ZSE Energia, 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.

ZSE Energia, a.s.

Annual Report for 2019

Content:

01. Introduction of ZSE Energia, a.s.

Foreword by the Chairman of the Board of Directors

The development of the energy market in 2019 clearly showed that we undergo the so-called “transition period” where traditional energy business gets ready for a new design. The change will affect all market players, starting from energy producers and distributors to services providers or consumers themselves. Its aim is to strengthen the responsibility of customers, develop renewable sources and decentralised production. We are profoundly convinced that issues such as climate, energy independence and responsibility is not only the question of attractive trend but the necessity, and we therefore prepare solutions which reflect on this change.

Speaking about economic results, year 2019 was highly successful. ZSE Energia has been in the best financial condition in most major markets and economic indicators since 2012 when the liberalisation of the energy market started. We continued in expanding our customer base and the supply of volume of both commodities. We managed to keep the position of the biggest electricity supplier and we rank third in gas retail market.

Reaching one million customers is an important milestone which proves our customer orientation.

Currently wining and sustaining new customers is, in fact, more difficult than it used to be many years ago. The region of West Slovakia experiences economic boom which is connected to the growing construction and increasing volume of supplied electricity. It also means, however, that fight for new contracts is rather fierce in this region, and the customer is more demanding when it comes to quality and level of service. We must therefore keep on strengthening our customer care and bring solutions which would truly distinguish us from competitors. Online services are one of our priorities. More than a half of our customers benefit from our online customer zone and up to 20% of all service operations are handled online. We also strengthen our traditional service channels. We have the largest network of customer centres where we offer not only products but energy advisory services too. In 2019, we opened our eighth ZSE Centre in the shopping mall Avion in Bratislava.

Our portfolio includes also value-added services through which we get ready for climate change in the energy sector. After we had presented energy production from renewable sources some years ago, we introduced an innovation - a battery for energy storage. We offer two products: physical and virtual battery; the virtual battery is something completely new on the Slovak market. This significantly increases the possibility for the customer to consume the electricity generated from his own solution..

The current price of photovoltaic facilities causes that they are affordable only for a certain group of customers. That´s why we started offering photovoltaic solutions for monthly payments. Those consumers who are not able to produce their own energy can use of the so-called “green energy”. For a small amount of money, the customer gets from us a certificate, guaranteeing that energy supplied to their household is fully produced from renewable sources. We know that energy as such is a one of the major polluters of the planet, but unlike other sectors such as petrochemical industry, we are able to gradually change our effect on the environment and significantly reduce our negative impacts. The new product is one of our contribution to this discourse, we e offer the customer a possibility of developing green sources and support a new system which should encourage the use of renewable sources and lead to higher investments.

The system is based on the purchase of renewable electricity guarantees of origin. They are issued for power plants which produce energy from renewable sources and do not get any other subsidy. We buy guarantees of origin also for the charging stations ZSE Drive, which means that all e-vehicles charged in these stations use only green energy.

With the aim of supporting e-mobility in Slovakia, ZSE offers a 30% discount on electricity supply in low tariff for households which charge their e-car at home.

ZSE is active on the HVAC market too (heating, ventilation, air-conditioning). We believe that our entry on this market started its consolidation. The sales achieved this year gives us hope for getting a strong, long-term position on the market in the next years.

We are active in brining innovative energy storage technologies. In 2019, we submitted the ELSEA project to the 10-year plan of the network development of ENTSO-E (European Network of Transmission System Operators). The aim of this project is to develop a high-capacity battery storage site on the territory of Slovakia, which could be used in neighbouring countries too. If the process of getting all approvals goes well, the project will be largely co-financed through EU funds.

Year 2019 brought many changes in the legislation too. The most important elements are the creation of central buyer for renewable energy and the system of auctions for renewable energy support. Also, they were discussions about the implementation of the Winter Energy Package in our laws. In our view, the Directive on common rules for the internal market for electricity plays a key role, since it defines new market players, such as active customer, aggregator or citizen energy community. The aim of the introduction of new market players is to create conditions for customers so that they can be stronger and more responsible in satisfying their energy needs.

In general, year 2019 is a success in terms of business, for which I would like to thank all my colleagues, business partners and loyal customers. We wish to be an active partner in creating energy market through innovative solutions and play an important role in this dynamic business.

Juraj Krajcár, chairman of the Board of Directors of ZSE Energia

Company Bodies

The structure of statutory and supervisory bodies of ZSE Energia, a.s. (hereinafter the “Company”) in 2019 was as follows:

Statutory Body

Board of Directors	
As at 31 December 2019	
Chairman	Mgr. Juraj Krajcár (start of office on 12 June 2016)
Vice-Chairman	Ing. Rastislav Jamrich (start of office on 18 September 2017)
Members	
	Ing. Mgr. Juraj Bayer, PhD. (start of office on 1 July 2017)
	PhDr. Michal Dubeň (start of office on 19 April 2017)
	Ing. Dušan Petrík (start of office on 18 September 2017)

Supervisory Body

Supervisory Board	
As at 31 December 2019	
Chairman	Ing. Ladislav Ješík (start of office as a Member on 18 September 2017, elected the Chairman on 3 Október 2017)
Vice-Chairman	Jochen Kley (start of office on 1 July 2016 and end of office on 1 July 2019) Mgr. Lucia Macaláková (start of office on 1 July 2019; elected the Vice-Chairman on 9 October 2019)
Members	Mgr. Tomáš Pavlíček (start of office on 19 June 2018)
	Ing. Martin Pleva (start of office on 19 June 2018)
	Mgr. Helena Halászová (start of office on 19 June 2018)
	Ing. Peter Hanulík (start of office on 18 September 2017)
	Ing. Andrea Schlettová (start of Office on 16 November 2016; end of office on 28 November 2019) Ing. Andrea Schlettová (start of Office on 29 November 2019)
	JUDr. Rastislav Hubač (start of Office on 16 November 2016; end of Office on 28 November 2019) JUDr. Rastislav Hubač (start of Office on 29 November 2019)
	Ing. Branislav Jurík (start of Office 29 November 2019)

The shareholders’ structure as at 31 December 2019 was as follows:

Shareholders’ Structure			
As at 31 December 2019	Absolute amount in €	Equity share in the share capital	Voting rights
Západoslovenská energetika, a.s.	6,638,784	100%	100%

Scope of Business

Information on the Company and Its Scope of Business

ZSE Energia, a.s. was established on 18 August 2006 and incorporated in the Commercial Register on 22 September 2006. The Company is registered with the Commercial Register of the Bratislava I District Court, Section: Sa, File No.: 3978/B. The Company started to perform its core activity (electricity supply) on 1 July 2007.

At the end of 2011, the Company launched the provision of gas supplies to large industrial companies and in April 2012 also to small and medium-sized companies and households.

The Company together with ZSE Energia CZ, s.r.o., Západoslovenská energetika, a.s., Západoslovenská distribučná, a.s., ZSE Elektrárne, s.r.o., ZSE Energy Solutions, s.r.o., ZSE Development s.r.o., ZSE MVE, s.r.o., and ZSE Business Services, s.r.o., ZSE Energetické služby, s.r.o. form the ZSE Group.

The company also has the branch office in the Czech Republic.

The Company's Principal Scope of Business is electricity and gas supply.

The company has no costs of research and development activities.
The Company did not acquire any of its own shares, interim certificates, shares or interim certificates and shares of the parent entity.

Risks and Uncertainties

The core business activity of ZSE Energia, a.s. is electricity and gas supply to end consumers. In relation to energy supply business, ZSE Energia, a.s. is exposed to several risks – especially credit and price commodity risk.

Credit risk
Credit risk is related to the liquidity risk of the company‘s business partners, in particular the electricity and gas consumers. The company has an internal credit risk assessment process, which involves assigning an individual credit rating to its customers based on a combination of independent financial information and their payment discipline. ZSE Energia, a.s. actively uses insurance of receivables, as an additional risk management tool.

Market risk
Market risk is caused by changes of market variables as a result of commodity market supply and demand development. It takes a form of energy price fluctuations and economic environment dynamics. Price fluctuations can have impact on the closing price of the open position of the company. The company applies a conservative approach to managing commodity business by maintaining a limited open position and through back-to-back commodity buying (at the moment of the sales volume contracting).

COVID- 19 We have adopted several measures aimed at protecting our employees from contracting the infection and minimising its spreading in the Company ZSE Energia. 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:

ZSE Energia shut down all its customer centres. Customer requests were managed either via the customer hotline, or via E-mail at kontakt@zse.sk. Customers were recommended to open a personal online account. All business activities in the field were suspended.

Financial impacts of this risk can not be currently estimated.

Significant events that occurred after the end of 2019 and require disclosure in the annual report.

Due to the change in legislation 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 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 the end of 2019, no other events occurred that would have an impact on the financial statements or annual report for the year ended 31 December 2019.

02 Economy

Structure of Electricity and Natural Gas Sources and Use

Indicators		
as at 31 December	2019	2018 (restated)
Revenues from the sale of gas (€ thousand)*	106,228	94,449
Volume of gas supplied (GWh)	2,756	2,723
Number of supply points	72,379	69,945

* based on a contract on combined gas supply

Structure of Electricity Supplies				
as at 31 December	2019	Share (%)	2018	Share (%)
Volume of electricity supplied including losses (GWh)	6,374	100%	6,555	100%
of which: supplies to households (GWh)	1,999	31%	1,943	30%
of which: supplies excluding households (GWh)	4,375	69%	4,612	70%

Indicators		
as at 31 December	2019	2018 (restated)
Revenues from the sale of electricity (€ thousand)*	905,250	753,534
Volume of electricity supplied including losses (GWh)	6,374	6,555
Volume of electricity purchased/external sources (GWh)	6,374	6,555
Volume of electricity generated/own sources (GWh)	0	0
Number of supply points	931,836	923,545

* based on a contract on combined electricity supply

Useful electricity supply (GWh)	
2019	6,374
2018	6,555

Key Indicators

In 2019, ZSE Energia, a.s. generated a profit of € 18,567 thousand, with sales totaling € 1,018,550 thousand and expenses totaling € 996,069 thousand.

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

Key Figures about the Company as at 31 December		
€ thousand	2019	2018 (restated)
Non-current assets	16,874	8,464
Current assets	208,640	160,569
Total assets	225,514	169,033
Equity	45,268	41,438
Non-current liabilities	9,571	922
Current liabilities	170,675	126,673
Total equity and liabilities	225,514	169,033
Sales	1,018,550	852,764
EBIT (profit from operating activities)	24,712	20,057
EBITDA	26,453	21,817
Revenues	1,020,621	855,184
Expenses	996,069	835,122
Profit before tax	24,552	20,062
Net profit	18,567	14,797
Average number of employees	272	261

Distribution of the 2018 Profit

The Company's sole shareholder acting in the authority of the General Meeting approved in its decision from 21 June 2019 the distribution of the 2018 accounting profit amounting to € 14,797 thousand and the pay-out of dividends in the amount of € 14,517 thousand.

Trade Receivables and Trade Payables

Trade Receivables and Trade Payables		
€ thousand	2019	2018 (restated)
Trade and other receivables	145,334	137,302
of which: overdue	19,642	19,739
Trade and other payables	164,947	126,673
of which: overdue	15	414

Proposal for Distribution of ZSE Energia's 2019 Profit

Proposal for Distribution of ZSE Energia's 2019 Profit	
submitted to the Board of Directors of ZSE Energia on 25 March 2020	€ thousand
Profit/loss for the year	**18,567**
Profit/loss to be distributed	18,567
Contribution to the social fund	263
Dividends	18,304
Total distribution of profit	**18,567**

03 Human Resources

In 2019 ZSE Energia had 272.3 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 41.8 years.

Share of women/men – women 59%, men 41%.

Education – University education 53.5%; Secondary vocational education with school-leaving examination 44.7%; Vocational education 1.1%, basic education 0.7%.

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.

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.

Education:
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.

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 was introduced, in which every employee driving a company car took part. ZSE Energia spent EUR 9,895 on personal and protective equipment and tools, obligatory OSH trainings 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.

In 2019, at ZSE Energia, a.s. one registered occupational accident was recorded..

Within the supervisory audit in 2019, the ZSE Energia showed improvement of the established System of Integrated Management (SIM) and managed to keep International certificates ISO 9001, 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 9001, ISO 14001 and ISO 45 001 standards, applicable laws and achieves continuous improvement. The audit led to recommendations of the certification agency to continue with the certification.

05 Environment

ZSE Energia, a.s. provides customers with services that support natural resource conservation solutions and use renewable energy. For several years, ZSE Energia has been offering photovoltaic solutions with batteries for storing the energy, intended for customers who want not only to use electricity from renewable sources, but also to produce it themselves. The company offered also new product - Green Electricity. Customer gain a green certificate guaranteeing that the electricity supplied to his home is 100% covered by renewable sources.

ZSE online account brought about many positive changes from the perspective of environment. In activating an on-line account, the Company encouraged its customers to use e-invoice and e-payment and, to set-up the account for receiving overpayments. An important environmental aspect of the online account is the possibility of ordering services without any paper documents. Other products aimed at increasing energy efficiency include the service of energy certification, energy audit and with a comprehensive proposal of energy saving measures.

ZSE Energia is an overseer of the portal www.setri.sk, which contributes to the support of environmental public awareness.

06 Products and Services

Electricity and gas

Customers in the regulated segment experienced slightly higher prices of electricity as in 2018. Likewise in non-regulated segment, prices went up year-on-year as a result of the rise of electricity price on energy exchange. Non-regulated customers in the corporate segment negotiated prices individually.

In addition, customers could order a free-of-charge non-stop emergency service **Elektrina so zárukou** (Electricity with Benefits) as a part of which electricity failure or breakdowns are removed free-of-charge up to EUR 150. This service was in 2019 used by more than 302,000 customers. The Elektrina so zárukou product also includes the repair of a sparking outlet, broken switch or burnt circuit breaker.

The **Plyn so zárukou** (Gas with Benefits) service also offers a non-stop emergency service and repair of a gas boiler or dripping radiator for free up to EUR 150. This service was used by more than 61,000 customers. The Elektrina so zárukou and Plyn so zárukou services saved more than EUR 277,000 to our customers in total.

Additional services and Value-added services

The most popular additional service in 2019 was **ZSE Asistuje Plus** (ZSE Assists Plus). It is a complete emergency service when the Company ensures removal of electricity, gas, water and heating breakdown within a two of hours. Customers do not pay for repairs of appliances (white and brown goods) including spare parts or a broken window. The number of individual payments per year is not limited and the payment limit is EUR 200 per repair. More than 122,000 satisfied customers used this service.

The **ZSE Zdravie** (ZSE Health) healthcare service, which was used by more than 40,000 customers, includes a family doctor on the phone 24 hours a day and above-standard services in case of hospitalisation up to EUR 200. This service includes, for example, accommodation for a parent with a hospitalised child, payment for hospital stay, a service that will accompany patients to doctors and other.

The **ZSE IT Pomoc** (ZSE IT Assistance) service helps customers install software in computer via remote access, ensures telephone assistance for setting-up a cell phone or brown goods, or recovers data from a broken data carrier which a technician picks up directly from the customer. Benefits of ZSE Asistuje Plus, ZSE Zdravie and ZSE IT Pomoc services can be used in one package **ZSE Balík Domov** (ZSE Package Home).

Furthermore, our product portfolio includes **ZSE Balík Domov 2** (ZSE Package Home 2), which, in addition to ZSE Asistuje Plus, offers extended service of ZSE Zdravie plus. In addition to standard service ZSE Zdravie, this service includes a unique service Diagnose.me, i.e. the possibility of asking for a second medical opinion and consulting a diagnose with international medical experts.

More demanding customers could use **ZSE Balík Domov Komplet** (ZSE Package Home Complete) which is getting very popular now. It is a combination of ZSE Asistuje Plus, ZSE Zdravie Plus and ZSE IT Pomoc.

The Poistenie domácností (Household Insurance) service also is becoming a popular service. It is comprehensive insurance of household and liability for damage, without co-insurance and terms, and with the insurance benefits to be paid within 15 days after the insured event end.

As part of the **ZSE Poistenie platieb** (ZSE Payments Insurance) service the customers get insurance of regular monthly payments in case of sick-leave, insurance of assistance services in case of rehabilitation, spa treatment or insurance in case of hospitalisation as a result of an injury. So far, more than 8,000 customers have subscribed to this service.

Complete solutions for households

ZSE Fotovolt is ideal when a customer wishes to produce electricity for his own consumption, save on energy and be friendly to environment. In 2019, we introduced a unique service Virtual Battery thanks to which customers can temporarily store their energy in ZSE and we will return it to them when they need it. So far, we have installed almost 430 ZSE Fotovolt systems to its customers.

Furthermore, smart solutions for households in 2019 include **ZSE Solar**. This solution using solar collectors is able to save on water heating costs up to 70% annually. Energy obtained in the form of heated water can be used for customer´s own consumption - washing, heating or for swimming pool. Solar collectors from ZSE have a life-cycle up to 30 years and a warranty of up to 12 years. So far, the Company installed more than 500 ZSE Solar systems to its customers.

After we had launched the sale of air-conditioning in 2018, this product line became one of the key initiatives in the following year. More than 6,000 households expressed their initial interest in the air-conditioning systems from ZSE in 2019; more than 2,000 contracts were signed, and we installed more than 1,300 air-conditioning systems. ZSE as the only company on the market provides the air-conditioning product as a service ZSE Klima Bezstarosti (Carefree Air Conditioning), as a part of which customers could get Japanese cutting-edge air-conditioning system including transport and installation only for EUR 35 per month, and 20% lower electricity price in July and August, when electricity consumption is higher, lifetime service and extended warranty over the length of service use. In practice it means that ZSE guarantees the functionality of the air-conditioning system over the entire time of its use, and if the system breaks down and cannot be repaired on the spot, it is replaced for a new one.

Businesses

Electricity / gas commodities

The **E.Benefit** (E.Benefit) offer was designed for segment of regulated customers with the annual electricity consumption of up to 30 MWh at all supply points and unregulated customers with the annual electricity consumptions from 0 to 250 MWh or over 250 MWh, unless the customer has more than 50 supply points. With the E.Benefit product the customer got a percentage discount on a current pricelist for 12 months with the repeated automatic prolongation.

The **Plyn Výhoda** (GasBenefit) product was designed for segment of unregulated customers with the valid contract with tariff products. Customers get percentage discount on a current pricelist depending on their consumption and a term they choose (12, 24 or 36 months). The longer the period, the higher the discount.

The **Firma Komfort Plyn Plus** (BusinessComfortGasPlus) product offers an attractive low price of the commodity not only for gas supply but also for complete multiple gas services, especially in comparison with prices offered by the dominant gas supplier on the gas market in Slovakia**.** The product is for unregulated consumers (businesses, entrepreneurs and institutions) with one or more supply points, where consumption at all supply points does not exceed 641,400 MWh in 12 consecutive calendar months and, at the same time, every supply point meets conditions of the “Retail” category.

Additional Services
Among additional services, the **ZSE Asistuje Firma** (ZSE Assists Business) product was offered to businesses. It is an additional product to electricity or gas supply provided to our customers for free. The product includes: insurance of legal protection and tax assistance with the financial coverage of up to EUR 1,500 per year of insurance, especially for tax and legal purposes; IT support, recovery of data from damaged carriers up to EUR 1,500 and assistance for technology devices; assistance in case of emergencies and repairs (costs of intervention is fully paid by the insured) and personal assistance (costs of the ordered services is fully paid by the insured).

Corporate customers could benefit from **SMART meters.** A manual meter-reading is not needed any longer because data are sent to the distribution company automatically via smart meters, recording the customer´s consumption. The customer has a detailed overview of his consumption over the day thanks to which he can optimise his energy costs, e.g. by shifting a part of consumption to a lower, cheaper tariff. A part of ZSE care for corporate customers were advisory services, e.g. correct setting of reserve capacity, maximum reserve capacity or adherence to power factor.

Big corporate customers could benefit from the **ZSE Chráni (ZSE Protects) product** within which the Company offered UPS devices (uninterruptible power supply), **ZSE Lokálny zdroj** (ZSE Local Source) - a spare energy source and ZSE Optimalizuje (ZSE Optimizes) - compensation units; metering and regulation; external energy adviser).

Online account

Households / Businesses
In the end of 2019, the online account was used by more than 295,000 customers. By activating the supply point in the online account, the customer gets an overview of his consumption, payments and bills which can be immediately paid by the payment gateway. The customer can even activate e-invoice online, change his contact data, the amount of advance payment or payment methods, or set up the account for receiving overpayments. In the online account the customer can change gas supplier, change the owner of the supply point to other consumer or can make a free-of-charge consumption analysis which would recommend an optimum electricity tariff. Security of all active operations by the customers is ensured through a text message sent to the customer´s telephone.

Corporate customers can use functionalities such as mass download of bills in the XML or XLS formats, possibility of creating their own views or filter bills by their own criteria. Another new functionality is a possibility of searching for a bill by its number or extended possibilities of filtering by date of creation, due date or payment method.
The online account has important environmental dimension since the customer does not get any papers to sign when he wishes to change or order something and all changes are made automatically and online.

ZSE at Magio pláž
Magio pláž (Magio beach) has been one of the key events of summer seasons in Bratislava for more than 15 years. In 2019, it presented a brand new “zero-waste” concept focusing on environment-friendly and sustainable approach. As a part of its long-term strategy for efficient energy use, ZSE became one of the key partners of Magio pláž 2019. We installed a functional photovoltaic solution that supplied electricity, solar collectors for water heating in showers. In co-working rooms we installed energy-saving air-conditioning systems. During the whole summer we organised educational activities for children focusing on environmental education in an entertaining way.

07 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 also supported by the ZSE Group through the new grant program **Extraordinary Schools**. 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 140 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.
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.

ZSE Energia, a.s.

Financial Statements and Independent Auditor's Report

31 December 2019

March 2020

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Independent Auditor's Report

To the Shareholder, Supervisory Board, and Board of Directors of ZSE Energia, a.s.:

Our opinion

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

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

PricewaterhouseCoopers Slovensko, s.r.o.	Mgr. Juraj Tučný, FCCA
SKAU licence No. 161	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		78	98	34
Intangible assets	6	5,070	5,507	5,613
Investments		13	13	13
Right-of-use assets	7	9,143	-	-
Deffered income tax	14	2,570	2,846	7,318
Total non-current assets		**16,874**	**8,464**	**12,978**
Current assets				
Inventories	7	12,842	10,896	9,946
Loans provided		202	200	200
Trade and other receivables	9	145,334	137,302	119,955
Currrent Income tax refund receivable		-	3,063	-
Receivables from cash pooling	10	43,392	6,587	13,475
Cash and cash equivalents	11	6,870	2,521	1,749
Total current assets		**208 640**	**160 569**	**145,325**
TOTAL ASSETS		**225 514**	**169 033**	**158,303**
EQUITY				
Share capital	12	6,639	6,639	6,639
Legal reserve fund	13	1,331	1,331	1,331
Retained earnings		37,298	33,468	26,281
TOTAL EQUITY		**45,268**	**41,438**	**34,251**
LIABILITIES				
Non-current liabilities				
Post-employment defined benefit obligations	15	1,048	708	639
Other long term employee benefits	16	246	214	164
Lease liabilities		8,277	-	-
Total non-current liabilities		**9,571**	**922**	**803**
Current liabilities				
Trade and other payables	17	164,947	126,673	120,391
Lease liabilities		866	-	-
Current income tax liabilities		4,862	-	2,858
Total current liabilities		**170,675**	**126,673**	**123,249**
TOTAL LIABILITIES		**180,246**	**127,595**	**124,052**
TOTAL LIABILITIES AND EQUITY		**225,514**	**169,033**	**158,303**

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

Mgr. Juraj Krajcár
Chairman of the Board of Directors

Ing. Mgr. Juraj Bayer, PhD.
Member of the Board of Directors

In thousands of EUR	**Note**	**2019**	**2018 (restated)***
Revenue from electricity and other revenue	18	**912,322**	**758,315**
Revenue from natural gas		**106,228**	**94,449**
Purchases of electricity and related fees	19	(864,472)	(718,719)
Natural gas purchased		(102,287)	(88,381)
Employee benefits	20	(11,270)	(10,258)
Other operating expenses	21	(15,252)	(15,994)
Depreciation and amortization	6	(1,741)	(1,760)
Deprecation of right-of-use assets	7	(866)	-
Other operating income		2,050	2,405
Profit from operations		**24,712**	**20,057**
Finance income/(costs)			
Interest income		21	15
Interest and similar expense		(181)	(10)
Finance costs, net		**(160)**	**5**
Profit before tax		**24,552**	**20,062**
Income tax expense	14	(5,985)	(5,265)
Profit for the year		**18,567**	**14,797**
Other comprehensive income			
Items that will not be subsequently reclassified to profit or loss			
Actuarial remeasurements of post-employment defined benefit obligations	15	(279)	178
Deferred tax on actuarial remeasurements of post-employment defined benefit obligations	14	59	(37)
Total other comprehensive income for the year		**(220)**	**141**
Total comprehensive income for the year		**18,347**	**14,938**

* Note 2 on page 15.

In thousands of EUR	**Share capital**	**Legal reserve fund**	**Retained earnings**	**Total equity**
Balance at 1 January 2018	**6,639**	**1,331**	**12,794**	**20,764**
Correction of prior period errors (Note 2)	-	-	13,487	**13,487**
Balance at 1 January 2018 (restated)	**6,639**	**1,331**	**26,281**	**34,251**
Change in accounting policies (adoption of IFRS 15)			711	711
Profit for the year	-	-	14,797	**14,797**
Other comprehensive income for the year	-	-	141	**141**
Total comprehensive income for 2018	**-**	**-**	**14,938**	**14,938**
Dividends declared and paid (Note 12)	-	-	(9,530)	**(9,530)**
Balance at 31 December 2018	**6,639**	**1,331**	**32,400**	**40,370**
Other changes	-	-	1,068	**1,068**
Balance at 31 December 2018 (restated)	**6,639**	**1,331**	**33,468**	**41,438**
Profit for the year	-	-	18,567	**18,567**
Other comprehensive expense for the year	-		(220)	**(220)**
Total comprehensive income for 2019	**-**	**-**	**18,347**	**18,347**
Dividends declared and paid (Note 12)	-	-	(14,517)	**(14,517)**
Balance at 31 December 2019	**6,639**	**1,331**	**37,298**	**45,268**

In thousands of EUR	Note	2019	2018 (restated)
Cash flows from operating activities			
Profit before tax		24,552	20,062
Adjustments for non-cash items:			
- Depreciation of property, plant and equipment		1,741	1,760
- Depreciation of right to use an asset		866	-
- Contract assets - external dealers' commissions in terms of IFRS 15		(814)	(293)
- Interest income		(21)	(15)
- Interest and similar expense		181	10
- Other items		(2)	2
Cash generated from operations before changes in working capital		26,503	21,526
Changes in working capital:			
- Inventories		(1,946)	(950)
- Trade and other receivables		(7,218)	(21,347)
- Receivables from cash pooling		(36,805)	6,888
- Trade and other payables		37,981	12,594
- Provisions for liabilities and deferred income		83	286
- Other changes		(99)	-
Cash generated from operations before interest and taxes		**18,499**	**18,997**
Interest income received		21	15
Income tax (paid) / refund	27	2,275	(7,087)
Interest paid		(171)	-
Net cash from operating activities		**20,624**	**11,925**
Cash flows from investing activities			
Purchase of property and equipment and intangibles		(991)	(1,623)
Net cash use in investing activities		**(991)**	**(1,623)**
Cash flows from financing activities			
Dividends paid	12	(14,517)	(9,530)
Repayment of principal element of lease liabilities	25	(767)	-
Net cash used in financing activities		**(15,284)**	**(9,530)**
Net change in cash and cash equivalents		**4,349**	**772**
Cash and cash equivalents at the beginning of the year		2,521	1,749
Cash and cash equivalents at the end of the year	11	**6,870**	**2,521**

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 ZSE Energia, a.s. (hereinafter "The Company" or "ZSE E").

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 18 August 2006. The Company was incorporated in the Commercial Register of the District Court Bratislava I on 22 September 2006.

Principal activity. The Company provides electricity supply services primarily in the Western Slovakia region. At the end of 2011, the Company's supply business commenced offering gas to large industrial customers and since April 2012 to SMEs and households in addition to electricity.

Registered address and place of business. The Company's registered address is Čulenova 6, Bratislava 816 47, Slovak Republic. Its identification number (IČO) is: 36 677 281 and its tax identification number (IČ DPH) is: SK2022249295.

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. ZSE Energia, a.s. is included in the consolidated financial statements of Západoslovenská energetika, a.s. ("The Parent company").

The Parent company is jointly controlled by E.ON and the Slovak Republic as a result of a shareholders agreement, which requires the parties to act together to direct the activities that significantly affect the returns of the Parent company. The Parent company's governance structure dictates that the parent company Strategic plan shall be approved by representatives of both E.ON and the Slovak Republic. Further, any decisions by general meeting of shareholders must be made jointly by the existing shareholders, because a qualified two thirds majority of votes is required to pass any decision, while restrictions exist for transfer of shares to parties not under control of existing shareholders. Refer to Note 12.

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

Number of employees. The Company employed 272 staff on average during 2019, of which 10 were management (2018: 261 employees on average, of which 10 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. If, after the financial statements are approved, management identifies that comparative information would not be consistent with the current period information, the Accounting Act allows entities to restate comparative information in the reporting period in which the relevant facts are identified.

2 Significant Accounting Policies (continued)

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.

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
Office buildings	2-15 years
Vehicles	2 - 5 years

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
Machinery and equipment	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.

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.

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.

Commodity contracts at fair value through profit or loss ("FVTPL"). Commodity contracts for the supply of commodities that may be settled net in cash and which are not for own use or are held for trading in the open market or those which entity designates to avoid significant accounting mismatch are measured at fair value through profit or loss. These contracts have all three of the following characteristics: (a) the contract's value changes in response to the change in market price of commodity, which is not specific to a party to the contract; (b) it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and (c) it is settled at a future date. In the case that such contracts are settled by the delivery of the commodity, the revenue or expense related to the purchase of the commodity is accounted for at the market price of the commodity at the time of delivery of the commodity.

2 Significant Accounting Policies (continued)

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

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

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

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

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

Financial assets – classification and subsequent measurement – measurement categories. The Company classifies financial assets only in the amortised cost category. The classification and subsequent measurement of 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 through profit or loss ("FVTPL").

2 Significant Accounting Policies (continued)

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 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 consolidated 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.

The amount of the 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.

2 Significant Accounting Policies (continued)

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

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. This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in credit risk of the liability are also presented in profit or loss .

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

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

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

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

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.

2 Significant Accounting Policies (continued)

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 6.540% per annum on profits from regulated activities. From 2017 new methodology for calculating of the special levy applies, where the basis for the special levy is calculated as profit before tax * (revenues from regulated activities/total revenues). In 2016 the special levy applied to profits over EUR 3 million from regulated activities at a rate of 4.356% p.a. The rate of special levy used for the calculation for 2017 and 2018 was 8.712% p.a., then for the years 2019 - 2020 the rate 6.540 % p.a. applies and 4.356% will apply from 2021. The levy is a deductible expense for the purposes of applying the standard corporate income tax rate.

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

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

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

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

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

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.

2 Significant Accounting Policies (continued)

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

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

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

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

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

Finance leases 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 finance 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 payables. The interest costs were charged to the 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, plant property and equipment were depreciated over the lease term.

Lease liabilities from 1 January 2019. 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. 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.

2 Significant Accounting Policies (continued)

To determine the incremental borrowing rate, the Company:

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

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

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

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

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 sale of electricity, natural gas, other goods and services in the ordinary course of the Company's activities. Revenue is shown, net of value-added tax, estimated returns, rebates and discounts.

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

Revenue from sale and distribution of electricity. Revenue from the sale and distribution of electricity is recognised when the electricity is delivered to the customer. Consumption of wholesale customers is metered and billed on a monthly basis. The consumption of retail customers in the segment of small businesses was metered once a year. The consumption of retail customers in the households' segment is metered and billed on an annual basis and the Company split its household customer base to twelve billing cycles. The billing of electricity supplied in 2019 for all twelve billing cycles will be completed in December 2020. The Company uses the Enersim demand profile data for estimating the delivered but unbilled accrued revenue. Network losses are included in the cost of purchased electricity.

2 Significant Accounting Policies (continued)

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

Revenue from sale of gas. Revenue from the sale of gas is recognised when the gas is delivered to the customer. Consumption to wholesale customers is metered and billed on a monthly basis. The consumption of retail customers in the households' segment is metered and billed on an annual basis and the Company split its household customer base to twelve billing cycles. The billing of gas supplied in 2019 for all twelve billing cycles will be completed in December 2020.

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 the entity 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 for the Company is EUR.

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

Change in accounting policies. The Company applied the decision of IFRS Interpretations Committee "Physical Settlement of Contracts to Buy or Sell a Non-financial Item" issued in March 2019 and amended its accounting policy for presentation of revenue and costs of electricity supply contracts designated at fair value through profit or loss that ultimately resulted in physical delivery. As for these contracts, the related revenue and costs are now presented at fair value of the commodity at the time of its delivery rather than at the contracted prices. This change did not have any impact on profit or loss or equity.

The impact of the change on the Companies financial statements for the prior accounting period was as follows:

In thousands of EUR	**2018**
Increase in item „Revenue from electricity and other revenue"	14,155
Increase in item „Purchases of electricity and related fees"	14,155

Correction of prior period errors. Upon implementation of new data warehouse and 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 representing prepaid future revenue from the mass market segment customers was overstated at 31 December 2018 and 1 January 2018. These prepayments are estimated because the processes and systems do not allow household electricity consumption to be measured at year-end because the electrometeres 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 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 Company also restated comparative information to present gross balances with customers who underpaid and customers who overpaid 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*.

2 Significant Accounting Policies (continued)

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

In thousands of EUR	31 December 2018	31 December 2017
(Decrease)/Increase in item „Trade and other receivables “	(3,074)	5,099
Decrease in item „Current income tax refund receivable “	(1,100)	-
(Decrease)/Increase in item „Total Assets “	**(4,174)**	**5,099**
Increase in item „Retained earnings “	14,555	13,487
Increase in item „Total Equity “	**14,555**	**13,487**
Decrease in item „Trade and other payables “	(18,729)	(9,152)
Increase in item „ Current income tax liabilities “	-	764
Decrease in item „Total Liabilities “	**(18,729)**	**(8,388)**

The impact of the correction on profit or loss, movements in equity and statement of cash flows for year 2018 was not material.

3 Adoption of New or Revised Standards and Interpretations

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

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

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 equal to the lease liability adjusted for all accrued or prepaid lease payments 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 liabilities was 1.697% p.a.

3 Adoption of New or Revised Standards 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 payments under non - cancellable operating leases under IAS 17	10,367
- future lease payments as a result from different approach to option for extention and termination	868
- discounting effect to present value	(1,262)
Total lease liability as at 1 January 2019	**9,973**
Of which are:	
- short - term lease liabilities	866
- long - term lease liabilities	9,107

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*.

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 "	9,973
Increase in long-term "Lease liabilities"	9,107
Increase in short-term "Lease liabilities	866

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

- IFRIC 23 “Uncertainty over Income Tax Treatments” (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 28 “Long-term Interests in Associates and Joint Ventures” (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).

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

- Annual Improvements to IFRSs 2015-2017 cycle – amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement” (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).

4 New Accounting Pronouncements

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

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- 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 (issued on 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 of receivables. The Company applies a simplified approach to trade receivables under IFRS 9, i.e. measures ECL using lifetime expected loss. The Company uses for the calculation of lifetime expected loss for trade receivables a matrix that considers ageing of receivables, receivables recoverability and write-offs. The Company considered the expected payment discipline for the next 12 months. Based on these indicators, it was decided that the creation of impairment provisions for trade receivables based on historical data is sufficient, as the 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.

Lease term. In determining the lease terms, the Company takes into account also verbale 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.

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

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

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

Otherwise, the Company considers other factors including historical lease term and the costs and business disruption required to replace the leased asset.

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

The lease term is reassessed if an option is actually exercised (or not exercised) or the Company becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee. During the current financial year, the financial effect of revising lease terms to reflect the effect of exercising extension and termination options was an increase in recognised lease liabilities and right-of-use assets of EUR 0 thousands.

Unbilled electricity. The unbilled revenue from delivery and distribution represent an accounting estimate based on estimated volume of delivered and distributed electricity expressed in MWh for low voltage network and estimated unit price that will be billed in the future. The 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 delivered and distributed to households in technical units (MWh) between the date of the last meter reading and the end of the reporting period; (b) the consumption estimate utilising the time patterns of consumption of various customer profiles observed on a sample basis; (c) the estimated losses in the distribution network; and (d) the unit price in EUR/MWh, that will be applied to billing the electricity delivery and distribution. For more details please refer to Note 16.

The Company also engaged an independent expert to estimate network losses. Should the estimate of total network losses be lower by 0.1 %, representing approximately 10 GWh of electricity (2018: 10 GWh), with other parameters unchanged, the revenues would increase by EUR 50 thousand (2018: EUR 44 thousand).

6 Intangible Assets

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

In thousands of EUR	**Software and similar assets**	**Assets not yet available for use**	**Total**
Cost at 1 January 2018	7,586	1,781	**9,367**
Accumulated depreciation and impairment losses	(3,754)	-	**(3,754)**
Carrying amount at 1 January 2018	**3,832**	**1,781**	**5,613**
Additions	-	1,642	**1,642**
Transfers	1,746	(1,746)	**-**
Amortisation charge	(1,748)	-	**(1,748)**
Cost at 31 December 2018	9,332	1,677	**11,009**
Accumulated depreciation including impairment losses	(5,502)	-	**(5,502)**
Carrying amount at 31 December 2018	**3,830**	**1,677**	**5,507**
Additions	-	1,284	**1,284**
Transfers	922	(922)	-
Amortisation charge	(1,721)	-	**(1,721)**
Cost at 31 December 2019	10,254	2,039	**12,293**
Accumulated depreciation and impairment losses	(7,223)	-	**(7,223)**
Carrying amount at 31 December 2019	**3,031**	**2,039**	**5,070**

6 Intangible Assets (continued)

Assets not yet available for use primarily include software upgrades and improvement of functionality of the customer 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.

7 Right-of-use Assets and Lease Liabilities

The Company leases various offices and equipment and vehicles. Rental contracts are typically made for fixed periods of 2 to 20 years but may have extension options as described in Note 2) but may contain prolongation options. For assets where contract is concluded for indefinite period the maturity is determined based on expected lease duration term.

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

Movements in right-of-use assets:

In thousands of EUR	**Buildings**	**Vehicles**	**Total**
Carrying amount at 1 January 2019	**9,694**	**279**	**9,973**
Additions	-	132	132
Disposals	(67)	(11)	(78)
Depreciation charge	(772)	(94)	(866)
Decrease in carrying amount	-	(18)	(18)
Carrying amount at 31 December 2019	**8,855**	**288**	**9,143**

The Company recognised lease liabilities as follows:

In thousands of EUR	**31 December 2019**	**1 January 2019**
Short-term lease liabilities	866	866
Long-term lease liabilities	8,277	9,107
Total lease liabilities	**9,143**	**9,973**

Interest expense on lease liabilities included in finance costs of 2019 was EUR 171 thousand.

Costs of short-term leases (included in other operating expenses) and leases of low-value assets that are not short-term leases (also included in other operating expenses):

In thousands of EUR:	**2019**
Expense relating to short-term leases	20
Expense relating to leases of low-value assets that are not shown above as short-term leases	146

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.

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

Total cash outflows for leases were as follows:

In thousands of EUR	**2019**
Payments related to short - term leases	20
Payments related to the leasing of low value assets that are not short-term rents	146
Repayment of principal of lease obligations	767
Leased interest expense	171
Total lease payments	**1,104**

8 Inventories

In thousands of EUR	**2019**	**2018**
Natural gas	12,281	10,555
Materials and spare parts	163	24
Goods	398	317
Total inventories	**12,842**	**10,896**

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

9 Trade and Other Receivables

In thousands of EUR	**2019**	**2018 (restated)**
Trade receivables	161,366	154,664
Less impairment provision for trade receivables	(18,203)	(19,194)
Trade receivables, net	**143,163**	**135,470**
Commodity contracts at FVTPL	-	858
Contract assets – deferred external dealers sales commissions	1,818	1,004
Prepayments	353	(30)
Excise tax receivable	-	-
Total trade and other receivables	**145,334**	**137,302**

9 Trade and Other Receivables (continued)

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

In thousands of EUR	2019	2018
Provision for impairment at 1 January	**19,194**	**21,026**
Impairment loss expense (Note 21)	(227)	(381)
Amounts written off during the year as uncollectible	(764)	(47)
Sold receivables*	-	(1,404)
Provision for impairment at 31 December	**18,203**	**19,194**

* In 2019 the Company sold trade receivables with gross amount EUR 0 thousand (2018: EUR 1,433 thousand) which were provided for by EUR 0 thousand. (2018: EUR 1,404 thousand), proceeds from the sale of these receivables was EUR 0 thousand (2018: EUR 202 thousand)

More details of ECL in relation to trade receivables at the balance sheet date are as follows:

	31. december 2019				31. december 2018 (restated)			
In thousands of EUR	**Loss rate**	**Gross carrying amount**	**ECL**	**Net carrying amount**	**Loss rate**	**Gross carrying amount**	**ECL**	**Net carrying amount**
Current	1.74%	141,724	2,471	139,253	1.74%	134,925	2,278	132,647
Past due:								
1 to 30 days	6.36%	3,721	237	3,484	6.16%	2,615	161	2,454
31 to 60 days	15.73%	337	53	284	26.20%	313	82	231
61 to 90 days	27.52%	109	30	79	52.03%	123	64	59
91 to 120 days	65.31%	49	32	17	69.01%	71	49	22
121 to 180 days	90.29%	103	93	10	64.84%	91	59	32
181 to 360 days	84.81%	237	201	36	89.54%	239	214	25
over 360 days	100.00%	15,086	15,086	-	100.00%	16,287	16,287	-
Trade receivables, net		**161,366**	**18,203**	**143,163**		**154,664**	**19,194**	**135,470**

The movements in contract assets, which represent the deferred sales commissions, were as follows:

In thousands of EUR	2019	2018
At 1 January	1,004	712
Additions	1,852	785
Amortization	(1,038)	(493)
Total contract assets at 31 December	**1,818**	**1,004**

An amount of EUR 638 thousand (2018:EUR 628 thousand) will be amortized over the next year from the carrying amount of the contract asset and the rest has a residual amortization period of up to 5 years.

9 Trade and Other Receivables (continued)

Financial effect of collateral and credit enhhancements of trade receivables as at 31 December:

	At 31 December 2019		At 31 December 2018 (restated)	
In thousands of EUR	Carrying amount	Insured amount	Carrying amount	Insured amount
Trade receivables covered by:				
- insurance	54,627	54,627	45,834	45,834
- unsecured trade receivables	88,536	-	89,636	-
Trade receivables, net	**143,163**	**54,627**	**135,470**	**45,834**

The Company has a concentration of credit risk towards related parties of the Slovak government. Refer to Note 27.

10 Receivables from Cash Pooling

In thousands of EUR	2019	2018
Receivables from cash pooling	43,392	6,587
Total receivables from cash pooling and other loans	**43,392**	**6,587**

The Company has concluded with its Parent company cash pooling agreement. Based on this agreement the available cash is managed by the Parent company. In the case of additional financing needs the cash from 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.).

Receivables from cash pooling are neither past due 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.

11 Cash and Cash Equivalents

In thousands of EUR	2019	2018
Current accounts with banks	6,870	2,521
Total cash and cash equivalents in the statement of financial position	**6,870**	**2,521**

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

11 Cash and Cash Equivalents (continued)

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

In thousands of EUR	**2019**	**2018**
Neither past due nor impaired		
Crediddt rating Aa3 od Moody´s	332	-
Credit rating A1 by Moody's	-	567
Credit rating A2 od Moody´s	4,318	-
Credit rating A3 by Moody's	1,166	6
Credit rating Baa1 by Moody's	1,054	1,529
Credit rating A- by Fitch	-	419
Total cash and cash equivalents	**6,870**	**2,521**

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.

12 Share Capital

The Company's registered share capital consists of 1 share with a nominal value of EUR 33,194 and 1 share at a nominal value of EUR 6,605,590 resulting in an overall amount of EUR 6,638,784. As at 31 December 2019 and 31 December 2018 all the issued shares were owned by Západoslovenská energetika, a.s. Each share carries voting right equal to its share in nominal value of share capital.

The general meeting of the Company's shareholders approved the Company's prior year financial statements and declared dividends of EUR 14,517 thousand (2018: dividends of EUR 9,530 thousand). Slovak legislation identifies distributable reserves as retained earnings reported in the financial statements of the Company which amount to EUR 37,298 thousand (2018: EUR 33,468 thousand).

Dividend per share represents EUR 72 thousand per share with the nominal value of EUR 33 thousand (31 December 2018: EUR 48 thousand) and EUR 14,445 thousand per share with the nominal value of EUR 6,606 thousand (31 December 2018: EUR 9,482 thousand).

13 Legal Reserve Fund

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

14 Income Taxes

Income tax expense comprises the following:

In thousands of EUR	**2019**	**2018**
Current tax at standard rate of 21% (2018: 21%)	4,826	1,395
Income tax related to prior periods	-	(1,271)
Special levy on profits from regulated activities	824	706
Deferred tax	335	4,435
Income tax expense/(credit) for the year	**5,985**	**5,265**

14 Income Taxes (continued)

In 2019, the applicable standard income tax rate was 21% (2018: 21%). From 2017 new methodology for calculating of the special levy applies, where the basis for the special levy is calculated as profit before tax per Slovak GAAP * (revenues from regulated activities/total revenues). In 2016 the special levy applied to profits over EUR 3 million from regulated activities at a rate of 4.356% p.a. The rate of special levy used for the calculation for 2017 and 2018 was 8.712% p.a., then for the years 2019 - 2020 the rate 6.54% p.a. applies and 4.356% will apply from 2021.

The levy is a deductible expense for the purposes of applying the standard corporate income tax rate.

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

	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% or at the 25.849% rate applicable to regulated industry operations. The applicable tax rate of 23.667% (2018: 23.659%) is used in the below effective tax reconciliation and represents a weighted average of the tax rates for regulated and unregulated operations. The applicable tax rate changed compared to prior year due to changes in the special levy rate and in the mix of profits from regulated and unregulated industry operations.

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

In thousands of EUR	**2019**	**2018**
Profit before tax	**24,552**	**20,062**
Theoretical tax charge at applicable tax rate of 23.667% (2018: 23.659%)	5,811	4,746
Non-deductible expenses/(non-taxable income)		
- expenses not deductible for standard tax but deductible for special levy purposes	96	406
- other	78	113
Income tax expense for the year	**5,985**	**5,265**

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.

14 Income Taxes (continued)

Deferred taxes are attributable to the following temporary differences:

In thousands of EUR	2019	2018
Differences between tax base and carrying value of property, plant and equipment	(2)	(1)
Post-employment defined benefit obligation	567	470
Other liabilities	1,489	1,824
Provision for impairment of trade receivables	667	582
Other	(151)	(30)
Total net deferred tax asset	**2,570**	**2,846**

The movements in deferred taxes for temporary differences were recognised in profit or loss except for EUR 59 thousand (2018: EUR (37) thousand) for actuarial remeasurements of post-employment defined benefit obligation, which was recognised in other comprehensive income.

15 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 of service 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	**708**	**639**
Current service cost	76	91
Interest cost	10	10
Past service costs due to changes in the defined benefit plan rules	-	-
Total expense (Note 20)	86	101
Actuarial remeasurements:		
- attributable to changes in financial assumptions	190	(119)
- attributable to changes in demographic assumptions	52	(83)
- attributable to experience adjustments	37	24
Total actuarial remeasurements recognised in other comprehensive income	279	178
Benefits paid during the year	(25)	(1)
Other changes	-	147
Present value of unfunded post-employment defined benefit obligations at the end of the year	**1,048**	**708**

The principal actuarial assumptions were as follows:

	2019	2018
Number of employees at 31 December	271	277
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.

15 Post-Employment Defined Benefit Obligations (continued)

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.

16 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 years (2018: 5 year) service vesting condition. In addition, the Company pays regular long term work anniversary bonuses in general every 10 years in amounts between EUR 400 to EUR 1,250 (2018: between EUR 400 to EUR 1,250).

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

17 Trade and Other Payables

In thousands of EUR	**2019**	**2018 (restated)**
Trade payables	81,382	64,354
Other accrued liabilities	16,784	9,540
Commodity contracts at FVTPL	-	3,127
Other financial liabilities	1,703	1,009
Total financial instruments within trade and other payables	**99,869**	**78,030**
Contract liabilities – electricity and natural gas	43,583	26,912
Employee benefits payable	378	415
Social security on employee benefits	330	330
Accrued staff costs	1,772	1,677
Advance payments	13,244	13,340
Value added tax payable	1,975	2,397
Other payables	1,402	246
Accrued expenses	2,053	3,078
Excise duty payable	341	248
Total trade and other payables	**164,947**	**126,673**

The Company had overdue trade payables of EUR 15 thousand (2018: EUR 414 thousand). None of the payables are overdue more than 30 days at 31 December 2019.

Movements in contract liabilities to customers for electricity and gas not yet delivered were as follows:

In thousands of EUR	**2019**	**2018 (restated)**
At 1 January	26,962	26,146
Additions	43,583	26,912
Utilized to revenues in respect of prior year payments	(26,962)	(26,146)
At 31 December	**43,583**	**26,912**

The contract liabilities to ocustomers in table above are due within one year.

18 Revenue from Electricity and Other Revenue

Revenue from electricity comprises the following:

In thousands of EUR	**2019**	**2018**
Sales of electricity to industrial and other commercial customers	305,314	228,055
Sales of electricity to business customers produced by the group company	77,457	15,177
Sales of electricity to residential customers	113,228	88,983
Total sales of electricity	495,999	332,215
Distribution fees for electricity to industrial and other commercial customers	264,623	277,118
Distribution fees for electricity to residential customers	144,628	144,201
Total distribution fees	409,251	421,319
Other revenue	7,072	4,781
Total revenue from electricity and other revenue	**912,322**	**758,315**

Timing of revenue recognition is as follows:

In thousands of EUR	**2019**	**2018**
At a point in time	4,151	2,438
Over time	908,171	755,877
Total revenue	**912,322**	**758,315**

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.

19 Purchases of Electricity and Related Fees

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

In thousands of EUR	**2019**	**2018**
Purchase of electricity from: Slovenské elektrárne (“SE”)	96,584	80,138
Purchase of electricity from other producers and traders	296,710	141,629
Purchase of electricity on the spot market	62,346	73,555
Total electricity purchases	**455,640**	**295,322**
Electricity transmission fees, system access and ancillary service charges and renewable sources feed-in tariffs	406,131	421,887
Other	2,701	1,510
Total purchases of electricity and related fees	**864,472**	**718,719**

20 Employee Benefits

In thousands of EUR	2019	2018
Wages and salaries	7,687	6,887
Defined contribution pension costs	1,340	1,370
Post-employment defined benefit plan expense (Note 15)	86	101
Other long-term employee benefit plans – current service and interest cost	28	23
Actuarial remeasurements of other long-term employee benefit plans	19	27
Other social costs	2,110	1,850
Total employee benefits expense	**11,270**	**10,258**

21 Other Operating Expenses

In thousands of EUR	2019	2018
Customers services	4,340	4,508
Advertising	1,953	2,072
Company administration	-	123
Information technology and software maintenance costs	3,082	2,800
Finance services	926	1,058
Short-term leases and low value assets leases (2018: operating leases)	166	892
Advisory services	268	164
Statutory audit	41	40
Impairment loss on trade and other receivables (Note 9)	(227)	(381)
Loss on sale of impaired receivables	-	1,202
Personal leasing and external dealers commission	965	778
Other operating expenses	3,696	2,738
Total other operating expenses	**15,252**	**15,994**

22 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 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, 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.

22 Financial Risk Management (continued)

Commodity price risk. In 2018, the Company designated and recognized certain commodity contracts as valued at FVTPL. In general, management is trying to balance the demand for electricity with volumes in related purchase contracts. To manage market risk, the company has implemented a system of volume and financial limits for an open position in commodities that protects the Company from unexpected changes in market commodity prices in wholesale markets.

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 the 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, adjusted for expected prepayments, if any.

When assessment is performed on a portfolio basis, the Company determines the aging 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, management assesses the credit quality of customer, taking into account its financial position, past experience and other factors. Except as disclosed in Note 9 and 11, as for trade receivables, the Company does not have any other 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. The credit quality of outstanding balances with banks is presented in Note 11 and credit quality information about trade receivables is included in Note 9.

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

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 cash balances within the ZSE Group. The Company also uses the advantages of commercial terms between the Company and its suppliers to secure sufficient financing funds to cover its needs. The maturity of supplier's invoices is 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.

22 Financial Risk Management (continued)

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						
Trade payables (Note 17)	79,450	1,932	-	-	-	**81,382**
Other accrued liabilities (Note 17)	6,778	174	9,832	-	-	**16,784**
Other financial liabilities (Note 17)	1,703	-	-	-	-	**1,703**
Lease liabilities (Note 7)	90	180	815	4,324	5,000	**10,427**
Total future payments, including future principal and interest payments	**88,021**	**2,286**	**10,647**	**4,342**	**5,000**	**110,296**

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						
Trade payables (Note 17)	63,941	414	-	-	-	**64,355**
Other accrued liabilities (Note 17)	5,336	257	-	3,947	-	**9,540**
Other financial liabilities (Note 17)	1,009	-	-	-	-	**1,009**
Commodity contracts at FVTPL						
- gross notional amount payable*	3,127	-	-	-	-	**3,127**
- gross notional amount receivable**	(858)	-	-	-	-	**(858)**
Total future payments, including future principal and interest payments	**72,554**	**671**	**-**	**3,947**	**-**	**77,172**

* The notional amounts payable include the gross pay leg of commodity contracts at FVTPL regardless whether they have positive or negative fair value, i.e. whether they are assets or liabilities. The related non-cash commodity inflow is not included in the analysis.

** The notional amounts receivable represents the gross receivable leg of commodity contracts at FVTPL that have negative fair value, i.e. are a financial liability. The related non-cash commodity outflow is not included in the above liquidity analysis.

23 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 45,268 thousand at 31 December 2019 (31 December 2018: EUR 41 438 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.

24 Fair Value Disclosures

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

a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period:

Financial instruments carried at fair value. The fair value measurement of commodity contracts at FVTPL belongs to level 2 in the fair value hierarchy and the key input is the spot and forward electricity price per MWh.

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

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

	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 9)	143,163	143,163	135,470	135,470
Cash and cash equivalents (Note 11)	6,870	6,870	2,521	2,521
Receivables from cash pooling (Note 10)	43,594	43,594	6,587	6,587
Total Assets	**193,627**	**193,627**	**144,778**	**144,778**
LIABILITIES				
Trade payables (Note 17)	81,382	81,382	64,354	64,354
Other accrued liabilities (Note 17)	16,784	16,784	9,540	9,540
Other financial liabilities (Note 17)	1,703	1,703	1,009	1,009
TOTAL LIABILITIES	**99,869**	**99,869**	**74,903**	**74,903**

25 Movements in liabilities from financial activities

The following table analyzes movements in liabilities from financing activities for each of the periods presented:

In thousands of EUR	**Lease liabilities**
As at 31 December 2018	-
Non-cash movements	
Recognition of lease liabilities at initial application of IFRS 16 as at 1 January 2019	9,973
Lease additions	132
Interest expense	171
Other	(195)
Payments	
Interest payment	(171)
Principal repaid (Note 7)	(767)
As at 31 December 2019	**9,143**

26 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 under certain circumstances earlier periods may also be subject to inspection.

Legal proceedings. From time to time and in the normal course of business, claims against the Company may be received. Certain customers or their representatives contest fairness and appropriateness of decisions of the network industry regulator and an unquantifiable risk exists that, in the future, such matters may crystallise in an unfavourable manner for the Company.

Capital expenditure commitments. At 31 December 2019, the Company had outstanding contractual commitments for purchases of intangible assets of EUR 170 thousand (2018: EUR 71 thousand).

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

In thousands of EUR	**31 December 2018**
No later than one year	935
Later than one year and no later than five years	3,072
Later than five years	6,283
Total	**10,376**

The above committments are the future minimum payments over the estimated lease term determined by taking into account the contractual lease extension right if the extension is considered reasonably certain by the Company. Minimum future payments that cannot be avoided, for example, by not extending the lease term were EUR 0 thousand (2018: EUR 953 thousand).

Operating lease expense for the year 2018 is disclosed in Note 21.

27 Balances and Transactions with Related Parties

The primary related parties of the Company are its Parent company and its shareholders, which have joint control over the Parent companz as explained in Notes 1 and 12: (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**	**Subsidiaries**	**Total**
Paid dividends	14,517	-	-	-	-	14,517
Sales	1,071	27	28,214	56,829	2	86,143
Purchases	3,068	23	405,890	298,541	-	707,522
Receivables other than taxes	43,561	-	5,573	6,261	202	55,597
Payables other than taxes	8,949	-	26,041	41,011	-	76,001

* 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.

27 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 14. Outstanding value added tax payable is presented in Note 17.

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 14	4,826	124
Special levy on profits from regulated activities (Note 14)	824	706
Impact of correction of previous years error (see Note 2)	-	336
Income tax refund (receivable)/liability at the beginning of the period	(3,063)	2,858
Income tax refund liability/receivable at the end of the reporting period	(4,862)	3,063
Income tax paid	**(2,275)**	**(7,087)**

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**	**Subsidiaries**	**Total**
Paid dividends	9,530	-	-	-	-	9,530
Sales	863	32	31 315	26,845	2	59,057
Purchases	3,001	21	394 265	209,956	-	607,243
Receivables	6,658	-	4,782	18,792	200	30,432
Dividends declared and paid	114	-	21,502	20,482	-	42,098

* 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	406	362
Defined contribution pension costs	62	56
Total remuneration of board of directors and other key management personnel	**468**	**418**
Supervisory board		
Salaries and other short-term employee benefits	81	62
Defined contribution pension costs	11	9
Total remuneration of supervisory board	**92**	**71**

28 Events after the End of the Reporting Period

Due to the change in legislation 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 renewable energy producers ("OZE") and producers of combined electricity and heat ("KVET") 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 consolidated financial statements.

Management authorised these financial statements for issue on 25 March 2020:

....	....
Mgr. Juraj Krajcár	Ing. Mgr. Juraj Bayer, PhD.
Chairman of the Board of Directors	Member of the Board of Directors