Západoslovenská distribučná, a.s.

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

April 2020

Translation note:

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

Západoslovenská distribučná, a.s.

Annual Report for 2019

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01. Profile of Západoslovenská distribučná, a.s.

Foreword by the Chairman of the Board of Directors

Year 2019, likewise the entire previous period, was affected by transformation of energy sector. In the Europe-wide context we hear about zero-emission power generation, nuclear and coal-fired power plants are being shut-down and distribution starts being vital from the perspective of decentralised and digital energy business. If we want our business and the entire Slovak economy to be successful, we have to change it and keep up with the world around us, ideally get ahead of it. I am glad that Západoslovenská distribučná plays an active role in this process.

As the distribution system operator, we contribute to this change mainly by investing in the expansion and upgrade of the distribution system. In 2019, we invested more than EUR 95 million in order to provide our customers with high standard of energy distribution. Among important constructions I would mention, for example, the reconstruction of the power station in Podunajské Biskupice which is one of two central feed-in points of Bratislava and which significantly contributed to the smart management of the distribution system. We continued in investing into intelligent metering systems or increasing level of system operation automation by expanding the number of smart grid elements.

In this context, I would like to highlight two projects focusing on mass deployment of latest smart technologies which would launch "a new era energy". Both projects managed to be qualified for the list of EU Projects of Common Interest (PCI), which no distribution company has achieved so far. The first project - ACON Smart Grids - is implemented in cooperation with Czech E.ON Distribuce. The aim of the ACON project is to upgrade and strengthen distribution stability in Czech and Slovak border areas. The value of the project reaches the sum of up to EUR 270 million. Currently, we implement the first phase of the project worth of EUR 182 million. The second project is Danube InGrid and is implemented in cooperation with SEPS, a.s. and Hungarian E.ON). The project aims at strengthening smart integration between Slovak and Hungarian energy market. Its value is EUR 300 million, being the biggest smart grid project on the fourth PCI list.

Both projects focus on the deployment of smart network elements in the distribution systems, which would ensure the connection of renewable sources in the future.

Last year was rich also in legislative changes. The most important change which became effective on 1 January 2019, 1 January 2020, respectively is the amendment of Act on the promotion of renewable energy sources and high-efficiency cogeneration, shifting the obligation to pay out the so-called additional payment to supported production facilities from distributors to market operator, as well as the obligation to buy out electricity from supported production facilities from regional distribution systems´ operators to central buyer. We consider these changes as highly positive.

Last but not least, we change the way of communicating with customers too. This aspect can be seen in the growing importance of electronic communication channels and bigger openness. We innovated our website zsdis.sk: we improved online process of customer connection and introduced a new communication channel - chatbot.

In general, I would say that last year was successful, both in terms of economic results or investments and projects successfully completed. However, it also posed a challenge which we have to face in the upcoming years. Seeing the current situation on the labour market and demographic development in our company, hard-to-fill some positions, for example, in case of retirement, will be a growing issue. Staffing and increasing the attractivity of technical positions is our priority in the next period.

Year 2019 brought changes which we see as opportunities for achieving better results in the years to come. I believe that we will benefit from our tradition, working capital and innovation potential in order to continuously increase efficiency of our activities in favour for customers and entire society. Bearing in mind the responsibility resulting from our market position, we want to be a trustworthy partner that provides secure and reliable electricity distribution and cares about its customers according to standards of the 21st century. I would like to thank all employees of our company who by their work and commitment contributed to good results in year 2019.

Company Bodies

The structure of statutory and supervisory bodies of Západoslovenská distribučná, a.s. in 2019 was as follows:

Statutory Body:

As at 31 December 2019

Chairman - Ing. Andrej Juris (start of office on 20 September 2015; and end of office on 20 September 2019)
Ing. Tomáš Turek, PhD. (start of the office on 21 september 2019)
Vice-Chairman - Mgr. Vladimír Cipciar (start of office on 31 October 2017)
Members:
Ing. Marian Kapec (start of office on 21 March 2016)
Ing. Martin Mišík (start of office on 23 January 2017)
Ing. Miroslav Otočka (start of office 16 May 2018)

Supervisory Body

As at 31 December 2019

Chairman

Ing. Peter Hanúsek (start of office as a Member of the Supervisory Board on 23 January 2017,elected as the Chairman of the Supervisory Board on 1 February 2017)

Vice-Chairman
Marian Rusko (start of office as a Member and Vice-Chairman of the Supervisory Board on 1 February 2017; elected as the Vice-Chairman on 1 February 2017)

Members
MUDr. Ján Zvonár , CSc. (start of office on 23 January 2017)
RNDr. Michal Babiar, PhD. (start of office on 23 January 2017)
Ing. Kamil Panák (start of office on 23 January 2017)
JUDr. Andrea Vitkóová, PhD. (start of office on 23 January 2017)
Robert Polakovič (start of office on 2 July 2014; end of office on 19 June 2019)
Robert Polakovič (start of office on 20 June 2019)
Silvia Šmátralová (start of office on 2 July 2014; end of office on 19 June 2019)
Milan Sobolčiak (start of office on 2 July 2014; end of office on 19 June 2019)
Bc. Milan Černek (start of office on 20 June 2019)
Ing. Juraj Nyulassy (start of office on 20 June 2019)

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

Štruktúra akcionárov			
As at 31 December 2019	Absolute amount in €	Equity share in the share capital	Voting rights
Západoslovenská energetika, a. s.	33,227,119	100 %	100 %

Scope of Business

Information on the Company and Its Scope of Business

Západoslovenská distribučná, a.s. (hereinafter the "Company"), Company ID: 36 361 518, with its seat at Čulenova 6, 816 47 Bratislava, was established on 20 April 2006 and incorporated in the Commercial Register on 20 May 2006. The Company is registered with the Commercial Register of the Bratislava I District Court, Section: Sa, File No.: 3879/B.

The Company was established by a Memorandum of Association on 20 April 2006, made in the form of Notary Deed N 137/2006, Nz 15077/2006 in accordance with the relevant provisions of Act No. 513/1991 Coll., Commercial Code. The Company was established with a view to complying with the legal requirements to unbundle electricity distribution from other businesses of the companies providing integrated services in the electricity sector, as stipulated by EU Directive 2003/54/EC concerning common rules for the internal market in electricity, which was transposed into Slovak legislation by means of Act No. 656/2004 Coll. on Energy and on Amendments to Some Acts. The Energy Act stipulated the date of 1 July 2007 as the latest date for unbundling the distribution system operations. Západoslovenská energetika, a.s. separated a part of the business performing the key distribution activities and contributed it into Západoslovenská distribučná, a.s.

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

The core business of the Company is electricity distribution.

The company doesn´t have any expenses on research and development.

The company did not acquire any own shares, temporary certificates, any business shares or ownership interest, temporary certificates or business shares of the parent entity.

The company doesn´t have any organisational unit abroad.

Risks and Uncertainties

The Company will continue to be in charge of developing new projects and innovative solutions that will reflect the strategic direction of the ZSD facing the challenges resulting from the macroeconomic and market changes.

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

During the normal course of business, claims against the Company may be received. Certain customers or their representatives contest fairness and appropriateness of decisions of the network industry regulator. These circumstances was taken into account in its Financial Statements as at 31 December 2019.

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

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

Within our business activities, the following measures were adopted:

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

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

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

Financial impacts of this risk can not be currently estimated.

The significant events occurred after the end of 2019 requiring recognition or disclosure in the Annual Report

Except for those events already disclosed in financial statements, Company is not aware of any other significant events occurring after the 31 December 2019, which would have impact on the financial statements or annual report for the year ended 31 December 2019.

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.

“Compliance Programme”

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

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

Code of Conduct

The essential document of the “Compliance Programme” is the Code of Conduct which defines responsible business principles to which companies of the ZSE Group are committed. At the same time, it is a binding guideline on the conduct of employees, contractors and all who cooperate with the companies of the ZSE Group. In order to increase ethical awareness of the employees of ZSE Group, many educational

activities were undertaken, scope of which was defined depending on the tasks and responsibilities of individual participants. In cooperation with Human Resources, the Company continues in providing an e-learning training to all employees.

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

Zero Tolerance for Corruption

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

- **Giving and accepting gifts**

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

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

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

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

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

- **Money laundering**

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

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

Internal control system:

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

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

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

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

02. Economy

In 2019, Západoslovenská distribučná, a.s., generated comprehensive income of € 78,105 thousand, with sales totaling € 490,074 thousand and costs totaling € 400,286 thousand.

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

Key figures as at 31 December

in € thousand	2019	2018 (restated)
Non-current assets	1,132,854	1,028,104
Current assets	92,132	91,556
Total assets	**1,224,986**	**1,119,660**
Equity	206,341	185,493
Non-current liabilities	885,308	807,124
Current liabilities	133,337	127,043
Total equity and liabilities	**1,224,986**	**1,119,660**

V thousand €	2019	2018
Sales	490,074	503,706
EBIT (profit from operating activities)	**125,235**	**107,670**
EBITDA	194,324	174,719
Revenues	513,308	525,531
Expenses	400,286	438,115
Profit before tax	106,132	87,416
Net profit	**79,568**	**65,055**
Other comprehensive income	-1,463	860
Total comprehensive income	**78,105**	**65,915**
Cash outflows for investing activities	**88,531**	**84,727**
Full-time equivalent of employees (FTE)	**1,467**	**1,423**

Information on sales in monetary terms from electricity distribution:

Indicators		
As at 31.12.	2019	2018
Volume of electricity distributed (GWh)	9,772	9,866
Sales from electricity distribution (€'000)	479,863	493,561
Number of supply points	1,165,554	1,149,618

Loans

Západoslovenská distribučná, a.s. did not draw bank loans in 2019, but it had an intercompany loan amounting to € 630,000 thousand in 2014.

Investments

Investments in 2019	
in € thousand.	2019
Connection	20,237
Development and improvment of networks VN, NN, TS, EZ	22,945
Development and improvment of networks VVN (RZ, EZ, KZL)	21,434
Special projects (automatization, ecology)	836
Purchase of energy devices	1,135
Land and easements	897
Transformers, inductors, resistors	1,450
Electrometers	11,116
Low-value assets	1,064
Distribution systems	3,212
Interest expense capitalized	1,691
IT projects	7,739
Telco	1,215
Facility Management	1,241
Other	145
Total	**96,357**

Major constructions in 2019 in terms of volume:

Major Constructions of Západoslovenská distribučná, a.s. in Terms of Volume	
in € thousand	2019
VVN_ES Hurbanovo, RIS	2 039
VVN_ES žabí Majer, 1.et. rozšír.	4 507
VVN_ES Veľký Meder, rekonštrukcia	3 660
VVN_Madunice, rekonštrukcia vedenia2x110kV	1 856
VVN_Senica – Jablonica vedenia 110kV	4 426

Planed major constructions in 2020 in terms of volume:

Major Constructions of Západoslovenská distribučná, a.s. in Terms of Volume	
in € thousand	2020
VVN_Nové Mesto nad Váhom, rekonštrukcia vedenia2x110kV	7,500
VVN_ES Žabí Majer	5,700
VVN_Rekonštrukcia vedenia VVN Smolenice - TP Trnava	4,300
VVN_Rekonštrukcia ES Veľký Meder	3,250
VVN_ES Borský Sv.Jur - výstavba	2,142

Distribution of the 2019 Profit

At its meeting on 25 March 2020 the Board of Directors of Západoslovenská distribučná, a.s., acknowledged, and recommended to the Supervisory Board of Západoslovenská distribučná, a.s. to discuss, the following proposal for the distribution of the Company's profit for 2019.

Proposal for 2019 profit distribution	
in € thousand	2019
Net Profit for the financial period	**79,568**
A/ contribution to reserve fund (10%)	7,957
B/ contrbution to social fund	1,307
C/ dividends	70,304

03. Human Resources

In 2019, ZSD had 1 466.6 employees on average (excl. members of the Board of Directors and Supervisory Board and employees who worked on the basis of the agreement on performance of work). The average age of employee was 46.2 years. In 2019, the share of employees with university education went up by 1.8% on a year-on-year basis.

Share of women/men – women 18%; men 82%

Education – University education 29,4%; Secondary vocational education with school-leaving examination 45.9%; Vocational education 24.5%; Primary education 0.2%.

Remuneration and employee benefits

In line with the commitments resulting from the Collective Agreement, the companies of the ZSE Group raised the wage, consisting of the basic and variable part, by 4% on average. At the same time, as part of the employee's total income, part of the variable wage component was transferred to the basic wage.

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

All employees of the ZSE Group received the contribution from the Social Fund for recovery of labour force. Above-standard preventive medical check-ups were also provided to employees.
In 2019 the employer continued in contributing to the supplementary pension savings scheme of employees. Every employee was entitled to 5 days of holidays beyond the Labour Code.

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

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

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

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

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

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

04. Occupational Health and Safety

Our Company has been focusing on systematic development and training of employees in occupational health and safety in the long-run. Considering the nature of works in energy business, observance of OHS rules is the top priority. In addition to standard trainings required by law in 2019, a defensive driving safety course continued, in which every employee driving a company car took part. 952 employees were trained in two years. Traumatological exercises and trainings for the use of defibrillators were carried out. In the ZSE Group the OHS campaigns were also supported by internal communication. A sum of EUR 704,466 was invested for all ZSE Group companies into personal and protective work equipment and tools, obligatory training courses on occupational health and safety, and preventive medical check-ups.

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

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

05. Environmental Protection

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

In 2019, the companies of the ZSE Group invested EUR 288,000 in environmental constructions and repairs. A sum of approx. EUR 330,000 was dedicated to the environmental operation and maintenance of the facilities and repairs of the objects, including waste disposal. Specifically, sewage systems in the operated objects, new parking areas and transformer stations´ sites were modernised. Oil facilities were repaired and waste containers were purchased. Operating and servicing facilities was carried out in order to reduce the risk of polluting underground water and soil.

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

Západoslovenská distribučná has been focusing on environmental care of its lines in the long-run. It cooperates with experts from the Raptor Protection Slovakia association, to set specific measures. In 2019, the Company finished the LIFE 13 - Energy in the Countryside project. As a part of the project, power lines were equipped with visible reflective elements in the critical spots, increasing visibility under bad weather conditions and eliminating death of birds when they collide with power lines. In addition to the installation of diverters, we have long been involved in the regular installation of protective elements on the brackets of electric poles of HV lines. So far, more than 1,000km of older lines have been treated. New lines are treated automatically. In total, more than EUR 1 million was invested in the environmental improvement of the lines.

06. Corporate Social Responsibility

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

Education

The ZSE Group has been a partner of the **Green School** educational programme for many years. This programme is designed for kindergartens, primary and secondary schools. It focuses on support of school communities where their members can test both the magic and pitfalls of cooperation. The programme promotes long-term and practical initiatives with real positive impact on schools and environment.
The main coordinator of the programme is ŽIVICA - a centre of environmental and ethical education. The Green School programme has been in place in Slovakia since 2004. In the school year 2018/2019, up to 345 schools were engaged in the programme.
ZSE has been a partner to the **Socrates Institute** for some time. It is an official study for university active students and graduates, aimed at training Slovak future leaders. The Institute aims to create conditions for development of personalities, young people who are willing to work on themselves, bear responsibility for what they do and pursue their vision.

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

Innovations

To support innovations, Impact Hub is our key partner. Impact Hub is a part of an international platform of experts, organisations, teams and individuals who pursue a common objective – **building better conditions for social business development** on local markets and worldwide.
A good example of effective cooperation is Hackhaton format which has been produced by, together with Impact Hub, Západoslovenská distribučná for the second time. It is a unique challenge of such type and scope on the Slovak energy market and in Central Europe, when energy business provided an analysis of anonymised data from real meter-readings to a free community of startupers. The teams involved ran the simulation of energy-sharing community development and alternative energy-sharing model focusing on end customers.

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

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

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

Elektrárňa Piešťany
In 2014, ZSE put in operation the renovated Elektrárňa Piešťany, which has been gradually transforming into a unique centre for theme education in the area of science, research and arts. Education consists of two programmes. The first programme focuses on the promotion of science for schools, done mainly through interactive exhibitions accompanied by various workshops, quizzes and competitions. The second programme concerns the general public and the professional public. In an entertaining way, students and visitors have an opportunity to get more information about electrical, magnetic, solar and hydro power interactive installations. Energy of creative people and artists is presented through discussions, expositions, concerts and less traditional forms of theatre art.

Západoslovenská distribučná, a.s.

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

March 2020

Translation note:

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

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Independent Auditor's Report

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

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Západoslovenská distribučná, a.s. (the "Company") as at 31 December 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.

What we have audited

The Company's financial statements comprise:

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

Basis for opinion

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

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

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants issued by the International Federation of Accountants (Code of Ethics) and 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 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.

Reporting on other information included in the Annual Report

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

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

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

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

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

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

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

Management's responsibilities for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 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 financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

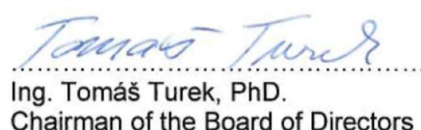
PricewaterhouseCoopers Slovensko, s.r.o.
SKAU licence No. 161

Mgr. Juraj Tučný, FCCA
UDVA licence No. 1059

Bratislava, 25 March 2020, except for section of our report "Reporting on other information included in the Annual Report", for which the date of our report is 15 April 2020.

In thousands of EUR	Note	31 December 2019	31 December 2018 (restated)	31 December 2017 (restated)
ASSETS				
Non-current assets				
Property, plant and equipment	6	1,042,412	1,018,336	983,170
Intangible assets	7	12,868	9,768	7,204
Right-of-use assets	8	77,574	-	-
Total non-current assets		**1,132,854**	**1,028,104**	**990,374**
Current assets				
Inventories	10	618	652	811
Trade and other receivables	11	46,155	39,379	33,809
Income tax receivables		-	2,778	-
Cash and cash equivalents	13	4,813	3,877	3,719
Receivables from cash pooling	12	40,546	44,870	52,146
Total current assets		**92,132**	**91,556**	**90,485**
TOTAL ASSETS		**1,224,986**	**1,119,660**	**1,080,859**
EQUITY				
Share capital	14	33,227	33,227	33,227
Legal reserve fund	15	77,558	71,052	64,598
Retained earnings		95,556	81,214	80,184
TOTAL EQUITY		**206,341**	**185,493**	**178,009**
LIABILITIES				
Non-current liabilities				
Borrowings	9	630,000	630,000	315,000
Lease liabilities (2018, 2017: finance lease liabilities)	8	70,557	1,858	1,831
Deferred income tax liabilities	16	89,823	85,685	86,563
Post-employment defined benefit obligations	17	9,265	7,352	7,622
Other long term employee benefits	18	1,888	1,856	1,883
ntract liabilities from connection fees and customer contributions	20	83,775	80,373	75,029
Total non-current liabilities		**885,308**	**807,124**	**487,928**
Current liabilities				
Borrowings	9	8,534	4,875	319,833
Lease liabilities (2018, 2017: finance lease liabilities)	8	7,212	1,546	1,147
Trade and other payables	21	89,912	95,252	84,755
ntract liabilities from connection fees and customer contributions	20	5,793	5,365	4,742
Provisions for liabilities and charges	19	21,666	19,972	-
Income tax liabilities		187	-	4,445
Total current liabilities		**133,337**	**127,043**	**414,922**
TOTAL LIABILITIES		**1,018,645**	**934,167**	**902,850**
TOTAL LIABILITIES AND EQUITY		**1,224,986**	**1,119,660**	**1,080,859**

These financial statements have been approved for issue by the Board of Directors on 25 March 2020.



Ing. Tomáš Turek, PhD.
Chairman of the Board of Directors

Ing. Marian Kapec
Member of the Board of Directors

In thousands of EUR	Note	2019	2018
Revenue	22	**490,074**	**503,706**
Transmission fees payable to network operator		(59,453)	(59,785)
Purchases of electricity for losses, charges for electricity produced from renewable sources and other purchases		(154,102)	(165,160)
Employee benefits	23	(54,096)	(49,966)
Depreciation of property, plant and equipment	6	(66,210)	(64,410)
Amortisation of intangible assets	7	(2,879)	(2,639)
Depreciation of right-of-use assets	8	(6,890)	-
Other operating expenses	24	(44,420)	(75,873)
Other operating income	25	4,791	4,171
Capitalized own costs		18,420	17,626
Profit from operations		**125,235**	**107,670**
Finance income / (costs)			
Interest income		23	28
Interest and similar expense	26	(19,126)	(20,282)
Finance costs, net		**(19,103)**	**(20,254)**
Profit before tax		**106,132**	**87,416**
Income tax expense	16	(26,564)	(22,361)
Profit for the year		**79,568**	**65,055**
Other comprehensive income			
Items that will not be subsequently reclassified to profit or loss			
Actuarial remeasurements of post-employment defined benefit obligations	17	(1,852)	1,089
Deferred tax on actuarial remeasurements of post-employment defined benefit obligations	16	389	(229)
Total other comprehensive income for the year		**(1,463)**	**860**
Total comprehensive income for the year		**78,105**	**65,915**

In thousands of EUR	**Share capital**	**Legal reserve fund**	**Retained earnings**	**Total equity**
Balance at 1 January 2018	**33,227**	**64,598**	**72,354**	**170,179**
Restatement to correct prior period error (Note 2)	-	-	7,830	7,830
Balance at 1 January 2018 restated	**33,227**	**64,598**	**80,184**	**178,009**
Profit for the year	-	-	65,055	**65,055**
Other comprehensive income for the year	-	-	860	**860**
Total comprehensive income for 2018	**-**	**-**	**65,915**	**65,915**
Dividends declared and paid (Note 14)	-	-	(56,772)	**(56,772)**
Contribution to legal reserve fund	-	6,454	(6,454)	**-**
Purchase of part of the business (Note 33)*	-	-	(1,976)	**(1,976)**
Other changes	-	-	317	317
Balance at 31 December 2018 (restated)	**33,227**	**71,052**	**81,214**	**185,493**
Profit for the year	-	-	79,568	**79,568**
Other comprehensive loss for the year	-	-	(1,463)	**(1,463)**
Total comprehensive income for 2019	**-**	**-**	**78,105**	**78,105**
Dividends declared and paid (Note 14)	-	-	(57,257)	**(57,257)**
Contribution to legal reserve fund	-	6,506	(6,506)	**-**
Balance at 31 December 2019	**33,227**	**77,558**	**95,556**	**206,341**

* *The amount represents the difference between the purchase price based on valuator report and the carrying values of asset and liabilities taken over from the predecessor entity, that is a related party under common control.*

In thousands of EUR	Note	2019	2018
Cash flows from operating activities			
Profit before tax		106,132	87,416
Adjustments for non-cash items:			
- Depreciation of property, plant and equipment	6	66,300	64,410
- Loss on disposal of property, plant and equipment	6	(259)	373
- Amortisation of intangible assets	7	2,879	2,639
- Depreciation of right-of-use assets	8	6,890	-
- Interest income		(23)	(28)
- Interest and similar expense	26	19,234	20,282
- Other non-cash items		(24)	(10)
Cash generated from operations before changes in working capital		201,129	175,082
Changes in working capital:			
- Inventories		34	336
- Contract liabilities		(5,342)	(5,381)
- Trade and other receivables		(6,776)	(4,917)
- Trade and other payables		(4,235)	1,145
- Provisions for liabilities and charges		1,679	20,456
- Financial leasing liabilities		(1,624)	82
- Receivables from cash-pooling		4,324	7,276
Cash generated from operations before interest and taxes		**189,189**	**194,079**
Interest income received		23	28
Interest expense paid		(15,467)	(20,135)
Income tax paid	34	(19,072)	(30,801)
Net cash from operating activities		**154,673**	**143,171**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(87,167)	(73,709)
Interest expense paid and capitalised		(1,691)	(1,614)
Acquisition of business from an entity under common control	34	-	(9,902)
Proceeds from sale of property, plant and equipment and intangible assets		327	498
Net cash used in investing activities		**(88,531)**	**(84,727)**
Cash flows from financing activities			
Dividends paid	14	(57,257)	(56,772)
Repayment of principal element of lease liabilities (2018: finance lease liabilities)	30	(7,949)	(1,514)
Net cash used in financing activities		**(65,206)**	**(58,286)**
Net change in cash and cash equivalents		**936**	**158**
Cash and cash equivalents at the beginning of the year		3,877	3,719
Cash and cash equivalents at the end of the year	**13**	**4,813**	**3,877**

1 Introduction

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

The Company was incorporated and is domiciled in the Slovak Republic. The Company is a joint stock company limited by shares and was set up in accordance with Slovak legislation in its current legal form on 20 April 2006. The Company was incorporated in the Commercial Register of the District Court Bratislava I on 20 May 2006.

Principal activity. The Company provides electricity distribution and supply services primarily in the Western Slovakia region. From 1 January 2014 it has also been providing investment services, construction, repair, maintenance and operation of the distribution network. From 1 January 2015 its activities included coordination, inspection and administration of communication with customers using services of the company and addressing their requests. These activities were transferred by the Parent company to the subsidiary Západoslovenská distribučná, a.s. As of 31 December 2015, the Company acquired part of E.ON Business Services Slovakia, s.r.o. and from that date provides information services within the Group. From 1 January 2018, the departments facility management, billing, quality control, and logistics were transferred from the Parent company to its subsidiary Západoslovenská distribučná, a.s. as part of the purchase of part of the business.

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

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

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

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

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

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

Number of employees. The Company employed 1,467 staff on average during 2019, of which 24 were management (2018: 1,423 employees on average, of which 24 were management).

2 Significant Accounting Policies

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

The Board of Directors may propose to the Company’s shareholders to amend the financial statements until their approval by the general shareholders meeting. However, § 16, points 9 to 11 of the Accounting Act No 431/2002 prohibit reopening an entity’s accounting records after the financial statements are approved by the general shareholders’ meeting.

2 Significant Accounting Policies (continued)

If, after the financial statements are approved, management identifies that comparative information would not be consistent with the current period information, the Accounting Act allows entities to restate comparative information in the reporting period in which the relevant facts are identified.

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

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

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

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

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

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

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

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

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

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

2 Significant Accounting Policies (continued)

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

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

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

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

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

Right-of-use assets. The Company leases lands, administrative and technical buildings and motor 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, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component. Assets that represent right-of-use of the underlying leased assets are initially measured at the present value of the future lease payments.

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

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

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the 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
Land	9 to 87 years
Buildings	2 to 20 years
Power equipmet	5 to 20 years
Motor vehicles	2 to 6 years

2 Significant Accounting Policies (continued)

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

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

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

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

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

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

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

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

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

2 Significant Accounting Policies (continued)

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 debt financial assets depends on: (i) the Company's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

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

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 amortized cost.

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

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

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

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

2 Significant Accounting Policies (continued)

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

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

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.

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

2 Significant Accounting Policies (continued)

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

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

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

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

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

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

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

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

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

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

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

2 Significant Accounting Policies (continued)

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.

Contract liabilities from connection fees and customer contributions. Over time, the Company received contributions for the construction of the electricity distribution network, in particular for the new municipal connections and networks. The customers contributed towards the cost of their connection.

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

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

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

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

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

2 Significant Accounting Policies (continued)

Operating lease 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) are expensed on a straight-line basis over the period of the lease.

Financial lease with the Company as 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 and 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 finance lease liabilities line item. The interest costs were charged to profit or loss over the lease term using the effective interest method applied to the balance of lease obligation for each period. Property, plant and equipment acquired under finance leases are depreciated over their useful life or the shorter lease term if the Company was not reasonably certain that it would obtain ownership.

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

- fixed payments (including in-substance 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 across the Group. 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 held 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 terms and and conditions and collateral.

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 term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

2 Significant Accounting Policies (continued)

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.

Company does not expect to pay anything under the guarantees.

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

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

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

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

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

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

Revenue from distribution of electricity. The Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Company and specific criteria will be met for each of the Company's activities as described below. Revenue from distribution of electricity is recognized when the distribution service is rendered to electricity customers. Sales of services are recognized in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. This is because the customer benefits from the service as it is being provided.

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

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

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

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

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

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

2 Significant Accounting Policies (continued)

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

The effect of the restatements on the prior period financial statements was as follows:

In thousands of EUR	**31 December 2018**	**31 December 2017**
Increase in “Trade and other receivables”	3,532	5,906
Decrease in “Current income tax receivable”	(362)	-
Increase in total assets	**3,170**	**5,906**
Increase in “Retained earnings”	8,147	7,830
Increase in total equity	**8,147**	**7,830**
Decrease in “Trade and other payables”	(4,977)	(2,176)
Increase in “Current income tax liabilities”	-	252
Decrease in total liabilities	**(4,977)**	**(1,924)**

The effect of the correction on profit or loss, movements in equity and the cash flow statement for 2018 was not significant.

Changes in the presentation of the financial statements. The following data for the previous accounting period were amended to reflect the presentation in the current accounting period. These changes in the presentation of comparative data had no effect on profit or loss nor equity for the previous financial year. The Company has decided to recognize financial lease liabilities separately.

2 Significant Accounting Policies (continued)

The effect of the adjustments on the Company's financial statements for the previous financial year was as follows:

In thousands of EUR	31 December 2018	31 December 2017
Decrease in “Trade and other payables”	(3,404)	(2,978)
Increase in “Long-term Liabilities (2018, 2017: financial leasing)”	1,858	1,831
Increase in “Short-term increase in “Liabilities (2018, 2017: financial leasing)”	1,546	1,147
Increase in “Total Liabilities”	-	-

3 Applying New and Amended Atandards and Interpretations

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

Impact of adoption and application of IFRS 16 on the Company's financial statements:

The Company has adopted and started applying the new standard as of 1 January 2019, using a modified retrospective method and applying a simplified transition approach when the initial right of use asset is equal to the lease liability adjusted for all accrued lease payments or reserves or provisions. Comparative figures 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 for the financial years 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 acts as a lessee.

Following the adoption of IFRS 16, the Company recognized lease liabilities for leases that were previously classified (ie under IAS 17) 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 the Company's loans as at 1 January 2019. The weighted average discount rate applied on 1 January 2019 to the lease obligations was 1.697%.

3 Applying New and Amended Atandards and Interpretations (continued)

An explanation of the difference between operating leases disclosed as at 31 December 2018 when IAS 17 was applied, and the lease liabilities reported as at 1 January 2019 is set out in the following table:

In thousands of EUR	**31 December 2018**
Total future minimum lease payments for non-cancellable operating leases under IAS 17	**82,279**
- Less short-term leases and leases for low value assets	-
- Reclassification of finance lease liabilities	3,404
- Future lease payments that are a result of a different assessment of lease extension rights	8,670
- Effect of discounting to present value	(10,691)
Total lease liabilities recognised as at 1 January 2019	**83,662**
Of which are:	
Short-term lease liabilities	6,899
Long-term lease liabilities	76,763

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.

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, rent is tax deductible 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.*

3 Applying New and Amended Atandards and Interpretations (continued)

The impact 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 "Right-of-use assets "	83,064
Decrease in “Property, plant and equipment”	(2,806)
Increase in long-term "Lease liabilities"	76,763
Increase in short-term "Lease liabilities	6,899
Decrease in 'Financial leasing liabilities'	(3,404)

The Company also reclassified finance lease liabilities to present them in a separate line in the statement of financial position comparative information.

The following revised Standards and Interpretations entered into force for the Company from 1 January 2019 but did not have a significant 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 Group`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).
- 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).

5 Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

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

***Unbilled electricity distribution*.** The unbilled revenue from distribution represent an accounting estimate based on estimated volume of delivered and distributed electricity expressed in MWh for low voltage network and estimated unit price that will be billed in the future. The Company uses a bespoke customer information system Enersim to estimate the unbilled deliveries based on assumed customer demand profiles. This accounting estimate is based on: (a) the estimated volume distributed to households in technical units (MWh) between the date of the last meter reading and the end of the reporting period; (b) the consumption estimate utilising the time patterns of consumption of various customer profiles observed on a sample basis; (c) the estimated losses in the distribution network; and (d) the unit price in EUR/MWh, that will be applied to billing the electricity distribution. Refer to Note 22.

The Company also engaged an independent expert to estimate network losses. Should the estimate of total network losses be lower by 0.1%, representing approximatel 10 GWh of electricity (2018: 10 GWh), with other parameters unchanged, the revenues for commodity and distribution services would increase by EUR 949 thousand (2018: EUR 858 thousand).

Estimated useful life of electricity distribution network. The estimation of the useful lives of network assets is a matter of judgment based on past experience with similar items. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets.
Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Company. The following primary factors are considered: (a) the expected usage of the assets; (b) the expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) the technical obsolescence, if any. If the estimated useful life of network assets had been shorter by 10% than management's estimates at 31 December 2019, the Company would have recognised an additional depreciation of network assets of EUR 6,746 thousand (2018: EUR 7,158 thousand).

Depreciation of right-of-use assets. In determining the lease terms, the Company takes into account also verball agreements between the parties relating to the automatic annual extension of the leased buildings. The lessor verbally agreed with us that we will be able to renew leases of office premises each year for up to 15 years at the market level rent at the time of each renewal. 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 lessee is reasonably certain to be extended (or not terminated).

For leases of offices, equipment and vehicles, the following factors are normally the most relevant: (i) if there are significant penalties to terminate (or not extend), the Company is typically reasonably certain to extend (or not terminate) the lease and (ii) 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. Otherwise, the Company considers other factors including historical lease term and the costs and business disruption required to replace the leased asset.

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

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

6 Property, Plant and Equipment

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

In thousands of EUR	**Land**	**Network buildings**	**Power lines**	**Optical lines and other leased to third parties**	**Switching stations and network equip-ment**	**Other assets***	**Capital work in progress**	**Total**
Cost at 1 January 2019	27,785	139,378	1,049,593	2,639	388,031	73,438	66,841	**1,747,705**
Accumulated depreciation and impairment losses	-	(50,625)	(431,845)	(918)	(187,122)	(58,859)	-	**(729,369)**
Carrying amount at 1 January 2019	**27,785**	**88,753**	**617,748**	**1,172**	**200,909**	**14,579**	**66,841**	**1,018,336**
Initial adoption of IFRS 16	-	(133)	(2,333)	-	(340)	-	-	**(2,806)**
Additions	-	-	-	-	-	-	90,491	**90,491**
Capitalised borrowing costs**	-	-	-	-	-	-	1,690	**1,690**
Transfers	300	6,894	44,939	242	24,479	3,645	(80,499)	**-**
Depreciation charge	-	(4,861)	(35,754)	(108)	(21,886)	(3,601)	-	**(66,210)**
Disposals	-3	-	-	-	(35)	(30)	(24)	**(92)**
Termination ot the lease IFRS 16	-	54	813	-	136	-	-	**1,003**
Cost at 31 December 2019	28,082	144,758	1,090,381	2,823	408,576	67,690	78,499	**1,820,809**
Accumulated depreciation and impairment losses	-	(54,051)	(464,968)	(968)	(205,313)	(53,097)	-	**(778,397)**
Carrying amount at 31 December 2019	**28,082**	**90,707**	**625,413**	**1,825**	**203,263**	**14,593**	**78,499**	**1,042,412**

* Other assets comprise machinery, non-network and administrative buildings, vehicles and other assets.
** Capitalisation rate of borrowing costs was from 1 January to 31 December 2019 approximately 3,07 % p.a.

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

6 Property, Plant and Equipment (continued)

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

In thousands of EUR	**Land**	**Network buildings**	**Power lines**	**Optical lines and other leased to third parties**	**Switching stations and network equipment**	**Other assets***	**Capital work in progress**	**Total**
Cost at 1 January 2018	27,358	134,702	1,004,956	2,498	370,267	34,133	49,762	**1,623,676**
Accumulated depreciation and impairment losses	-	(46,035)	(400,720)	(834)	(168,309)	(24,608)	-	**(640,506)**
Carrying amount at 1 January 2018	**27,358**	**88,667**	**604,236**	**1,664**	**201,958**	**9,525**	**49,762**	**983,170**
Additions	-	-	-	-	-	-	93,570	**93,569**
Capitalised borrowing costs**	-	-	-	-	-	-	1,614	**1,614**
Purchase of part of the business	-	1	-	-	105	4,252	905	**5,263**
Transfers	434	4,377	49,026	143	20,865	4,156	(79,002)	**-**
Depreciation charge	-	(4,292)	(35,421)	(86)	(21,389)	(3,221)	-	**(64,410)**
Disposals	(7)	-	(93)		(630)	(133)	(8)	**(871)**
Cost at 31 December 2018	27,785	139,378	1,049,593	2,639	388,031	73,438	66,841	**1,747,705**
Accumulated depreciation and impairment losses	-	(50,625)	(431,845)	(918)	(187,122)	(58,859)	-	**(729,369)**
Carrying amount at 31 December 2018	**27,785**	**88,753**	**617,748**	**1,721**	**200,909**	**14,579**	**66,841**	**1,018,336**

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

** Capitalisation rate of borrowing costs was from 1 January to 31 October 2018 approximately 3,59 % p.a. and from 1 November to 31 December 2018 approximately 3,07 % p.a.

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

The Company holds insurance against damages caused by natural disasters up to EUR 332 777 thousand for buildings and up to amount of EUR 603 973 thousand for machinery, equipment, fixtures, fittings and other assets (2018: EUR 319,583 thousand and 570,064 thousand, respectively).

The property, plant and equipment disclosed in movement table above include optical lines and related technology leased out under operating leases. Rental income is presented in Note 25.

6 Property, Plant and Equipment (continued)

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

In thousands of EUR	**2019**	**2018**
Net book value of disposals	92	871
Loss on disposal of property, plant and equipment (Note 24)	259	(364)
Other non-cash movements	(24)	(9)
Proceeds from disposals	**327**	**498**

7 Intangible Assets

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

In thousands of EUR	**Goodwill**	**Software and similar assets**	**Assets not yet available for use**	**Total**
Cost at 1 January 2018	285	22,038	2,698	**25,021**
Accumulated depreciation and impairment losses	(214)	(17,603)	-	**(17,817)**
Carrying amount at 1 January 2018	**71**	**4,435**	**2,698**	**7,204**
Additions	-	-	5,203	**5,203**
Transfers	-	2,993	(2,993)	**-**
Amortisation charge	(71)	(2,568)	-	**(2,639)**
Cost at 31 December 2018	285	25,134	4,908	**30,327**
Accumulated depreciation and impairment losses	(285)	(20,274)	-	**(20,559)**
Carrying amount at 31 December 2018 and 1 January 2019	**-**	**4,860**	**4,908**	**9,768**
Additions	-	-	5,979	**5,979**
Transfers	-	5,337	(5,337)	**0**
Amortisation charge	-	(2,879)	-	**(2,879)**
Cost at 31 December 2019	-	29,167	5,550	**34,717**
Accumulated depreciation and impairment losses	-	(21,849)	-	**(21,849)**
Carrying amount at 31 December 2019	**-**	**7,318**	**5,550**	**12,868**

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

8 Right-of-use Assets and Lease Liabilities

The Company leases land, administrative buildings, power equipment and motor vehicles. Rental contracts are typically made for fixed periods of 2 to 20 years (for more details on lease term refer to Note 2) but may have extension options as described below. For assets where the contract is concluded for indefinite period, the useful life was determined based on estimated lease term.

Until 31 December 2018, leases of vehicles, administrative buildings, land and power equipment were classified as either finance leases or operating leases. From 1 January 2019, leases are recognised as a right-of-use assets and a corresponding lease liability from the date when the leased asset becomes available for use by the Company.

In thousands of EUR	Land	Buildings	Equipment (power)	Vehicles	Total
Carrying value at 1 January 2019	**58**	**60,195**	**17,232**	**5,579**	**83,064**
Additions	-	2	1,752	1,610	3,364
Disposals	-	8	-	(79)	(71)
Depreciation charge	(1)	(3,818)	(1,384)	(1,687)	(6,890)
Decrease in carrying value	(1)	(656)	-	(233)	(890)
Termination ot the lease	-	(54)	(949)	-	(1,003)
Carrying value at 31 December 2019	**56**	**55,677**	**16,651**	**5,190**	**77,574**

The Group recognised lease liabilities as follows:

In thousands of EUR	31 December 2019	1 January 2019
Short-term lease liabilities	7,212	6,899
Long-term lease liabilities	70,557	76,763
Total lease liabilities	**77,769**	**83,662**

Interest expense on lease liabilities included in finance costs of 2019 was 1,368 thousand EUR.

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

In thousands of EUR	2019
Expense relating to short-term leases	307
Expense relating to leases of low-value assets that are not shown above as short-term leases	1,256

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

Total cash outflows for leases were as follows:

V tisícoch EUR	2019
Short-term lease payments	307
Payments for leases of low-value assets other than short-term leases	1,256
Repayment of principal of lease liabilities	7,949
Interest costs on lease liabilities paid	1,368
Total cash outflows for leases in total	**10,880**

9 Borrowings

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

In thousands of EUR	**2019**	**2018**
Non-current		
Borrowings from Západoslovenská energetika, a.s.	630,000	630,000
Total non-current borrowings	**630,000**	**630,000**
Current		
Accrued interest payable within one year	8,534	4,875
Total current borrowings	**8,534**	**4,875**
Total borrowings	**638,534**	**634,875**

More details about received borrowings in 2019 are presented in the table below:

In thousands of EUR	**Principal**	**Nominal interest rate**	**Maturity date**
Borrowing 1	315,000	2,00% p.a.	2.3.2028
Borrowing 2	315,000	4,14% p.a.	1.10.2023
Total	**630,000**		

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

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

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

10 Inventories

In thousands of EUR	**2019**	**2018**
Materials and spare parts	618	652
Total inventories	**618**	**652**

The inventory items are shown after provision for slow-moving materials and spare parts of EUR 10 thousand (2018: EUR 98 thousand).

11 Trade and Other Receivables

In thousands of EUR	2019	2018
Trade receivables	37,216	12,824
Accrued distribution fees related to unbilled electricity net of advances from customers	13,290	31, 665
Less impairment provision for trade receivables	(6,108)	(6,308)
Trade receivables, net	**44,398**	**38,181**
Prepayments	1,757	1,198
Total trade and other receivables	**46,155**	**39,379**

Movements in the expected credit loss allowance for trade receivables are as follows:

In thousands of EUR	2019	2018
Provision for impairment at 1 January	**6,308**	**7,603**
Impairment loss expense (Note 24)	49	(207)
Amounts written off during the year as uncollectible	(249)	(1,088)
Provision for impairment at 31 December	**6,108**	**6,308**

Expected credit losses on trade receivables at the balance sheet date are analzsed as follows:

	31 December 2019				31 December 2018			
	Loss rate	Gross carrying amount	ECL	Net carrying amount	Loss rate	Gross carrying amount	ECL	Net carrying amount
Curent		43,709		43,709		37,262		37,262
Past due:								
- 1 to 30 days overdue	1.07%	601	6	44,304	0.01%	578	0	578
- 31 to 60 days overdue	27.40%	25	4	21	3.11%	153	18	135
- 61 to 90 days overdue	62.69%	6	6	-	3.92%	113	6	107
- 91 to 120 days overdue	42.28%	15	7	8	28.32%	52	32	20
- 121 to 180 days overdue	19.05%	42	8	34	25.00%	52	13	39
- 181 to 181 days overdue	55.92%	107	76	31	61.54%	72	32	40
- Over 360 days overdue	100.00%	6,001	6,001	-	84.72%	6,146	6,146	-
Trade receivables		**50,506**	**6,108**	**44,398**		**44,428**	**6,308**	**38,181**

Trade receivables are subject to the following credit enhancements at 31 December:

	At 31 December 2019		At 31 December 2018	
In thousands of EUR	Carrying value of trade receivables	Insured amount	Carrying value of trade receivables	Insured amount
Trade receivables covered by insurance	16,548	16,548	10,141	10,141
Unsecured trade receivables	27,850	-	28,040	-

12 Receivables from Cash Pooling

In thousands of EUR	2019	2018
Receivables from cash pooling	40,546	44,870
Total receivables from cash pooling	**40,546**	**44,870**

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

13 Cash and Cash Equivalents

In thousands of EUR	2019	2018
Current accounts with banks	4,813	3,877
Total cash and cash equivalents in the statement of financial position	**4,813**	**3,877**

The Company has a concentration of cash and cash equivalents balances towards three banks (2018: three 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 A3 by Moody's	4,797	3,857
Credit rating A2 by Moody's	16	20
Total cash and cash equivalents	**4,813**	**3,877**

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.

14 Share Capital

The Company's registered share capital consists of 10 shares with a nominal value of EUR 3,320 each and 1 share with a nominal value of EUR 33,193,919. The share capital totals of EUR 33,227 thousand. As at 31 December 2019 all the shares are owned by Západoslovenská energetika, a.s. Each share carries voting right equall to share nominal value.

The general meeting of the Company's shareholders approved the Company's prior year financial statements and declared dividends of EUR 57,257 thousand (2018: dividends of EUR 56,772 thousand). Slovak legislation identifies distributable reserves as retained earnings reported in the separate financial statements of the Company which amount to EUR 95,556 thousand (2018: EUR 81,214 thousand).

Dividend per share represents EUR 572 per share with the nominal value of EUR 3,320 (31 December 2018: EUR 567) and EUR 57,256 thousand per share with the nominal value of EUR 33,193 thousand (31 December 2018: EUR 56,715 thousand).

15 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 profit. This fund is not distributable and may only be used to increase share capital or to cover future losses.

16 Income Taxes

Income tax expense comprises the following:

In thousands of EUR	**2019**	**2018**
Current tax at standard rate of 21 % (2018: 21%)	17,336	18,482
Special levy on profits from regulated activities	4,701	4,986
Deferred tax	4,527	(1,107)
Income tax expense/(credit) for the year	**26,564**	**22,361**

In 2019, the applicable standard income tax rate was 21% (2018: 21%). The amount of the special levy of the regulated entity was calculated and paid in accordance with the applicable law in 2019, as follows: the basis of the levy is the Company's profit reported in the Company's financial statements multiplied by a coefficient calculated as the share of the revenue from the regulated activities in the total revenues. For 2019, the Company applied a coefficient of 0.72 (2018: 0.69). The amount of the monthly levy is calculated as the sum of the levy rate and the base of the levy. For 2019, the monthly levy rate was 0.00545. From 01.01.2020, the monthly rate of the levy will be 0,00545 and from 01.01.2021 the monthly rate will be 0.00363. The special levy is a deductible expense for the purpose of applying income tax due.

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

	2019	**2018**
Standard income tax rate for the year	21.000%	21.000%
Special levy rate	6.540%	8.712%
Effect of deductibility of special levy from standard rate*	(1.691)%	(2.381)%
Tax rate applicable on profits generated by regulated industry operations	**25.849%**	**27.331%**

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

The Company includes activities taxed at the standard tax rate of 21% (2018: 21%) or at the 25.849% (2018: 27.331%) rate applicable to regulated industry operations. The applicable tax rate of 24.492% (2018: 25.368%) is used in the below effective tax reconciliation and represents a weighted average of the tax rates for regulated and unregulated activities. The applicable tax rate changed compared to prior year due to changes in the special levy rate and in the mix of profits from regulated and unregulated industry operations.

16 Income Taxes (continued)

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	**106,132**	**87,416**
Theoretical tax charge at applicable tax rate of 24.492% (2018: 25.368%)	25,994	22,176
Non-deductible expenses /(non-taxable income) for which deferred tax was not recognised:		
- expenses not deductible for standard tax but deductible for special levy purposes	454	405
Effect on deferred taxes of extension of special levy for indefinite period	-	9
Other	116	(229)
Income tax expense for the period	**26,564**	**22,361**

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

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

In thousands of EUR	**2019**	**2018**
Differences between tax base and carrying value of property, plant and equipment	97,266	97,284
Post-employment defined benefit obligation and other long term employee benefits	(3,124)	(2,759)
Other liabilities	(3,693)	(8,432)
Provision for impairment of trade receivables	(24)	(187)
Other	(603)	(219)
Total net deferred tax liability, net	**89,823**	**85,685**

The movements in deferred taxes for temporary differences were recognised in profit or loss except for EUR 389 thousand (2018: EUR (229) thousand) for actuarial remeasurements of post-employment defined benefit obligation, which was recognised in other comprehensive income.

17 Post-Employment Defined Benefit Obligations

As agreed with the trade unions, the Company has a post-employment defined benefit obligation to pay one to seven monthly salaries to each employee upon retirement depending on the number 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	**7,352**	**7,622**
Current service cost	372	430
Interest cost	108	105
Past service costs due to changes in the defined benefit plan rules	-	-
Total expense (Note 23)	480	535
Actuarial remeasurements:		
- attributable to changes in financial assumptions	1,280	(884)
- attributable to changes in demographic assumptions	289	(718)
- attributable to experience adjustments	283	513
Total actuarial remeasurements recognised in other comprehensive income	1,852	(1,089)
Benefits paid during the year	(419)	(326)
Other changes	-	610
Present value of unfunded post-employment defined benefit obligations at the end of the year	**9,265**	**7,352**

The principal actuarial assumptions were as follows:

	2019	2018
Number of employees at 31 December	1,498	1,448
Staff turnover	4.87%p.a.	5.29% p.a.
Expected salary increases short-term	4.00%p.a.	4.00% p.a.
Expected salary increases long-term	2.00%p.a.	2.00% p.a.
Discount rate	0.70%p.a.	1.50% p.a.

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

18 Other Long Term Employee Benefits

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

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

19 Provisions for liabilities and charges

In thousands of EUR	2019	2018
Provisions for litigation	21,666	19,972
Total current provisions for liabilities and charges	**21,666**	**19,972**

As of 31 December 2019, the Company has recognized a provision for known and quantifiable risks relating to disputes with Company, that represent the best possible estimate of amounts that are more likely to by paid. Actual amounts of performance, if at all, are subject to a number of different circumstances that will occur in the future and the outcome of which is uncertain and therefore the amount of the reserve may change in the future. The increase in the provision for litigation represents an increased risk of legal action by the business partner due to a short-term outage caused by substation work attributed by the business partner to the conduct of the Company, which the Company considers to be unfounded. Of the above-mentioned provision, the amount of EUR 3 450 ths. was posted as decrease of revenue in 2018.

20 Contract Liabilities from Deferred Connection Fees and Customer Contribution

Contract liabilities to customers were as follows:

In thousands of EUR	31 December 2019	31 December 2018
Non-current		
Contract liabilities - customer contributions	16,388	14,515
Contract liabilities - connection fees	67,387	65,858
Total non-current contract liabilities	**83,775**	**80,373**
Current		
Contract liabilities - customer contributions	501	420
Contract liabilities - connection fees	5,292	4,945
Total current contract liabilities	**5,793**	**5,365**

Customer contributions are paid primarily for capital expenditures made on behalf of customers and include access network assets transferred to the Company by its customers free of charge. The contributions are non-refundable and are recognised as other operating income over the useful lives of the related assets. Connection fees are paid by customers to connect them to the electricity network. The fees are recognised as deferred income and are released to revenues over the useful lives of related assets of approximately 20 years. Movements in the contract liabilities to customers from connection fees and customer contributions were as follows:

	Non-current			**Current**		
In thousands of EUR	Customer contributions	Connection fees	**Total**	Customer contributions	Connection fees	**Total**
At 1. January 2018	**11,098**	**63,931**	**75,029**	**480**	**4,262**	**4,742**
Additions	3,829	6,872	10,701	-	-	-
Transfers	(412)	(4,945)	(5,357)	412	4,945	5,357
Recognised in revenues	-	-	-	(472)	(4,262)	(4,734)
At 31 December 2018	**14,515**	**65,858**	**80,373**	**420**	**4,945**	**5,365**
Additions	2,374	6,821	**9,195**	-	-	**-**
Transfers	(501)	(5,292)	**(5,793)**	501	5,292	**5,793**
Recognised in revenues	-	-	**-**	(420)	(4,945)	**(5,365)**
At 31 December 2019	**16,388**	**67,387**	**83,775**	**501**	**5,292**	**5,793**

20 Contract Liabilities from Deferred Connection Fees and Customer Contribution (continued)

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

	31 December 2019			31 December 2018		
V tisícoch EUR	Customer contribu-tions	Connection fees	**Total**	Customer contribu-tions	Connection fees	**Total**
At 31 December due as follows						
Short-term:						
within 12 months	501	5,292	**5,793**	420	4,945	**5,365**
Non-current:						
from 12 months to 5 years	1,409	21,845	**23,254**	46	20,293	**20,339**
After 5 years	14,979	45,542	**60,521**	14,469	45,565	**60,034**
Total non-current	16,388	67,387	**83,775**	14,515	65,858	**80,373**
Total at 31 December	**16,889**	**72,679**	**89,568**	**14,935**	**70,803**	**85,738**

21 Trade and Other Payables

In thousands of EUR	**2019**	**2018**
Trade payables	53,399	45,371
Other accrued liabilities	3,143	21,006
Payables from leasing	-	-
Other financial liabilities	1,863	521
Total financial instruments within trade and other payables	**58,405**	**66,898**
Employee benefits payable	2,069	1,852
Social security on employee benefits	1,716	1,603
Accrued staff costs	6,891	7,347
Advance payments	7,477	13,519
Value added tax payable	3,538	-
Other payables	5,265	4,066
Grants	4,584	-
Total trade and other payables	**89,945**	**95,285**

The maximum of a potential grant by the European Commission on the ACON project to support smart grid interconnection is EUR 46 million. The exact amount will only be known after preparation of technical documentation of all the project elements. The Company will recognise a government grant receivable against deferred income once it will have reasonable assurance that the grant will be received.

The Company had overdue trade payables of EUR 147 thousand (2018: EUR 276 thousand). None of the payables are overdue more than 30 days at 31 December 2019 and 2018.

22 Revenue

Revenue comprises the following:

In thousands of EUR	2019	2018
Distribution fees for electricity to industrial and other commercial customers	236,296	235,699
Distribution fees for electricity to residential customers	100,624	98,487
Tariff for system operation and system services – OKTE, a.s. a related party controlled by Slovak government	133,442	153,232
Revenues for reserved capacity	9,501	6,143
Total distribution fees	**479,863**	**493,561**
Revenues for connection work and testing fees	5,724	5,393
Other revenue	4,487	4,752
Total revenue	**490,074**	**503,706**

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

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

Timing of revenue recognition is as follows:

In thousands of EUR	2019	2018
At a point in time	5,724	5,393
Over time	484,350	498,313
Total revenue	**490,074**	**503,706**

23 Employee Benefits

In thousands of EUR	2019	2018
Wages and salaries	35,521	33,344
Defined contribution pension costs	6,587	6,510
Post-employment defined benefit plan expense (Note 17)	480	535
Other long-term employee benefit plans – current service and interest cost	134	129
Actuarial remeasurements of other long-term employee benefit plans	149	(199)
Other social costs	11,225	9,647
Total employee benefits expense	**54,096**	**49,966**

24 Other Operating Expenses

In thousands of EUR	**2019**	**2018**
Repairs and maintenance of energy equipment	3,903	3,318
Other repairs and maintenance	6,742	6,326
Administration of distribution equipment	9,164	9,489
Repairs of machinery and devices	1,096	1,163
IT services	11,556	12,860
Measuring of electricity consumption	1,083	966
Facility management	1,362	1,389
Finance services	3,610	3,962
Rental costs	-	10,190
Advisory services	916	571
Other services	831	8,211
Call centrum	757	1,012
Bad debt expense (Note 11)	49	(207)
Audit fee	92	101
Litigations	1,695	16,522
Expenses relating to leases of low-value assets	1,563	-
Total other operating expenses	**44,420**	**75,873**

25 Other Operating Income

In thousands of EUR	**2019**	**2018**
Operating lease income	996	1,044
Income from contractual penalties	115	86
Income from unauthorized consumption of electricity	231	249
Income from provided IT services	2,728	2,550
Other	721	242
Total other operating income	**4,791**	**4,171**

26 Interest and Similar Expense

In thousands of EUR	**2019**	**2018**
Interest expense on borrowings from the Parent company	19,341	21,791
Interest expense on leasing	1,368	-
Other interest expense	108	105
Less capitalised borrowings costs (Note 6)	(1,691)	(1,614)
Total interest and similar expense	**19,126**	**20,282**

27 Financial Risk Management

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

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

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

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

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

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

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

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

As for the banks and financial institutions, the Company has relationships only with those that have a high independent rating assessment. If wholesale customers are independently rated, these ratings are used. If no independent rating is available, Company assesses the credit quality of customer, taking into account its financial position, past experience and other factors. Except as disclosed in Note 11, as for trade receivables, the Company does not have a significant concentration of credit risk mainly due to a large number of diverse customers.

The Company uses a system of reminders, which may culminate in a service disconnection, as the prevailing contract enforcement. The collection of receivables could be influenced by economic factors; management believes that there is no significant risk of loss to the Company beyond the provisions already recorded. To reduce the risk of selected wholesalers, the Company uses insurance products. The credit quality of outstanding balances with banks is presented in Note 12 and credit quality information about trade receivables is included in Note 11.

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

27 Financial Risk Management (continued)

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

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

The table below analyses the Company's undiscounted amount of financial liabilities into relevant maturity groupings based on the remaining period to the contractual maturity date.

The maturity analysis is as follows at 31 December 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						
Borrowings – principal due	-	-	-	315,000	315,000	**630,000**
Borrowings – future interest payments	-	-	19,341	61,036	19,967	**100 344**
Trade payables (Note 21)	32,493	20,746	13	147	-	**53,399**
Other accrued liabilities (Note 21)	2,540	264	339	-	-	**3,143**
Other financial liabilities (Note 21)	1,863	-	-	-	-	**1,863**
Lease liabilities	615	1,203	6,391	37,385	42,945	**88,567**
Total future payments, including future principal and interest payments	**37,511**	**22,213**	**26,084**	**413,568**	**377,912**	**877,288**

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						
Borrowings – principal due	-	-	-	315,000	315,000	**630,000**
Borrowings – future interest payments	-	-	19,341	74,077	26,270	**119,688**
Trade payables (Note 21)	23,441	21,930	-	-	-	**45,371**
Other accrued liabilities (Note 21)	9,701	7,352	3,953	-	-	**21,006**
Other financial liabilities (Note 21)	521	-	-	-	-	**521**
Gross finance lease liability	-	-	1,546	1,858	-	**3,404**
Total future payments, including future principal and interest payments	**33,663**	**29,282**	**24,840**	**390,935**	**341,270**	**819,990**

28 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 206,736 thousand at 31 December 2019 (31 December 2018: EUR 185,888 thousand).

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

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

29 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 subject to master netting and similar arrangements not set off in the statement of financial position**		**Net amount of exposure**
				Financial instruments	**Cash collateral received**	
In thousands of EUR	**(a))((a**	**(b)**	**(c) = (a) - (b)**	**(d)**	**(e)**	**(c) - (d) - (e)**
Assets						
Cash pooling	40,546	-	40,546	40,546	-	-
Total assets subject to offsetting, master netting and similar arrangement	**40,546**	**-**	**40,546**	**40,546**	**-**	**-**
Liabilities						
Borrowings	638,534	-	638,534	40,546	-	597,988
Total liabilities subject to possible offsetting, master netting and similar arrangement	**638,534**	**-**	**638,534**	**40,546**	**-**	**597,988**

29 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:

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

30 Reconciliation of movements in liabilities from financing activities

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

In thousands of EUR	Borrowings	Lease liabilities (2018: finance lease liabilities)	Total liabilities from financing activities
At 1 January 2018	**634,833**	**2,978**	**637,811**
Non-cash changes:			
Additions to leases (Note 8)	-	1,940	1,940
Interest expense (Note 26)	(21,791)	-	(21,791)
Payments			
Interest paid	(21,749)	-	(21,749)
Principal repaid	-	-1,514	(1,514)
At 31 December 2018	**634, 875**	**3,404**	**638,279**
Non-cash changes:			
Initial application of IFRS 16, *Leases* (Note 3)	-	80,258	80,258
Additions to leases (Note 8)	-	3,364	3,364
Termination of leases and other changes	-	(1,308)	(1,308)
Interest expense (Note 26)	19,341	1,368	20,709
Payments			
Interest paid	(15,682)	(1,368)	(17,050)
Principal repaid (Note 8)	-	(7,949)	(7,949)
At 31 December 2019	**638,534**	**77,769**	**716,303**

31 Fair Value Disclosures

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

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

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

	31 December 2019		**31 December 2018**	
In thousands of EUR	**Level 2 fair value**	**Carrying value**	**Level 2 fair value**	**Carrying value**
Assets				
Trade receivables, net (Note 11)	37,684	37,684	38,181	38,181
Cash and cash equivalents (Note 13)	4,813	4,813	3,877	3,877
Receivables from cash pooling (Note 12)	40,546	40,546	44,870	44,870
Total assets	**83,043**	**83,043**	**86,928**	**86,928**
Liabilities				
Borrowings (Note 9)	638,534	638,534	675,732	634,875
Trade payables (Note 21)	53,399	53,399	45,371	45,371
Other accrued liabilities (Note 21)	7,727	7,727	21,006	21,006
Other financial liabilities (Note 21)	1,863	1,863	521	521
Liabilities from finance leasing	77,767	77,767	3,404	3,404
Total liabilities	**779,290**	**779,290**	**746,034**	**705,177**

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

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

32 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 of the entity's financial liabilities are carried at amortised cost.

33 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, but in certain cases the tax authorities may also challenge tax positions taken in earlier periods.

Legal proceedings. From time to time and in the normal course of business, claims against the Company may be received. Certain customers or their representatives contest fairness and appropriateness of decisions of the network industry regulator. These circumstances have led to the Company having created a provision for the impact of litigation (Note 19).

Capital expenditure commitments. At 31 December 2019, the Company had outstanding contractual commitments for purchases of property, plant and equipment of EUR 16,127 thousand (2018: EUR 4,587 thousand). Outstanding contractual commitments for purchases of intangible assets were EUR 2,311 thousand (2018: EUR 1,541 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	7,617
Later than one year and no later than five years	25,152
Later than five years	49,598
Total	**82,279**

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 8,939 thousand at 31 December 2018.

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

34 Balances and Transactions with Related Parties

The primary related parties of the Company are (a) its shareholders which have joint control over the Company as explained in Notes 1 and 14: (i) the Slovak Government and (ii) E.ON, as well as (b) key management personnel. The Company applies the exemption from disclosing transactions with the Slovak government and entities over which it has control, joint control or significant influence. The exemption does not apply to individually significant transactions, such as taxes incurred and paid, purchases of electricity from an entity in which the Slovak government has a significant shareholding and other transactions presented below.

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

In thousands of EUR	**Parent company**	**E.ON Group****	**Slovak government***	**Entities under common control of the Parent company**
Revenue	1,763	2	202,072	193,012
Purchases and expenses	38,155	5,848	72,056	24,410
Receivables other than taxes	41,465	-	7,456	30,208
Payables other than taxes	700,793	2,626	11,529	4,597
Dividends declared and paid	57,257	-	-	-

* 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.

34 Balances and Transactions with Related Parties (continued)

Income taxes are disclosed in the statement of financial position, statement of profit or loss and other comprehensive income, in the statement of cash flows and are also analysed in Note 16. Outstanding value added tax payable is presented in Note 21.

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 16	17,336	18,482
Special levy on profits from regulated activities (Note 16)	4,701	4,986
Impaired bug fixes from previous years (Note 2)	-	110
Income tax refund (receivable)/payable at the beginning of the reporting period	2,778	(4,445)
Income tax refund payable at the end of the reporting period	(187)	2,778
Income tax paid	**(19,072)**	**(30,801)**

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

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

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

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

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

In thousands of EUR	2019	2018
Board of directors and other key management personnel		
Salaries and other short-term employee benefits	855	608
Defined contribution pension costs	84	77
Total remuneration of board of directors and other key management personnel	**938**	**685**
Supervisory board		
Salaries and other short-term employee benefits	132	126
Defined contribution pension costs	19	18
Total remuneration of supervisory board	**151**	**144**

34 Balances and Transactions with Related Parties (continued)

The entity acquired part of its Parent company's business comprising the following assets and liabilities. The transaction was completed on 1 January 2018:

In thousands of EUR	**1 January 2018**
Property, plant and equipment	5,246
Intangible assets	18
Other current assets	177
Trade and other receivables	3,217
Trade and other payables	(528)
Post-employment defined benefit obligations	(204)
Predecessor entity carrying values of net assets acquired	**7,926**
Distribution to the Parent entity recognised in equity for the difference between acquisition price and acquired net assets	1,976
Purchase price paid	**9,902**

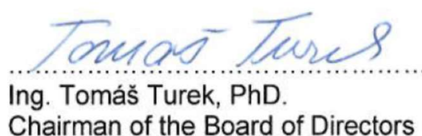
35 Events after the End of the Reporting Period

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

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 financial statements.

Management authorised these financial statements for issue 25 March 2020:



Ing. Tomáš Turek, PhD.
Chairman of the Board of Directors

Ing. Marian Kapec
Member of the Board of Directors