Annual Report 2018

Západoslovenská energetika, a.s.

Content

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

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

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

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

Západoslovenská energetika, a.s. is also the sole founder of Nadácia ZSE (ZSE Foundation).

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

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

The mission of the ZSE Group is to carry out electricity and gas supplies and electricity distribution and to provide comprehensive energy-related services to all categories of customers – households, SMEs and strategic enterprises in the Slovak economy. Services are provided in the long-term and reliably, at affordable prices, in an environmentally-friendly manner and in accordance with the EU regulations. The ZSE Group provides services related to electricity distribution and electricity and gas supplies primarily in the region of western Slovakia.

In addition to two small hydropower plants, the ZSE Group also has a steam-gas power plant near Malženice in western Slovakia with an installed capacity of 430 MW. Západoslovenská energetika, a.s. is also active in the field of electromobility.

Certain aspects of the relationship between the ZSE Group and its customers with respect to electricity distribution, and electricity and gas supplies, including the pricing of services provided to certain groups of customers, are regulated by the Regulatory Office for Network Industries (ÚRSO). Electricity distribution is subject to regulation, price or factual, to the largest extent.

Company Bodies

The structure of statutory and supervisory bodies of the Company during the year 2018 was as follows:

Statutory Body

Board of Directors	
As at 31 December 2018	
Chairman	Jochen Kley (start of office on 1 June 2016)
Vice-Chairman	Ing. Peter Adamec, PhD. (start of office on 16 November 2016)
Members	Ing. Pavol Viskupič (start of office on 16 November 2016)
	Marian Rusko (start of office on 1 July 2017)
	Mgr. Juraj Krajcár (start of office on 5 December 2017)

Supervisory Body

Supervisory Body	
As at 31 December 2018	
Chairman	Ing. Eva Milučká (start of office as a Member on 16 November 2016 and as the Chairman on 8 December 2016)
Vice-Chairman	Markus Kaune (start of office as a Member on 5 December 2016 and as the Vice-Chairman on 8 December 2016)
Members	Silvia Šmátralová (start of office on 19 December 2017)
	Ing. Martin Mislovič (start of office on 19 December 2017)
	Ing. Juraj Nyulassy (start of office on 19 December 2017)
	Ing. Lucia Veselská (start of office on 16 November 2016)
	Ing. Erna Dohnáliková (start of office on 16 November 2016)
	Ing. Ján Rusnák (start of office on 16 November 2016)
	Mgr. Tomáš Galbavý (start of office on 16 November 2016)

Audit Committee

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

In year 2018, the Audit Committee of the Company had the following structure:

Audit Committee 2018
Ing. Ján Rusnák
Ing. Mgr. Juraj Bayer, PhD.
JUDr. Peter Hajduček

Shareholders' Structure

The shareholders' structure in Západoslovenská energetika, a.s. as at 31 December 2018 was as follows:

Shareholders' Structure

As at 31 December 2018	Absolute amount in € thousand	Equity share in the share capital in %	Voting rights
Slovak Republic represented by the Ministry of Economy of the Slovak Republic	100,454	51 %	51 %
E.ON Slovensko, a.s.	76,818	39 %	39 %
E.ON Beteiligungen GmbH	19,697	10 %	10 %

Corporate Governance Declaration

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Governance Methods and Bodies of the Company

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

General Meeting

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

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

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

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

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

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

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

vote for changes in the rights and then it is the General Meeting of all the shareholders.

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

Rights and Duties of Shareholders

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

The Board of Directors

1. The Board of Directors is a statutory body of the Company. It shall act on behalf of the Company in relation to the third persons. The Board shall control the corporate activities and take decisions in all the matters associated with the Company unless applicable laws or the Articles of Association place them within the authority of other bodies of the Company.
2. The Board of the Company consists of five (5) members. The members of the Board of Directors are elected and removed by the General Meeting, with Chairman and Vice-Chairman of the Board of Directors being appointed. The term of office of the members of the Board of Directors shall be four (4) years; the term of office is renewable. Any member of the Board of Directors shall

have the right to give up his/her position; however, he/she shall be obliged to report such act to the Board of Directors and Supervisory Board in writing. A member of the Board of Directors of the Company mustn´t be a member of the Board of Directors of the subsidiary Západoslovenská distribučná, a.s. The performance of the office of the member of the Board of Directors may not be delegated.

3. If the number of members of the Board of Directors is not less than half, the Board of Directors shall have the right to appoint alternates until the time of the nearest General Meeting of the Company. The Board of Directors has a quorum if the absolute majority of its members are present at the meeting. The Board of Directors shall adopt resolutions by absolute majority of votes of the members present at the meeting. Neither Chairman nor Vice-Chairman shall have the casting vote in case of a tie. The members of the Supervisory Board may vote by this form of communication or by a written declaration if they are not present in person at a venue where the majority of members are gathered, whereas such venue shall be considered as a venue of the meeting. The resolutions of the Board of Directors may be adopted, in addition to meetings of the Board of Directors, by members of the Board of Directors, out of the meeting of the Board of Directors ("per rollam resolution").
4. E.ON, a shareholder of the Company, shall be obliged to exercise all its rights in order to make sure that the Board of Directors of the Company will not adopt any resolution if not a single member nominated by the Ministry of Economy of the Slovak Republic (only the "Ministry") as a shareholder of the Company is present at the relevant meeting. If a member nominated by the Ministry is absent from two consecutive, regularly convened meetings of the Board of Directors, the above stated shall not apply to the second of these meetings.

Structure and activities of the Board of Directors

In 2018 the Board of Directors of the Company had the following structure:

In 2018 the Board of Directors of the Company had the following structure

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

The activities of the Board of Directors were performed in line with the Articles of Association and Commercial Code; in 2018 the Board of Directors held meetings regularly and in line with Articles of Association, and in line with Article XVIII(7) of the Articles of Association the Board of Directors adopted several resolutions out of the meeting of the Board of Directors ("per rollam resolutions") in 2018.

Supervisory Board

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

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

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

4. The Supervisory Board has a quorum if the absolute majority of its members are present at the meeting. The Supervisory Board shall adopt resolutions by absolute majority of votes of all members of the Supervisory Board. The members of the Supervisory Board may participate in the meetings of the Supervisory Board in any form of communication during which all participants hear one another. The members of the Supervisory Board may vote by this form of communication or by a written declaration if they are not present in person at a venue where the majority of members are gathered, whereas such venue shall be considered as a venue of the meeting. The resolutions of the Supervisory Board may be adopted, in addition to meetings of the Supervisory Board, by members of the Supervisory Board out of the meeting of the Supervisory Board ("per rollam resolution").
5. The Slovak Republic, a shareholder of the Company, shall be obliged to exercise all its rights in order to make sure that the Supervisory Board of the Company will not adopt any resolution if not a single member nominated by E.ON is present at the relevant meeting. If a member of the Supervisory Board of the Company nominated by E.ON Slovensko, a.s. is absent from two consecutive, regularly convened meetings of the Supervisory Board, the above stated shall not apply to the second of these meetings.

In 2018 the Supervisory Board of the Company held four regular meetings in line with the Articles of Association and one extraordinary session.

Audit Committee

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

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

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

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

b) The Company´s bonds are freely transferrable.

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

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

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

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

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

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

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

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

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

The Company´s Board of Directors is mainly in charge of the following:

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

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

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

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

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

ˮCompliance Programmeˮ

In 2018 special attention was paid to the development and implementation of ˮCompliance Programmeˮ, i.e. a set of processes focused on compliance with law and ethical conduct of employees of ZSE Group in all areas of the working life. The ˮCompliance Programmeˮ has been gradually implemented in all subsidiaries of the ZSE Group, including Západoslovenská energetika, a.s.

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

Code of Conduct

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

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

Zero Tolerance for Corruption

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

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

- **Contributions to political parties, charity and sponsorship gifts**
  Programmes for gifts and sponsorship are transparent. As a sponsor, the ZSE Group supports specific projects and initiatives in the areas such as education, environment protection, innovation and community development, if they meet the following criteria:
  - objectives are linked to the objectives and mission of the Company,
  - the funds have clearly defined purposes, and their use is properly and transparently documented and verifiable anytime.

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

- **Money laundering**
  In the fight on money laundering and terrorist financing, the ZSE Group proceeds in line with Slovak and European laws. The ZSE Group never excuses, facilitates or supports money laundering which means that:
  - It respects laws concerning money laundering,
  - It never engages in risk activities which could be focused on financing or support of criminal terrorist activities,
  - It adopts measures and mechanisms of assessment of potential and current business partners.

Internal control mechanism:

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

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

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

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

2. Strategy and Innovation

The European context of energy and our strategy

The electricity market was characterised by turbulent development. The price of electricity rose up on the power exchange by 18 percent between 2016 and 2017, and in 2018 by to 30 percent, which is the biggest rise over the last eight years.

A significant rise of wholesale electricity and gas prices on power exchanges related mainly to the triple rise of CO2 emission permits. This has been caused by the fact that a certain volume of emission permits has been withdrawn from the market through the Market Stabilisation Fund. Excessive volume of emission permits from the past will be either frozen in the Fund, or it will be gradually used and sold. Price of electricity depends on whether the price of emission permits will rise, because theoretically there is a room for it. The price if electricity is linked to the price of coal, mineral oil and other commodities. However, the current dynamic development cannot be derived from these factors only. Other, non-economic factors affect it too. Within the European context, 2018 was affected by developing the Energy Union. Discussions on the fourth energy "winter package" continued, focusing both on sale and distribution. From the business perspective, it concerns mainly the deregulation of energy end prices, efficient movements on the market, better access to consumption data and its management, support of active customers - prosumers and customer communities. From the distribution perspective, it is about creation of superior European bodies, cyber security, data access support, IMS and support of active customers and energy communities.

Therefore, we want to bring new value-added solutions and products, while keeping our position of a stable and reliable distributor and supplier of energy, being a pioneer in energy innovations. This is the strategy of the ZSE Group.

Our traditional business

In terms of distribution, the distribution system operator - Západoslovenská distribučná, a.s. was a reliable distributor and its economic results reflect historically the greatest volume of electricity distributed to customers.

Higher volume of distributed electricity and requirements for new connections as well as increased capacity of the existing connections can be seen in the growing volume of investments. In terms of supply, ZSE Energia, a.s. continued to be a stable supplier in 2018; it supplied more than 6 TWh of electricity and almost 2.7 TWh of gas. These volumes show that the fall in electricity supply recorded in previous years has stopped and the importance of ZSE Energia as a gas supplier on the Slovak territory is on the rise.

In addition to traditional business, ZSE Energia saw also successes in non-commodity services launched already 2015. In 2018, the number of customers with this type of products kept increasing. Among the most popular products are assistance services of ZSE.

Innovation

Keeping in mind the active approach to technology development, innovative activities both internally and externally were undertaken.

In terms of internal processes, several improvements were adopted, increasing their degree of digitisation too. Both the supplier and distributor launched many online services the customers can benefit from.

The most tangible innovation externally are mainly activities related to e-mobility in Slovakia, and activities which will lead to innovative smart solutions for households and municipalities. As far as innovations and new innovative products are concerned, ZSE continued in fostering a new innovative brand "ZEON, Innovations by ZSE".

Speaking about e-mobility, ZSE has been engaged in several activities - either its own initiatives or initiatives which are a part of international projects. In 2018, the Company completed four international e-mobility projects: FAST-E, EAST-E, NEXT-E and URBAN-E. Within these projects, more than 100 charging stations for e-vehicles will be built on the sections of main European corridors passing through the Slovak Republic and in the capital city Bratislava.

Regarding customer solutions, last year we launched solutions focused on smart home, renewable energy sources and HVAC (heating, ventilation and air-conditioning). In 2018, ZSE successfully entered the HVAC market through the supply of air-conditioning facilities and thermal pumps for heating.

ZSE also continued in cooperating with Slovak cities on the Smart City concept. Such global projects require for necessary partnerships between several entities whose services and products form synergies, with ZSE as a natural key player.

The ZSE Group did not spend any costs on research and development.

Expectations for 2019

The implementation of the energy package of the Energy Union is expected to continue. In 2019 we expect implementation of the amended laws concerning renewable energy sources and other changes to laws on clean and smart transport and energy efficiency in business, households and public sector. The ZSE Group strategy fully reflects all these trends, nevertheless it will keep flexibility in its responses to even less predictable changes in geopolitical or macroeconomic development so that it remains a stable partner for energy solutions to its customers.

Risks and Uncertainties

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

ZSE Energia, a.s.:
The core business activity of ZSE Energia, a.s. is electricity and gas supply to end consumers. In relation to energy supply business, ZSE Energia, a.s. is exposed to several risks – especially credit and price commodity risk. Credit risk is related to the liquidity risk of the company's business partners, in particular the electricity and gas consumers. The company has an internal credit risk assessment process, which involves assigning an individual credit rating to its customers based on a combination of independent financial information and their payment discipline. ZSE Energia, a.s. actively uses insurance of receivables, as an additional risk management tool. Market risk is caused by changes of market variables as a result of commodity market supply and demand development. It takes a form of energy price fluctuations and economic environment dynamics. Price fluctuations can have impact on the closing price of the open position of the company. The company applies a conservative approach to managing

commodity business by maintaining a limited open position and through back-to-back commodity buying (at the moment of the sales volume contracting).

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

During the normal course of business, various claims against the Company Západoslovenská distribučná, a.s. may be received. Certain customers or their representatives contest fairness and appropriateness of decisions of the network industry regulator. The ZSE Group took these risks of the company into account in its Consolidated Financial Statements as at 31 December 2018.

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

Significant events that occurred after the end of 2018 and require disclosure in the annual report

No major events occurred after 31 December 2018 that would require disclosure in this annual report.

3. Economy

Selected Data from the Separate Financial Statements

In 2018, the parent Company Západoslovenská energetika generated a profit of EUR 64,037 thousand and incurred costs totaling EUR 52,835 thousand from continuing and discontinued operations.
The Company's key figures according to the International Financial Reporting Standards as adopted by the European Union:

Key Figures as at 31 December

€ thousand	2018	2017
Non-current assets	952,914	646,524
Current assets	86,920	422,214
Total assets	**1,039,834**	**1,068,738**
Equity	345,004	354,824
Non-current liabilities	627,672	316,885
Current liabilities	67,158	397,029
Total equity and liabilities	**1,039,834**	**1,068,738**
Continuing operations:		
Revenues	16,545	18,248
EBIT (profit from operations)	**66,869**	**69,370**
EBITDA	69,636	71,960
Total income	116,534	112,996
Total expenses	52,835	43,542
Profit before tax	63,699	69,454
Profit for the year from continuing operations	**64,037**	**68,834**
Profit for the year from discontinued operations	-	1,860
Profit for the year	**64,037**	**70,694**
Total other comprehensive income for the year	115	(111)
Total comprehensive income for the year	**64,152**	**70,583**
Total comprehensive income for the year from continuing operations	64,152	68,776
Total comprehensive income for the year from discontinued operations	-	1,807
Capital expenditures	3,627	6,140
Average number of employees	166	306

Distribution of the 2017 Profit

The General Meeting of Západoslovenská energetika, a.s. held on 31 May 2018 approved the proposal for the distribution of the 2017 profit of EUR 70,694 thousand. In June 2018 the Company's shareholders were paid dividends from the 2017 profit in the total amount of EUR 70,490 thousand. Also, the amount of EUR 204 thousand from the 2017 profit were designated as a contribution to the social fund from profit. In 2018, the dividend per share amounted to EUR 11.88 (2017: EUR 8.50 per share).

Decision on the 2018 Profit Distribution

At its meeting on 19 March 2019 the Board of Directors of Západoslovenská energetika, a.s., acknowledged and recommended to the Supervisory Board of Západoslovenská energetika, a.s. to discuss the following proposal for the distribution of the Company's profit for 2018:

Proposal for Distribution of ZSE's 2018 Profit

Submitted to the Board of Directors of ZSE on 19 March 2019	€ thousand
Result for the year	**64,037**
Contribution to the social fund	208
Dividends	63,829
Total distribution of profit	**64,037**

Selected Data from the Consolidated Financial Statements

In 2018, the ZSE Group generated a profit of EUR 98,034 thousand and incurred costs totaling EUR 1,020,112 thousand.
The ZSE Group's key figures according to the International Financial Reporting Standards as adopted by the European Union:

Key figures about the ZSE Group as at 31 December

€ thousand	2018	2017
Non-current assets	859,221	807,696
Current assets	240,666	214,258
Total assets	**1,099,887**	**1,021,954**
Equity	79,598	50,226
Non-current liabilities	770,790	452,326
Current liabilities	249,499	519,402
Total equity and liabilities	**1,099,887**	**1,021,954**
Revenues from sales	1,124,502	1,064,997
EBIT (profit from operations)	153,893	150,956
EBITDA	203,567	200,049
Total income	1,150,579	1,089,993
Total expenses	1,020,112	960,059
Profit before tax	130,467	129,934
Profit for the year	**98,034**	**97,561**
Other comprehensive income for the year	1,116	8
Total comprehensive income for the year	**99,150**	**97,569**
Average number of employees	**1,859**	**1,811**

Structure of Electricity Sources and Use of electricity

Structure of Electricity Distribution

In GWh	As at 31 December 2018	Share (%)	As at 31 December 2017	Share (%)
Wholesale	6,015	61	5,886	61
Retail – businesses	1,430	14	1,411	14
Retail – households	2,421	25	2,386	25

Structure of Electricity Supplies

In GWh	As at 31 December 2018	Share (%)	As at 31 December 2017	Share (%)
Volume of electricity supplied including losses (GWh)	6,555	100	6,253	100
Of which: supplies to households (GWh)	1,943	30	1,927	31
Of which: supplies excluding households (GWh)	4,612	70	4,326	69

Useful electricity supply (GWh)

Year	Total
2018	6,555
2017	6,253

Distributed electricity (GWh)			
Year	Total	Of which: wholesale	Of which: retail
2018	9,866	6,015	3,851
2017	9,683	5,886	3,797

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

Indicators of Západoslovenská distribučná, a.s.		
As at 31 December	2018	2017
Volume of electricity distributed (GWh)	9,866	9,683
Revenues from electricity distribution (€'000)	493,561	495,440
Number of supply points	1,149,618	1,133,195

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

Indicators of ZSE Energia, a.s		
As at 31 December	2018	2017
Volume of electricity sold (GWh)	6,555	6,253
Revenues from the sale of electricity (€ thousand)*	739,379	677,452
Volume of electricity purchased (GWh)	6,555	6,253
Number of supply points	923,545	920,783

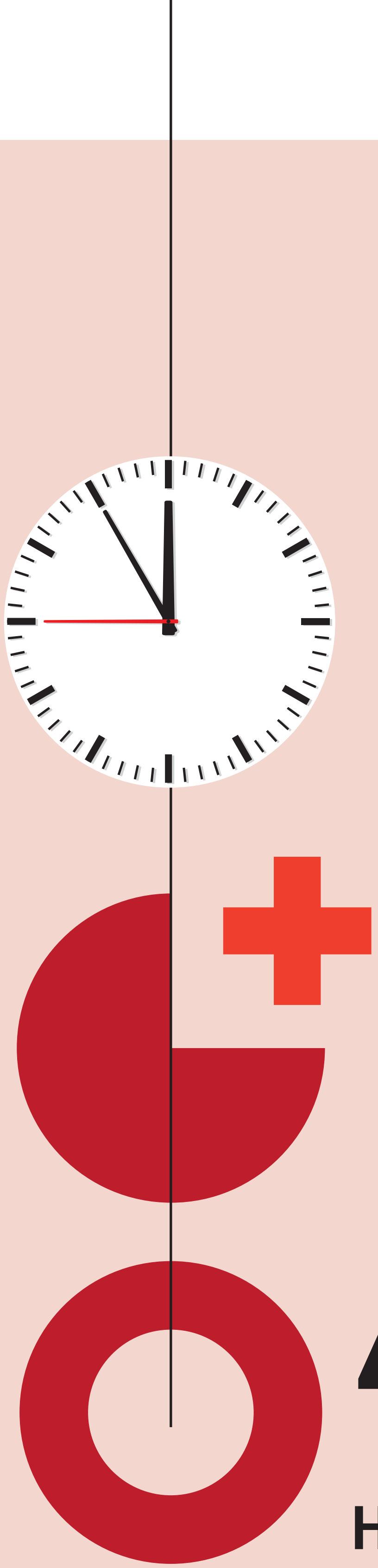
Information on sales in monetary terms for the ZSE Group:

Indicators of the ZSE Group		
As at 31 December	2018	2017
Volume of electricity sold (GWh)	6,555	6,253
Volume of electricity distributed (GWh)	9,866	9,683
Revenues from the sale and distribution of electricity (€ thousand)*	1,017,089	953,575
Volume of electricity purchased (GWh)	6,324	6,249
Volume of electricity generated (GWh)	231	4

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

Indicators of ZSE Energia, a.s		
As at 31 December	2018	2017
Revenues from the sale of gas (€ thousand)*	94,449	98,973
Volume of gas supplied (GWh)	2,723	2,727
Number of supply points	69,945	63,760

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

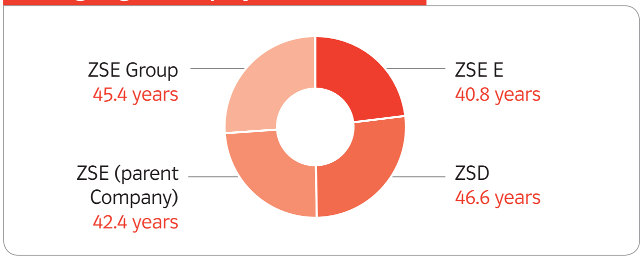


4. Human Resources

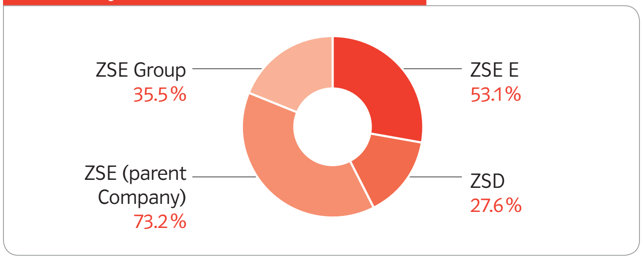
In 2018, the ZSE Group employed 1,858.5 employees on average (excl. members of the Board of Directors and Supervisory Board and employees who worked on the basis of the agreement on performance of work). The number of employees in individual companies was as follows:

ZSE – 165.7 employees
ZSE – 260.9 employees
ZSE – 1,422.6 employees
ZSE MVE – 8 employees
ZSE BS – 1.3 employees

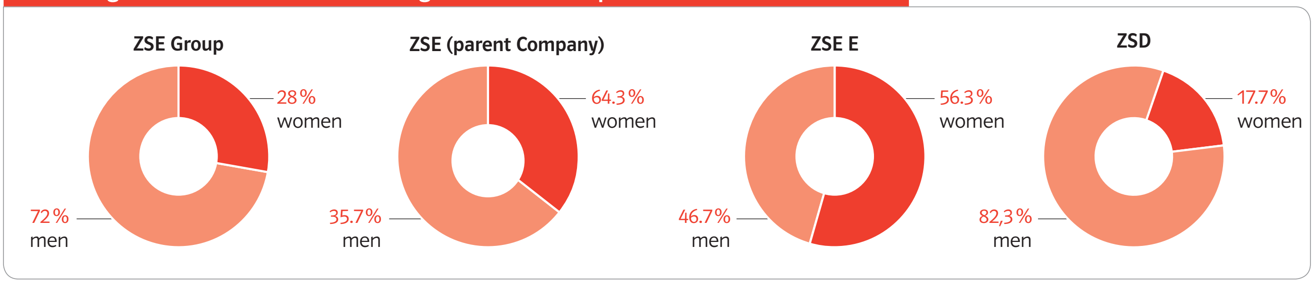
Average age of employees



University education



Percentage of men and women working in the ZSE Group



Remuneration and employee benefits

In line with the commitments resulting from the Collective Agreement, the companies of the ZSE Group raised the wage, consisting of the basic and variable part, by 5% on average.

The employees were remunerated based on their performance which directly affected the sum of the variable part of the wage and extraordinary bonuses.

All employees of the ZSE Group received the contribution from the Social Fund for recovery of labour force.

Above standard preventive medical check-ups were also provided to employees.

In 2018 the employer continued in contributing to the supplementary pension savings scheme of employees. Every employee was entitled to 5 days of holidays beyond the Labour Code.

Development of employees and cooperation with schools

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

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

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

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

Students of secondary vocational schools can participate in many projects, such as dual education, technical trainings or various competitions and events. Also in 2018 the Company organised a traditional, successful event "ZSE Open" for students of secondary vocational schools located in western Slovakia, to present them work of our technical colleagues.

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

5. Occupational Health and Safety

Occupational Health and Safety

Our Company has been focusing on systematic development and training of employees in occupational health and safety in the long-run. Considering the nature of works in energy business, observance of OHS rules is the top priority.

In addition to standard trainings required by law in 2018, a defensive driving safety course was introduced, in which every employee driving a company car took part. A sum of EUR 819,424 was invested for all ZSE Group companies into personal and protective work equipment and tools, obligatory training courses on occupational health and safety, and preventive medical check-ups.

The TRIF comb. indicator – a number of incidents incurred by the employees of the ZSE Group and of contractors per 1 million hours of work for the monitored period - is reported in the ZSE Group. In 2018, the TRIF comb. was 3.0. Seven registered work accidents were reported in 2018, of which one accident was a fatal incident and 2 work accidents were injuries of our contractors. In 2018, employees of contractors worked 292,178 hours at the sites or facilities of the ZSE Group.

Within the supervisory audit in 2018, the ZSE Group showed improvement of the established System of Integrated Management (SIM) and managed to keep international certificates ISO 9001, ISO 14001 and OHSAS 18001. The re-certification agency identified SIM strengths and improvements and came to the conclusion that SIM is in line with the requirements of ISO 9001, ISO 14001 and OHSAS 18001 standards, applicable laws and achieves continuous improvement. The audit led to recommendations of the certification agency to continue with the certification.

Environmental Protection

Environmental Protection

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

In 2018, the companies of the ZSE Group invested EUR 620, 000 in environmental constructions and repairs. A sum of approx. EUR 469, 600 was dedicated to the environmental operation and maintenance of the facilities and repairs of the objects, including waste disposal. Specifically, sewage systems in the operated objects, new parking areas and transformer stations´ sites were modernised. Oil facilities were replaced by gas-filled-facilities. The operation of the facilities and services of the facilities was carried out in order to reduce the risk of groundwater and soil pollution.

When repairing energy facilities and constructions, the ZSE Group observes thorough separation of waste and its subsequent disposal and recovery by authorised businesses. Special attention was paid to the maintenance of equipment containing SF6 gas which is classified as a fluorinated greenhouse gas. Gas leaks are consistently monitored and recorded.

Západoslovenská distribučná has been focusing on environmental care of its lines in the long-run. It cooperates with experts from the Raptor Protection Slovakia association, to set specific measures. In 2018, the Company was involved in the LIFE 13 - Energy in the Countryside project. As a part of the project, power lines were equipped with visible reflective elements in the critical spots, increasing visibility under bad weather conditions and eliminating death of birds when they collide with power lines. This initiative was supported by EUR 120,000. In addition to deflectors installation, we also installed protective elements on the consoles on the line masts. So far, more than 1,000km of older lines have been treated. When constructing new lines, ecological elements are applied automatically. In total, more than EUR 1 million was invested in the environmental improvement of the lines.

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

7. Corporate Social Responsibility

Corporate Social Responsibility

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

Education

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

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

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

Innovations

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

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

Community Development

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

ZSE Foundation

ZSE carries out corporate responsibility activities by its foundation too. ZSE wishes to create inspiring and innovative environment, making real changes in schools, local communities and society. In 2018 the ZSE Foundation announced the 3rd annual open grant programme **Making Regions Move**, with the intention of supporting community and cultural life in the West Slovakia municipalities. The programme supported local cultural, social, sport and other events, connecting local communities and contributing to the local life, improving personal relationships, mobilizing communities and connecting generations. The sum of EUR 120,000 was allocated and 159 projects were completed within the programme.

In cooperation with the association for helping the handicapped APPA, in 2018 ZSE Foundation opened the second year of grant scheme **We Will Get You To School**. Three schools were supported by the total sum of EUR 24,000, to build barrier-free premises for their disabled students.

In another grant scheme **We Remove Barriers**, we chose 7 charity events proceeds of which were used for improvement of quality of life of disabled people. Financial support of EUR 1,000 was designed for technical organisation of the charity events. Proceeds could have been used for rehabilitation, medicaments, compensation and medical aids, barrier-free reconstructions of flats and other needs to improve life quality.

Elektrárňa Piešťany

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

Separate Financial Statements

31 December 2018

Contents

Separate Statement of Financial Position

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

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

Jochen Kley
Chairman of the Board of Directors and CEO

Marian Rusko
Member of the Board of Directors

Separate Statement of Profit or Loss and Other Comprehensive Income

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

Separate Statement of Changes in Equity

Separate Statement of Changes in Equity

In thousands of EUR	Share capital	Legal reserve fund	Retained earnings	Total equity
Balance at 1 January 2017	**196,969**	**39,421**	**98,315**	**334,705**
Profit for the year	-	-	70,694	**70,694**
Other comprehensive income for the year	-	-	(111)	**(111)**
Total comprehensive income for 2017	**-**	**-**	**70,583**	**70,583**
Dividends declared and paid (Note 13)	-	-	(50,465)	**(50,465)**
Other	-	-	1	**1**
Balance at 31 December 2017	**196,969**	**39,421**	**118,434**	**354,824**
The first adoption of new standard IFRS 9, net of deffered tax	-	-	(3,482)	(3,482)
Balance at 31 December 2017	196,969	39,421	114,952	351,342
Profit for the year	-	-	64,037	64,037
Other comprehensive income for the year	-	-	115	115
Total comprehensive income for 2018	**-**	**-**	**64,152**	**64,152**
Dividends declared and paid (Note 13)	-	-	(70,490)	(70,490)
Balance at 31 December 2018	**196,969**	**39,421**	**108,614**	**345,004**

Separate Statement of Cash Flows

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

1 Introduction

These separate financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union for the year ended 31 December 2018 for Západoslovenská energetika, a.s. (hereinafter "The Company" or "ZSE").

The Company was incorporated and is domiciled in the Slovak Republic. The Company is a joint stock company limited by shares and was set up in accordance with Slovak legislation in its current legal form on 15 October 2001. The Company was incorporated in the Commercial Register of the District Court Bratislava I on 1 November 2001.

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

The Company's principal subsidiaries are as follows: Západoslovenská distribučná, a.s. which operates electricity distribution network in Western Slovakia, ZSE Energia, a.s. which supplies electricity and gas to its retail and wholesale customers, ZSE Energy Solutions, s.r.o. which is in engineering business, ZSE MVE, s. r. o. which operates two small hydroelectric plants, ZSE Business Services, s. r. o. which is a trading company, ZSE Development, s.r.o. which is a company providing services and ZSE Elektrárne, s.r.o. (till 16 August 2018: E.ON Elektrárne s.r.o.), which operates gas-steam power plant. All of the subsidiaries are incorporated in the Slovak Republic and are wholly owned by the Company.

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

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

Ownership structure. Ministry of Economy of the Slovak Republic owns 51% of the Company's shares, E.ON Slovensko, a.s. owns 39% and E.ON Beteiligungen GmbH owns 10% of the Company's shares at 31 December 2018 and 31 December 2017. The Company is jointly controlled by E.ON and the Slovak government as a result of a shareholders agreement, which requires the parties to act jointly together to direct the activities that significantly affect the returns of the reporting entity. Refer to Note 13.

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

Number of employees. The Company employed 166 staff on average during 2018, of which 8 were management (2017: 306 employees on average, of which 15 were management).

2 Significant Accounting Policies

Basis of preparation. These separate financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union under the historical cost convention. The principal accounting policies applied in the preparation of these separate financial statements are set out below. Apart from the accounting policy changes resulting from the adoption of IFRS 9 and IFRS 15 effective from 1 January 2018, these policies have been consistently applied to all the periods presented, unless otherwise stated.

The Board of Directors may propose to the Company's shareholders to amend the separate financial statements until their approval by the general shareholders meeting. However, § 16, points 9 to 11 of the Accounting Act No 431/2002 prohibit reopening an entity's accounting records after the financial statements are approved by the general shareholders' meeting. If, after the financial statements are approved, management identifies that comparative information would not be consistent with the current period information, the Accounting Act allows entities to restate comparative information in the reporting period in which the relevant facts are identified.

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

Subsidiaries, associates and joint ventures. Subsidiaries are those investees, including structured entities, that the Company controls because the Company (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive voting rights, including substantive potential voting rights, are considered when assessing whether the Company has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Company may have power over an investee even when it holds less than the majority of the voting power in an investee. In such a case, the Company assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of the investee's activities or apply only in exceptional circumstances, do not prevent the Company from controlling an investee.

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

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

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

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

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

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

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

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

Non-current assets classified as held for sale. Non-current assets and disposal groups, which may include both non-current and current assets, are classified in the statement of financial position as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction, including loss of control of a subsidiary holding the assets, within twelve months after the end of the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Company's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets or disposal groups classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

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

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

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

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

Economic useful lives in years

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Company undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Company in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected. The critical judgements applied by the Company in determining the business models for its financial assets.

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

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed. Refer to Note 4 for critical judgements applied by the Company in performing the SPPI test for its financial assets.

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

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

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

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

The Company applies a simplified approach to trade receivables under IFRS 9, i.e. measures ECL using lifetime expected loss. The Company uses for the calculation of lifetime expected loss for trade receivables a matrix that takes into account the amount of receivables turnover during the current period, revenues for the current period and the amount of receivables written off. Given that almost all receivables are against group companies, the Company has considered the expected development of GDP growth in Slovakia and the expected payment discipline for the next 12 months. On the basis of these indicators, it was decided that the creation of provisions for trade receivables based on historical data is sufficient, as the development of the indicators corresponds to the development of previous years. Receivables against third parties are insignificant.

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

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

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

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

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

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

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

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

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

Cash and cash equivalents. Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost because they are held for collection of contractual cash flows and those cash flows represent SPPI.

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds of the share issue.

Dividends. Dividends are recorded in equity in the period in which they are declared. The separate financial statements of the Company are the basis for profit distribution and other appropriations.

Legal reserve fund. The legal reserve fund is set up in accordance with the Commercial Code. Contributions to the legal reserve fund were made at 10% of the Company's profit for the year, up to 20% of the share capital. Such funds are not distributable and may only be used to increase share capital or to cover losses.

Issued bonds, loans and other borrowings. Issued bonds, loans and other borrowings are recognised initially at fair value, net of transaction costs incurred. Issued bonds, loans and other borrowings are carried at amortised cost using the effective interest method. The liabilities are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

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

Income taxes. Income taxes have been provided for in the separate financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current income tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if the separate financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within other operating expenses.

Deferred income tax is recognised using the balance sheet liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination and the transaction, when initially recorded, affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the respective reporting period and apply to the period when the related deferred income tax asset will be realised, or the deferred income tax liability will be settled.

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

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

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

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

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

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

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

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

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

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

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

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax-rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase of the provision due to passage of time is recognised as interest expense. Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain.

Contingent liabilities are not recognised in the separate financial statements. They are disclosed in the notes to the separate financial statements, unless the possibility of an outflow of resources embodying the economic benefits is remote.

Revenue recognition. Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown, net of value-added tax, estimated returns, rebates and discounts.

The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Company and specific criteria will be met for each of the Company's activities as described below. The amount of revenue is not considered reliably measurable until all contingencies relating to the sale have been resolved.

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

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

Dividend income. Dividend income is recognised when the right to receive the payment is established and inflow of economic benefits is probable.

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

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

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

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

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

3 New Accounting Pronouncements

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

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

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

The carrying amounts of each class of financial assets as previously measured in accordance with IAS 39

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
				Reclassification		Remeasurement		
	IAS 39*	IFRS 9*		Mandatory	Voluntary	ECL	Other	
Cash and cash equivalents	L&R	AC	89,963	–	–	–	–	89,963
Trade and other receivables:	L&R	AC	2,112	–	–	–	–	2,112
Loans Provided	L&R	AC	634,833	–	–	(4,407)	–	630,426
Receivables from cash pooling	L&R	AC	1,296	–	–	–	–	1,296
Total financial assets			**728,204**	**–**	**–**	**(4,407)**	**–**	**723,797**

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

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

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

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

Comparison of provisions at 31 December 2017 under IAS 39 with provisions calculated under IFRS 9 on 1 January 2018

In thousands of EUR	ECL under IAS 39 at 31 December 2017	Effect of adopting IFRS 9	ECL under IFRS 9 at 1 Januar 2018
Loans Provided	–	4,407	4,407
Total	**–**	**4,407**	**4,407**

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

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

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

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

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

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

IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the statement of profit or loss and other comprehensive income. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

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

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

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

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

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

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

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

The comparison of future payments from operating leases disclosed in Note. 37 to lease liability

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

First-time Adoption of IFRS 16
The Company will apply the new Standard since its mandatory date of the adoption on 1 January 2019.

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

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

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

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

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

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

5 Property, Plant and Equipment

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

Movements in the carrying amount of property, plant and equipment

In thousands of EUR	Land	Buildings	Equipment, vehicles and other assets	Capital work in progress	Total
Cost at 1 January 2017	4,114	33,907	32,676	4,842	75,539
Accumulated depreciation and impairment losses	-	(12,772)	(23,756)	-	(36,528)
Carrying amount at 1 January 2017	**4,114**	**21,135**	**8,920**	**4,842**	**39,011**
Transfer to investment property	-	(156)	-	-	(156)
Additions	-	-	-	3,923	3,923
Transfers	26	1,462	2,307	(3,795)	-
Depreciation charge	-	(771)	(2,299)	-	(3,070)
Disposals	(5)	(110)	(70)	(299)	(484)
Transfer to assets held for sale and discontinued operations	-	(1)	(4,495)	(893)	(5,389)
Cost at 31 December 2017	4,135	35,092	23,963	3,778	66,968
Accumulated depreciation and impairment losses	-	(13,533)	(19,600)	-	(33,133)
Carrying amount at 31 December 2017	**4,135**	**21,559**	**4,363**	**3,778**	**33,835**
Transfer to investment property	-	(1,709)	-	-	(1,709)
Additions	-	-	-	2,511	2,511
Transfers	3	1,469	830	(2,302)	-
Depreciation charge	-	(826)	(1,334)	-	(2,160)
Disposals	-	-	-	(65)	(65)
Transfer to assets held for sale and discontinued operations	-	-	-	-	-
Cost at 31 December 2018	4,138	33,841	24,788	3,922	66,689
Accumulated depreciation and impairment losses	-	(13,348)	(20,929)	-	(34,277)
Carrying amount at 31 December 2018	**4,138**	**20,493**	**3,859**	**3,922**	**32,412**

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

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

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

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

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

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

The proceeds from disposal of property, plant and equipment

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

6 Intangible Assets

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

Movements in the carrying amount of intangible assets

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

Movements in the carrying amount of intangible assets

In thousands of EUR	Software and similar assets	Assets not yet available for use	Total
Cost at 1 January 2018	27,075	98	27,173
Accumulated amortisation and impairment losses	(26,875)	-	(26,875)
Carrying amount at 1 January 2018	**200**	**98**	**298**
Additions	-	473	473
Transfers	107	(107)	-
Amortisation charge	(134)	-	(134)
Cost at 31 December 2018	27,181	464	27,645
Accumulated amortisation and impairment losses	(27,008)	-	(27,008)
Carrying amount at 31 December 2018	**173**	**464**	**637**

7 Investment Properties

The Company leases out part of its administrative and operational buildings under operating leases mainly to its subsidiaries. Movements in the carrying amount of the investment properties were as follows:

Movements in the carrying amount of the investment properties

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

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

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

8 Investments in Subsidiaries, Associates and Joint Ventures

Investments in Subsidiaries, Associates and Joint Ventures

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

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

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

Investments in Subsidiaries, Associates and Joint Ventures				
In thousands of EUR	**% ***	**Activities**	**2018**	**2017**
Západoslovenská distribučná, a.s.	100	Distribution of electricity	276,684	276,684
ZSE Energia, a.s.	100	Trade in electricity / gas	6,725	6,725
ZSE Energy Solutions, s.r.o.	100	Engineering	200	2,200
ZSE MVE, s. r. o.	11,3**	Electricity production	1	1
ZSE Development, s.r.o.	100	Trading activities	564	564
ZSE Business Services, s. r. o.	100	Services	5	5
Total investments in subsidiaries			**284,179**	**286,179**
Energotel, a.s	20	Telecommunication services	525	525
Total investments in joint ventures			**525**	**525**
Other			32	32
Total investments in subsidiaries, associates and joint ventures			**284,736**	**286,736**

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

9 Loans Provided

An overview of loans provided is as follows:

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

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

The movements in the provision for loans granted		
In thousands of EUR	**Credit loss allowance**	**Gross carrying amount**
At 1 January 2018	4,407	630,000
Movements with impact on credit loss allowance charge for the period:		
New originated or purchased	4,586	315,000
Changes to ECL measurement model assumptions	1,361	-
Unwinding due to asset approching maturity	(1,635)	(315,000)
At 31 December 2018	**8,719**	**630,000**

Both loans provided to the subsidiary Západoslovenská distribučná, a.s. are in amount of EUR 315,000 thousand each. The loan 1 with original maturity dated on 1 October 2018 and bearing interest of 3.04% p.a. under the Amended Agreement issued on 27 September 2018 was extended to 2 March 2028 and shall bear interest of 2.00% p.a. The loan 2 is due on 1 October 2023 and carries a coupon of 4.14% p.a. The loans are neither past due nor impaired and management of the Company considers this related party as creditworthy without an increased credit risk. However, in line with the new IFRS 9, the Company created a provision for long-term loans of EUR 8,719 thousand at 31 December 2018. Based on the fact that the loan is provided to a related party where the Company assessed low risk of default, the expected loss was calculated on a 12-month basis The potential effect of netting arrangements is disclosed in Note 34.

10 Inventories

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

11 Trade and Other Receivables

Trade and Other Receivables

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

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

Movements in the impairment provision for trade receivables

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

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

The credit quality of trade receivables is as follows:

The credit quality of trade receivables

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

The Company has a concentration of credit risk towards its subsidiaries and other related parties. Refer to Note 39.The percentage of expected losses for each category of receivables was determined in the model on the basis of the expected settlement, which is based on the maturity analysis of previous periods, taking into account the probability of repayment for subsequent periods.

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

The credit loss allowance for trade and other receivables at 31 December 2018

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

12 Cash and Cash Equivalents

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

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

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

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

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

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

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

13 Share Capital

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

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

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

14 Legal Reserve Fund

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

15 Issued Bonds

The issued bonds (ISIN: XS0979598462) of EUR 315,000 thousand are due on 14 October 2023 and carry a coupon of 4.00% p.a. The series two of issued bonds (ISIN: XS1782806357) of EUR 315,000 thousand are due on 2 March 2028 and carry a coupon of 1.75% p.a. The bonds are traded on the Irish Stock Exchange, Dublin.

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

Amortised cost carrying value of the bonds is as follows:

Amortised cost carrying value of the bonds

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

16 Income Taxes

Income tax expense comprises the following:

Income tax expense comprises

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

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

A reconciliation between the reported income tax charge and the theoretical amount that would arise using the applicable tax rates

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

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

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

Deferred taxes are attributable to the following temporary differences:

Deferred taxes are attributable to the following temporary differences

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

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

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

17 Post-Employment Defined Benefit Obligations

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

The movements in the present value of defined benefit obligation

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

The principal actuarial assumptions were as follows:

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

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

18 Other Long Term Employee Benefits

The Company makes EUR 1,400 (2017: EUR 1,400) payment to each employee at the age of 50, subject to 5 year continuous service (2017: 5 years) vesting condition. In addition, the Company pays regular long term work anniversary bonuses in general every 10 years in amounts between EUR 400 to EUR 1,250 (2017: between EUR 400 to EUR 1,250).

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

19 Trade and Other Payables

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

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

20 Receivables and Liabilities from Cash Pooling

Receivables and Liabilities from Cash Pooling

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

The Company has concluded with its subsidiaries and associate a cash pooling agreement. Based on this agreement the available cash is managed by the Company. If the case of additional financing needs the cash from the cash pool of the Company is made available to subsidiaries and associate. The interest rate on receivables from cash pooling was 0.4% p.a. (2017: 0.4% p.a.). The interest rate on liabilities from cash pooling was 0.05% p.a. (2017: 0.05% p.a.).

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

21 Revenues

Revenues comprise the following:

Revenues comprise the following

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

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

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

Timing of revenue recognition (for each revenue stream)

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

22 Raw Materials, Energy and Other Consumption

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

Raw Materials, Energy and Other Consumption

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

23 Employee Benefits

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

24 Other Operating Expenses

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

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

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

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

25 Dividend Income

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

26 Other Operating Income

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

27 Interest and Similar Expenses

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

28 Interest Income

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

29 Segment Reporting

The operating segments are those used by the Board of Directors to manage the business of the Company and its subsidiaries (together the "Group"), allocate resources and make strategic decisions. The segments are therefore reported for the Group as a whole; management does not review component financial information of the Company standing alone. The Group identifies its segments according to the nature of products and services provided by each segment. The Group's operating segments are (i) electricity distribution, (ii) electricity and gas supply and (iii) other activities as described below. The Group's activities are concentrated in Slovakia.

The main indicators used by the Board of Directors in their decision making are earnings before interest and taxes (EBIT) and capital expenditures. The Board of Directors separately monitor the operating results of the segments to take decisions on how to allocate the resources, to evaluate the effects of the allocation and to evaluate performance. Segment income and costs are measured in a manner consistent with that in the consolidated statement of profit or loss and other comprehensive income. The Group does not analyse assets and liabilities by operating segments.

The types of products and services from which each reportable operating segment derives its operating results are:

Electricity distribution. Distribution of electricity using the distribution networks in Western Slovakia. The distribution business is regulated and the Group is required to provide access to its network to third parties on terms approved by Regulatory Office for Network Industries "RONI".

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

As a result of regulation of the distribution business and partial regulation of the supply business approximately 94% (2017: 94%) of the Group's EBITDA and 92% of the Group's EBIT (2017: 94%) were generated from sales to customers who are subject to the price regulation.

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

Reportable segments information for 2018 is as follows:

Reportable segments information for 2018

In thousands of EUR	Distribution	Supply	Other	Eliminations and consolidation adjustments	Total Group
Revenue from external customers	311,469	823,059	659	-	**1,135,187**
Inter-segment revenues	192,237	26,235	17,197	(235,669)	-
Total segment revenues	503,706	849,294	17,856	(235,669)	1,135,187
Purchases of electricity and related fees	(224,945)	(715,249)	(2,358)	217,772	**(724,780)**
Purchases of natural gas	-	(88,381)	-	85	**(88,296)**
Employee benefits expense	(49,966)	(10,258)	(8,068)	-	**(68,292)**
Other operating expenses	(75,873)	(15,994)	(15,882)	31,777	**(75,972)**
Share of profit of equity method investees	-	-	66,560	(66,301)	**259**
Other operating income	4,171	2,405	11,505	(10,700)	**7,381**
Own work capitalized	17,626	-	-	454	**18,080**
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**174,719**	**21,817**	**69,613**	**(62,582)**	**203,567**
Depreciation of property, plant and equipment	(64,410)	(13)	(2,701)	21,881	**(45,243)**
Amortisation of intangible assets	(2,639)	(1,747)	(134)	89	**(4,431)**
Earnings before interest and taxes (EBIT)	**107,670**	**20,057**	**66,778**	**(40,612)**	**153,893**
Capital expenditures	**101,452**	**1,719**	**4,774**	**(5,873)**	**102,072**

Reportable segments information for 2017 is as follows:

Reportable segments information for 2017

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

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

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

Reconciliation of EBIT for all segments to profit before tax

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

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

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

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

Entity wide information. Revenue is analysed by type of product or service in Note 21. Substantially all of the Company's revenues are from customers in the Slovak Republic and all of the Company's property, plant and equipment and intangible assets are located in the Slovak Republic.

30 Assets Held for Sale and Discontinued Operations

Assets held for sale and discontinued operations at 31 December 2017
In order to strengthen the overall independence of the subsidiary Západoslovenská distribučná, a.s. as the distribution system operator, the extraordinary General Meeting of shareholders in the Company on its session held on 18 December 2017 approved several organisational changes in the Company effective from 1 January 2018. As part of these organisational changes, the Company transfered the Facility Management Department performing facility management services for the ZSE Group into the subsidiary Západoslovenská distribučná, a.s. within the sale of part of the business.

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

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

Assets held for sale and discontinued operations at 31. December 2018
On July 26, 2018, the Company purchased a 100% stake in ZSE Elektrárne, s.r.o. (until 16 August 2018: E.ON Elektrárne s.r.o.) from its shareholder E.ON Slovensko, a.s. The transaction also included repayment of the loan to the creditor on behalf of ZSE Elektrárne, s.r.o. The change of shareholder was registered in the Commercial Register on August 16, 2018. The Company is interested in selling its subsidiary ZSE Elektrárne, s.r.o. in the course of 2019 and therefore this Company's investment in these separate financial statements is recognized as held for sale. Due to ZSE Elektrárne, s.r.o. was during the year 2018 aquired with the view to resale, the Company in accordance with the IFRS 5 Standard decidet to disclose the subsidiary in the financial statements using the short-cut method. ZSE Elektrárne, s.r.o. for the year 2018 generated lost amounted to EUR 5,624 thousand (EUR 2,372 thousand).

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

Assets classified as held for sale and discontinued operations

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

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

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

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

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

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

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

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

An analysis of the cash flows of discontinued operations

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

31 Financial Risk Management

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

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

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

Interest rate risk. The Company does not have any significant interest rate risk exposure because all of its financial assets and liabilities, including issued bonds carry fixed interest rates. A reasonably possible change in market interest rates, such as Euribor, as of the end of the reporting period, would not have any impact on the Company's profit or loss for the year.

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

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

Exposure to credit risk arises as a result of the Company's sales of services on credit terms and other transactions with counterparties giving rise to financial assets. The exposure includes cash and cash equivalents, financial derivatives and deposits with banks and financial institutions, as well as exposures to customers, including outstanding receivables and transactions made. From 1 July 2007 after legal unbundling, the subsidiaries Západoslovenská distribučná, a.s. and ZSE Energia, a.s. are the main customers of the Company.

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

The credit quality of outstanding balances with banks is presented in Note 12 and credit quality information about trade receivables is included in Note 11.

The maximum exposure to credit risk is limited by the carrying value of receivables. As of 31 December 2018 and 2017, there is a significant concentration of credit risk with respect of receivables of the Company towards Západoslovenská distribučná, a.s. and ZSE Energia, a.s. The Company manages this exposure through cash-pooling agreements. The collection of receivables could be influenced by economic factors; management believes that there is no significant risk of loss to the Company beyond the provisions already recorded.

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

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

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

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

The table below analyses the Company's undiscounted amount of financial liabilities into relevant maturity groupings based on the remaining period to the contractual maturity date. The maturity analysis is as follows at 31 December 2018:

The maturity analysis is as follows at 31 December 2018

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

The maturity analysis is as follows at 31 December 2017:

The maturity analysis is as follows at 31 December 2017

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

32 Management of Capital

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders, and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. The Company manages capital reported under IFRS as equity amounting to EUR 345,004 thousand at 31 December 2018 (2017: EUR 354,824 thousand). In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders or return capital to shareholders.
In managing the capital, the Company's management focuses on maximizing return on invested capital.

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

33 Net Debt Reconciliation

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

Analysis of net debt and the movements in net debt for each of the periods presented

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

34 Offsetting Financial Assets and Financial Liabilities

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

Offsetting Financial Assets and Financial Liabilities

	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position	Amounts not set off in the statement of financial position		Net amount of exposure
In thousands of EUR	(a)	(b)	(c) = (a) - (b)	Financial instruments (d)	Cash collateral received (e)	(c) - (d) - (e)
ASSETS						
Loans provided	626,156	-	626,156	44,870	-	581,286
Receivables from cash pooling	1,267	-	1,267	1,267	-	-
TOTAL ASSETS SUBJECT TO POSSIBLE OFFSETTING AND SIMILAR ARRANGEMENT	**627,423**	**-**	**627,423**	**46,137**	**-**	**581,286**
LIABILITIES						
Liabilities from cash pooling	52,167	-	52,167	46,137	-	6,030
TOTAL LIABILITIES SUBJECT TO POSSIBLE OFFSETTING, AND SIMILAR ARRANGEMENT	**52,167**	**-**	**52,167**	**46,137**	**-**	**6,030**

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

Offsetting Financial Assets and Financial Liabilities

	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position	Amounts not set off in the statement of financial position		Net amount of exposure
				Financial instruments	Cash collateral received	
In thousands of EUR	(a)	(b)	(c) = (a) - (b)	(d)	(e)	(c) - (d) - (e)
ASSETS						
Loans provided	634,833	-	634,833	52,146	-	582,687
Receivables from cash pooling	1,296	-	1,296	1,296	-	-
TOTAL ASSETS SUBJECT TO POSSIBLE OFFSETTING, AND SIMILAR ARRANGEMENT	**636,129**	**-**	**636,129**	**53,442**	**-**	**582,687**
LIABILITIES						
Liabilities from cash pooling	68,241	-	68,241	53,442	-	14,799
TOTAL LIABILITIES SUBJECT TO POSSIBLE OFFSETTING AND SIMILAR ARRANGEMENT	**68,241**	**-**	**68,241**	**53,442**	**-**	**14,799**

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

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

35 Fair Value Disclosures

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

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:

Publication of fair values

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

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

The fair value of issued bonds was determined at the quoted market price of the bonds (Note 15).
The fair values of other financial assets and liabilities approximate their carrying amounts.

36 Presentation of Financial Instruments by Measurement Category

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

37 Contingencies and Commitments

Tax contingencies. Slovak tax law contains certain provisions that allow for more than one interpretation. Management's interpretation of the Company's business activities may not coincide with the interpretation of these activities by the tax authorities, but the extent of this risk cannot be reasonably quantified. The fiscal years from 2012 to 2018 remain open to tax inspection.
Capital expenditure commitments. At 31 December 2018, the Company had outstanding contractual commitments for purchases of property, plant and equipment of EUR 2,182 thousand (2017: EUR 1,996 thousand). Outstanding contractual commitments for purchases of intangible assets were EUR 80 thousand (2017: EUR 0 thousand).
Operating lease commitments. The future aggregate minimum lease payments under non-cancellable operating leases are due as follows:

The future aggregate minimum lease payments under non-cancellable operating leases

In thousands of EUR	2018
No later than one year	579
Later than one year and no later than five years	2,191
Later than five years	655
Total	**3,424**

The above mentioned are the future minimum payments extended during the estimated rental period determined by taking into account the contractual right if the extension is considered sufficiently certain by the Company. Minimum future payments that cannot be avoided, for example, by not extending the lease term were EUR 3,129 thousand (2017: EUR 9,107 thousand).
Operating lease expense for the year is disclosed in Note 24.

38 Sale of Part of the Business

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

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

The carrying amounts of assets and liabilities sold

In thousands of EUR	At 31 December 2017
Property, plant and equipment	5,246
Intangible assets	18
Trade and other receivables	3,217
Trade and other payables	(528)
Pension and other provisions for liabilities and charges	(204)
Net assets	**7,749**
Profit before tax on sale of part of the business (Note 26)	**2,153**
Proceeds from sale of part of the business	**9,902**

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

39 Balances and Transactions with Related Parties

The primary related parties of the Company are (a) its shareholders which have joint control over the Company as explained in Notes 1 and 13: (i) the Slovak Government and (ii) E.ON, as well as (b) key management personnel. The Company applies the exemption from disclosing transactions with the Slovak government and entities over which it has control, joint control or significant influence. The exemption does not apply to individually significant transactions, such as taxes incurred and paid, other purchases from an entity in which the Slovak government has a significant shareholding and other transactions presented below.

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

Balances and Transactions with Related Parties

In thousands of EUR	Ministry of Economy of the Slovak Republic	E.ON Slovensko, a.s.	E.ON Group**	Slovak government*	Subsidiaries (Note 8	Associate (Note 8	Joint venture (Note 8)
Revenues, financial and other revenues	3	154	107	-	54,713	-	928
Dividend income	-	-	-	-	66,301	-	259
Purchases and expenses	-	-	1,291	-	2,843	-	49
Receivables other than taxes	-	182	785	-	667,199	-	91
Payables other than taxes	-	-	751	-	53,030	-	9
Dividends declared and paid	35,950	27,491	7,049	-	-	-	-

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

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

Income taxes are disclosed in the statement of financial position, statement of profit or loss and other comprehensive income, in the statement of cash flows and are also analysed in Note 16. Outstanding value added tax payable is presented in Note 19. Property and motor vehicle taxes are disclosed in Note 24.

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

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

There are no other sales commitments with related parties as of 31 December 2018 and 2017 other than disclosed.

The income tax paid was as follows:

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

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

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

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

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

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

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

40 Events after the End of the Reporting Period

After 31 December 2018, no other significant events have occurred that would require recognition or disclosure in these separate financial statements. Management authorised these financial statements for issue on 19 March 2019:

Jochen Kley
Chairman of the Board of Directors and CEO

Marian Rusko
Member of the Board of Directors

Annex
Consolidated Financial Statements

31 December 2018

Contents

Consolidated Statement of Financial Position

Consolidated Statement of Financial Position			
In thousands of EUR	**Note**	**31 December 2018**	**31 December 2017**
ASSETS			
Non-current assets			
Property, plant and equipment	6	834,030	780,798
Intangible assets	7	15,676	13,138
Equity method investments	8	558	558
Deferred income tax asset	15	8,254	12,499
Other non-current assets		703	703
Total non-current assets		**859,221**	**807,696**
Current assets			
Inventories	9	11,810	10,777
Trade and other receivables	10	140,302	108,043
Current income tax refund receivable		7,903	-
Cash and cash equivalents	11	43,783	95,438
Assets held for sale and discontinued operations	28	36,868	-
Total current assets		**240,666**	**214,258**
TOTAL ASSETS		**1,099,887**	**1,021,954**
EQUITY			
Share capital	12	196,969	196,969
Legal reserve fund	13	39,421	39,421
Retained loss		(156,792)	(186,164)
TOTAL EQUITY		**79,598**	**50,226**
LIABILITIES			
Non-current liabilities			
Issued bonds	14	626,911	314,396
Deferred income tax liabilities	15	34,079	30,306
Post-employment defined benefit obligations	16	8,692	9,752
Other long term employee benefits	17	2,230	2,408
Contract liabilities from connection fees and customer contributions	19	98,878	95,464
Total non-current liabilities		**770,790**	**452,326**
Current liabilities			
Issued bonds and accrued interest on issued bonds payable within one year	14	6,882	319,114
Trade and other payables	20	215,602	187,689
Current income tax liabilities		-	6,179
Provisions for liabilities and charges	18	19,972	-
Contract liabilities from connection fees and customer contributions	19	7,043	6,420
Total current liabilities		**249,499**	**519,402**
TOTAL LIABILITIES		**1,020,289**	**971,728**
TOTAL LIABILITIES AND EQUITY		**1,099,887**	**1,021,954**

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

Jochen Kley
Chairman of the Board of Directors and CEO

Marian Rusko
Member of the Board of Directors

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Consolidated Statement of Profit or Loss and Other Comprehensive Income

In thousands of EUR	Note	2018	2017
Revenue from electricity and other related revenue	**21**	**1,030,138**	**966,088**
Revenue from natural gas	**21**	**94,364**	**98,909**
Purchases of electricity and related fees	22	(714,095)	(683,147)
Natural gas purchased		(88,296)	(90,119)
Employee benefits	23	(68,292)	(63,550)
Depreciation of property, plant and equipment	6	(45,243)	(44,830)
Amortization of intangible assets	7	(4,431)	(4,263)
Other operating expenses	24	(75,972)	(53,044)
Share of profit of equity method investments	8	259	762
Other operating income	25	7,381	6,506
Own work capitalised		18,080	17,644
Profit from operations		**153,893**	**150,956**
Finance income / (costs)			
Interest income		357	84
Interest and similar expense	26	(23,783)	(21,106)
Finance costs, net		**(23,426)**	**(21,022)**
Profit before tax		**130,467**	**129,934**
Income tax expense	15	(32,433)	(32,373)
Profit for the year from continuing operations		**98,034**	**97,561**
Profit for the year from discontinued operations	28	-	-
Profit for the year		**98,034**	**97,561**
Other comprehensive income			
Items that will not be subsequently reclassified to profit or loss			
Actuarial remeasurements of post-employment defined benefit obligations	16	1,413	11
Deferred tax on actuarial remeasurements of post-employment defined benefit obligations	15	(297)	(3)
Total other comprehensive income for the year		**1,116**	**8**
Total comprehensive income for the year		**99,150**	**97,569**
Total comprehensive income for the year from continuing operations		99,150	97,569
Total comprehensive income for the year from discontinued operations	28	-	-

Consolidated Statement of Changes in Equity

Consolidated Statement of Changes in Equity

In thousands of EUR	Share capital	Legal reserve fund	Accumulated deficit	Total equity
Balance at 1 January 2017	**196,969**	**39,421**	**(233,268)**	**3,122**
Profit for the year	-	-	97,561	97,561
Other comprehensive income for the year	-	-	8	8
Total comprehensive income for 2017	**-**	**-**	**97,569**	**97,569**
Dividends declared and paid (Note 12)	-	-	(50,465)	(50,465)
Balance at 31 December 2017	**196,969**	**39,421**	**(186,164)**	**50,226**
Change in accounting policies (Note 3)	-	-	712	712
Balance at 31 December 2017 revised	**196,969**	**39,421**	**(185,452)**	**50,938**
Profit for the year	-	-	98,034	98,034
Other comprehensive income for the year	-	-	1,116	1,116
Total comprehensive income for 2018	**-**	**-**	**99,150**	**99,150**
Dividends declared and paid (Note 12)	-	-	(70,490)	(70,490)
Balance at 31 December 2018	**196,969**	**39,421**	**(156,792)**	**79,598**

Consolidated Statement of Cash Flows

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

Notes to the Consolidated Financial Statements – 31 December 2018

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union for the year ended 31 December 2018 for Západoslovenská energetika, a.s. (hereinafter "The Company" or "ZSE") and its subsidiaries (the "Group").

The Company was incorporated and is domiciled in the Slovak Republic. The Company is a joint stock company limited by shares and was set up in accordance with Slovak legislation in its current legal form on 15 October 2001. The Company was incorporated in the Commercial Register of the District Court Bratislava I on 1 November 2001.

Principal activity. The Group provides electricity distribution and supply services primarily in the Western Slovakia region. At the end of 2011, the Group's supply business commenced offering gas to large industrial customers and since April 2012 to SMEs and households in addition to electricity. The Group also operates two small hydroelectric plants and since year 2018 also the gas-steam power plant and is engaged in some ancillary activities such as small-scale electricity network construction and maintenance related projects for third parties.

The Regulatory Office of Network Industries ("RONI") regulates certain aspects of the Group's relationships with its customers, including the pricing of electricity and gas and services provided to certain classes of the Group's customers.

The Group's principal subsidiaries are as follows: Západoslovenská distribučná, a.s. which operates electricity distribution network in Western Slovakia, ZSE Energia, a.s., which supplies electricity and gas to its retail and wholesale customers, ZSE Energy Solutions, s.r.o. which is in engineering business, ZSE MVE, s. r. o. which operates two small hydroelectric plants, ZSE Business Services, s. r. o. which is a trading company, ZSE Development, s.r.o., which is a company providing services and ZSE Elektrárne, s.r.o. (till 16 August 2018: E.ON Elektrárne s.r.o.), which operates gas-steam power plant. All of the subsidiaries are incorporated in the Slovak Republic and are wholly owned by the Company.

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

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

Ownership structure. Ministry of Economy of the Slovak Republic owns 51% of the Company's shares, E.ON Slovensko, a.s. owns 39% and E.ON Beteiligungen GmbH owns 10% of the Company's shares at 31 December 2018 and 31 December 2017. The Company is jointly controlled by E.ON and the Slovak Government as a result of a shareholders agreement, which requires the parties to act jointly together to direct the activities that significantly affect the returns of the reporting entity. Refer to Note 12.

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

Number of employees. The Group employed 1,859 staff on average during 2018, of which 41 were management (2017: 1,811 employees on average, of which 36 were management).

2 Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union under the historical cost convention. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. Apart from the changes in accounting policies resulting from the adoption of IFRS 9 and IFRS 15 effective from 1 January 2018, these policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 3).

The Board of Directors may propose to the Company's shareholders to amend the consolidated financial statements until their approval by the general shareholders meeting. However, § 16, points 9 to 11 of the Accounting Act No 431/2002 prohibit reopening an entity's accounting records after the financial statements are approved by the general shareholders' meeting. If, after the financial statements are approved, management identifies that comparative information would not be consistent with the current period information, the Accounting Act allows entities to restate comparative information in the reporting period in which the relevant facts are identified.

Consolidated financial statements. Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct the relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of the investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have a practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than the majority of the voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of the investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated upon consolidation; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed four years.

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

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

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

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

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

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

Provision for loss contracts (measured at fair value through profit or loss (FVTPL)). Provision for loss contracts represents contracts for delivery or supply of a commodity that is readily convertible to cash, and which are not held for own use, as evidenced by an open market exposure, which was subsequently closed at a loss. These contracts have all three of the following characteristics: (a) the contract's value changes in response to the change in market price of commodity, which is not specific to a party to the contract; (b) it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and (c) it is settled at a future date. The liability is carried at fair value through profit or loss.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Cash and cash equivalents. Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost because they are held for collection of contractual cash flows and those cash flows represent SPPI.

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds of the share issue.

Dividends. Dividends are recorded in equity in the period in which they are declared. The separate financial statements of the Company are the basis for profit distribution and other appropriations.

Legal reserve fund. The legal reserve fund is set up in accordance with the Commercial Code. Contributions to the legal reserve fund were made at 10% of the Company's profit for the year, up to 20% of the share capital. Such funds are not distributable and may only be used to increase share capital or to cover losses.

Issued bonds, loans and other borrowings. Issued bonds, loans and other borrowings are recognised initially at fair value, net of transaction costs incurred. Issued bonds, loans and other borrowings are carried at amortized cost using the effective interest method. The liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current income tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if the consolidated financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

Current income tax also includes a special levy on profits in regulated industries at a rate of 8.712% per annum on profits from regulated activities. From 2017 new methodology for calculating of the special levy applies, where the basis for the special levy is calculated as profit before tax * (revenues from regulated activities/total revenues). In 2016 the special levy applied to profits over EUR 3 million from regulated activities at a rate of 4.356% p.a. The rate of special levy used for the calculation for 2017 and 2018 is 8.712% p.a., then for the years 2019 - 2020 the rate 6.54% p.a. applies and 4.356% will apply from 2021. The levy is a deductible expense for the purposes of applying the standard corporate income tax rate.

Deferred income tax is recognised using the balance sheet liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination and the transaction, when initially recorded, affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the respective reporting period and apply to the period when the related deferred income tax asset will be realised, or the deferred income tax liability will be settled.
The special levy on profits is chargeable on profits determined in accordance with Slovak GAAP and hence, a deferred tax in relation to special levy arises only where there is a temporary difference between Slovak GAAP and IFRS carrying values of assets and liabilities. Such deferred taxes arose for the first time in 2016 when the Slovak parliament enacted a law making the levy applicable indefinitely as explained above.

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

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

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

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

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

As explained in IAS 19, Employee Benefits, paragraph 133, the Group does not distinguish current and non-current portions of defined benefit obligations and presents the estimate as a whole within non-current liabilities.
Deferred income. Over time, the Group received contributions for the construction of the electricity distribution network, in particular for the new municipal connections and networks. The Group's customers contributed towards the cost of their connection. Customer contributions are recognised at their fair value where there is a reasonable assurance that the contribution will be received. Customer contributions relating to the acquisition of property, plant and equipment are deferred and subsequently recognised as other operating income over the life of acquired depreciable asset.

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

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

Leases. The Group is a lessee.

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

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

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

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

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

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

Contingent liabilities are not recognised in the consolidated financial statements. They are disclosed in the notes to the consolidated financial statements, unless the possibility of an outflow of resources embodying the economic benefits is remote.

Revenue recognition. Revenue comprises the fair value of the consideration received or receivable for the sale of electricity, natural gas, other goods and services in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, estimated returns, rebates and discounts.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and specific criteria will be met for each of the Group's activities as described below. The amount of revenue is not considered reliably measurable until all contingencies relating to the sale have been resolved.

Revenue from sale and distribution of electricity. Revenue from the sale and distribution of electricity is recognised when the electricity is delivered to the customer. Consumption of wholesale customers is metered and billed on a monthly basis. The consumption of retail customers in the segment of small businesses was metered during December 2018. The consumption of retail customers in the households' segment is metered and billed on an annual basis and the Group split its household customer base to twelve billing cycles. The billing of electricity supplied in 2018 for all twelve billing cycles will be completed in December 2019. The Group uses the Enersim demand profile data for estimating the delivered but unbilled accrued revenue. Network losses are included in the cost of purchased electricity.

Revenue from the sale of electricity on the spot market and the settlement of variations in consumption and cross - border profile recharges represent sales of electricity purchased on the short-term market for regular customers due to short-term deviations in their consumption diagrams and fees paid by the regular customers for deviating from the planned consumption curve. All these revenues realised on the spot market are recognised when the electricity is delivered or the contract is fulfilled.

Revenue from sale of gas. Revenue from the sale of gas is recognised when the gas is delivered to the customer. Consumption to wholesale customers is metered and billed on a monthly basis. The consumption of retail customers in the households' segment is metered and billed on an annual basis and the Group split its household customer base to twelve billing cycles. The billing of gas supplied in 2018 for all twelve billing cycles will be completed in December 2019.

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

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

Dividend income. Dividend income is recognised when the right to receive the payment is established and inflow of economic benefits is probable.

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

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

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

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

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

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

3 Adoption of New or Revised Standards and Interpretations

The following amended standards became effective for the Group from 1 January 2018:

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

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

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

The carrying amounts of each class of financial assets as previously measured in accordance with IAS 39 and the new amounts determined upon adoption of IFRS 9

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

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

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

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

The impact of the standard on provision for trade and other receivables and cash and cash equivalents on the Group's consolidated financial statements is not material.
At 31 December 2018, all Group's financial liabilities were measured at amortized cost.

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

In accordance with the transition provisions in IFRS 15 the Group has elected simplified transition method with the effect of transition to be recognised as at 1 January 2018 in the consolidated financial statements for the year-ending 31 December 2018 which will be the first year when the Group will apply IFRS 15.

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

The adoption of IFRS 15 resulted in changes in accounting policies and adjustments to be recognised in the consolidated financial statements. Based on the analysis of the Group's revenue streams for the year ended 31 December 2018, individual contracts' terms and on the basis of the facts and circumstances that exist at that date, in view of simplified transition method application, the Group assessed impact of this standard on its consolidated financial statements as significant, in particular from capitalization of commissions paid to external agents selling the Group`s products as contract assets. The impact of IFRS 15 adoption including income tax on equity at 1 January 2018 in amount of EUR 712 thousand is shown in the consolidated statement of changes in equity.

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

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

4 New Accounting Pronouncements

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

IFRS 16, Leases (issued on 13 January 2016 and effective in the EU for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the statement of profit or loss and other comprehensive income. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The impact of IFRS 16 on the Group´s consolidated financial statements

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

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

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

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

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

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

The following table presents the comparison of future payments from operating leases

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

First-time adoption of IFRS 16
The Group will apply the new standard since its mandatory date of the adoption on 1 January 2019.

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

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

The following standards, interpretations and amendments are not expected to have any material impact on the Group’s consolidated financial statements:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).

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

5 Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

Unbilled electricity. The unbilled revenue from delivery and distribution represent an accounting estimate based on estimated volume of delivered and distributed electricity expressed in MWh for low voltage network and estimated unit price that will be billed in the future.

The Group uses a bespoke customer application Enersim to estimate the unbilled deliveries based on assumed customer demand profiles. This accounting estimate is based on:

(a) the estimated volume delivered and distributed to households in technical units (MWh) between the date of the last meter reading and the end of the reporting period;
(b) the consumption estimate utilising the time patterns of consumption of various customer profiles observed on a sample basis;
(c) the estimated losses in the distribution network; and
(d) the unit price in EUR/MWh, that will be applied to billing the electricity delivery and distribution. Refer to Note 21.

The Group also engaged an independent expert to estimate network losses. Should the estimate of total network losses be lower by 0.1%, representing approximately 10 GWh of electricity (2017: 10 GWh), with other parameters unchanged, the revenues for commodity and distribution services would increase by EUR 902 thousand (2017: EUR 850 thousand).

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

Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group. The following primary factors are considered: (a) the expected usage of the assets; (b) the expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) the technical obsolescence, if any.

If the estimated useful life of network assets had been shorter by 10% than management's estimates at 31 December 2018, the Group would have recognised an additional depreciation of network assets of EUR 4,400 thousand (2017: EUR 4,483 thousand).

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

6 Property, Plant and Equipment

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

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

In thousands of EUR	Land	Network buildings	Power lines	Switching stations and network equipment	Other assets*	Capital work in progress	Total
Cost at 1 January 2018	21,608	103,370	675,338	375,380	108,835	51,323	**1,335,854**
Accumulated depreciation and impairment losses	-	(49,135)	(258,029)	(183,804)	(64,088)	-	**(555,056)**
Carrying amount at 1 January 2018	21,608	54,235	417,309	191,576	44,747	51,323	**780,798**
Additions	-	-	-	-	-	97,686	**97,686**
Capitalised borrowing costs**	-	-	-	-	-	1,614	**1,614**
Transfers	438	12,496	43,718	21,012	4,892	(82,556)	**-**
Depreciation charge	-	-2,946	(17,218)	(19,438)	(5,641)	-	**(45,243)**
Disposals	(6)	-	(26)	(630)	(90)	(73)	**(825)**
Cost at 31 December 2018	**22,040**	**115,612**	**717,011**	**393,565**	**137,698**	**67,994**	**1,453,920**
Accumulated depreciation and impairment losses	**-**	**(51,827)**	**(273,228)**	**(201,045)**	**(93,790)**	**-**	**(619,890)**
Carrying amount at 31 December 2018	**22,040**	**63,785**	**443,783**	**192,520**	**43,908**	**67,994**	**834,030**

* Other assets comprise machinery, non-network and administrative buildings, vehicles and other assets.
** Capitalisation rate of borrowing costs was approximately 3.59% p.a. till 31 October 2018 and 3.07% p.a. since 1 November 2018.

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

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

The proceeds from disposal of property, plant and equipment

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

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

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

In thousands of EUR	Land	Network buildings	Power lines	Switching stations and network equipment	Other assets*	Capital work in progress	Total
Cost at 1 January 2017	21 266	100 793	637 688	353 252	110 958	46 081	**1 270 038**
Accumulated depreciation and impairment losses	-	-46 687	-243 170	-168 008	-63 970	-	**-521 835**
Carrying amount at 1 January 2017	21 266	54 106	394 518	185 244	46 988	46 081	**748 203**
Additions	-	-	-	-	-	76 959	**76 959**
Capitalised borrowing costs**	-	-	-	-	-	1 563	**1 563**
Transfers	349	3 434	39 322	25 287	4 342	-72 734	**-**
Depreciation charge	-	-3 303	-16 528	-18 589	-6 410	-	**-44 830**
Disposals	-7	-2	-3	-366	-173	-546	**-1 097**
Cost at 31 December 2017	**21 608**	**103 370**	**675 338**	**375 380**	**108 835**	**51 323**	**1 335 854**
Accumulated depreciation and impairment losses	**-**	**-49 135**	**-258 029**	**-183 804**	**-64 088**	**-**	**-555 056**
Carrying amount at 31 December 2017	**21 608**	**54 235**	**417 309**	**191 576**	**44 747**	**51 323**	**780 798**

* Other assets comprise machinery, non-network and administrative buildings, vehicles and other assets.
** Capitalisation rate of borrowing costs was approximately 3.59% p.a. for 2017.

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

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

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

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

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

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

7 Intangible Assets

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

Movements in the carrying amount of intangible assets

In thousands of EUR	Software and similar assets	Assets not yet available for use	Total
Cost at 1 January 2017	53,313	3,556	**56,869**
Accumulated amortisation and impairment losses	(44,719)	-	**(44,719)**
Carrying amount at 1 January 2017	**8,594**	**3,556**	**12,150**
Additions	-	5,251	**5,251**
Transfers	4,215	(4,215)	**-**
Amortisation charge	(4,263)	-	**(4,263)**
Cost at 31 December 2017	57,529	4,592	**62,121**
Accumulated amortisation including impairment charge	(48,983)	-	**(48,983)**
Carrying amount at 31 December 2017	**8,546**	**4,592**	**13,138**
Additions	-	6,969	**6,969**
Transfers	4,514	(4,514)	**-**
Amortisation charge	(4,431)	-	**(4,431)**
Cost at 31 December 2018	61,393	7,047	**68,440**
Accumulated amortisation and impairment losses	(52,764)	-	**(52,764)**
Carrying amount at 31 December 2018	**8,629**	**7,047**	**15,676**

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

8 Equity Method Investments

Equity Method Investments

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

9 Inventories

Inventories

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

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

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

10 Trade and Other Receivables

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

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

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

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

The credit quality of trade receivables is as follows:

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

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

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

More details of ECL in relation to trade receivables at 31 December 2018

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

Movements in contract assets are as follows:

Movements in contract assets

In thousands of EUR	31 December 2018	Additions	Amortization	At 1 January 2018	31 December 2017
Contract assets - dealers commision costs	1 004	785	493	712	-
Loss allowance	-	-	-	-	-
Total contract assets	**1 004**	**785**	**493**	**712**	**-**

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

The maturity analysis of contract assets at 31 December 2018

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

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

11 Cash and Cash Equivalents

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

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

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

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

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

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

12 Share Capital

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

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

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

13 Legal Reserve Fund

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

14 Issued Bonds

The issued bonds (ISIN: XS0979598462) of EUR 315,000 thousand are due on 14 October 2023 and carry a coupon of 4.00% p.a. The series two of issued bonds (ISIN: XS1782806357) of EUR 315,000 thousand are due on 2 March 2028 and carry a coupon of 1.75% p.a. The bonds are traded on the Irish Stock Exchange, Dublin.

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

Amortised cost carrying value of the bonds is as follows:

Amortised cost carrying value of the bonds

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

15 Income Taxes

Income tax expense comprises the following:

Income tax expense comprises the following

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

In 2018, the applicable standard income tax rate was 21% (2017: 21%). From 2017 new methodology for calculating of the special levy applies, where the basis for the special levy is calculated as profit before tax per Slovak GAAP * (revenues from regulated activities/total revenues). The rate of special levy used for the calculation for 2017 and 2018 is 8.712% p.a., then for the years 2019 - 2020 the rate 6.54% p.a. applies and 4.356% will apply from 2021. The levy is a deductible expense for the purposes of applying the standard corporate income tax rate.

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

Income Taxes

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

* the effect is calculated as special levy rate in %*((1- income tax rate in %)/(1+ special levy rate in%)-1)

The Group includes activities or subsidiaries taxed at the standard tax rate of 21% or at the 27.331% rate applicable to regulated industry operations. The applicable tax rate of 23.542% (2017: 24.667%) is used in the below effective tax reconciliation and represents a weighted average of the tax rates for regulated and unregulated industries.

The applicable tax rate changed compared to prior year due to changes in the special levy rate and in the mix of profits from regulated and unregulated industry operations. A reconciliation between the reported income tax charge and the theoretical amount that would arise using the applicable tax rates is as follows:

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

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

Deferred income tax assets and liabilities are not offset.

Deferred taxes are attributable to the following temporary differences:

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

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

The movements in deferred taxes for temporary differences were recognised in profit or loss except for EUR (297) thousand (2017: EUR (3) thousand) for actuarial remeasurements of post-employment defined benefit obligation, which was recognised in other comprehensive income.

Slovak parliament enacted a tax on dividend income from profits earned on or after 1 January 2017. The Group has not recorded a deferred tax liability in respect of investments in subsidiaries because (a) the tax is applicable to future profits and thus temporary differences, if any, may only arise in the future, and (b) the tax is not applicable to dividends from Slovak subsidiaries, associates and joint ventures of the Group.

In addition, the Group is able to control the timing of the reversal of such temporary differences in respect of subsidiaries and does not intend to reverse them in the foreseeable future, e.g. through taxable dividend income from subsidiaries.

16 Post-Employment Defined Benefit Obligations

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

The movements in the present value of defined benefit obligation

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

The principal actuarial assumptions were as follows:

The principal actuarial assumptions

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

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

17 Other Long Term Employee Benefits

The Group makes EUR 1,400 (2017: EUR 1,400) payment to each employee at the age of 50, subject to 5 year service vesting condition (2017: 5 year). In addition, the Group pays regular long term work anniversary bonuses in general every 10 years in amounts between EUR 400 to EUR 1,250 (2017: between EUR 400 to EUR 1,250).

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

18 Provisions for Liabilities and Charges

Provisions for Liabilities and Charges

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

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

19 Contract Liabilities from Connection Fees and Customer Contributions

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

The Group has the following liabilities arising from contract with customers

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

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

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

Movements in contract liabilities are as follows:

Movements in contract liabilities

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

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

The maturity analysis of contract liabilities at 31 December 2018

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

20 Trade and Other Payables

Trade and Other Payables

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

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

Details of contract liabilities and reclassifications at 1 January 2018:

Details of contract liabilities and reclassifications at 1 January 2018

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

Movements in contract liabilities are as follows:

Movements in contract liabilities

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

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

The maturity analysis of contract liabilities at 31 December 2018

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

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

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

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

Revenue comprises the following:

Revenue comprises the following

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

The Group provides access to its electricity distribution network at regulated prices. Slovakia has implemented the European Union electricity market directive, which resulted in a complete liberalisation of the market whereby all customers, including households, became eligible to buy electricity in the open market from 1 July 2007. However, price regulation applies to certain protected groups of customers.

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

Timing of recognition for revenue from electricity and other related revenue and revenue from natural gas of the Group

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

22 Purchases of Electricity and Related Fees

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

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

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

23 Employee Benefits

Employee Benefits

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

24 Other Operating Expenses

Other Operating Expenses

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

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

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

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

25 Other Operating Income

Other Operating Income

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

26 Interest and Similar Expense

Interest and Similar Expense		
In thousands of EUR	**2017**	**2016**
Interest expense on bonds	24,302	21,656
Amortisation of bonds transaction costs and similar expense	868	667
Other interest expense	227	346
Less capitalised borrowing costs (Note 6)	(1,614)	(1,563)
Total interest and similar expense	**23,783**	**21,106**

27 Segment Reporting

The Group's operating segments are those used by the Board of Directors to manage the Group's business, allocate resources and make strategic decisions. The Group identifies its segments according to the nature of products and services provided by each segment. The Group's operating segments are (i) electricity distribution, (ii) electricity and gas supply and (iii) other activities as described below. The Group's activities are concentrated in Slovakia.

The main indicators used by the Board of Directors in their decision making are earnings before interest and taxes (EBIT) and capital expenditures. The Board of Directors separately monitor the operating results of the segments to take decisions on how to allocate the resources, to evaluate the effects of the allocation and to evaluate performance. Segment income and costs are measured in a manner consistent with that in the consolidated statement of profit or loss and other comprehensive income. The Group does not analyse assets and liabilities by operating segments.

The types of products and services from which each reportable operating segment derives its operating results are:

Electricity distribution. Distribution of electricity using the distribution networks in Western Slovakia. The distribution business is regulated and the Group is required to provide access to its network to third parties on terms approved by RONI.

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

As a result of regulation of the distribution business and partial regulation of the supply business approximately 94% (2017: 94%) of the Group's EBITDA and 92% (2017: 94%) of the Group's EBIT were generated from sales to customers who are subject to the price regulation.

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

Reportable segments information for 2018 is as follows:

Reportable segments information for 2018

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

Reportable segments information for 2017 is as follows:

Reportable segments information for 2017

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

Entity wide information. Revenue is analysed by type of product or service in Note 21. Substantially all the Group's revenues are from customers in the Slovak Republic and all of the Group's property, plant and equipment and intangible assets are located in the Slovak Republic.

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

Reconciliation of EBIT for all segments to profit before tax

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

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

Reconciliation of capital expenditures to payments for purchases of property, plant and equipment and intangible assets

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

28 Assets Held for Sale and Discontinued Operations

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

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

Assets classified as held for sale and discontinued operations

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

29 Financial Risk Management

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

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

Equity price risk. The Group is not exposed to significant equity price risk because it does not have material financial investments in equities.

Interest rate risk. The Group does not have any significant interest rate risk exposure because all of its financial assets and liabilities, including issued bonds carry fixed interest rates. A reasonably possible change in market interest rates, such as Euribor, as of the end of the reporting period, would not have any impact on the Group's profit or loss for the year.

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

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

Exposure to credit risk arises as a result of the Group's sales of energy and services on credit terms and other transactions with counterparties giving rise to financial assets. The exposure includes cash and cash equivalents, financial derivatives and deposits with banks and financial institutions, as well as exposures to wholesale and retail customers, including outstanding receivables and transactions made.

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

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

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

The Group uses a system of reminders, which may culminate in a service disconnection, as the prevailing contract enforcement. The collection of receivables could be influenced by economic factors; management believes that there is no significant risk of loss to the Group beyond the provisions already recorded. To reduce the risk of selected wholesalers, the Group uses insurance products. The credit quality of outstanding balances with banks is presented in Note 11 and credit quality information about trade receivables is included in Note 10.

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

Liquidity risk. Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Prudent liquidity risk management implies maintaining sufficient cash balances, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the activities, the Group aims to maintain flexibility in funding by keeping committed credit lines available. In addition, the Group relies on liquidity of financial markets and its ability to refinance its issued bonds. The Group's strategy is to secure the financing at least 6 months before the existing debt becomes due.

The Group regularly monitors its liquidity position and uses overdrafts only in exceptional cases. The Group also uses the advantages of commercial terms between the Group and its suppliers to secure sufficient financing funds to cover its needs. The maturity of supplier's invoices is 20 days, on average. Expected cash flows forecast is prepared weekly as follows: (a) expected future cash inflows from main operation of the Group and (b) expected future cash outflows securing operation of the Group and leading to settlement of all liabilities of the Group, including tax payables. The cash flow forecast identifies the immediate need for cash and, if funds are available, it enables the Group to make short-term bank deposits.

The table below analyses the Group's undiscounted amount of financial liabilities into relevant maturity groupings based on the remaining period to the contractual maturity date. The maturity analysis is as follows at 31 December 2018:

The maturity analysis is as follows at 31 December 2018

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

* The notional amounts payable include the gross pay leg of commodity contracts at FVTPL. The related non-cash commodity inflow is not included in the analysis.

** The notional amounts receivable represents the gross receivable leg of commodity contracts at FVTPL. The related non-cash commodity outflow is not included in the above liquidity analysis

The maturity analysis is as follows at 31 December 2017:

The maturity analysis is as follows at 31 December 2017

In thousands of EUR	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
Issued bonds – principal due	-	-	315,000	-	315,000	**630,000**
Issued bonds – future interest payments	-	-	21,656	50,400	12,600	**84,656**
Trade payables (Note 20)	9,443	9,450	-	-	-	**18,893**
Other accrued liabilities (Note 20)	65,684	681	2	-	-	**66,367**
Gross finance lease liability	-	-	1,153	1,853	-	**3,006**
Other financial liabilities (Note 20)	2,984	-	-	-	-	**2,984**
Commodity contracts at FVTPL:						
- gross notional amount payable*	35,898	-	-	-	-	**35,898**
- gross notional amount receivable**	(30,232)	-	-	-	-	**(30,232)**
Total future payments, including future principal and interest payments	**83,777**	**10,131**	**337,811**	**52,253**	**327,600**	**811,572**

* The notional amounts payable include the gross pay leg of commodity contracts at FVTPL. The related non-cash commodity inflow is not included in the analysis.

** The notional amounts receivable represents the gross receivable leg of commodity contracts at FVTPL. The related non-cash commodity outflow is not included in the above liquidity analysis.

30 Management of Capital

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders, and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. The Group manages capital reported under IFRS as equity amounting to EUR 79,598 thousand at 31 December 2018 (2017: EUR 50,226 thousand). In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders or return capital to shareholders.

The Group's management considers the most relevant indicator of capital management to be the return on average capital employed (ROACE). Management expects return on average capital employed to be higher than cost of capital. Indicator ROACE is calculated as follows: earnings before interest and taxes EBIT (in the consolidated statement of profit or loss and other comprehensive Income of the Group presented as profit from operations) / average capital.

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

31 Debt Movements Reconciliation

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

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

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

32 Fair Value Disclosures

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

a) Recurring fair value measurements
Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period: Financial instruments carried at fair value. The provision for loss contracts represents financial instruments carried in the statement of financial position at fair value. The fair value measurement belongs to level 2 in the fair value hierarchy and the key input is the spot and forward electricity price per MWh.

b) Assets and liabilities not measured at fair value but for which fair value is disclosed
Fair values analysed by level in the fair value hierarchy and the carrying value of assets and liabilities not measured at fair value are as follows:

Fair Value Disclosures

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

33 Presentation of Financial Instruments by Measurement Category

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

34 Contingencies and Commitments

Tax contingencies. Slovak tax law contains certain provisions that allow for more than one interpretation. Management's interpretation of the Group's business activities may not coincide with the interpretation of these activities by the tax authorities, but the extent of this risk cannot be reasonably quantified. The fiscal years from 2013 to 2018 remain open to tax inspection.

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

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

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

The future aggregate minimum lease payments under non-cancellable operating leases

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

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

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

35 Balances and Transactions with Related Parties

The primary related parties of the Group are (a) its shareholders which have joint control over the Group as explained in Notes 1 and 12: (i) the Slovak Government and (ii) E.ON, as well as (b) key management personnel. The Group applies the exemption from disclosing transactions with the Slovak Government and entities over which it has control, joint control or significant influence. The exemption does not apply to individually significant transactions, such as taxes incurred and paid, purchases of electricity from an entity in which the Slovak Government has a significant shareholding and other transactions presented below.

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

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

In thousands of EUR	Ministry of Economy of the Slovak Republic	E.ON Slovensko, a.s	E.ON Group**	Slovak Government*	Associate (Note 8)	Joint venture (Note 8)
Revenue, other operating and interest income	36	180	1,952	254,651	-	966
Dividend income	-	-	-	-	-	259
Purchases and expenses	11	-	23,409	467,580	-	1,548
Receivables other than taxes	3	195	29,533	13,155	-	91
Payables other than taxes	-	-	4,948	27,452	-	311
Dividends declared and paid	35,950	27,491	7,049	-	-	-

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

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

Income taxes are disclosed in the statement of financial position, statement of profit or loss and other comprehensive income, in the statement of cash flows and are also analysed in Note 15. Outstanding value added tax payable is presented in Note 20. Property and motor vehicle taxes are disclosed in Note 24.

The income tax paid was as follows:

The income tax paid was as follows

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

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

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

In thousands of EUR	Ministry of Economy of the Slovak Republic	E.ON Slovensko, a.s.	E.ON Group**	Slovak Government*	Associate (Note 8)	Joint venture (Note 8)
Revenue, other operating and interest income	32	268	294	203,205	-	996
Dividend income	-	-	-	-	-	782
Purchases and expenses	-	(11)	8,445	415,196	-	2,434
Receivables other than taxes	-	14	51	2,652	-	-
Payables other than taxes	-	-	2,576	28,799	-	138
Dividends declared and paid	25,737	19,681	5,047	-	-	-

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

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

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

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:

Key management personnel remuneration comprised

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

36 Events after the End of the Reporting Period

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

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

Jochen Kley
Chairman of the Board of Directors and CEO

Marian Rusko
Member of the Board of Directors

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