Západoslovenská energetika, a.s.

Separate Financial Statements and Independent Auditor's Report

31 December 2019

March 2020

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Independent Auditor's Report

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

Report on the audit of the separate financial statements

Our opinion

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

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

What we have audited

The Company's separate financial statements comprise:

- the separate statement of financial position as at 31 December 2019;
- the separate statement of profit or loss and other comprehensive income for the year then ended;
- the separate statement of changes in equity for the year then ended;
- the separate statement of cash flows for the year then ended; and
- the notes to the separate financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the separate financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants issued by the International Federation of Accountants ("Code of Ethics") and the ethical requirements of the Slovak Act on Statutory Audit No. 423/2015 and on amendments and supplements to Slovak Act on Accounting No. 431/2002, as amended (hereafter the "Act on Statutory audit") that are relevant to our audit of the separate financial statements in the Slovak Republic. We have fulfilled our other ethical responsibilities in accordance with the Code of Ethics and the ethical requirements of Act on Statutory Audit.

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

The non-audit services that we have provided to the Company, in the period from 1 January 2019 to 31 December 2019, are disclosed in Note 27 to the separate financial statements.

Our audit approach

Overview

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

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the separate financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the separate financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the separate financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the separate financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Company materiality for the separate financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the separate financial statements as a whole.

Overall materiality	EUR 3,700 thousand (2018: EUR 3,300 thousand).
How we determined it	Approximately 5% of profit before tax.
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because the performance of the Company is most commonly measured by users based on the Company's profitability. We chose 5% which is within the range of acceptable quantitative materiality thresholds set out in our firm's internal guidance.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Initial application of IFRS 16, *Leases*.	
As further explained in Note 3 to the separate financial statements, the Company adopted IFRS 16, *Leases*, from 1 January 2019. Application of this standard, primarily the assessment of options to extend or terminate lease contracts in determining the lease term required considerable judgment. Implementation of changes in accounting policies for leases required our significant attention during the audit.	We obtained an understanding of internal processes around identification of leases and obtained the related lease contracts data from the reporting entity. We tested lease contracts data by inspecting a sample of contracts or other supporting documentation. We assessed the methodology developed by management and applied to calculate the right of use assets and the related lease liabilities. We tested the input data and assumptions on which these calculations were based, including reconciling input parameters to source data, or evaluating assessment of lease term based on assumptions whether lease extension (or termination) options are reasonably certain to be exercised. We obtained written management representations from both the lessor and lessee where office premises lease extension rights were agreed verbally between related parties. Our findings, primarily in the area of presentation and disclosures, were implemented in the accompanying separate financial statements.

Reporting on other information including the separate Annual Report

Management is responsible for the other information. The other information comprises the separate Annual Report, (but does not include the separate financial statements and our auditor's report thereon), which is expected to be made available to us after the date of this auditor's report.

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

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

With respect to the separate Annual Report, we will also consider whether it includes the disclosures required by the Slovak Act on Accounting No. 431/2002, as amended (hereafter the "Accounting Act"), when it becomes available to us. This will include checking the consistency of the separate Annual Report with the separate financial statements, and whether the separate Annual Report has been prepared in accordance with the Accounting Act.

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

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

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

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

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

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

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

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

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Appointment as an independent auditor

We were first appointed as auditors of the Company in 2002. Our appointment has been renewed annually by shareholders resolution representing a total period of uninterrupted engagement appointment of 18 years. Under the transitional provisions of the EU Regulation 537/2014, our appointment cannot be renewed from 17 June 2023, provided the Company will then still be a public interest entity.

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

PricewaterhouseCoopers Slovensko, s.r.o.

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

Tučný

PricewaterhouseCoopers Slovensko, s.r.o.

SKAU licence No. 161

Mgr. Juraj Tučný, FCCA

UDVA licence No. 1059

Bratislava, 27 March 2020

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

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

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Jochen Kley
Chairman of the Board of Directors and CEO

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Marian Rusko
Member of the Board of Directors

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

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

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

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

1 Introduction

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

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

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

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

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

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

Ownership structure. Ministry of Economy of the Slovak Republic owns 51% of the Company's shares, E.ON Slovensko, a.s. owns 39% and E.ON Beteiligungen GmbH owns 10% of the Company's shares at 31 December 2019 and 31 December 2018. The Company is jointly controlled by E.ON and the Slovak government as a result of a shareholders agreement, which requires the parties to act jointly together to direct the activities that significantly affect the returns of the reporting entity. Refer to Note 16.

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

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

2 Significant Accounting Policies

Basis of preparation. These separate financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union under the historical cost convention. The principal accounting policies applied in the preparation of these separate financial statements are set out below. These policies have been consistently applied to all the periods presented except for the accounting policy changes resulting from the adoption of IFRS 16, *Leases*, from 1 January 2019 .

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

2 Significant Accounting Policies (continued)

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

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

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

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

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

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

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

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

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

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

2 Significant Accounting Policies (continued)

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

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

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

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

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

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

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

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

2 Significant Accounting Policies (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

2 Significant Accounting Policies (continued)

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

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

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

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

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

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

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

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

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

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

2 Significant Accounting Policies (continued)

To determine the incremental borrowing rate, the Company:

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

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

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

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

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

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

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

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

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

2 Significant Accounting Policies (continued)

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

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

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

Financial assets – classification and subsequent measurement – measurement categories. The Company classifies financial assets only in the amortised cost category. The classification and subsequent measurement of financial assets depends on: (i) the Company's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

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

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

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

2 Significant Accounting Policies (continued)

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

The Company holds only trade receivables, contract assets and cash and cash equivalents. The nature of financial assets is short-term, and the contractual cash flows represent principal and interest payment that reflect the time value of money and therefore the Company measures them at amortised cost.

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

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

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

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

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

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

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

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

2 Significant Accounting Policies (continued)

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

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

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

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

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

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

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

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

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

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

2 Significant Accounting Policies (continued)

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

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

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

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

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

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

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

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

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

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

2 Significant Accounting Policies (continued)

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

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

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

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

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

Each lease payment was allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, were included in borrowings. The interest costs were charged to profit and loss over the lease term using the effective interest method applied to the balance of lease liabilities for each period. Property, plant and equipment acquired under finance leases are depreciated over their useful life. If the Company was not reasonably certain that it would obtain ownership, plant, property and equipment were depreciated over the lease term.

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

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

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

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

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

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

2 Significant Accounting Policies (continued)

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

Sales of services. Sales of services are recognised in the reporting period in which the services are rendered, by reference to completion of the specific transaction assessed based on the actual service provided as a proportion of the total services to be provided. This is because customers simultanously receive and consume the benefits from the services.

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

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

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

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

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

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

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

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

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

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

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

3 Adoption of New or Revised Standards and Interpretations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- IFRIC 23 “Uncertainty over Income Tax Treatments” (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 28 “Long-term Interests in Associates and Joint Ventures” (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2015-2017 cycle – amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement” (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).

4 New Accounting Pronouncements

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

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

4 New Accounting Pronouncements (continued)

- IFRS 17 "Insurance Contracts"(issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021).
- Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).
- Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).
- Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).
- Interest rate benchmark reform - Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020).
- Classification of liabilities as current or non-current – Amendment to IAS 1 (issue don 23 January 2020 and effective for annual periods beginning on or after 1 January 2022).

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

5 Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

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

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

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

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

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

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

4 New Accounting Pronouncements (continued)

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

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

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

6 Property, Plant and Equipment

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

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

6 Property, Plant and Equipment (continued)

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

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

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

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

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

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

7 Intangible Assets

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

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

7 Intangible Assets (continued)

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

8 Investment Properties

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

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

8 Investment Properties (continued)

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

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

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

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

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

9 Right-of-use assets and lease liabilities

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

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

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

The Company recognised lease liabilities as follows:

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

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

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

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

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

Total cash outflows for leases were as follows:

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

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

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

10 Investments in Subsidiaries and Joint Venture

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

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

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

10 Investments in Subsidiaries and Joint Venture (pokračovanie)

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

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

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

11 Finance Lease Receivables

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

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

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

12 Loans Provided

An overview of loans provided is as follows:

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

The movements in impairment of loans provided were as follows:

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

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

13 Inventories

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

14 Trade and Other Receivables

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

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

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

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

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

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

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

15 Cash and Cash Equivalents

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

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

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

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

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

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

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

16 Share Capital

The Company issued and has outstanding 5,934,594 ordinary shares (2018: 5,934,594 shares) with a par value of EUR 33.19 each. All issued shares are fully paid in.

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

16 Share Capital (continued)

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

17 Legal Reserve Fund

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

18 Issued Bonds

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

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

Amortised cost carrying value of the bonds is as follows:

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

19 Income Taxes

Income tax expense comprises the following:

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

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

19 Income Taxes (continued)

In 2019, the applicable standard income tax rate was 21% (2018: 21%). A reconciliation between the reported income tax charge and the theoretical amount that would arise using the applicable tax rates is as follows:

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

The deferred taxes are expected to be recovered or settled after more than twelve months after the end of the reporting period because income tax returns are due annually, that is, the deferred tax outstanding at 31 December 2019, that will become current tax in 2020, will be settled in 2021 upon filing the 2020 tax return. The corporate tax advance payments are calculated based on prior year taxes and are thus unrelated to deferred tax balances or the current tax expense expected for subsequent years.

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

Deferred taxes are attributable to the following temporary differences:

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

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

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

20 Post-Employment Defined Benefit Obligations

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

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

20 Post-Employment Defined Benefit Obligations (continued)

The principal actuarial assumptions were as follows:

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

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

21 Other Long Term Employee Benefits

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

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

22 Trade and Other Payables

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

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

23 Receivables and Liabilities from Cash Pooling

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

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

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

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

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

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

24 Revenues

Revenues comprise the following:

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

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

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

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

25 Raw Materials, Energy and Other Consumption

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

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

26 Employee Benefits

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

27 Other Operating Expenses

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

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

- consulting services under the Article 5 (1) (a) (i) of Regulation (EU) No. 537/2014 which are allowed by paragraph 33 of the Act No. 423/2015 in the amount of EUR 48 thousand (2018: EUR 236 thousand) was for the Company;
- consulting services in the area of human resources in the amount EUR 3 thousand (2018: EUR 14 thousand) for the Company, which was not a cost control service;
- trainings in the amout of EUR 2 thousand (2018: EUR 2 thousand) for the Company.

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

28 Dividend Income

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

29 Other Operating Income

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

30 Interest and Similar Expenses

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

31 Interest Income Calculated Using the Effective Interest Method

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

32 Segment Reporting

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

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

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

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

32 Segment Reporting (continued)

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

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

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

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

Reportable segment information for 2019 is as follows:

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

32 Segment Reporting (continued)

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

In thousands of EUR	Distribution	Supply	Production	Other	Eliminations and consolidation adjustments	Total Group
Revenue from external customers	311,469	826,529	-	659	-	1,138,657
Inter-segment revenues	192,237	26,235	13,599	17,197	(249,268)	-
Total segment revenues	503,706	852,764	13,599	17,856	(249,268)	1,138,657
Purchases of electricity and related fees	(224,945)	(718,719)	(12,801)	(2,358)	230,573	(728,250)
Purchases of natural gas	-	(88,381)	-	-	85	(88,296)
Employee benefits expense	(49,966)	(10,258)	-	(8,068)	-	(68,292)
Other operating expenses	(75,873)	(15,994)	(76)	(15,882)	31,853	(75,972)
Share of profit of equity method investees	-	-	-	66,560	(66,301)	259
Other operating income	4,171	2,405	-	11,505	(10,700)	7,381
Own work capitalized	17,626	-	-	-	454	18,080
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**174,719**	**21,817**	**722**	**69,613**	**(63,304)**	**203,567**
Depreciation of property, plant and equipment and investment properties	(64,410)	(13)	(722)	(2,701)	22,603	(45,243)
Amortisation of intangible assets	(2,639)	(1,747)	-	(134)	89	(4,431)
Earnings before interest and taxes (EBIT)	**107,670**	**20,057**	**-**	**66,778**	**(40,612)**	**153,893**
Capital expenditures	**101,452**	**1,719**	**32,638**	**4,774**	**(5,873)**	**134,710**

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

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

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

32 Segment Reporting (continued)

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

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

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

33 Financial Risk Management

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

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

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

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

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

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

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

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

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

33 Financial Risk Management (continued)

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

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

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

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

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

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

In thousands of EUR	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Liabilities						
Issued bonds – principal due	-	-	-	315,000	315,000	630,000
Issued bonds – future interest payments	-	5,513	12,600	59,850	22,050	100,013
Lease liabilities	88	176	787	4,204	1,919	7,174
Trade payables (Note 22)	2,664	808	-	-	-	3,472
Other accrued liabilities (Note 22)	878	280	25	-	-	1,183
Other financial liabilities (Note 22)	208	-	-	-	-	208
Liabilities from cash pooling (Note 23)	84,611	-	-	-	-	84,611
Issued guarantees	112,100	-	-	-	-	112,100
Total future payments, including future principal and interest payments	**200,549**	**6,777**	**13,412**	**379,054**	**338,969**	**938,761**

33 Financial Risk Management (continued)

The maturity analysis is as follows at 31 December 2018:

In thousands of EUR	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
Issued bonds – principal due	-	-	-	315,000	315,000	630,000
Issued bonds – future interest payments	-	5,513	12,600	72,450	27,562	118,125
Trade payables (Note 22)	2,090	1,015	-	-	-	3,105
Other accrued liabilities (Note 22)	2,141	113	-	-	-	2,254
Other financial liabilities (Note 22)	609	-	-	-	-	609
Liabilities from cash pooling (Note 23)	52,167	-	-	-	-	52,167
Issued guarantees	61,800	-	-	-	-	61,800
Total future payments, including future principal and interest payments	**118,807**	**6,641**	**12,600**	**387,450**	**342,562**	**868,060**

34 Management of Capital

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

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

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

35 Reconciliation of movements in liabilities from financing activities

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

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

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

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

36 Offsetting Financial Assets and Financial Liabilities

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

	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	631,903	-	631,903	40,546	-	591,357
Receivables from cash pooling	34,029	-	34,029	34,029	-	-
TOTAL ASSETS SUBJECT TO POSSIBLE OFFSETTING AND SIMILAR ARRANGEMENT	**665,932**	**-**	**665,932**	**74,575**	**-**	**591,357**
LIABILITIES						
Liabilities from cash pooling	84,611	-	84,611	74,575	-	10,036
TOTAL LIABILITIES SUBJECT TO POSSIBLE OFFSETTING, AND SIMILAR ARRANGEMENT	**84,611**	**-**	**84,611**	**74,575**	**-**	**10,036**

36 Offsetting Financial Assets and Financial Liabilities (continued)

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

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

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

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

37 Fair Value Disclosures

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

37 Fair Value Disclosures (continued)

Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and the carrying value of assets and liabilities not measured at fair value are as follows:

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

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

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

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

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

38 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IFRS 9 “Financial Instruments” classifies financial assets into the following categories: (a) financial assets at FVTPL; (b) debt instruments at FVOCI, (c) equity instruments at FVOCI and (c) financial assets at AC. Financial assets at FVTPL have two sub-categories: (i) assets mandatorily measured at FVTPL, and (ii) assets designated as such upon initial recognition or subsequently. In addition, finance lease receivables form a separate category. All financial assets and liabilities of the Company are measured at amortized cost (“AC”). Leases were measured and accounted for under IFRS 16, *Leases*.

39 Contingencies and Commitments

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

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

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

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

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

Operating lease expense is disclosed in Note 27.

40 Sale of Part of the Business

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

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

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

41 Balances and Transactions with Related Parties

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

The related party transactions and outstanding balances were as follows for 2019:

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

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

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

Income taxes are disclosed in the statement of financial position, statement of profit or loss and other comprehensive income, in the statement of cash flows and are also analysed in Note 19. Outstanding value added tax payable is presented in Note 22. Property and motor vehicle taxes are disclosed in Note 27.

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

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

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

The income tax paid was as follows:

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

41 Balances and Transactions with Related Parties (continued)

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

In thousands of EUR	Ministry of Economy of the Slovak Republic	E.ON Slovensko, a.s.	E.ON Group**	Slovak govern-ment*	Subsi-diaries (Note 10)	Joint venture (Note 10)
Revenues, financie and other income	3	154	107	-	54,713	928
Dividend income	-	-	-	-	66,301	259
Purchases and expenses	-	-	1,291	-	2,843	49
Receivables other than taxes	-	182	785	-	667,199	91
Payables other than taxes	-	-	751	-	53,030	9
Dividends declared and paid	35,950	27,491	7,049	-	-	-

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

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

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

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

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

42 Events after the End of the Reporting Period

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

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

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

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