>	<b>127</b>
<b>Total comprehensive income for the year</b>		<b>65,915</b>	<b>64,672</b>



**Západoslovenská distribučná, a.s.**  
**Statement of Changes in Equity**

<i>In thousands of EUR</i>	<b>Share capital</b>	<b>Legal reserve fund</b>	<b>Retained earnings</b>	<b>Total equity</b>
<b>Balance at 1 January 2017</b>	<b>33,227</b>	<b>58,319</b>	<b>69,255</b>	<b>160,801</b>
Profit for the year	-	-	64,545	<b>64,545</b>
Other comprehensive income for the year	-	-	127	<b>127</b>
<b>Total comprehensive income for 2017</b>	<b>-</b>	<b>-</b>	<b>64,672</b>	<b>64,672</b>
Dividends declared and paid (Note 13)	-	-	(55,294)	<b>(55,294)</b>
Contribution to legal reserve fund	-	6,279	(6,279)	<b>-</b>
<b>Balance at 31 December 2017</b>	<b>33,227</b>	<b>64,598</b>	<b>72,354</b>	<b>170,179</b>
Profit for the year	-	-	65,055	<b>65,055</b>
Other comprehensive income for the year	-	-	860	<b>860</b>
<b>Total comprehensive income for 2018</b>	<b>-</b>	<b>-</b>	<b>65,915</b>	<b>65,915</b>
Dividends declared and paid (Note 13)	-	-	(56,772)	<b>(56,772)</b>
Contribution to legal reserve fund	-	6,454	(6,454)	<b>-</b>
Purchase of part of the business *) (Note 33)	-	-	(1 976)	<b>(1 976)</b>
<b>Balance at 31 December 2018</b>	<b>33,227</b>	<b>71,052</b>	<b>73,067</b>	<b>177,346</b>

\*) The amount represents difference between the value identified by the valuator and additions on long-term tangible assets and liabilities, which were measured and recognized by applying predecessor's values

**Západoslovenská distribučná, a.s.**  
**Statement of Cash Flows**

<i>In thousands of EUR</i>	<b>Note</b>	<b>2018</b>	<b>2017</b>
<b>Cash flows from operating activities</b>			
Profit before tax		87,416	86,087
Adjustments for non-cash items:			
- Depreciation of property, plant and equipment	6	64,410	65,503
- Loss on disposal of property, plant and equipment	6	373	202
- Amortisation of intangible assets	7	2,639	2,627
- Interest income		(28)	(26)
- Interest and similar expense	25	20,282	21,129
- Other non-cash items		(10)	51
Cash generated from operations before changes in working capital		175,082	175,573
Changes in working capital:			
- Inventories		336	257
- Contract liabilities		(5,725)	(5,905)
- Trade and other receivables		(4,917)	3,397
- Trade and other payables		1,571	7,863
- Provisions for liabilities and charges		20,456	(132)
- Receivables from cash-pooling		7,276	(22,329)
<b>Cash generated from operations before interest and taxes</b>		<b>194,079</b>	<b>158,724</b>
Interest income received		28	26
Interest expense paid		(20,135)	(21,054)
Income tax paid	34	(30,801)	(27,816)
<b>Net cash from operating activities</b>		<b>143,171</b>	<b>109,880</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment and intangible assets		(75,223)	(51,561)
Interest expense paid and capitalised		(1,614)	(1,563)
Other expenditures related to the purchase of part of the business	33	(9,902)	-
Proceeds from sale of property, plant and equipment and intangible assets		498	408
<b>Net cash used in investing activities</b>		<b>(86,241)</b>	<b>(52,716)</b>
<b>Cash flows from financing activities</b>			
Dividends paid	13	(56,772)	(55,294)
<b>Net cash used in financing activities</b>		<b>(56,772)</b>	<b>(55,294)</b>
<b>Net change in cash and cash equivalents</b>		<b>158</b>	<b>1,870</b>
Cash and cash equivalents at the beginning of the year		3,719	1,849
<b>Cash and cash equivalents at the end of the year</b>	<b>12</b>	<b>3,877</b>	<b>3,719</b>

## **1 Introduction**

These 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 distribučná, a.s. (hereinafter "The Company" or "ZSD").

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 20 April 2006. The Company was incorporated in the Commercial Register of the District Court Bratislava I on 20 May 2006.

**Principal activity.** The Company provides electricity distribution and supply services primarily in the Western Slovakia region. From 1 January 2014 it has also been providing investment services, construction, repair, maintenance and operation of the distribution network. From 1 January 2015 its activities included coordination, inspection and administration of communication with customers using services of the company and addressing their requests. These activities were transferred by the Parent company to the subsidiary Západoslovenská distribučná, a.s. As of 31 December 2015, the Company acquired part of E.ON Business Services Slovakia, s.r.o. and from that date provides information services within the Group. From 1 January 2017, the departments facility management, billing, quality control, and logistics were transferred from the Parent company to its subsidiary Západoslovenská distribučná, a.s. as part of the purchase of part of the business.

**Registered address and place of business.** The Company's registered address is Čulenova 6, Bratislava 816 47, Slovak Republic. Its identification number (IČO) is: 36 361 518 and its tax identification number (IČ DPH) is: SK2022189048.

**Presentation currency.** These financial statements are presented in Euro ("EUR"), rounded to thousands, unless otherwise stated. Negative amounts are presented in brackets.

**Ownership structure.** Západoslovenská energetika, a.s. owns 100% of the Company's shares. Západoslovenská distribučná, a.s. is included in the consolidated financial statements of Západoslovenská energetika, a.s. ("Parent company").

The Parent company is jointly controlled by E.ON and the Slovak Republic 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 parent company. The Parent company's governance structure dictates that the Parent company Strategic plan shall be approved by representatives of both E.ON and the Slovak Republic. 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 restrictions exist for transfer of shares to parties not under control of existing shareholders.

The Company is not a shareholder with unlimited liability in other accounting entities.

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](http://www.orsr.sk).

**Number of employees.** The Company employed 1,423 staff on average during 2018, of which 24 were management (2017: 1,292 employees on average, of which 12 were management).

## **2 Significant Accounting Policies**

**Basis of preparation.** These 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 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 (refer to Note 4).

## **2 Significant Accounting Policies (continued)**

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

**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.

**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:

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

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

**Capitalisation of borrowing costs.** General and specific borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets. The commencement date for capitalisation is when (a) the Company incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale. Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

## **2 Significant Accounting Policies (continued)**

The Company capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the Company's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred on the specific borrowings less any investment income on the temporary investment of these borrowings are capitalised.

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

Costs associated with maintaining computer software programs are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the 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.

**Inventories.** Inventories are stated at the lower of acquisition cost and net realizable value. Weighted average method is used for determination of cost of inventories. The cost of material includes purchase price and directly attributable acquisition costs, such as customs duties or transportation costs. Net realizable value is the estimated selling price in the ordinary course of business, less selling expenses.

**Trade receivables.** Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, net of provision for impairment.

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

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

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

## **2 Significant Accounting Policies (continued)**

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

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

**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 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.

## **2 Significant Accounting Policies (continued)**

**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.

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 reporting period that follows after the change in the business model. The entity did not change its business model during the current and comparative period and did not make any reclassifications.

**Financial assets impairment – credit loss allowance for ECL.** The Company assesses, on a forward-looking basis, the ECL for receivables measured at AC and 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 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.

In 2017, a provision for impairment of receivables was established when there was objective evidence that the Company would not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy or financial reorganisation, default or delinquency in payments (more than 1 month overdue) were considered objective evidence that the trade receivable was impaired. The amount of the provision was the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset was reduced using an allowance account, and the amount of the loss was expensed within "other operating expenses".

**Financial assets – write-off.** Financial assets are written-off, in whole or in part, when the 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.

**Business combination under common control.** Purchases of subsidiaries from companies under common control are accounted for using the predecessor value method. Under this method, the financial statements of the Company that is the result of a business combination are presented as if the business combination had taken place at the beginning of the earliest reporting period or since the date on which the companies are jointly controlled. The assets and liabilities of the subsidiary under common control are recognized in the predecessor's residual values.

A previous company is the highest reporting entity that included a subsidiary in its consolidated financial statements prepared under IFRS. The goodwill recognized by the prior company is also recognized in these financial statements. Any difference between the net book value of the assets, including the goodwill recognized by the prior company, and the consideration for the acquisition of the subsidiary are accounted for under these financial statements as an adjustment to retained earnings in equity.

**Dividends.** Dividends are recorded in equity in the period in which they are declared. The 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.



## **2 Significant Accounting Policies (continued)**

**Loans and other borrowings.** Loans and other borrowings are recognised initially at fair value, net of transaction costs incurred. Loans and other borrowings are carried at amortized 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.

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

Current income tax also includes a special levy on profits in regulated industries at a rate of 8.712% per annum on profits from regulated activities. From 2017 new methodology for calculating of the special levy applies, where the basis for the special levy is calculated as profit before tax \* (revenues from regulated activities/total revenues). The rate of special levy used for the calculation for the years 2017 and 2018 is 8.712% p.a., then for the years 2019 - 2020 the rate 6.54% p.a. applies and 4.356% will apply from 2021. The levy is a deductible expense for the purposes of applying the standard corporate income tax rate.

Deferred income tax is recognised using the balance sheet liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination and the transaction, when initially recorded, affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the respective reporting period and apply to the period when the related deferred income tax asset will be realised, or the deferred income tax liability will be settled.

The special levy on profits is chargeable on profits determined in accordance with Slovak GAAP and hence, a deferred tax in relation to special levy arises only where there is a temporary difference between Slovak GAAP and IFRS carrying values of assets and liabilities. Such deferred taxes arose for the first time in 2016 when the Slovak parliament enacted a law making the levy applicable indefinitely as explained above.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by the 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.

## **2 Significant Accounting Policies (continued)**

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.

**Deferred income.** Over time, the Company received contributions for the construction of the electricity distribution network, in particular for the new municipal connections and networks. The customers contributed towards the cost of their connection.

Customer contributions are recognised at their fair value where there is a reasonable assurance that the contribution will be received. Customer contributions relating to the acquisition of property, plant and equipment are deferred and subsequently recognised as other operating income over the life of acquired depreciable asset.

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

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

**Offsetting.** Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

**Leases.** The Company is a lessee.

### *(i) Operating lease*

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

### *(ii) Financial lease*

Leases of property, plant and equipment where the Company has substantially all the risks and rewards of the ownership of the asset are classified as financial leases. Financial leases are recognized at the inception of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments.

## **2 Significant Accounting Policies (continued)**

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in borrowings. The interest costs are charged to the Statement of Comprehensive Income over the lease period using the effective interest rate method applied to the balance of lease obligation for each period. Property, plant and equipment acquired under finance leases are depreciated over their useful life or the shorter lease term if the Company is not reasonably certain that it will obtain ownership by the end of the lease term.

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

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

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

Contingent liabilities are not recognised in the financial statements. They are disclosed in the notes to the 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 electricity distribution 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.

**Revenue from distribution of electricity.** The Company recognizes 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 to be reliably measurable until all contingencies relating to the sale have been resolved. Revenue from distribution of electricity is recognized when the distribution service is rendered to electricity customers. Sales of services are recognized in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

**Connection fees.** ZSD receives a contribution from their customers to connect them to the electricity network – connection fees. Revenue from such contributions is recognised as deferred income and is released to profit or loss over the useful life of the related assets (approximately over 20 years).

**Sales of services.** Sales of services are recognised in the reporting period in which the services are rendered, by reference to completion of the specific transaction assessed based on the actual service provided as a proportion of the total services to be provided.

**Interest income.** Interest income is recognised on an accrual basis using the effective interest method.

**Contractual penalties.** Contractual penalties are recognised when the cash payment is received, because contractual penalties relate to contracts with customers who intended to defraud ZSD and as such are relatively difficult to collect.

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

### 3 Applying new and amended standards and interpretations

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 December 8, 2016 and effective for the EU for annual periods beginning on or after 1 January 2018).
- IFRIC 22, Foreign Currency Transactions and Advance Accounts (Interpretation issued on December 8, 2016 and effective in the EU for annual periods beginning on or after January 1, 2018).

### 4 New Accounting Pronouncements

**Standards, interpretations and amendments to standards issued by the Company for the first time in 2018**

**Adoption of IFRS 9 “Financial Instruments”.** 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.

In thousands of EUR	Measurement category		Carrying value under IAS 39 - 31 December 2017	Effect of adopting IFRS 9				Carrying value under IFRS 9 - 1 January 2018
	IAS 39*	IFRS 9*		Reclassification		Remeasurement		
				Mandatory	Voluntary	ECL	Other	
Cash and cash equivalents	L&R	AC	3,719	-	-	-	-	3,719
Trade and other receivables:								
Trade receivables	L&R	AC	24,966	-	-	-	-	24,966
Other receivables	L&R	AC	2,937	-	-	-	-	2,937
Total trade and other receivables at FVTPL			27,903	-	-	-	-	27,903
Total financial assets			31,622	-	-	-	-	31,622

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

#### **4 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 10 were reclassified from loans and receivables ("L&R") measurement category under IAS 39 to AC measurement category under IFRS 9 at the adoption date of the standard. The ECLs for cash and cash equivalents balances were insignificant.

**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. Revenue from the sale of services is reported at a certain point in time, the contract has only one obligation to perform. 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.

#### **Standards, interpretations and amendments to standards that are effective from 31 December 2018 and which the Company did not apply earlier**

**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 financial statements*

The Company has created a project team that has reviewed the Company's lease contracts for the past year 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 82,279 thousand EUR (Note 32). Of these liabilities, short-term and short-term liabilities represent a non-significant amount and will be recognized on a straight-line basis as an expense in the income statement.

For remaining leases, the Company expects to recognize an asset with a right of use of approximately 82,279 EUR thousand (without discounting) as of 1 January 2019 and a lease liabilities in amount of 82,279 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 6,562 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 6,652 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 not material and therefore the Company does not expect material impact on the financial statements.

#### **4 New Accounting Pronouncements (continued)**

The following table shows the comparison of future payments from operating leases disclosed in Note 32 to lease liability:

<i>In thousands of EUR</i>	<b>31 December 2018</b>
Total future payments from non-cancellable operating leases (Note 32)	82,279
Payables from leasing	3,404
<b>Total lease liability</b>	<b>85,683</b>

#### *Date of application of IFRS 16*

The company will apply the Standard from its mandatory date of receipt 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 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 this interpretation on its financial statements.

The following standards, interpretations and amendments are not expected to have any material effect on the Company's financial statements:

- Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2015-2017 cycle - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).
- Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).
- Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).

## **5 Critical Accounting Estimates and Judgements in Applying Accounting Policies**

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

**ECL measurement. 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.

**Unbilled electricity distribution.** The unbilled revenue from distribution represent an accounting estimate based on estimated volume of delivered and distributed electricity expressed in MWh for low voltage network and estimated unit price that will be billed in the future. The Company uses a bespoke customer information system Enersim to estimate the unbilled deliveries based on assumed customer demand profiles. This accounting estimate is based on: (a) the estimated volume distributed to households in technical units (MWh) between the date of the last meter reading and the end of the reporting period; (b) the consumption estimate utilising the time patterns of consumption of various customer profiles observed on a sample basis; (c) the estimated losses in the distribution network; and (d) the unit price in EUR/MWh, that will be applied to billing the electricity distribution. Refer to Note 21.

The Company also engaged an independent expert to estimate network losses. Should the estimate of total network losses be lower by 0.1%, representing approximatel 10 GWh of electricity (2017: 10 GWh), with other parameters unchanged, the revenues for commodity and distribution services would increase by EUR 858 thousand (2017: EUR 751 thousand).

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

Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Company. The following primary factors are considered: (a) the expected usage of the assets; (b) the expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) the technical obsolescence, if any. If the estimated useful life of network assets had been shorter by 10% than management's estimates at 31 December 2018, the Company would have recognised an additional depreciation of network assets of EUR 7,158 thousand (2017: EUR 7,278 thousand).

## **6 Property, Plant and Equipment**

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

<i>In thousands of EUR</i>	<b>Land</b>	<b>Network buildings</b>	<b>Power lines</b>	<b>Switching stations and network equipment</b>	<b>Other assets*</b>	<b>Capital work in progress</b>	<b>Total</b>
Cost at 1 January 2018	27,358	134,702	1,007,454	370,267	34,133	49,762	<b>1,623,676</b>
Accumulated depreciation and impairment losses	-	(46,035)	(401,554)	(168,309)	(24,608)	-	<b>(640,506)</b>
<b>Carrying amount at 1 January 2018</b>	<b>27,358</b>	<b>88,667</b>	<b>605,900</b>	<b>201,958</b>	<b>9,525</b>	<b>49,762</b>	<b>983,170</b>
Additions	-	-	-	-	-	93,570	<b>93,569</b>
Capitalised borrowing costs**	-	-	-	-	-	1,614	<b>1,614</b>
Purchase of part of the business (note 33)	-	1	-	105	4,252	905	<b>5,263</b>
Transfers	434	4,377	49,170	20,865	4,156	(79,002)	-
Depreciation charge	-	(4,292)	(35,508)	(21,389)	(3,221)	-	<b>(64,410)</b>
Disposals	(7)	-	(93)	(630)	(133)	(8)	<b>(871)</b>
Cost at 31 December 2018	27,785	139,378	1,052,232	388,031	73,438	66,841	<b>1,747,705</b>
Accumulated depreciation and impairment losses	-	(50,625)	(432,763)	(187,122)	(58,859)	-	<b>(729,369)</b>
<b>Carrying amount at 31 December 2018</b>	<b>27,785</b>	<b>88,753</b>	<b>619,469</b>	<b>200,909</b>	<b>14,579</b>	<b>66,841</b>	<b>1,018,336</b>

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

\*\* Capitalisation rate of borrowing costs was from 1 January to 31 October 2018 approximately 3.59 % p.a. and from 1 November to 31 December 2018 approximately 3.07 % p.a.

In management's judgement the electricity distribution network does not fall in the scope of IFRIC 12, *Service Concession Arrangements*, and it is thus not presented as an intangible asset because (a) the Company is able to sell or pledge the infrastructure assets and (b) the arrangement with the regulator and the Slovak government is not the typical 'build-operate-transfer' concession, but rather a privatisation, which the Information Note 2 to IFRIC 12 indicates falls in the scope of IAS 16, *Property, plant and equipment*. The Company did not pledge any property, plant or equipment as collateral for its borrowings or other financial liabilities at the end of the current and comparative reporting period.



## **6 Property, Plant and Equipment (continued)**

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

<i>In thousands of EUR</i>	<b>Land</b>	<b>Network buildings</b>	<b>Power lines</b>	<b>Switching stations and network equipment</b>	<b>Other assets*</b>	<b>Capital work in progress</b>	<b>Total</b>
Cost at 1 January 2017	27,041	129,936	976,024	351,586	33,407	43,998	<b>1,561,992</b>
Accumulated depreciation and impairment losses	-	(42,111)	(368,248)	(153,341)	(23,481)	-	<b>(587,181)</b>
<b>Carrying amount at 1 January 2017</b>	<b>27,041</b>	<b>87,825</b>	<b>607,776</b>	<b>198,245</b>	<b>9,926</b>	<b>43,998</b>	<b>974,811</b>
Additions	-	-	-	-	-	72,961	<b>72,961</b>
Capitalised borrowing costs**	-	-	-	-	-	1,563	<b>1,563</b>
Transfers	322	6,774	34,295	25,126	2,001	(68,518)	<b>-</b>
Depreciation charge	-	(5,932)	(36,153)	(21,022)	(2,396)	-	<b>(65,503)</b>
Disposals	(5)	-	(18)	(391)	(6)	(242)	<b>(662)</b>
Cost at 31 December 2017	27,358	134,702	1,007,454	370,267	34,133	49,762	<b>1,623,676</b>
Accumulated depreciation and impairment losses	-	(46,035)	(401,554)	(168,309)	(24,608)	-	<b>(640,506)</b>
<b>Carrying amount at 31 December 2017</b>	<b>27,358</b>	<b>88,667</b>	<b>605,900</b>	<b>201,958</b>	<b>9,525</b>	<b>49,762</b>	<b>983,170</b>

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

\*\* Capitalisation rate of borrowing costs was 3.59 % p.a. for 2017.

The Company holds insurance against damages caused by natural disasters up to EUR 319,583 thousand for buildings and up to amount of EUR 570,064 thousand for machinery, equipment, fixtures, fittings and other assets (2017: EUR 313,066 thousand and 545,166 thousand, respectively).

The property, plant and equipment disclosed in movement table above include carrying value of optical lines and related technology leased out under operating leases with carrying value of EUR 2,439 thousand (2017: carrying value of EUR 2,406 thousand). Rental income is presented in Note 24.

At 31 December 2018 the Company holds power lines acquired through finance lease (where the Company is the lessee) with cost of EUR 7,306 thousand, accumulated depreciation of EUR 566 thousand and carrying amount of EUR 6,740 thousand (2017: cost of EUR 5,552 thousand, accumulated depreciation of EUR 380 thousand and carrying amount of EUR 5,172 thousand).

## **6 Property, Plant and Equipment (continued)**

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

<i>In thousands of EUR</i>	<b>2018</b>	<b>2017</b>
Net book value of disposals	871	662
Loss on disposal of property, plant and equipment (Note 23)	(364)	(202)
Other non-cash movements	(9)	(52)
<b>Proceeds from disposals</b>	<b>498</b>	<b>408</b>

## **7 Intangible Assets**

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

<i>In thousands of EUR</i>	<b>Goodwill</b>	<b>Software and similar assets</b>	<b>Assets not yet available for use</b>	<b>Total</b>
Cost at 1 January 2017	285	19,552	2,064	<b>21,901</b>
Accumulated depreciation and impairment losses	(143)	(15,047)	-	<b>(15,190)</b>
<b>Carrying amount at 1 January 2017</b>	<b>142</b>	<b>4,505</b>	<b>2,064</b>	<b>6,711</b>
Additions	-	-	3,120	<b>3,120</b>
Transfers	-	2,486	(2,486)	<b>-</b>
Amortisation charge	(71)	(2,556)	-	<b>(2,627)</b>
Cost at 31 December 2017	285	22,038	2,698	<b>25,021</b>
Accumulated depreciation and impairment losses	(214)	(17,603)	-	<b>(17,817)</b>
<b>Carrying amount at 31 December 2017 and 1 January 2018</b>	<b>71</b>	<b>4,435</b>	<b>2,698</b>	<b>7,204</b>
Additions	-	-	5,203	<b>5,203</b>
Transfers	-	2,993	(2,993)	<b>-</b>
Amortisation charge	(71)	(2,568)	-	<b>(2,639)</b>
Cost at 31 December 2018	285	25,134	4,908	<b>30,327</b>
Accumulated depreciation and impairment losses	(285)	(20,274)	-	<b>(20,559)</b>
<b>Carrying amount at 31 December 2018</b>	<b>-</b>	<b>4,860</b>	<b>4,908</b>	<b>9,768</b>

Assets not yet available for use primarily include software upgrades and improvement of functionality of the customer and the graphical information system. Software and similar assets disclosed in table above include individual projects, which are partially purchased and partially developed by own employees therefore it is not possible to separate the disclosed amounts to those two categories.

## **8 Borrowings**

An overview of borrowings received is presented in the table below:

<i>In thousands of EUR</i>	<b>2018</b>	<b>2017</b>
<b>Non-current</b>		
Borrowings from Západoslovenská energetika, a.s.	630,000	315,000
<b>Total non-current borrowings</b>	<b>630,000</b>	<b>315,000</b>
<b>Current</b>		
Borrowings from Západoslovenská energetika, a.s.	-	315,000
Accrued interest payable within one year	4,875	4,833
<b>Total current borrowings</b>	<b>4,875</b>	<b>319,833</b>
<b>Total borrowings</b>	<b>634,875</b>	<b>634,833</b>

More details about received borrowings in 2018 are presented in the table below:

<i>In thousands of EUR</i>	<b>Principal</b>	<b>Nominal interest rate</b>	<b>Maturity date</b>
Borrowing 1	315,000	2.00% p.a.	2.3.2028
Borrowing 2	315,000	4.14% p.a.	1.10.2023
<b>Total</b>	<b>630,000</b>		

More details about received borrowings in 2017 are presented in the table below:

<i>In thousands of EUR</i>	<b>Principal</b>	<b>Nominal interest rate</b>	<b>Maturity date</b>
Borrowing 1	315,000	3.04% p.a.	1.10.2018
Borrowing 2	315,000	4.14% p.a.	1.10.2023
<b>Total</b>	<b>630,000</b>		

Loan 1 with original maturity on 1 October 2018 and interest 3.04% p.a. was prolonged to 2 March 2028 on the basis of an amendment to the Agreement from 27 September 2018, with the new interest rate of 2.00% p.a.

## **9 Inventories**

<i>In thousands of EUR</i>	<b>2018</b>	<b>2017</b>
Materials and spare parts	652	811
<b>Total inventories</b>	<b>652</b>	<b>811</b>

The inventory items are shown after provision for slow-moving materials and spare parts of EUR 98 thousand (2017: EUR 9 thousand).

## **10 Trade and Other Receivables**

<i>In thousands of EUR</i>	<b>2018</b>	<b>2017</b>
Trade receivables	12,824	12,031
Accrued distribution fee related to unbilled electricity net of advances from customers	28,133	20,538
Less impairment provision for trade receivables	(6,308)	(7,603)
<b>Trade receivables, net</b>	<b>34,649</b>	<b>24,966</b>
Prepayments	1,198	2,937
<b>Total trade and other receivables</b>	<b>35,847</b>	<b>27,903</b>

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

<i>In thousands of EUR</i>	<b>2018</b>	<b>2017</b>
<b>Provision for impairment at 1 January</b>	<b>7,603</b>	<b>8,117</b>
Impairment loss expense (Note 23)	(207)	146
Amounts written off during the year as uncollectible	(1,088)	(660)
<b>Provision for impairment at 31 December</b>	<b>6,308</b>	<b>7,603</b>

**10 Trade and Other Receivables (continued)**

The credit quality of trade receivables and amounts due from customers is as follows:

<i>In thousands of EUR</i>	<b>2018</b>	<b>2017</b>
<i>Neither past due nor impaired</i>		
- collected by 31 January after the reporting period	8,895	353
- not collected by 31 January after the reporting period and not overdue	24,754	20,666
- amounts that became overdue after the reporting period	142	52
<b>Total neither past due nor impaired</b>	<b>33,791</b>	<b>21,071</b>
<i>Individually impaired</i>		
1 to 30 days past due	578	3,202
31 to 60 days past due	153	191
61 to 90 days past due	113	258
91 to 120 days past due	52	98
121 to 180 days past due	52	449
181 to 360 days past due	72	73
Over 360 days past due	6,146	7,227
<b>Total individually impaired before provision for impairment</b>	<b>7,166</b>	<b>11,498</b>
<b>Less provision for impairment</b>	<b>(6,308)</b>	<b>(7,603)</b>
<b>Total trade receivables, net of provision</b>	<b>34,649</b>	<b>24,966</b>

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

<i>In % of gross value</i>	<b>Loss rate</b>	<b>Gross carrying amount</b>	<b>Lifetime ECL</b>
<b>Trade receivables</b>			
neither past due	0.01%	33,791	-
1 to 30 days past due	3.11%	578	18
31 to 60 days past due	3.92%	153	6
61 to 90 days past due	28.32%	113	32
91 to 120 days past due	25.00%	52	13
121 to 180 days past due	61.54%	52	32
181 to 360 days past due	84.72%	72	61
Over 360 days past due	100.00%	6,146	6,146
<b>Total trade receivables (gross carrying amount)</b>		<b>40,957</b>	<b>6,308</b>
<b>Credit loss allowance</b>		<b>(6,308)</b>	
<b>Total trade receivables from contracts with customers (carrying amount)</b>		<b>34,649</b>	

## **11 Receivables from Cash Pooling**

<i>In thousands of EUR</i>	<b>2018</b>	<b>2017</b>
Receivables from cash pooling	44,870	52,146
<b>Total receivables from cash pooling</b>	<b>44,870</b>	<b>52,146</b>

The Company has concluded with its Parent company cash pooling agreement. Based on this agreement the available cash is managed by Parent company. If the case of additional financing needs the cash from the cash pool is made available to the Company. The interest rate on receivable from cash pooling was 0.4 p.a. (2017: 0.4% p.a.). The interest rate on the liability from cash pooling for 2018 was 0.05 p.a. (2017: 0.05% p.a.). Receivables from cash pooling are neither past nor impaired and management of the Company considers this related party as creditworthy without an increased credit risk. Credit rating of the Parent Company is A- by Standard and Poor's.

## **12 Cash and Cash Equivalents**

<i>In thousands of EUR</i>	<b>2018</b>	<b>2017</b>
Current accounts with banks	3,877	3,719
<b>Total cash and cash equivalents in the statement of financial position</b>	<b>3,877</b>	<b>3,719</b>

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

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

<i>In thousands of EUR</i>	<b>2018</b>	<b>2017</b>
<i>Neither past due nor impaired</i>		
Credit rating A3 by Moody's	3,857	3,702
Credit rating A2 by Moody's	20	17
<b>Total cash and cash equivalents</b>	<b>3,877</b>	<b>3,719</b>

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's registered share capital consists of 10 shares with a nominal value of EUR 3,320 each and 1 share with a nominal value of EUR 33,193,919. The share capital totals of EUR 33,227 thousand. As at 31 December 2018 and at 31 December 2017 all the shares are owned by Západoslovenská energetika, a.s. Each share carries voting right equal to share nominal value.

The general meeting of the Company's shareholders approved the Company's prior year financial statements and declared dividends of EUR 56,772 thousand (2017: dividends of EUR 55,294 thousand). Slovak legislation identifies distributable reserves as retained earnings reported in the separate financial statements of the Company which amount to EUR 73,067 thousand (2017: EUR 72,354 thousand).

Dividend per share represents EUR 567 per share with the nominal value of EUR 3,320 (31 December 2017: EUR 552) and EUR 56,715 thousand per share with the nominal value of EUR 33,194 thousand (31 December 2017: EUR 55,239 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 may only be used to increase share capital or to cover future losses.

### **15 Income Taxes**

Income tax expense comprises the following:

<i>In thousands of EUR</i>	<b>2018</b>	<b>2017</b>
Current tax at standard rate of 21% (2017: 21%)	18,482	21,670
Special levy on profits from regulated activities	4,986	4,949
Deferred tax	(1,107)	(5,077)
<b>Income tax expense/(credit) for the year</b>	<b>22,361</b>	<b>21,542</b>

In 2018, the applicable standard income tax rate was 21 (2017: 21%). The amount of the special levy of the regulated entity was calculated and paid in accordance with the applicable law in 2018, as follows: the basis of the levy is the Company's result reported in the company's financial statements multiplied by the coefficient calculated as the share of the proceeds from the regulated activity to the total revenues. For the year 2018, the Company applied a coefficient of 0.69 (the same figure was reported for the year 2017). The amount of the monthly levy is calculated as the sum of the levy rate and the base of the levy. For 2018, the monthly installment rate was 0.00726. From 01.01.2019, the monthly rate of collection will be 0.00545 and from 01.01.2021 the monthly amount will be 0.00363. The special levy is a deductible expense for the purpose of applying income tax due.

## 15 Income Taxes (continued)

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

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

\* the effect is calculated as  $\text{special levy rate in \%} \times ((1 - \text{income tax rate in \%}) / (1 + \text{special levy rate in \%}) - 1)$

The Company includes activities taxed at the standard tax rate of 21 (2017: 21%) or at the 27.331% (2017: 27.331%) rate applicable to regulated industry operations. The applicable tax rate of 25.368 (2017: 25.368%) is used in the below effective tax reconciliation and represents a weighted average of the tax rates for regulated and unregulated activities. The applicable tax rate changed compared to prior year due to changes in the special levy rate and in the mix of profits from regulated and unregulated industry operations. A reconciliation between the reported income tax charge and the theoretical amount that would arise using the applicable tax rates is as follows:

<i>In thousands of EUR</i>	2018	2017
<b>Profit before tax</b>	<b>87,416</b>	<b>86,087</b>
Theoretical tax charge at applicable tax rate of 25.368% (2017: 25.368%)	22,176	21,839
<i>Non-deductible expenses /(non-taxable income) for which deferred tax was not recognised:</i>		
- expenses not deductible for standard tax but deductible for special levy purposes	405	(783)
Effect on deferred taxes of extension of special levy for indefinite period	9	9
Other	(229)	477
<b>Income tax expense for the period</b>	<b>22,361</b>	<b>21,542</b>

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.



## **15 Income Taxes (continued)**

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>	<b>2018</b>	<b>2017</b>
Differences between tax base and carrying value of property, plant and equipment	97,284	96,952
Post-employment defined benefit obligation	(1,261)	(1,143)
Other long term employee benefits	(299)	(257)
Other liabilities	(3,474)	(7,427)
Provision for impairment of trade receivables	(187)	(280)
Other	(6,378)	(1,282)
<b>Total net deferred tax liability</b>	<b>85,685</b>	<b>86,563</b>

The movements in deferred taxes for temporary differences were recognised in profit or loss except for EUR (229) thousand (2017: EUR (34) thousand) for actuarial remeasurements of post-employment defined benefit obligation, which was recognised in other comprehensive income.

## **16 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 number of years worked for the Company. The movements in the present value of defined benefit obligation are:

	<b>2018</b>	<b>2017</b>
<b>Present value of unfunded post-employment defined benefit obligations at the beginning of the year</b>	<b>7,622</b>	<b>7,736</b>
Current service cost	430	354
Interest cost	105	75
Past service costs due to changes in the defined benefit plan rules	-	(128)
<b>Total expense (Note 22)</b>	<b>535</b>	<b>301</b>
<i>Actuarial remeasurements:</i>		
- attributable to changes in financial assumptions	(884)	(301)
- attributable to changes in demographic assumptions	(718)	140
- attributable to experience adjustments	513	-
<b>Total actuarial remeasurements recognised in other comprehensive income</b>	<b>(1,089)</b>	<b>(161)</b>
Benefits paid during the year	(326)	(254)
Other changes	610	-
<b>Present value of unfunded post-employment defined benefit obligations at the end of the year</b>	<b>7,352</b>	<b>7,622</b>

## **16 Post-Employment Defined Benefit Obligations (continued)**

The principal actuarial assumptions were as follows:

	<b>2018</b>	<b>2017</b>
Number of employees at 31 December	1,448	1,314
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.

## **17 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 service vesting condition (2017: 5 year). 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.

## **18 Provisions for liabilities and charges**

<i>In thousands of EUR</i>	<b>2018</b>	<b>2017</b>
Provisions for litigation	19,972	-
<b>Total current provisions for liabilities and charges</b>	<b>19,972</b>	<b>-</b>

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

**19 Contract Liabilities from Deferred Connection Fees and Customer Contribution**

<i>In thousands of EUR</i>	<b>At 31 December 2018</b>	<b>At 1 January 2018</b>	<b>At December 2017</b>
<b>Non-current</b>			
Contract liabilities - customer contributions	14,515	11,098	11,098
Contract liabilities - connection fees	65,858	63,931	63,931
<b>Total non-current contract liabilities</b>	<b>80,373</b>	<b>75,029</b>	<b>75,029</b>
<b>Current</b>			
Contract liabilities - customer contributions	420	480	480
Contract liabilities - connection fees	4,945	4,262	4,262
<b>Total current contract liabilities</b>	<b>5,365</b>	<b>4,742</b>	<b>4,742</b>

Customer contributions are paid primarily for capital expenditures made on behalf of customers and include access network assets transferred to the Company by its customers free of charge. The contributions are non-refundable and are recognised as other operating income over the useful lives of the related assets.

Connection fees are paid by customers to connect them to the electricity network. The fees are recognised as deferred income and are released to revenues over the useful lives of related assets of approximately 20 years.

Movements of contractual liabilities were as follows:

<i>In thousands of EUR</i>	<b>At 31 December 2017</b>	<b>Additions</b>	<b>Transfers</b>	<b>Utilization</b>	<b>At 31 December 2018</b>
<b>Non-current</b>					
Contract liabilities - customer contributions	11,098	3,829	(412)	-	14,515
Contract liabilities - connection fees	63,931	6,872	(4,945)	-	65,858
<b>Total non-current contract liabilities</b>	<b>75,029</b>	<b>10,701</b>	<b>(5,537)</b>	<b>-</b>	<b>80,373</b>
<b>Current</b>					
Contract liabilities - customer contributions	480	-	412	(472)	420
Contract liabilities - connection fees	4,262	-	4,945	(4,262)	4,945
<b>Total current contract liabilities</b>	<b>4,742</b>	<b>-</b>	<b>5,357</b>	<b>(4,734)</b>	<b>5,365</b>

Utilization of current contract liabilities is included in revenues for connection work and testing fees of note 21.

## **19 Contract Liabilities from Deferred Connection Fees and Customer Contribution (continued)**

The maturity analysis is as follows at 31 December 2018:

<i>In thousands of EUR</i>	<b>Less than 1 year</b>	<b>From 1 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Non-current</b>				
Contract liabilities - customer contributions	-	46	14,469	14,515
Contract liabilities - connection fees	-	20,293	45,565	65,858
<b>Total non-current contract liabilities</b>	<b>-</b>	<b>20,339</b>	<b>60,034</b>	<b>80,373</b>
<b>Current</b>				
Contract liabilities - customer contributions	420	-	-	420
Contract liabilities - connection fees	4,945	-	-	4,945
<b>Total current contract liabilities</b>	<b>5,365</b>	<b>-</b>	<b>-</b>	<b>5,365</b>

## **20 Trade and Other Payables**

<i>In thousands of EUR</i>	<b>2018</b>	<b>2017</b>
Trade payables	45,371	20,042
Other accrued liabilities	21,006	33,949
Payables from leasing	3,404	2,978
Other financial liabilities	521	74
<b>Total financial instruments within trade and other payables</b>	<b>70,302</b>	<b>57,043</b>
Contract liability - deferred electricity and distribution fees	5,060	2,256
Employee benefits payable	1,852	1,652
Social security on employee benefits	1,603	1,104
Accrued staff costs	7,347	6,369
Advance payments	13,519	18,161
Value added tax payable	(383)	(721)
Other payables	4,366	4,045
<b>Total trade and other payables</b>	<b>103,666</b>	<b>89,909</b>

The Company had overdue trade payables of EUR 276 thousand (2017: EUR 100 thousand). None of the payables are overdue more than 30 days at 31 December 2018 and 2017.

## 20 Trade and Other Payables (continued)

Details of contract liabilities and reclassifications as at 1 January 2018:

<i>In thousands of EUR</i>	At 31 December 2018	At 31 January 2018	At 31 December 2017
<b>Current</b>			
Deferred revenue - deferred electricity and distribution fees	-	-	2,256
Contract liability - deferred electricity and distribution fees	5,060	2,256	-
<b>Total current contract liabilities</b>	<b>5,060</b>	<b>2,256</b>	<b>2,256</b>

The movements in contract liabilities were as follows:

<i>In thousands of EUR</i>	At 31 January 2018	Additions	Utilizations	At 31 December 2018
<b>Current</b>				
Contract liability - deferred electricity and distribution fees	2,256	5,060	2,256	5,060
<b>Total current contract liabilities</b>	<b>2,256</b>	<b>5,060</b>	<b>2,256</b>	<b>5,060</b>

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

<i>In thousands of EUR</i>	Less than 1 year	From 1 to 5 years	Over 5 years	Total
<b>Current</b>				
Contract liability - deferred electricity and distribution fees	5,060	-	-	5,060
<b>Total current contract liabilities</b>	<b>5,060</b>	<b>-</b>	<b>-</b>	<b>5,060</b>

## **21 Revenue**

Revenue comprises the following:

<i>In thousands of EUR</i>	<b>2018</b>	<b>2017</b>
Distribution fees for electricity to industrial and commercial customers	235,699	229,678
Distribution fees for electricity to residential customers	98,487	97,620
Tariff for system operation and system services – OKTE, a.s. a related party controlled by Slovak government	153,232	152,979
Revenues for reserved capacity	6,143	11,126
<b>Total distribution fees</b>	<b>493,561</b>	<b>491,403</b>
Revenues for connection work and testing fees	5,393	4,684
Other revenue	4,752	6,098
<b>Total revenue</b>	<b>503,706</b>	<b>502,185</b>

The Company provides access to its electricity distribution network at regulated prices.

Slovakia has implemented the European Union electricity market directive, which resulted in a complete liberalisation of the market whereby all customers, including households, became eligible to buy electricity in the open market from 1 July 2007. However, price regulation applies to certain protected groups of customers.

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

<i>In thousands of EUR</i>	<b>2018</b>	<b>2017</b>
At a point in time	-	-
Over time	503,706	502,185
<b>Total revenue</b>	<b>503,706</b>	<b>502,185</b>

## **22 Employee Benefits**

<i>In thousands of EUR</i>	<b>2018</b>	<b>2017</b>
Wages and salaries	33,344	28,178
Defined contribution pension costs	6,510	5,081
Post-employment defined benefit plan expense (Note 16)	535	301
Other long-term employee benefit plans – current service and interest cost	129	(134)
Actuarial remeasurements of other long-term employee benefit plans	(199)	29
Other social costs	9,647	8,743
<b>Total employee benefits expense</b>	<b>49,966</b>	<b>42,198</b>

## **23 Other Operating Expenses**

<i>In thousands of EUR</i>	<b>2018</b>	<b>2017</b>
Repairs and maintenance of energy equipment	3,318	1,807
Customers services	-	3,509
Other repairs and maintenance	6,326	6,829
Administration of distribution equipment	9,489	10,305
Repairs of machinery and devices	1,163	547
IT services	12,860	11,563
Measuring of electricity consumption	966	904
Facility management	1,389	13,070
Finance services	3,962	2,699
Rental costs	10,190	3,396
Advisory services	571	519
Other services	7,847	3,833
Call centrum	1,012	1,604
Bad debt expense (Note 10)	(207)	146
Audit fee	101	111
Loss on disposal of fixed assets (Note 6)	364	202
Litigations	16,522	-
<b>Total other operating expenses</b>	<b>75,873</b>	<b>61,044</b>

## **24 Other Operating Income**

<i>In thousands of EUR</i>	<b>2018</b>	<b>2017</b>
Operating lease income	1,044	1,154
Income from contractual penalties	86	74
Income from unauthorized consumption of electricity	249	285
Income from provided IT services	2,550	159
Other	242	245
<b>Total other operating income</b>	<b>4,171</b>	<b>1,917</b>

## **25 Interest and Similar Expense**

<i>In thousands of EUR</i>	<b>2018</b>	<b>2017</b>
Interest expense on borrowings	21,791	22,617
Other interest expense	105	75
<b>Total interest and similar expense</b>	<b>21,896</b>	<b>22,692</b>
Less capitalised borrowings costs (Note 6)	(1,614)	(1,563)
<b>Total interest and similar expense</b>	<b>20,282</b>	<b>21,129</b>

## **26 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, financial derivatives, and short-term bank deposits.

**Foreign exchange risk.** The Company operates in the domestic market, and its sales, purchases and short-term deposits are denominated in EUR. Management does not consider foreign exchange risk as a significant exposure for the 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.

**Interest rate risk.** The Company does not have any significant interest rate risk exposure because all of its financial assets and liabilities, including borrowings received 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.

**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 energy and services on credit terms and other transactions with counterparties giving rise to financial assets. The exposure includes cash and cash equivalents, financial derivatives and deposits with banks and financial institutions, as well as exposures to wholesale and retail customers, including outstanding receivables and transactions made.

To determine the level of credit risk, The 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.

As for the banks and financial institutions, the Company has relationships only with those that have a high independent rating assessment. If wholesale customers are independently rated, these ratings are used. If no independent rating is available, Company assesses the credit quality of customer, taking into account its financial position, past experience and other factors. Except as disclosed in Note 10, as for trade receivables, the Company does not have a significant concentration of credit risk mainly due to a large number of diverse customers.

The Company uses a system of reminders, which may culminate in a service disconnection, as the prevailing contract enforcement. The collection of receivables could be influenced by economic factors; management believes that there is no significant risk of loss to the Company beyond the provisions already recorded. To reduce the risk of selected wholesalers, the Company uses insurance products. The credit quality of outstanding balances with banks is presented in Note 12 and credit quality information about trade receivables is included in Note 10.

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



## 26 Financial Risk Management (continued)

**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.

The Company regularly monitors its liquidity position and uses cash pooling with the Parent company to optimize the use of funds within the Company. The Company also uses the advantages of commercial terms between the Company and its suppliers to secure sufficient financing to cover its needs. The maturity of supplier's invoices is 20 days, on average. Expected cash flows forecast is prepared weekly as follows: (a) expected future cash inflows from main operation of the 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>	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 12 months</b>	<b>From 12 months to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Liabilities</b>						
Borrowings – principal due	-	-	-	315,000	315,000	<b>630,000</b>
Borrowings – future interest payments	-	-	19,341	77,364	31,500	<b>128,205</b>
Trade payables (Note 20)	23,441	21,930	-	-	-	<b>45,371</b>
Other accrued liabilities (Note 20)	9,701	7,352	3,953	-	-	<b>21,006</b>
Other financial liabilities (Note 20)	521	-	-	-	-	<b>521</b>
Gross finance lease liability	-	-	1,546	1,858	-	<b>3,404</b>
<b>Total future payments, including future principal and interest payments</b>	<b>33,663</b>	<b>29,282</b>	<b>24,840</b>	<b>394,222</b>	<b>346,500</b>	<b>828,507</b>

The maturity analysis is as follows at 31 December 2017:

<i>In thousands of EUR</i>	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 12 months</b>	<b>From 12 months to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Liabilities</b>						
Borrowings – principal due	-	-	315,000	-	315,000	<b>630,000</b>
Borrowings – future interest payments	-	-	20,230	52,164	9,790	<b>82,184</b>
Trade payables (Note 20)	10,569	9,329	144	-	-	<b>20,042</b>
Other accrued liabilities (Note 20)	32,940	7	1,002	-	-	<b>33,949</b>
Other financial liabilities (Note 20)	74	-	-	-	-	<b>74</b>
Gross finance lease liability	-	-	1,147	1,831	-	<b>2,978</b>
<b>Total future payments, including future principal and interest payments</b>	<b>43,583</b>	<b>9,336</b>	<b>337,523</b>	<b>53,995</b>	<b>324,790</b>	<b>769,227</b>

## **27 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 177,346 thousand at 31 December 2018 (31 December 2017: EUR 170,179 thousand).

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.

## **28 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 subject to master netting and similar arrangements not set off in the statement of financial position	Cash Financial instruments collateral received	Net amount of exposure
<i>In thousands of EUR</i>	(a)	(b)	(c) = (a) - (b)	(d)	(e)	(c) - (d) - (e)
<b>Assets</b>						
Cash pooling	44,870	-	44,870	44,870	-	-
<b>Total assets subject to offsetting, master netting and similar arrangement</b>	<b>44,870</b>	<b>-</b>	<b>44,870</b>	<b>44,870</b>	<b>-</b>	<b>-</b>
<b>Liabilities</b>						
Borrowings	634,875	-	634,875	44,870	-	590,005
<b>Total liabilities subject to possible offsetting, master netting and similar arrangement</b>	<b>634,875</b>	<b>-</b>	<b>634,875</b>	<b>44,870</b>	<b>-</b>	<b>590,005</b>

## 28 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 subject to master netting and similar arrangements not set off in the statement of financial position	Cash collateral received	Net amount of exposure
<i>In thousands of EUR</i>	(a)	(b)	(c) = (a) - (b)	(d)	(e)	(c) - (d) - (e)
<b>Assets</b>						
Cash pooling	52,146	-	52,146	52,146	-	-
<b>Total assets subject to offsetting, master netting and similar arrangement</b>	<b>52,146</b>	<b>-</b>	<b>52,146</b>	<b>52,146</b>	<b>-</b>	<b>-</b>
<b>Liabilities</b>						
Borrowings	634,833	-	634,833	52,146	-	582,687
<b>Total liabilities subject to possible offsetting, master netting and similar arrangement</b>	<b>634,833</b>	<b>-</b>	<b>634,833</b>	<b>52,146</b>	<b>-</b>	<b>582,687</b>

## 29 Debt Reconciliation

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

<i>In thousands of EUR</i>	<b>Borrowings</b>
<b>At 1 January 2017</b>	<b>634,833</b>
Payments of interest, including interest capitalised and presented as investing cash-flows	(22,617)
Interest expense	21,054
Capitalised interest costs (Note 6)	1,563
<b>At 31 December 2017</b>	<b>634,833</b>
Payments of interest, including interest capitalised and presented as investing cash-flows	(21,791)
Interest expense	20,219
Capitalised interest costs (Note 6)	1,614
<b>At 31 December 2018 (Note 8)</b>	<b>634,875</b>

### 30 Fair Value Disclosures

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuation techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

#### **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 2 fair value	Carrying value	Level 2 fair value	Carrying value
<b>Assets</b>				
Trade receivables, net (Note 10)	34,649	34,649	24,966	24,966
Cash and cash equivalents (Note 12)	3,877	3,877	3,719	3,719
Receivables from cash pooling (Note 11)	44,870	44,870	52,146	52,146
<b>Total assets</b>	<b>83,396</b>	<b>83,396</b>	<b>80,831</b>	<b>80,831</b>
<b>Liabilities</b>				
Borrowings (Note 8)	675,732	634,875	695,066	634,833
Trade payables (Note 20)	45,371	45,371	20,042	20,042
Other accrued liabilities (Note 20)	21,006	21,006	33,949	33,949
Other financial liabilities (Note 20)	521	521	74	74
Liabilities from finance leasing (Note 20)	3,404	3,404	2,978	2,978
<b>Total liabilities</b>	<b>746,034</b>	<b>705,177</b>	<b>752,109</b>	<b>691,876</b>

The fair value of borrowings received was determined at the quoted market price of the bonds, based on the calculation of related issued bonds by Západoslovenská energetika, a.s.

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

### 31 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.

### **32 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.

**Legal proceedings.** From time to time and in the normal course of business, claims against the Company may be received. Certain customers or their representatives contest fairness and appropriateness of decisions of the network industry regulator. These circumstances have led to the Company having created a provision for the impact of litigation (Note 18).

**Capital expenditure commitments.** At 31 December 2018, the Company had outstanding contractual commitments for purchases of property, plant and equipment of EUR 4,586 thousand (2017: EUR 700 thousand). Outstanding contractual commitments for purchases of intangible assets were EUR 1,541 thousand (2017: EUR 1,775 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>	<b>2018</b>
No later than one year	7,617
Later than one year and no later than five years	25,152
Later than five years	49,598
<b>Total</b>	<b>82,279</b>

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 8,939 thousand (2017: EUR 997 thousand).

Operating lease expense for the year is disclosed in Note 23.

### **33 Purchase of part of the business**

The Company concluded on 18 December 2017 with its Parent company Západoslovenská energetika, a.s. agreement on sale of part of the business related to "transfer of facility management, billing services, quality control and logistics department" of the Parent company, which became effective on 1 January 2018. The transaction was completed during year 2018.

The acquisition price of the business is EUR 9,902 thousand. Details of the assets and liabilities acquired are as follows:

<i>In thousands of EUR</i>	<b>Carrying values</b>
Property, plant and equipment	5,246
Intangible assets	18
Low-value assets*	177
Trade and other receivables	3,217
Trade and other payables	(528)
Post-employment defined benefit obligations	(204)
<b>The difference between value identified by the valuator and the predecessor's carrying values, which are mentioned above</b>	<b>1,976</b>
<b>Expenditures related to the purchase of part of the business</b>	<b>9,902</b>

\* Short-term tangible assets have been recognized in the Profit and Loss Statement and other comprehensive income.

### **34 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, purchases of electricity from an entity in which the Slovak government has a significant shareholding and other transactions presented below.

The related party transactions and outstanding balances were as follows for 2018:

<i>In thousands of EUR</i>	<b>Parent company</b>	<b>E.ON Group**</b>	<b>Slovak government*</b>	<b>Entities under common control of the Parent company</b>
Revenue	1,925	26	223,359	193,517
Purchases and expenses	51,581	6,421	73,178	28,679
Receivables other than taxes	45,256	13	8,342	20,355
Payables other than taxes	636,999	3,557	5,934	18,669
Dividends declared and paid	56,772	-	-	-

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

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

Income taxes are disclosed in the statement of financial position, statement of profit or loss and other comprehensive income, in the statement of cash flows and are also analysed in Note 15. Outstanding value added tax payable is presented in Note 20.

The income tax paid was as follows:

<i>In thousands of EUR</i>	<b>2018</b>	<b>2017</b>
Current income tax expense at standard rate of 21% (2017: 21%) – refer to Note 15	18,482	21,670
Special levy on profits from regulated activities (Note 15)	4,986	4,949
Income tax refund (receivable)/payable at the beginning of the reporting period	(4,193)	5,390
Income tax refund payable at the end of the reporting period	3,140	(4,193)
<b>Income tax paid</b>	<b>(30,801)</b>	<b>(27,816)</b>

### 34 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>	<b>Parent company</b>	<b>E.ON Group**</b>	<b>Slovak government*</b>	<b>Entities under common control of the Parent company</b>
Revenue	1,971	90	182,934	190,525
Purchases and expenses	57,013	7,577	65,272	27,714
Receivables other than taxes	52,146	-	985	16
Payables other than taxes	637,856	2,014	1,111	1,285
Dividends declared and paid	55,294	-	-	-

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

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

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

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

<i>In thousands of EUR</i>	<b>2018</b>	<b>2017</b>
<i>Board of directors and other key management personnel</i>		
Salaries and other short-term employee benefits	608	522
Defined contribution pension costs	77	71
<b>Total remuneration of board of directors and other key management personnel</b>	<b>685</b>	<b>593</b>
<i>Supervisory board</i>		
Salaries and other short-term employee benefits	126	115
Defined contribution pension costs	18	16
<b>Total remuneration of supervisory board</b>	<b>144</b>	<b>131</b>

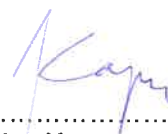
### **35 Events after the End of the Reporting Period**

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

Management authorised these financial statements for issue 21 March 2019:



.....  
Ing. Andrej Juris  
Chairman of the Board of Directors



.....  
Ing. Marian Kapec  
Member of the Board of Directors