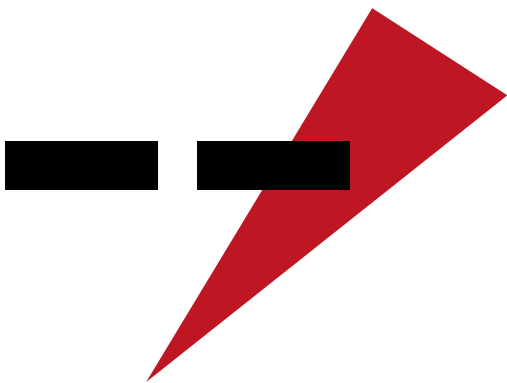


Západoslovenská distribučná, a.s.

Annual Report for 2018



**ZÁPADOSLOVENSKÁ
DISTRIBUČNÁ**



Content

01. Profile of Západoslovenská distribučná, a.s.	4
Foreword of the Chairman of the Board of Directors	5
Company Bodies	6
Scope of Business	7
02. Economy	10
03. Human Resources	14
04. Occupational Health and Safety	16
05. Environmental Protection	18
06. Corporate Social Responsibility	20
Annex: Financial Statements and Independent Auditor's Report as at 31 December 2018	22

1 Profile of Západoslovenská distribučná, a.s.



Foreword by the Chairman of the Board of Directors

The year 2018 may be considered successful from the perspective of investments, customer solutions, legislation, as well as innovations. Within the European context, the entire year was affected by developing the Energy Union. Discussions on the fourth energy package continued, focusing on both sale and distribution. From the distribution perspective, it is about creation of superior European bodies, cyber security, data access support, smart metering and support of active customers and energy communities.

In legislation, I welcome the amendment to the act on renewable sources and the change of the subsidy system to a more market-oriented type. The existing subsidy model no longer reflected the development of renewable sources. The total production of electricity from renewable sources has long been exceeding the actual grid losses whose coverage it was to be used for. The existing model did not reflect the market development and deformed it with the disproportionate increase of the tariff for system operation.



Ing. Andrej Juris,
Chairman of the Board of Directors

The company's 2018 economic results reflect the large volume of electricity which the company distributed to its customers. Over the year we invested approx. EUR 93 million, mainly in the distribution system development and modernisation. One of our most important investment projects was the completion and commissioning of the new substation supplying the entire area of the Sered'-Juh industrial park and its vicinity. Total costs of its construction were approx. EUR 10 million. The substation can supply 40 MW electric power, and apart from the industrial park it also supplies electricity to the citizens of Sered' and the nearby region.

Given the immense requests for new connections in the west Slovakia region, we expect a similar volume of investments also in 2019. The economic development of west Slovakia and the related investments into our distribution system development are reflected in dynamic increase of consumption in this region – which increased by almost 20% over the last ten years. Our company is ready to connect new or increased electricity consumption capacity to the distribution system, and thus support the dynamic economic growth of the region. One of the important factors which investors consider in their decision-making on investments is the availability and quality of the infrastructure, including the electric one.

This is one of the things that motivate us to not only expand the distribution system but also to increase its quality, reliability and safety.

Just like in the previous years, investments were also used to install electricity meters—including smart metering systems. And also for automated elements of the distribution system, remote fault localisation and control of distribution system elements, as well as constant improvement of online services for the customers. It is in this area where the customer feels the most radical change. We try to make the communication with our company as easy as possible for the customer. For example, last year most of the new customers used automated process of connection of the supply point via the online application on the company's website. We also offer a mobile app where customers can find information on current power failures, planned outages, self meter reading option and important data on exceeding the reserve capacity, appreciated especially by small businesses.

Apart from investments to distribution system innovation and expansion, the company fulfilled its basic function, which the customer notices the most – smooth and reliable electricity distribution. In standard conditions, we managed to improve the quality

indicators expressing the equivalent time of interrupted electricity supply per year. The resilience of the distribution system was tested several times by bad weather, especially strong wind. But even in extraordinary conditions, thanks to the professionalism and effort of our employees, the customers did not feel any long-term outages of electricity supply. For this, they deserve our respect and heart-felt thanks.

This year we will continue the modernisation of the distribution system. Together with our Czech partner, E.ON Distribuce, we gained EU's co-financing of the project ACON amounting to over EUR 90 million. The

aim of the project is to increase the distribution system effectiveness. We are a coordinator of this project, using our experience in the international context. With the joined project we want to integrate the electricity market between the two countries and gradually create an economically profitable electricity system with minimal losses and high-quality, safe supply. We will use smart grid technology to modernise the distribution system, creating technical environment allowing the implementation of other smart solutions in the future.

I want to thank all employees for the successful year 2018. Without their

professional approach and effort, we would never achieve these results. I also want to thank the customers, business partners and shareholders of the company. If we continue our cooperation also in the following years, we will be able to meet our long-term goals – to be a safe, reliable and flexible infrastructure platform which allows customers to meet their energy needs.

Company Bodies

The structure of statutory and supervisory bodies of Západoslovenská distribučná, a.s. in 2018 was as follows:

Statutory Body

Board of Directors	
As at 31 December 2018	
Chairman	Ing. Andrej Juris (start of office on 20 September 2015)
Vice-Chairman	Mgr. Vladimír Cipciar (start of office on 31 October 2017)
Members:	Ing. Tomáš Turek, Ph.D. (start of office on 1 May 2014, end of office 1 May 2018)
	Ing. Marian Kapec (start of office on 21 March 2016)
	Ing. Martin Mišík (start of office on 23 January 2017)
	Ing. Miroslav Otočka (start of office 16 May 2018)

Supervisory Body

Board of Supervisors	
As at 31 December 2018	
Chairman	Ing. Peter Hanúsek (start of office as a Member of the Supervisory Board on 23 January 2017, elected the Chairman of the Supervisory Board on 1 February 2017)
Vice-Chairman	Marian Rusko (start of office as a Member of the Supervisory Board on 1 February 2014, re-elected as a Vice-Chairman of the Supervisory Board on 1 February 2017)
	MUDr. Ján Zvonár, CSc. (start of office on 23 January 2017)
	RNDr. Michal Babiar, PhD. (start of office on 23 January 2017)
	Ing. Kamil Panák (start of office on 23 January 2017)
Members:	JUDr. Andrea Vitkóová, PhD. (start of office on 23 January 2017)
	Robert Polakovič (start of office on 2 July 2014)
	Silvia Šmátralová (start of office on 2 July 2014)
	Milan Sobolčiak (start of office on 2 July 2014)

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

Shareholders' Structure			
As at 31 December 2018	Absolute value in €	Equity share in the share capital	Voting rights
Západoslovenská energetika, a. s.	33,227,119	100 %	100 %

Scope of Business

Information on the Company and Its Scope of Business

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

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

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

The core business of the Company is electricity distribution. The company doesn't have any expenses on research and development. The company did not acquire any own shares, temporary certificates, any business investments and shares, temporary certificates and business shares of the parent entity. The company doesn't have any organisational entity abroad.

Risks and Uncertainties

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

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

During the normal course of business, claims against the Company may be received. Certain customers or their representatives contest fairness and appropriateness of decisions of the network industry regulator. These circumstances was taken into account in its Financial Statements as at 31 December 2018.

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

The significant events occurred after the end of 2018 requiring recognition or disclosure in the Annual report

No events have occurred subsequent to 2018 year-end that would have a material impact on the financial statements as at 31 December 2018.

Compliance Programme

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

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

Code of Conduct

The essential document of the "Compliance Programme" is the Code of Conduct which defines responsible business principles to which companies of the ZSE Group are

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

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

Zero Tolerance for Corruption

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

• Giving and accepting gifts

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

• Contributions to political parties, charity and sponsorship gifts

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

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

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

• Money laundering

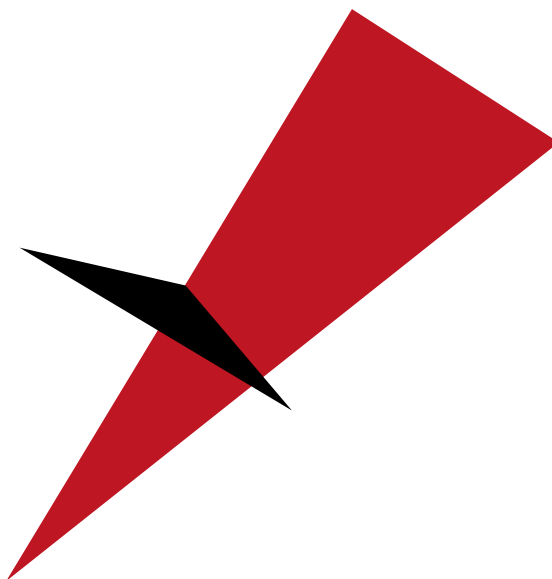
In the fight on money laundering and terrorist financing, the ZSE Group proceeds in line with Slovak and European legislation. The ZSE Group never excuses, facilitates or supports money laundering which means that:

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

Internal control mechanism:

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

1. **Internal Control Mechanisms** - internal control mechanisms have been implemented at the level of individual processes with the aim of identifying and preventing risks of fraud, corruption and unfair practices. The aim of the system of internal controls is prevention and timely identification of errors and incorrections which may occur as a result of intentional fraud and unintentional action or omission.
2. **Internal audit** is independent, impartial, assurance and advisory activity focused on adding value and improving processes in the Company. The ZSE Group has established internal audit unit which permanently controls the system of implemented control mechanisms, identifies shortcomings and proposes action plans to improve internal control system and make them more efficient.
3. Part of the organizational structure of the ZSE Group is also the position of the Compliance Manager, whose role includes not only the responsibility for drafting and updating documentation related to the Business Compliance Program, elaboration and updating of the Code of Conduct of the ZSE Group and carrying out activities related to the investigation of violation of the Code of Conduct.



2.

Economy



Economy

In 2018, Západoslovenská distribučná, a.s., generated comprehensive income of € 65,915 thousand, with sales totaling € 503,706 thousand and costs totaling € 438,115 thousand.

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

Key figures as at 31 December		
In ths. €	2018	2017
Non-current assets	1,028,104	990,374
Current assets	88,386	84,579
Total assets	1,116,490	1,074,953
Equity	177,346	170,179
Non-current liabilities	805,266	486,097
Current liabilities	133,878	418,677
Total equity and liabilities	1,116,490	1,074,953
Sales	503,706	502,185
EBIT (profit from operating activities)	107,670	107,190
EBITDA	174,719	175,320
Revenues	525,531	521,943
Expenses	438,115	435,856
Profit before tax	87,416	86,087
Net profit	65,055	64,545
Other comprehensive income	860	127
Total comprehensive income	65,915	64,672
Cash outflows for investing activities	86,241	52,716
Full-time equivalent of employees (FTE)	1,423	1,292

Information on sales in monetary terms from electricity distribution:

Indicators		
As at 31 December	2018	2017
Volume of electricity distributed (GWh)	9,866	9,683
Sales from electricity distribution (ths. €)	493,561	495,440
Number of supply points	1,149,618	1,133,195

Loans

Západoslovenská distribučná, a.s. did not draw bank loans in 2017, but it had an intercompany loan amounting to € 630,000 thousand in 2014.

Cash outflows for investing activities

Investments in 2018	
In ths. €	2018
Connection	29,106
Development and improvement of networks HV, LV, transformation stations, energy equipment	18,494
Development and improvement of networks VVN (substations, energy equipment, combined earth ropes)	19,607
Special projects (automatization, ecology)	1,238
Purchase of energy devices	245
Land and easements	1,627
Transformers, inductors, resistors	1,906
Electrometers	10,262
Low-value tangible and intangible assets	1,565
Contracts for the purchase of leased assets	1,514
IT projects	5,237
Telco	674
Facility Management	1,215
Total	92,690

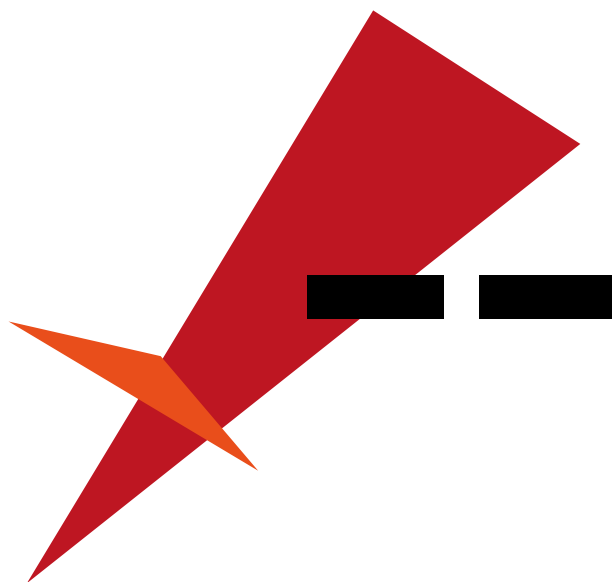
Major Constructions of Západoslovenská distribučná, a.s. in Terms of Volume	
In ths. €	2018
VVN_ES PP Sereď	8,034
VVN_PP Nitra Sever, line connection	5,129
VVN_ES Hurbanovo, reconstruction	4,679
VVN_ES Podunajské Biskupice, RIS	4,248
VVN_Križovany-Galanta-N.Zámky,E4 reconstruction	3,273

Planned major constructions in 2019 in terms of volume:	
In ths. €	2019
VVN_ES Veľký Meder, reconstruction	3,298
VVN_ES Nové Mesto, reconstruction	3,086
VVN_ES Žabí Majer, 1.et. extension	2,600
VVN_ES Hurbanovo, RIS	2,150
VVN_Madunice, reconstruction of the line 2x110kV	2,026
VVN_Senica – Jablonica lines 110kV	1,281

Distribution of the 2018 profit

At its meeting on 21 March 2019 the Board of Directors of Západoslovenská distribučná, a.s., acknowledged, and recommended to the Supervisory Board of Západoslovenská distribučná, a.s. to discuss, the following proposal for the distribution of the Company's profit for 2018.

Proposal for profit distribution as of 2018	
In ths. €	2018
Net Profit	65,055
A/ contribution to reserve fund (10%)	6,506
B/ contribution to social fund	1,292
C/ dividends	57,257

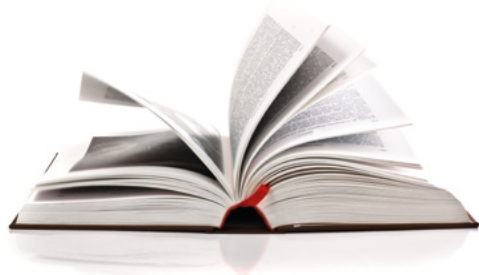




3.

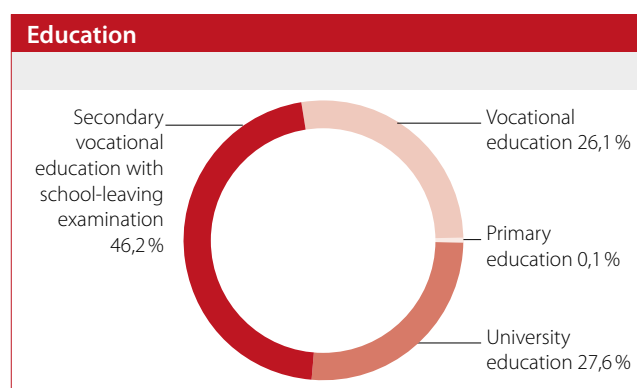
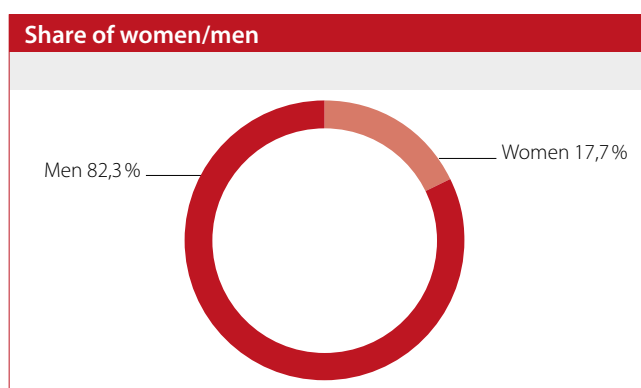


Human Resources



Human Resources

In 2018, ZSD had 1422.6 employees on average (excl. members of the Board of Directors and Supervisory Board and employees who worked on the basis of the agreement on performance of work). The average age of employee was 46.6 years. In 2018, the share of women went up by 4.2% as compared to the last year, the share of employees with university education went up by 2.8% on a year-on-year basis.



Remuneration and employee benefits

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

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

All employees of the ZSE Group received the contribution from the Social Fund for recovery of labour force. Above standard preventive medical check-ups were also provided to employees.

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

Development of employees and cooperation with schools

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

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

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

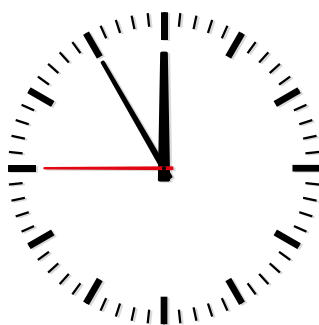
University students can participate in the scholarship programme within which they work in our Company during their last year of the study, with a prospect of taking up a specific work position.

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

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



4.



Occupational Health and Safety

Occupational Health and Safety

Our company has been focusing on systematic development and training of employees in occupational health and safety in the long-run. Considering the nature of works in energy business, observance of OHS rules is the top priority. In addition to standard trainings required by law, a defensive driving safety course was introduced, in which every employee driving a company car took part. A sum of EUR 766,362 was invested in Západoslovenská distribučná, a.s. into personal and protective work equipment and tools, obligatory training courses on occupational health and safety, and preventive medical check-ups.

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

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





Environmental Protection

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

In 2018, Západoslovenská distribučná, a.s. invested EUR 517,000 in environmental constructions and repairs. A sum of approx. EUR 343,000 was dedicated to the environmental operation and maintenance of the facilities and repairs of the objects, including waste disposal. Specifically, sewage systems in the operated objects, new parking areas and transformer stations' sites were modernised. Oil facilities were replaced by gas-filled-facilities. Operating and servicing facilities was carried out in order to reduce the risk of polluting underground water and soil.

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

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





6.

Corporate Social
Responsibility



Corporate Social Responsibility

In the area of corporate social 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.

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 Hackaton 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 startups. 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 places, beautifying spaces and in other various community activities.

ZSE Foundation

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

In cooperation with the Association for Helping the Handicapped APPA, ZSE Foundation opened the second year

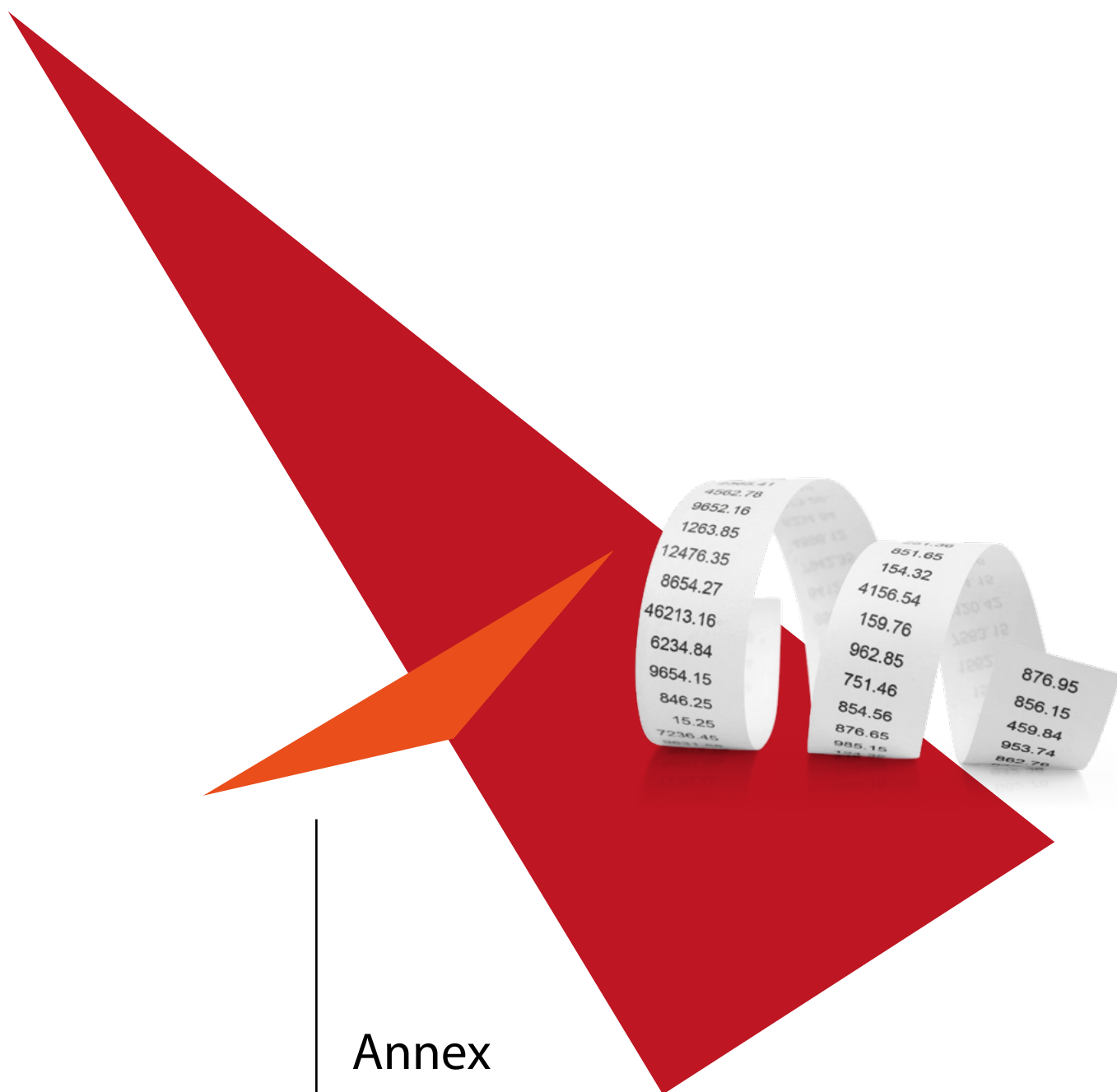
of grant scheme **We Will Get You To School**. Three schools were supported by the total sum of EUR 24,000, to build barrier-free premises for their disabled students.

In another grant scheme **We Remove Barriers**, we chose 7 charity events proceeds of which was used for improvement of quality of life of disabled people. Financial support of EUR 1,000 was designed for technical organisation of the charity events.

Proceeds could have been used for rehabilitation, medicaments, compensation and medical aids, barrier-free reconstructions of flats and other needs to improve life quality.

Elektrárňa Piešťany

In 2014, ZSE put in operation the renovated Elektrárňa Piešťany, 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 is aimed at laic and technical public. In a funny ways, 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.



Annex

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

March 2019

Obsah

INDEPENDENT AUDITOR'S REPORT

FINANCIAL STATEMENTS

Statement of Financial Position	24
Statement of Profit or Loss and Other Comprehensive Income	25
Statement of Changes in Equity	26
Statement of Cash Flows	27

Notes to the Financial Statements

1 Introduction	28
2 Significant Accounting Policies	28
3 Applying new and amended standards and interpretations	34
4 New Accounting Pronouncements	35
5 Critical Accounting Estimates and Judgements in Applying Accounting Policies	37
6 Property, Plant and Equipment	38
7 Intangible Assets	40
8 Borrowings	40
9 Inventories	41
10 Trade and Other Receivables	41
11 Receivables from Cash Pooling	43
12 Cash and Cash Equivalents	43
13 Share Capital	43
14 Legal Reserve Fund	43
15 Income Taxes	44
16 Post-Employment Defined Benefit Obligations	45
17 Other Long Term Employee Benefits	46
18 Provisions for liabilities and charges	46
19 Contract Liabilities from Deferred Connection Fees and Customer Contribution	46
20 Trade and Other Payables	48
21 Revenue	49
22 Employee Benefits	49
23 Other Operating Expenses	50
24 Other Operating Income	50
25 Interest and Similar Expense	50
26 Financial Risk Management	51
27 Management of Capital	52
28 Offsetting Financial Assets and Financial Liabilities	53
29 Debt Reconciliation	54
30 Fair Value Disclosures	54
31 Presentation of Financial Instruments by Measurement Category	55
32 Contingencies and Commitments	55
33 Purchase of part of the business	56
34 Balances and Transactions with Related Parties	56
35 Events after the End of the Reporting Period	58

Statement of Financial Position

Statement of financial position			
In thousands of EUR	Note	31 december 2018	31 december 2017
ASSETS			
Non-current assets			
Property, plant and equipment	6	1,018,336	983,170
Intangible assets	7	9,768	7,204
Total non-current assets		1,028,104	990,374
Current assets			
Inventories	9	652	811
Trade and other receivables	10	35,847	27,903
Income tax receivables		3,140	-
Cash and cash equivalents	12	3,877	3,719
Receivables from cash pooling	11	44,870	52,146
Total current assets		88,386	84,579
TOTAL ASSETS		1,116,490	1,074,953
EQUITY			
Share capital	13	33,227	33,227
Legal reserve fund	14	71,052	64,598
Retained earnings		73,067	72,354
TOTAL EQUITY		177,346	170,179
LIABILITIES			
Non-current liabilities			
Borrowings	8	630,000	315,000
Deferred income tax liabilities	15	85,685	86,563
Post-employment defined benefit obligations	16	7,352	7,622
Other long term employee benefits	17	1,856	1,883
Contract liabilities from connection fees and customer contributions	19	80,373	75,029
Total non-current liabilities		805,266	486,097
Current liabilities			
Borrowings	8	4,875	319,833
Trade and other payables	20	103,666	89,909
Contract liabilities from connection fees and customer contributions	19	5,365	4,742
Provisions for liabilities and charges	18	19,972	-
Income tax liabilities		-	4,193
Total current liabilities		133,878	418,677
TOTAL LIABILITIES		939,144	904,774
TOTAL LIABILITIES AND EQUITY		1,116,490	1,074,953

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

Ing. Andrej Juris
Chairman of the Board of Directors

Ing. Marian Kapec
Member of the Board of Directors

The accompanying notes 1 to 35 are an integral part of these financial statements.

Statement of Profit or Loss and Other Comprehensive Income

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

The accompanying notes 1 to 35 are an integral part of these financial statements.

Statement of Changes in Equity

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

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

Statement of Cash Flows

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

The accompanying notes 1 to 35 are an integral part of these financial statements.

Notes to the Financial Statements – 31 December 2018

1 Introduction

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

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

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

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

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

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

The Parent company is jointly controlled by E.ON and the Slovak Republic as a result of a shareholders agreement, which requires the parties to act together to direct the activities that significantly affect the returns of the parent company. The Parent company's governance structure dictates that the Parent company Strategic plan shall be approved by representatives of both E.ON and the Slovak Republic. Further, any decisions by general meeting of shareholders must be made jointly by the existing shareholders, because a qualified two thirds majority of votes is required to pass any decision,

while restrictions exist for transfer of shares to parties not under control of existing shareholders.

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

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

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

2 Significant Accounting Policies

Basis of preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union under the historical cost convention. The principal accounting policies applied in the preparation of these financial statements are set out below. Apart from the accounting policy changes resulting from the adoption of IFRS 9 and IFRS 15 effective from 1 January 2018, these policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 4).

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

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

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

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

At the end of each reporting period, management assesses whether there is any indication of impairment of

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

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

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

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

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

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

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

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

specific borrowings less any investment income on the temporary investment of these borrowings are capitalised.

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

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

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

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

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

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

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

When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent

recoveries of amounts previously written off are credited against impairment losses within "other operating expenses".

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

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

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

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

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

premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate. For assets that are purchased or originated credit impaired ("POCI") at initial recognition, the effective interest rate is adjusted for credit risk, i.e. it is calculated based on the expected cash flows on initial recognition instead of contractual payments.

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

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

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

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

Financial assets – classification and subsequent measurement – cash flow characteristics. Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Company assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). Financial assets with embedded

derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature. In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

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

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

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

Financial assets impairment – credit loss allowance for ECL.

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

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

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

In 2017, a provision for impairment of receivables was established when there was objective evidence that the Company would not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, the probability that the

debtor will enter bankruptcy or financial reorganisation, default or delinquency in payments (more than 1 month overdue) were considered objective evidence that the trade receivable was impaired. The amount of the provision was the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset was reduced using an allowance account, and the amount of the loss was expensed within "other operating expenses".

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Post-employment and other long term employee benefits.

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

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

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

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

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

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

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

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

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

Leases. The Company is a lessee.

- (i) Operating lease
Leases, in which a significant portion of the risks and rewards of the ownership are retained by the lessor, are classified as operating leases. Payments made under operating leases (including incentives received from the lessor) are expensed on a straight-line basis over the period of the lease.
- (ii) Financial lease
Leases of property, plant and equipment where the Company has substantially all the risks and rewards of the ownership of the asset are classified as financial leases. Financial leases are recognized at the inception of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments.

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

Provisions / Contingent liabilities. Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an

outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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

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

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

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

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

Revenue from distribution of electricity. The Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Company and specific criteria will be met for each of the Company's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. Revenue from distribution of electricity is recognized when the distribution service is rendered to electricity customers. Sales of services are recognized in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

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

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

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

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

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

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

3 Applying new and amended standards and interpretations

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

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

4 New Accounting Pronouncements

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

Adoption of IFRS 9 “Financial Instruments”: The Company adopted IFRS 9, Financial Instruments, from 1 January 2018. The Company elected not to restate comparative figures and recognised any adjustments to the carrying amounts of financial assets and liabilities in the opening retained earnings as of the date of initial application of the standards, 1 January 2018. Consequently, the revised requirements of the IFRS 7, Financial Instruments: Disclosures, have only been applied to the current period. The comparative period disclosures repeat those disclosures made in the prior year.

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

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

(a) Cash and cash equivalents

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

(b) Trade and other receivables

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

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

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

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

The impact of IFRS 16 on financial statements

The Company has created a project team that has reviewed the Company's lease contracts for the past year in view of the new lease accounting rules in IFRS 16. This Standard will have an impact on accounting for the group of Operating Leases. At the balance sheet date, the Company has irrevocable commitments from operating leases of 82,279 thousand EUR (Note 32). Of these liabilities, short-term and short-term liabilities represent a non-significant amount and will be recognized on a straight-line basis as an expense in the income statement.

For remaining leases, the Company expects to recognize an asset with a right of use of approximately 82,279 EUR thousand (without discounting) as of 1 January 2019 and a lease liabilities in amount of 82,279 thousand. EUR (without discounting). Total net assets will not change.

The Company expects the net profit after tax to be reduced by approximately 0 thousand. EUR as a result of the adoption of new accounting policies. It is expected that adjusted EBITDA will increase by approximately 6,562 thousand EUR, since operating lease costs were included in EBITDA, but the depreciation of the asset with the right to use and interest on the lease liability is excluded in the calculation of this indicator.

Cash flows from operating activities will increase and cash flows from financial activities will decrease by approximately 6,652 thousand EUR, since repayments of principal as parts of a lease liability are classified as cash flows from financing activities.

The activities of the Company as a lessee are not material and therefore the Company does not expect material impact on the financial statements.

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

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

Date of application of IFRS 16

The company will apply the Standard from its mandatory date of receipt on 1 January 2019.

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

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

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

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

5 Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

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

Unbilled electricity distribution. The unbilled revenue from distribution represent an accounting estimate based

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

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

Estimated useful life of electricity distribution network.

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

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

6 Property, Plant and Equipment

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

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

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

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

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

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

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

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

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

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

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

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

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

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

7 Intangible Assets

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

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

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

8 Borrowings

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

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

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

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

Ďalšie podrobnosti o prijatých pôžičkách v 2017 sú uvedené v nasledovnej tabuľke:

More details about received borrowings			
In thousands of EUR	Principal	Nominal interest rate	Maturity date
Borrowing 1	315,000	3,04% p.a.	1.10.2018
Borrowing 2	315,000	4,14% p.a.	1.10.2023
Total	630,000		

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

9 Inventories

Inventories		
In thousands of EUR	2018	2017
Materials and spare parts	652	811
Total inventories	652	811

Zásoby sú uvedené po odpočítaní opravnej položky na málo-obrátkové materiály a náhradné diely vo výške 98 tisíc EUR (2017: 9 tisíc EUR).

10 Trade and Other Receivables

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

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

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

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

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

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

More details of ECL in relation to trade receivables			
In % of gross value	Loss rate	Gross carrying amount	Lifetime ECL
Trade receivables			
neither past due	0,01%	33,791	-
1 to 30 days past due	3,11%	578	18
31 to 60 days past due	3,92%	153	6
61 to 90 days past due	28,32%	113	32
91 to 120 days past due	25,00%	52	13
121 to 180 days past due	61,54%	52	32
181 to 360 days past due	84,72%	72	61
Over 360 days past due	100,00%	6,146	6,146
Total trade receivables (gross carrying amount)		40,957	6,308
Credit loss allowance		(6,308)	
Total trade receivables from contracts with customers (carrying amount)		34,649	

11 Receivables from Cash Pooling

Receivables from Cash Pooling		
In thousands of EUR	2018	2017
Receivables from Cash Pooling	44,870	52,146
Total receivables from cash pooling	44,870	52,146

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

12 Cash and Cash Equivalents

Cash and Cash Equivalents		
In thousands of EUR	2018	2017
Current accounts with banks	3,877	3,719
Total cash and cash equivalents in the statement of financial position	3,877	3,719

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

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

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

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

13 Share Capital

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

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

Dividend per share represents EUR 567 per share with the nominal value of EUR 3,320 (31 December 2017: EUR 552) and EUR 56,715 thousand per share with the nominal value of EUR 33,194 thousand (31 December 2017: EUR 55,239 thousand).

14 Legal Reserve Fund

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

15 Income Taxes

Income tax expense comprises the following:

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

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

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

Income tax rate applicable to regulated activities		
In thousands of EUR	2018	2017
Standard income tax rate for the year	21.000%	21.000%
Special levy rate	8,712%	8,712%
Effect of deductibility of special levy from standard rate*	(2,381)%	(2,381)%
Tax rate applicable on profits generated by regulated industry operations	27.331%	27.331%

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

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

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

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

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

Deferred taxes are attributable to the following temporary differences:

Deferred taxes are attributable to the following temporary differences:		
In thousands of EUR	2018	2017
Differences between tax base and carrying value of property, plant and equipment	97,284	96,952
Post-employment defined benefit obligation	(1,261)	(1,143)
Other long term employee benefits	(299)	(257)
Other liabilities	(3,474)	(7,427)
Provision for impairment of trade receivables	(187)	(280)
Other	(6,378)	(1,282)
Total net deferred tax liability	85,685	86,563

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

16 Post-Employment Defined Benefit Obligations

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

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

The principal actuarial assumptions were as follows:

The principal actuarial assumptions		
	2018	2017
Number of employees at 31 December	1,448	1,314
Staff turnover	5,29% p.a.	4,55% p.a.
Expected salary increases short-term	4,00% p.a.	5,00% p.a.
Expected salary increases long-term	2,00% p.a.	4,00% p.a.
Discount rate	1,50% p.a.	1,30% p.a.

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

17 Other Long Term Employee Benefits

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

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

18 Provisions for liabilities and charges

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

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

19 Contract Liabilities from Deferred Connection Fees and Customer Contribution

Contract Liabilities from Deferred Connection Fees and Customer Contribution			
In thousands of EUR	At 31 December 2018	At 1 January 2018	At December 2017
Non-current			
Contract liabilities - customer contributions	14,515	11,098	11,098
Contract liabilities - connection fees	65,858	63,931	63,931
Total non-current contract liabilities	80,373	75,029	75,029
Current			
Contract liabilities - customer contributions	420	480	480
Contract liabilities - connection fees	4,945	4,262	4,262
Total current contract liabilities	5,365	4,742	4,742

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

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

Movements of contractual liabilities were as follows:

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

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

The maturity analysis is as follows at 31 December 2018:

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

20 Trade and Other Payables

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

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

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

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

The movements in contract liabilities were as follows:

The movements in contract liabilities				
In thousands of EUR	At 31 January 2018	Additions	Utilizations	At 31 December 2018
Current				
Contract liability - deferred electricity and distribution fees	2,256	5,060	2,256	5,060
Total current contract liabilities	2,256	5,060	2,256	5,060

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

The maturity analysis of contract liability				
In thousands of EUR	Less than 1 year	From 1 to 5 years	Over 5 years	Total
Current				
Contract liability - deferred electricity and distribution fees	5,060	-	-	5,060
Total current contract liabilities	5,060	-	-	5,060

21 Revenue

Revenue comprises the following:

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

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

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

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

Timing of revenue recognition		
In thousands of EUR	2018	2017
At a point in time	-	-
Over time	503,706	502,185
Total revenue	503,706	502,185

22 Employee Benefits

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

23 Other Operating Expenses

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

24 Other Operating Income

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

25 Interest and Similar Expense

Interest and Similar Expense		
In thousands of EUR	2018	2017
Interest expense on borrowings	21,791	22,617
Other interest expense	105	75
Less capitalised borrowings costs (Note 6)	(1,614)	(1,563)
Total interest and similar expense	20,282	21,129

26 Financial Risk Management

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The maturity analysis is as follows at 31 December 2018:

The maturity analysis at 31 December 2018						
In thousands of EUR	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
Borrowings – principal due	-	-	-	315,000	315,000	630,000
Borrowings – future interest payments	-	-	19,341	77,364	31,500	128,205
Trade payables (Note 20)	23,441	21,930	-	-	-	45,371
Other accrued liabilities (Note 20)	9,701	7,352	3,953	-	-	21,006
Other financial liabilities (Note 20)	521	-	-	-	-	521
Gross finance lease liability	-	-	1,546	1,858	-	3,404
Total future payments, including future principal and interest payments	33,663	29,282	24,840	394,222	346,500	828,507

The maturity analysis is as follows at 31 December 2017:

The maturity analysis at 31 December 2017:						
In thousands of EUR	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
Borrowings – principal due	-	-	315,000	-	315,000	630,000
Borrowings – future interest payments	-	-	20,230	52,164	9,790	82,184
Trade payables (Note 20)	10,569	9,329	144	-	-	20,042
Other accrued liabilities (Note 20)	32,940	7	1,002	-	-	33,949
Other financial liabilities (Note 20)	74	-	-	-	-	74
Gross finance lease liability	-	-	1,147	1,831	-	2,978
Total future payments, including future principal and interest payments	43,583	9,336	337,523	53,995	324,790	769,227

27 Management of Capital

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders, and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. The Company manages capital reported under IFRS as equity amounting to EUR 177,346 thousand at 31 December 2018 (31 December 2017: EUR 170,179 thousand).

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

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

28 Offsetting Financial Assets and Financial Liabilities

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

Offsetting Financial Assets and Financial Liabilities at 31 December 2018						
	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position	Amounts subject to master netting and similar arrangements not set off in the statement of financial position	Net amount of exposure	
				Financial instruments	Cash collateral received	
In thousands of EUR	(a)	(b)	(c) = (a) - (b)	(d)	(e)	(c) - (d) - (e)
Assets						
Cash pooling	44,870	-	44,870	44,870	-	-
Total assets subject to offsetting, master netting and similar arrangement	44,870	-	44,870	44,870	-	-
Liabilities						
Borrowings	634,875	-	634,875	44,870	-	590,005
Total liabilities subject to possible offsetting, master netting and similar arrangement	634,875	-	634,875	44,870	-	590,005

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

Offsetting Financial Assets and Financial Liabilities at 31 December 2017						
	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position	Amounts subject to master netting and similar arrangements not set off in the statement of financial position	Net amount of exposure	
				Financial instruments	Cash collateral received	
In thousands of EUR	(a)	(b)	(c) = (a) - (b)	(d)	(e)	(c) - (d) - (e)
Assets						
Cash pooling	52,146	-	52,146	52,146	-	-
Total assets subject to offsetting, master netting and similar arrangement	52,146	-	52,146	52,146	-	-
Liabilities						
Borrowings	634,833	-	634,833	52,146	-	582,687
Total liabilities subject to possible offsetting, master netting and similar arrangement	634,833	-	634,833	52,146	-	582,687

29 Debt Reconciliation

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

Movements in our debt for each of the periods presented	
In thousands of EUR	Borrowings
At 1 January 2017	634,833
Payments of interest, including interest capitalised and presented as investing cash-flows	(22,617)
Interest expense	21,054
Capitalised interest costs (Note 6)	1,563
At 31 December 2017	634,833
Payments of interest, including interest capitalised and presented as investing cash-flows	(21,791)
Interest expense	20,219
Capitalised interest costs (Note 6)	1,614
At 31 December 2018 (Note 8)	634,875

30 Fair Value Disclosures

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

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

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

Fair values analysed by level in the fair value hierarchy and the carrying value of assets and liabilities not measured at fair value				
In thousands of EUR	31 December 2018		31 December 2017	
	Level 2 fair value	Carrying value	Level 2 fair value	Carrying value
Assets				
Trade receivables, net (Note 10)	34,649	34,649	24,966	24,966
Cash and cash equivalents (Note 12)	3,877	3,877	3,719	3,719
Receivables from cash pooling (Note 11)	44,870	44,870	52,146	52,146
Total assets	83,396	83,396	80,831	80,831
Liabilities				
Borrowings (Note 8)	675,732	634,875	695,066	634,833
Trade payables (Note 20)	45,371	45,371	20,042	20,042
Other accrued liabilities (Note 20)	21,006	21,006	33,949	33,949
Other financial liabilities (Note 20)	521	521	74	74
Liabilities from finance leasing (Note 20)	3,404	3,404	2,978	2,978
Total liabilities	746,034	705,177	752,109	691,876

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

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

31 Presentation of Financial Instruments by Measurement Category

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

32 Contingencies and Commitments

Tax contingencies. Slovak tax law contains certain provisions that allow for more than one interpretation.

Management's interpretation of the Company's business activities may not coincide with the interpretation of these activities by the tax authorities, but the extent of this risk cannot be reasonably quantified. The fiscal years from 2012 to 2018 remain open to tax inspection.

Legal proceedings. From time to time and in the normal course of business, claims against the Company may be received.

Certain customers or their representatives contest fairness and appropriateness of decisions of the network industry regulator. These circumstances have led to the Company having created a provision for the impact of litigation (Note 18).

Capital expenditure commitments. At 31 December 2018, the Company had outstanding contractual commitments for purchases of property, plant and equipment of EUR 4,586 thousand (2017: EUR 700 thousand). Outstanding contractual commitments for purchases of intangible assets were EUR 1,541 thousand (2017: EUR 1,775 thousand).

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

The future aggregate minimum lease payments under non-cancellable operating leases	
In thousands of EUR	2018
No later than one year	7,617
Later than one year and no later than five years	25,152
Later than five years	49,598
Total	82,279

The above mentioned are the future minimum payments extended during the estimated rental period determined by taking into account the contractual right if the extension is considered sufficiently certain by the Company. Minimum future payments that cannot be avoided, for example, by not extending the lease term were EUR 8,939 thousand (2017: EUR 997 thousand).

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

33 Purchase of part of the business

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

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

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

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

34 Balances and Transactions with Related Parties

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

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

The related party transactions and outstanding balances for 2018				
In thousands of EUR	Parent company	E.ON Group**	Slovak government*	Entities under common control of the Parent company
Revenue	1,925	26	223,359	193,517
Purchases and expenses	51,581	6,421	73,178	28,679
Receivables other than taxes	45,256	13	8,342	20,355
Payables other than taxes	636,999	3,557	5,934	18,669
Dividends declared and paid	56,772	-	-	-

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

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

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

The income tax paid was as follows:

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

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

The related party transactions and outstanding balances for 2017:				
In thousands of EUR	Parent company	E.ON Group**	Slovak government*	Entities under common control of the Parent company
Revenue	1,971	90	182,934	190,525
Purchases and expenses	57,013	7,577	65,272	27,714
Receivables other than taxes	52,146	-	985	16
Payables other than taxes	637,856	2,014	1,111	1,285
Dividends declared and paid	55,294	-	-	-

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

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

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

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

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

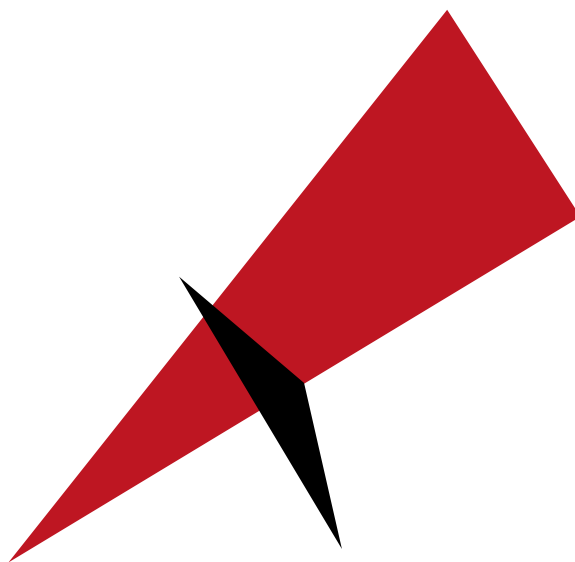
35 Events after the End of the Reporting Period

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

Management authorised these financial statements for issue 21 March 2019:

Ing. Andrej Juris
Chairman of the Board of Directors

Ing. Marian Kapec
Member of the Board of Directors



You can find complete annual report [here](#)



Západoslovenská distribučná, a.s.

Čulenova 6
816 47 Bratislava

0850 333 999
www.zsdis.sk