Východoslovenská energetika a.s.

Financial Statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union and Annual Report for the year ended 31 December 2018 and Independent Auditor´s Report

March 2019

pwc

Independent Auditor's Report

To the Shareholder, Supervisory Board, and Board of Directors of Východoslovenská energetika a.s.:

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Východoslovenská energetika a.s. (the "Company") as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2018;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants issued by the International Federation of Accountants ("Code of Ethics") and other requirements of legislation that are relevant to our audit of the financial statements in the Slovak Republic. We have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics.

Reporting on other information in the annual report

Management is responsible for the annual report prepared in accordance with the Slovak Act on Accounting No. 431/2002, as amended (the "Accounting Act"). The annual report comprises (a) the financial statements and (b) other information.

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

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

With respect to the annual report, we considered whether it includes the disclosures required by the Accounting Act.

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

- the information given in the annual report for the year ended 31 December 2018 is consistent with the financial statements; and
- the annual report has been prepared in accordance with the Accounting Act.

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

Management's responsibilities for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

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

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

PricewaterhouseCoopers Slovensko, s.r.o.

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

Bratislava, 4 March 2019

Havalda

Ing. Peter Havalda, FCCA
UDVA licence No. 1071

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

Our report has been prepared in Slovak and in English. In all matters of interpretation of information, views or opinions, the Slovak language version of our report takes precedence over the English language version.

Východoslovenská energetika a.s.

Financial Statements
for the year ended 31 December 2018

prepared in accordance with
International Financial Reporting Standards
as adopted by the European Union

Východoslovenská energetika a.s.

Financial statements for the year ended 31 December 2018, prepared in accordance with International Financial Reporting Standards as adopted by European Union were approved and authorized for issue on 28 February 2019 by the Board of Directors.

Dipl.-Volksw. Thomas Jan Hejcman
Chairman of the Board of Directors

Ing. Marián Suchý
Member of the Board of Directors

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in EUR thousand	Note	As at 31 December 2018	2017
ASSETS			
Non-current assets			
Property, plant and equipment	5	1,139	1,348
Intangible assets	6	66,357	68,875
Trade and other receivables	3.1	3,093	-
		70,589	**70,223**
Current assets			
Inventories	9	599	515
Trade and other receivables	3.1	39,344	30,861
Cash and cash equivalents	10	22,372	11,339
Other non-financial assets	8	248	6,415
		62,563	**49,130**
Total assets		**133,152**	**119,353**
EQUITY			
Equity attributable to the owners of the parent			
Share capital	11	58,751	58,751
Legal reserve fund	11	11,808	11,808
Retained earnings	11	(2,703)	(11,318)
Total		**67,856**	**59,241**
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	15	11,243	13,304
Employee benefit obligations	16, 17	685	587
		11,928	**13,891**
Current liabilities			
Trade and other payables	12	38,099	43,821
Contract liabilities	13	10,490	-
Employee benefit obligations	16, 17	5	3
Provisions	16	54	42
Other non-financial liabilities	14	4,720	2,355
		53,368	**46,221**
Total liabilities		**65,296**	**60,112**
Total equity and liabilities		**133,152**	**119,353**

in EUR thousand	Note	2018	2017
Revenue from contracts with customers	18	452,607	398,152
Purchases of electricity, gas and distribution costs	19	(407,660)	(369,572)
Material consumption	19	(2,412)	(1,282)
Employee benefit expense	19	(9,699)	(8,825)
Services	19	(14,608)	(12,353)
Depreciation and amortization expense	5, 6, 19	(4,430)	(4,373)
Net impairment losses on financial assets	3.1	(853)	-
Net loss from balancing services with OKTE *	2.18	(4,650)	-
Other operating expenses	19	(192)	(880)
Other operating income	19	1,499	1,259
Profit from operations		**9,602**	**2,126**
Finance income / (expenses)			
Finance income	20	162	-
Finance expense	20	(64)	(12)
Net finance income / (expenses)		**98**	**(12)**
Profit before income tax		**9,700**	**2,114**
Income tax expense	21	(1,059)	(245)
Profit for the year		**8,641**	**1,869**
Other comprehensive income			
Items that may be reclassified to profit or loss		-	-
Items that will not be reclassified to profit or loss			
Re-measurements of post-employment benefits obligation	17	(24)	(51)
Other comprehensive income for the period, net of tax		**(24)**	**(51)**
Total comprehensive income for the year		**8,617**	**1,818**

* OKTE means Organizátor Krátkodobého Trhu s Elektrinou (Organiser of short-term electricity market). Further see Note 2.18.

in EUR thousand	Share capital	Legal reserve fund	Retained earnings	Total equity
Balance as at 1 January 2017	**58,751**	**11,808**	**(5,828)**	**64,731**
Dividends paid	-	-	(7,308)	(7,308)
Total transactions with owners, recognized directly in equity	**-**	**-**	**(7,308)**	**(7,308)**
Profit for the year	-	-	1,869	1,869
Other comprehensive income for the year	-	-	(51)	(51)
Total comprehensive income for the year	**-**	**-**	**1,818**	**1,818**
Balance at 31 December 2017	**58,751**	**11,808**	**(11,318)**	**59,241**
Balance as at 1 January 2018	**58,751**	**11,808**	**(11,318)**	**59,241**
Dividends paid	-	-	-	-
Total transactions with owners, recognized directly in equity	**-**	**-**	**-**	**-**
Profit for the year	-	-	8,641	8,641
Other comprehensive income for the year	-	-	(24)	(24)
Total comprehensive income for the year	**-**	**-**	**8,617**	**8,617**
Other	-	-	(2)	(2)
Balance at 31 December 2018	**58,751**	**11,808**	**(2,703)**	**67,856**

in EUR thousand	Note	Year ended 31 December 2018	2017
Cash flows from operating activities			
Cash generated from operations	22	13,402	(1,797)
Interest paid		(64)	(12)
Interest received		162	-
Income tax paid		675	(2,609)
Net cash from operating activities		**14,175**	**(4,418)**
Cash flows from investing activities			
Purchase of property plant and equipment ("PPE") and intangible assets	5, 6	(3,143)	(1,565)
Net cash (paid) / acquired upon acquisition of assets and liabilities		-	214
Proceeds from sale of PPE		1	-
Net cash used in investing activities		**(3,142)**	**(1,351)**
Cash flows from financing activities			
Dividends paid	12	-	(7,308)
Net cash used in financing activities		**-**	**(7,308)**
Net increase/ (decrease) in cash, cash equivalents and bank overdrafts		**11,033**	**(13,077)**
Cash, cash equivalents at beginning of year	10	**11,339**	**24,416**
Cash, cash equivalents at end of year	10	**22,372**	**11,339**

1. General information

Východoslovenská energetika a.s. (until 30 June 2014 VSE Development, a.s. and until 31 March 2014 VSE Development, s.r.o., hereinafter 'the Company') is 100 % subsidiary of Východoslovenská energetika Holding a.s. (until 30 June 2014 Východoslovenská energetika a.s., hereinafter „VSE H").

Východoslovenská energetika a.s. was established on 24 September 2008 and incorporated in the Commercial Register on 28 November 2008 (Commercial Register of the District Court Košice I, Section Sro, file No. 22836/V).

By the decision of the General Assembly of the Company from 1 April 2014, the legal form of the Company was changed from private limited liability to joint stock company. The registration of the company Východoslovenská energetika a.s. into the commercial register of the District Court Košice I, was performed on 1 July 2014 in the section Sa, file No. 1628/V.

In connection with requirements of European legislation on Energetics, Act on Energetics no. 251/2002 Coll. and Act on Regulation of grid sector no. 250/2012 Coll. with aim of increasing business conduction effectiveness and company management flexibility, Východoslovenská energetika a.s. (since 1 July 2014 Východoslovenská energetika Holding a.s.) has decided to transfer part of its business – Sales division ("part of business") to its 100% subsidiary VSE Development a.s. (currently Východoslovenská energetika a.s.), by contribution in kind.

The main business activity of the Company is supply of electricity to business and households customers, and supply of gas to household customers.

The Company also provides non-commodity products and services offerings to its customers as follows:

- services related to energy management and health and safety,
- solutions to business customers cover tailored solutions and solutions for plants lighting, thermal insulation of buildings and an e-mobility package.
- rental of cost and energy saving LED bulbs, shower heads
- rental of smart electric water heaters, washing machines
- loyalty card programme with year-round discounts in shops and additional services.

Besides that, the Company also has revenues within the group VSE H as follows:

- Sales, marketing and sales support services for innogy Slovensko s. r. o.
- Electricity procurement and sales to Východoslovenská distribučná, a.s.

On 1 December 2017, the Company has acquired the household customers' portfolio from ČEZ Slovensko, s.r.o. The Company has considered the transaction as acquisition of assets and liabilities.

The Company's shareholder structure as at 31 December 2018 and 31 December 2017 was as follows:

	Interest in share capital	
	in EUR thousand	%
Východoslovenská energetika Holding a.s.	58,751	100
Total	**58,751**	**100**

The Company employed 244 staff on average during 2018 (2017: 214).

Members of the statutory bodies of the Company:

Board of Directors:	**Changes in 2018 and status as at 31 December 2018**	**Changes in 2017 and status as at 31 December 2017**
Chairman	Dipl.-Volksw. Thomas Jan Hejcman	Dipl.-Volksw. Thomas Jan Hejcman
Vice Chairman	-	Roman Šipoš, MBA (until 14 Feb 2017)
Members	Mgr. Miroslav Kulla Ing. Marián Suchý Ing. Ján Mihalik (until 27 Sep 2018)	Mgr. Miroslav Kulla Ing. Marián Suchý Ing. Ján Mihalik

Supervisory Board:	**Changes in 2018 and status as at 31 December 2018**	**Changes in 2017 and status as at 31 December 2017**
Chairman	JUDr. Marek Šedovič -	JUDr. Marek Šedovič (from 5 Jul 2017) Ing. Vladimír Palko (until 26 Jan 2017)
Vice Chairman	JUDr. Jitka Adámková, MBA	JUDr. Jitka Adámková, MBA
Members	Ivan Varinský (until 15 Sept 2018) Mgr. Katarína Gočíková (until 15 Sept 2018) Ing. Peter Fortuna (until 15 Sept 2018) JUDr. Vladimír Janočko (until 30 June 2018 and from 25 July 2018 until 27 Sept 2018) JUDr. Ivan Roháč, PhD., LL.M., MBA (until 31 January 2018) JUDr. Jozef Tuhovčák (until 30 June 2018 and from 25 July 2018 until 27 Sept 2018) Ing. Róbert Gold, CA (from 1 February 2018) Ing. Peter Revický (from 16 Sept 2018) Ing. Ivan Petrík (from 16 Sept 2018) Ing. Daniel Bito (ftom 16 Sept 2018) PhDr. Ctibor Holík (until 30 June 2018 and from 25 July 2018 until 27 Sept 2018)	Ivan Varinský Mgr. Katarína Gočíková Ing. Peter Fortuna JUDr. Vladimír Janočko JUDr. Ivan Roháč, PhD., LL.M., MBA JUDr. Jozef Tuhovčák PhDr. Ctibor Holík

As part of the sale of 49% of the shares of the VSE H in 2003, National Property Fund of Slovak Republic and RWE Aktiengesellschaft, with its registered office Germany, 45128 Essen, Opernplatz 1 (hereinafter "RWE AG") have entered into a shareholders' agreement which sets out the areas of responsibility and decision making for the General Meeting, the Board of Directors and the Supervisory Board of Východoslovenská energetika Holding a.s. and the Company, as well as the rules for nomination of members of the Board of Directors and Supervisory Board of these companies. Since 1 July 2014 the shareholders' agreement had become valid for the Company as well.

On 19 November 2013, the General Meeting of Východoslovenská energetika Holding a.s. approved the transfer of 49% shares of Východoslovenská energetika Holding a.s., from RWE AG to the 100% subsidiary of RWE AG - RWE Beteiligungsverwaltung Ausland GmbH, with its registered office Germany, D-45128 Essen, Opernplatz 1 (hereinafter „RBA ") - contribution of capital in the form of shares to RBA. Registration with the Central Securities Depository of the Slovak Republic took place on 10 December 2013.

Based on the Act No. 197/2014 Coll. amending the Act No. 92/1991 Coll. on the conditions of state property transfer to other persons as amended, there was a transfer of shareholding from the National Property Fund of SR to the state on 1 August 2014. As of this date, shareholder rights and obligations are executed by the Ministry of Economy of SR as the owner of the shareholding in Východoslovenská energetika Holding a.s.

On 4 March 2016, RWE Downstream Beteiligungs GmbH, with its registered office: Germany, 45128 Essen, Opernplatz 1, became an owner of 1,647,870 units of shares, i.e. of 49% share in the share capital and voting rights of Východoslovenská energetika Holding a.s., based on a merger of RWE Downstream Beteiligungs GmbH and RWE Beteiligungsverwaltung Ausland GmbH.

On 31 May 2016, the General Meeting of VSE Holding approved the transfer of 49% shares of Východoslovenská energetika Holding a.s. from RWE Downstream Beteiligungs GmbH, with its registered office: Germany, 45128 Essen, Opernplatz 1 to RWE International SE, with its registered office: Germany, 45128 Essen, Opernplatz 1. The registration with the Central Securities Depository of the Slovak Republic took place on 8 June 2016.

On 17 June 2016, the General Meeting of the Company approved the transfer of 49% shares of Východoslovenská energetika Holding a.s. from RWE International SE, with its registered office: Germany, 45128 Essen, Opernplatz 1 to RWE Gas International N.V., with its registered office: Kingdom of the Netherlands, 5211AK 's-Hertogenbosch, Willemsplein 4. The registration with the Central Securities Depository of the Slovak Republic took place on 30 June 2016.

On 26 August 2016, a shareholder of Východoslovenská energetika Holding a.s., RWE Gas International N.V., changed its business name to innogy International Participations N.V. (hereinafter referred to as "innogy").

The General Meetings of Východoslovenská energetika Holding a.s. and the Company decide within the competencies provided by the shareholders' agreement and articles of association of the respective company. The General Meeting of Východoslovenská energetika Holding a.s. decides by unanimous consent of both shareholders. The General Meeting of Východoslovenská energetika Holding a.s. elects the members of the Board of Directors of VSE H and grants previous consent with election of the members of the Board of Directors by General Meeting of the Company.

The Boards of Directors of Východoslovenská energetika Holding a.s. and the Company manage the operations of the respective company and decide on all matters unless these are assigned to competencies of the General Meeting or the Supervisory Board by the shareholders' agreement and articles of association. The Boards of Directors of Východoslovenská energetika Holding a.s. and the Company consist of five members. The chairman and two members of the Boards of Directors are nominated by innogy. Ministry of Economy of SR nominates one vice-chairman and one member of the Boards of Directors.

The Supervisory Boards are the supreme controlling bodies of Východoslovenská energetika Holding a.s. and the Company. The Supervisory Boards supervise the activities of the Boards of Directors of the respective company and its business activities. The Supervisory Boards of Východoslovenská energetika Holding a.s. and the Company consist of nine members. The vice-chairman of the Supervisory Board is nominated by innogy. Ministry of Economy of SR is represented by the chairman and four members. The employees are represented by three members.

Based on amended shareholders agreement which became effective on 1 September 2015, RWE Aktiengesellschaft became ultimate controlling party of the whole VSE H group, of which the Company is a part. The consolidated financial statements are available directly at the seat of the Company.

Registered address

The registered address of the Company is:
Mlynská 31
042 91 Košice
Slovak Republic

Company number: 44 483 767
VAT number: SK2022730457

The Company does not have any unlimited liability in other accounting entities.

The Company provided financial guarantees to financing banks for four long term borrowings of parent company VSE H in total principal amount of EUR 220,000 thousand. Accounting policy for these guarantees and further details are in Note 2.8 and Note 23.

The financial statements for the period ended 31 December 2017 have been approved by the General Meeting held on 24 April 2018.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless stated otherwise.

2.1. Basis for preparation

The Act on Accounting of the Slovak Republic no. 431/2002 as amended requires certain companies to prepare financial statements for the year ended 31 December 2018 in accordance with International Financial Reporting Standards as adopted by the European Union (hereinafter "IFRS").

The financial statements for the year ended 31 December 2018 have been prepared as ordinary financial statements under § 17 Sec. 6 Act of NR SR No. 431/2002 Coll. as amended ("Accounting Act") for the accounting period from 1 January 2018 to 31 December 2018.

These financial statements have been prepared in accordance with IFRS. The Company applies all IFRS and interpretations issued by International Accounting Standards Board (hereinafter "IASB"), as adopted by the European Union, which were in force as of 31 December 2018. Consolidated financial statements of the group Východoslovenská energetika Holding a.s. are available at seat of the Company, stated in Note 1.

For purposes of preparation of these financial statements according to IFRS, the management of the Company defines the critical assumptions and estimates which have an influence on recognized amounts of assets and liabilities in the balance sheet and on expenses and income recognized in the profit or loss. At the application of accounting policies of the Company, the management makes certain critical judgments. The areas, which require a more complex decision-making process and areas, where the critical assumptions and estimates are material to these financial statements, are presented in Note 4.

The financial statements have been prepared under the historical cost convention except for financial assets and liabilities that are initially measured at fair value and subsequently at amortized cost using effective interest rate and except for financial guarantee contracts that are measured at fair value through profit or loss.

The financial statements have been prepared on accrual basis and under the going concern assumption. The transactions are recognized in the financial statements in the period to which they relate.

The Board of Directors may propose to the Company's shareholder to amend the financial statements after their approval by the General Shareholder Meeting. However, § 16, points 9 to 11 of the Accounting Act prohibit reopening an entity's accounting records after the financial statements were prepared and approved. If, after the financial statements were 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 accounting period, in which the relevant facts are identified.

(a) New and amended standards adopted by the Company during the year ended 31 December 2018

The following new standards and interpretations became effective for the Company and were applied from 1 January 2018:

IFRS 9, Financial Instruments (issued on 24 July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

This standard has been endorsed by the EU on 22 November 2016.

The Company has applied the standard from 1 January 2018. The Company has not selected the option to restate the data for comparative periods and any adjustments or potential adjustments to carrying amounts would be reflected in the opening retained earnings as of the date of initial application of the standard. Disclosure for comparative periods are therefore based on the separate financial statements for the year ended 31 December 2017.

Significant new accounting policies are described in Notes 2 and 3.1, together with accounting policies valid in comparative period. There were no impacts to carrying amounts of financial assets and liabilities or to retained earnings as a result of application of new standard as the impact of application was considered as not material. The key presentation impacts related to reclassification of cash and cash equivalents and trade and other receivables from measurement category 'Loans and receivables' to measurement category 'Amortised cost' as of the day of application of the standard.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers must be capitalised and amortised over the period when the benefits of the contract are consumed. Effective date is 1 January 2018. This standard has been endorsed by the EU on 22 September 2016.

The Company has adopted the standard using the simplified transition method which means that the cumulative impact of the adoption has been recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated. Significant new accounting policies are described in Note 2.18, together with accounting policies valid in comparative period.

There were the following impact in the first year of application of IFRS 15 in current period:

- Net loss from balancing services with OKTE is presented in a separate line in the Statement of Profit or Loss and Other Comprehensive Income in the amount of EUR 4,650 thousand. Further details are in Note 2.21.
- Unbilled electricity balance was split in 2018 in Trade and other receivables and Contract liability. Individual net balances with customers for which the estimated delivery for the period that was not measured exceeded prepayments received from customers for the same period are presented as trade and other receivables in the SOFP in the current period. If the individual net balances with customers are opposite, they are presented as contract liability. Adjustment upon transition to IFRS 15 as of 1 January 2018 due to this fact was not recorded by the Company as it was not material.

Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments do not change the underlying principles of the Standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard. These amendments have been endorsed by the EU on 31 October 2017.

Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments mean that non-market performance vesting conditions will impact measurement of cash-settled share-based payment transactions in the same manner as equity-settled awards. The amendments also clarify classification of a transaction with a net settlement feature in which the entity withholds a specified portion of the equity instruments, that would otherwise be issued to the counterparty upon exercise (or vesting), in return for settling the counterparty's tax obligation that is associated with the share-based payment. Such arrangements will be classified as equity-settled in their entirety.

Finally, the amendments also clarify accounting for cash-settled share based payments that are modified to become equity-settled, as follows (a) the share-based payment is measured by reference to the modification-date fair value of the equity instruments granted as a result of the modification; (b) the liability is derecognised upon the modification, (c) the equity-settled share-based payment is recognised to the extent that the services have been rendered up to the modification date, and (d) the difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date is recorded in profit or loss immediately. Effective date is 1 January 2018. These amendments have been endorsed by the EU on 26 February 2018. The amendments have had immaterial impact on these financial statements.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach). The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the replacement Standard that the IASB is developing for IFRS 4. These concerns include temporary volatility in reported results. The amendments introduce two approaches: an overlay approach and a deferral approach. The amended Standard will give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts Standard is issued. In addition, the amended Standard will give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments Standard — IAS 39. The amendments to IFRS 4 supplement existing options in the Standard that can already be used to address the temporary volatility. Effective date is 1 January 2018. This standard has been endorsed by the EU on 3 November 2017. The amendments have had immaterial impact on these financial statements.

Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 and IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018). IFRS 1 was amended and some of the short-term exemptions from IFRSs in respect of disclosures about financial instruments, employee benefits and investment entities were removed, after those short-term exemptions have served their intended purpose. The amendments to IAS 28 clarify that an entity has an investment-by-investment choice for measuring investees at fair value in accordance with IAS 28 by a venture capital organisation, or a mutual fund, unit trust or similar entities including investment linked insurance funds. Additionally, an entity that is not an investment entity may have an associate or joint venture that is an investment entity. IAS 28 permits such an entity to retain the fair value measurements used by that investment entity associate or joint venture when applying the equity method. The amendments clarify that this choice is also available on an investment-by-investment basis. Effective date is 1 January 2018. These amendments have been endorsed by the EU on 7 February 2018. The amendments have had immaterial impact on these financial statements.

IFRIC 22 - Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018). The interpretation addresses how to determine the date of the transaction for determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) on the derecognition of a non-monetary asset or non-monetary liability arising from an advance consideration in a foreign currency. Under IAS 21, the date of the transaction for determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transaction for each payment or receipt of advance consideration. IFRIC 22 only applies in circumstances in which an entity recognises a non-monetary asset or non-monetary liability arising from an advance consideration. IFRIC 22 does not provide application guidance on the definition of monetary and non-monetary items. An advance payment or receipt of consideration generally gives rise to the recognition of a non-monetary asset or non-monetary liability; however, it may also give rise to a monetary asset or liability. An entity may need to apply judgment in determining whether an item is monetary or non-monetary. Effective date is 1 January 2018. These amendments have been endorsed by the EU on 28 March 2018. The interpretation has had immaterial impact on these financial statements.

Transfers of Investment Property – Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments clarify the requirements on transfers to, or from, investment property in respect of properties under construction. Prior to the amendments, there was no specific guidance on transfers into, or out of, investment properties under construction in IAS 40. The amendment clarifies that there was no intention to prohibit transfers of a property under construction or development, previously classified as inventory, to investment property when there is an evident change in use. IAS 40 was amended to reinforce the principle of transfers into, or out of, investment property in IAS 40 to specify that a transfer into, or out of investment property should only be made when there has been a change in use of the property; and such a change in use would involve an assessment of whether the property qualifies as an investment property. Such a change in use should be supported by evidence. Effective date is 1 January 2018. These amendments have been endorsed by the EU on 14 March 2018. The amendments have had immaterial impact on these financial statements.

b) New standards, amendments and interpretations issued and effective for the financial year beginning 1 January 2019 or later and not early adopted

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

IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. 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 Company is currently assessing the impact of the standard on its financial statements. Effective date is 1 January 2019. This standard has been endorsed by the EU on 31 October 2017.

Impact

The Company set-up a project team which has reviewed all of the leasing arrangements over the last year in light of new accounting rules in IFRS 16. This standard will affect primarily the accounting for the Company's operating leases where the Company is a lessee. The Company has selected to use simplified transition approach and will not restate the comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

As at 31 December 2018, the Company has non-cancellable operating lease commitments of immaterial value. There are no commitments related either to short-term leases or to low value leases. There were no significant judgments or estimates involved in assessment of leasing arrangements, discount rates, lease term.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Company does not expect material impact on its separate financial statements. These amendments have not been endorsed by the EU yet.

IFRS 17, Insurance Contracts *(issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021).* IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. Therefore, it was difficult for investors to compare the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. The Company is currently assessing the impact of the standard on its financial statements. This standard has not been endorsed by the EU yet.

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 the interpretation on its financial statements. Effective date is 1 January 2019. This standard has been endorsed by the EU on 23 October 2018.

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). The amendments enable measurement at amortised cost of certain loans and debt securities that can be prepaid at an amount below amortised cost, for example at fair value or at an amount that includes a reasonable compensation payable to the borrower equal to present value of an effect of increase in market interest rate over the remaining life of the instrument. In addition, the text added to the standard's basis for conclusion reconfirms existing guidance in IFRS 9 that modifications or exchanges of certain financial liabilities measured at amortised cost that do not result in the derecognition will result in a gain or loss in profit or loss. Reporting entities will thus in most cases not be able to revise effective interest rate for the remaining life of the loan to avoid an impact on profit or loss upon a loan modification. The Company is currently assessing the impact of the amendment on its financial statements. Effective date is 1 January 2019. This standard has been endorsed by the EU on 22 March 2018.

Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).The amendments clarify that reporting entities should apply IFRS 9 to long-term loans, preference shares and similar instruments that form part of a net investment in an equity method investee before they can reduce such carrying value by a share of loss of the investee that exceeds the amount of investor's interest in ordinary shares. The Company does not expect a material impact of the amendment on its financial statements. These amendments have been endorsed by the EU on 8 February 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). The narrow scope amendments impact four standards. IFRS 3 was amended to clarify that an acquirer should re-measure its previously held interest in a joint operation when it obtains control of the business. Conversely, IFRS 11 now explicitly explains that the investor should not re-measure its previously held interest when it obtains joint control of a joint operation, similarly to the existing requirements when an associate becomes a joint venture and vice versa. The amended IAS 12 explains that an entity recognises all income tax consequences of dividends where it has recognised the transactions or events that generated the related distributable profits, eg in profit or loss or in other comprehensive income. It is now clear that this requirement applies in all circumstances if payments on financial instruments classified as equity are distributions of profits, and not only in cases when the tax consequences are a result of different tax rates for distributed and undistributed profits. The revised IAS 23 now includes explicit guidance that the borrowings obtained specifically for funding a specified asset are excluded from the pool of general borrowings costs eligible for capitalisation only until the specific asset is substantially complete. The Company is currently assessing the impact of the amendment on its financial statements. This amendment has not been endorsed by the EU yet.

Plan Amendment, Curtailment or Settlement - Amendments to IAS 19 (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019). The amendments specify how to determine pension expenses when changes to a defined benefit pension plan occur. When a change to a

plan—an amendment, curtailment or settlement—takes place, IAS 19 requires re-measuring net defined benefit liability or asset. The amendments require to use the updated assumptions from this re-measurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. Before the amendments, IAS 19 did not specify how to determine these expenses for the period after the change to the plan. By requiring the use of updated assumptions, the amendments are expected to provide useful information to users of financial statements. The Company is currently assessing the impact of the amendment on its financial statements. This amendment has not been endorsed by the EU yet.

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).The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting. This amendment has not been endorsed by the EU yet. The Company is currently assessing the impact of the amendment on its financial statements.

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).The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if are no outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants can replace missing elements or integrating the acquired activities and assets. An entity can apply a 'concentration test'. The assets acquired would not represent a business if substantially all the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets). The amendments are prospective, and the Company will apply them and assess their impact from 1 January 2020. These amendments have not been endorsed by the EU yet. The Company expects that this standard will not impact its separate financial statements.

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). The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make based on those financial statements, which provide financial information about a specific reporting entity. The Company is currently assessing the impact of the amendment on its financial statements. This amendment has not been endorsed by the EU yet.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

2.2. Foreign currency translation

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). Company's functional and presentation currency is Euro ("EUR") and these financial statements are presented in thousands of 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 recognized in the profit or loss.

2.3. Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation less accumulated impairment loss.

Historical cost includes expenditure that is directly attributable to the acquisition. Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for the intended use or sale (qualifying assets) are capitalised as part of the costs of those assets if capitalization commenced on 1 January 2009 or after. The commencement date for capitalisation is when (a) the Company incurs expenditures for the qualifying assets, (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.

Subsequent costs are included in the asset's carrying amount or recognized 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 reliably measured. Repairs and maintenance costs are charged to the profit or loss during the financial period in which they are incurred.

The depreciation of property, plant and equipment begins in the month when the property, plant and equipment is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Property, plant and equipment is depreciated in line with the approved depreciation plan. It is depreciated using the straight-line method. Monthly depreciation charge is stated as the difference between acquisition costs and residual value, divided by estimated useful life of the property, plant and equipment. The residual value of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal if the asset were already of the age and in the condition expected at the end of its useful life. The residual values in the moment of disposal and estimated useful life of non-current asset are subject to reassessment at each end of the reporting period and adjusted, if necessary.

The estimated useful lives of individual groups of assets are as follows:

Machinery and equipment	
Household devices	2-10 years
Other non-current tangible assets at cost not exceeding EUR 1,700	1 year

Most significant items of property, plant and equipment are household devices that are rented to household customers. See Note 2.18. for accounting policies related to revenue derived from such customer arrangements.

Each component 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. The Company proportionally allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant components and depreciates separately each such component.

Land and assets under construction are not depreciated.

Gains and losses from disposal of property, plant and equipment are determined as the difference between revenue from disposal and the asset's carrying amount and are recognized in profit or loss.

2.4. Intangible assets

Customer portfolio

The Company has recognized intangible assets related to two customer portfolios:

1. Customer portfolio recognized at the date of contribution-in-kind of the sales division of VSE H to the Company on 1 July 2014. It is amortised on a straight-line basis based on the timing of projected cash flows of the transferred contracts considering expected churn rates. Initially recognized fair value of the customer portfolio was EUR 67,050 thousand. Subsequently it is amortized on a straight-line basis over the estimated expected average customer contract duration period. The carrying amount of the portfolio as of 31 December 2018 is EUR 54,981 thousand (31 December 2017: EUR 57,663 thousand). The portfolio consists of electricity customers.
2. The ČEZ households' acquisition customer portfolio was recognized at cost at the date of acquisition of ČEZ customer portfolio which is 1 December 2017. It is subsequently amortised over the estimated expected average customer contract duration period.. The carrying amount of the portfolio as of 31 December 2018 is EUR 7,652 thousand (31 December 2017: 7,971 thousand). The portfolio consists of household electricity and gas customers.

Refer to Note 1 for more details.

Computer software and other intangible assets

The Company does not have intangible assets with indefinite useful lives and internally generated intangible assets.

Computer software and other intangible assets are stated at historical cost less accumulated amortization and less accumulated impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the items including costs needed to bring the intangible assets to a condition so that the intangible assets can be used as intended by management.

The amortization of an intangible asset begins in the month when the intangible asset is available for use, i.e. when it is in the condition necessary for it to be capable of operating in the manner intended by management. Intangible assets are amortized in line with the approved amortization plan. Intangible assets are amortized using the straight-line method. Monthly amortization charge is stated as the difference between acquisition costs and residual value, divided by the estimated useful life of the intangible assets. The residual value of intangible assets is assumed to be zero, unless (a) there is a commitment by a third party to purchase the asset at the end of its useful life, or (b) there is an active market for the asset and residual value can be

determined by the reference to that market, and it is probable that such a market will exist at the end of the asset's useful life.

Costs associated with maintaining computer software programs are recognized as an expense as incurred. Subsequent expenditures, which enhance or extend the performance of computer software programs beyond their original specifications and meets criteria for recognizing it as an intangible asset according to IAS 38, is recognized as a capital improvement and added to the original cost of the software.

The estimated useful lives of individual groups of intangible assets are as follows:

Software and other	2-9 years
Customers portfolio	25 years

2.5. Impairment of non-financial assets

Assets that are subject to amortization and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are individually identifiable cash flows (cash-generating units or CGUs). The Company concluded that it is one cash-generating unit. Non-financial assets that were impaired are reviewed for possible reversal of the impairment at each end of the reporting period.

2.6. Financial assets

Classification

From 1 January 2018, the Company classifies its financial assets in only one measurement category - those to be measured at amortised cost, because the Company has no financial assets to be measured subsequently at fair value either through other comprehensive income or through profit or loss as defined in IFRS 9.

The classification depends on the purpose for which these financial assets were acquired and on the intention of management of the Company on further use. Management determines the classification of its financial assets at initial recognition.

Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade date, the date on which the Company commits to purchase or sell the asset. A financial asset is derecognised if the contractual rights to cash inflows from the asset expire or if the financial asset is transferred. The latter is the case if all substantial risks and rewards of ownership of the asset are transferred or if control over the asset is lost.

Measurement

At initial recognition, the Company measures a financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

Financial assets are included in current assets, except for maturities greater than 12 months after the end of the reporting period that are classified as non-current assets.

Subsequent measurement of financial assets depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses.

Trade receivables are amounts due from customers for services performed or commodities delivered in the ordinary course of business. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Company holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

The Company recognizes current receivables that are generally due for settlement within 30 days and non-current receivables arising from the retail installment sale and finance lease activities.

Solutions to business cover tailored solutions and solutions for plants lighting, thermal insulation of buildings and an e-mobility package. These solutions may be offered with special payment terms over 36 months hence includes financing component and its long-term part is classified as non-current. Nominal value of receivable is discounted to present value and difference is recognised as interest income. The Company discounted such receivables to present value totally EUR 418 thousand as of 31 December 2018 (31 December 2017:0). The effective interest rate of 4% was used.

Impairment

From 1 January 2018, the Company applies for trade and other receivables, the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 3.1 for further details.

The Company implemented a new model for estimation of expected credit loss for trade and other receivables. To satisfy requirements of the new standard, a history of unpaid receivables was gathered, and a provision matrix was created based on customer segment and expected credit loss based on history of defaulting receivables over a period of 24 months. IFRS 9 also requires applying forward looking information to estimate expected credit loss reliably. The provision matrix adjustment mechanism was implemented to satisfy this requirement.

Accounting policies applied until 31 December 2017

The Company has applied IFRS 9 retrospectively but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Company's previous accounting policy. The following represents differences in accounting policies applied until 31 December 2017 relevant for the Company's separate financial statements.

Classification

Until 31 December 2017, the Company classified its financial assets in the following categories:

- Financial assets at fair value through profit or loss
- Loans and Receivables
- Held-to-maturity investments
- Available-for-sale financial assets

The classification depended on the purpose for which the investments were acquired. Management determined the classification of its investments at initial recognition. Management determined the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluated this designation at the end of each reporting period.

The Company had in comparative period only financial assets classified as loans and receivables.

Measurement

The measurement at initial recognition did not change on adoption of IFRS 9, see description above. Subsequent to the initial recognition, loans and receivables were carried at amortised cost using the effective interest method.

Details on how the fair value of financial instruments is determined are disclosed in Note 3.6.

Impairment

The Company assessed at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated.

For loans and receivables, the amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that had not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset was reduced and the amount of the loss was recognised in profit or loss. If a loan or held-to-maturity investment had a variable interest rate, the discount rate for measuring any impairment loss was the current effective interest rate determined under the contract. As a practical expedient, the Company could measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreased, and the decrease could be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss was recognised in profit or loss.

Impairment of trade receivables is recognized on the account of allowance for receivables. Set-up and release of the allowance is recognized in the profit or loss within "Other operating (expenses)/income". Trade receivables that cannot be collected are written off against the allowance account for trade receivables and are recognized in the profit or loss also within "Other operating (expenses)/income".

Trade receivables that were written off and subsequently paid by the debtors are recognized in the profit or loss within "Other operating income".

2.7. Leases

IAS 17 defines a lease as being an agreement whereby the lessor conveys to the lessee in return for a payment, or series of payments, the right to use the asset for an agreed period.

Finance leases

Leases, in which a significant portion of the risks and rewards of the ownership are retained by the lessee, are classified as operating leases. The Company has no arrangements where it acts as a lessee in finance lease arrangements.

Lease income from finance leases where the Company is a lessor is recognised in income on a straight-line basis over the lease term. The respective leased assets are excluded from the balance sheet of the Company and the Finance lease receivable is recognized, either short term (settlement expected within 12 months from the balance sheet date) or long term (settlement after 12 months from the balance sheet date). The respective long-term Finance lease receivable is discounted to net present value using the effective interest method.

Operating leases

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

Income from operating leases where the Company is a lessor is recognised on a straight-line basis over the lease term. The respective leased assets are included in the balance sheet based on their nature.

The description of the nature of the lease arrangements where the Company acts as a lessor is disclosed in Note 2.18 Revenue from contracts with customers.

2.8. Financial liabilities

The Company classifies its financial liabilities according to IFRS 9 "Financial Instruments "as other financial liabilities held at amortized cost or in case of financial guarantee contracts at fair value through profit or loss. Most of the requirements in previous standard IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9.

The classification depends on the contractual provisions of the instrument and the intentions with which management entered into the contract. Management determines the classification of its financial liabilities at initial recognition.

When a financial liability is recognized initially, the Company measures it at its fair value adjusted for transaction costs that are directly attributable to the acquisition of the financial liability. For financial liabilities classified in 'amortized cost' category, The Company measures them at amortised cost, using the effective interest rate method.

A financial liability (or a part of a financial liability) is removed from the Company's statement of financial position when, and only when it is extinguished – i.e. when the obligation specified in the contracts is discharged or cancelled or expires, resulting in gain or loss to be recognized in the profit or loss at derecognition.

2.9. Inventories

Inventories are stated at the lower of cost and net realizable value. Weighted average method is used for the measurement at the disposal of inventories. The cost of material includes purchase price and directly attributable acquisition costs. The net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling costs.

2.10. Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, overdrafts, receivables from cash-pooling within VSEH group.

Cash-pooling financing was implemented within the group Východoslovenská energetika Holding a.s. The Company has recognized a receivable from cash-pooling to the parent company VSEH in amount of EUR 8,940 thousand as at 31 December 2018 (31 December 2017: EUR 4,694 thousand). This balance is included in Cash and cash equivalents (see Note 10). Receivables from cash-pooling within the VSEH group are considered to be cash equivalent due to financing arrangements for the group Východoslovenská energetika Holding a.s. and they are repayable on demand.

2.11. Share capital

Ordinary shares are considered as share capital. Additional costs attributable to issuing of new ordinary shares are presented in equity as decrease in equity, net of income tax.

2.12. Dividends

Dividend pay-out is recognized as liability and decreases equity as of the end of the reporting period only if it has been declared by the end of the reporting period.

2.13. Legal reserve fund

Legal reserve fund is created in accordance with Commercial Code, based on financial statements, in the amount of 10% of profit after tax, up to 20% of share capital of the Company. Legal reserve fund can be used only for increase of share capital or cover the losses.

2.14. Current and deferred income tax

The current income tax charge is calculated based on the tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations is subject to interpretation and establishes provisions where appropriate based on amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the 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 that at the time of the transaction affects neither accounting, nor taxable profit or loss.

Deferred income tax is determined using income tax rates legislation related to special levy charges that have been enacted or substantially enacted by the end of the reporting period, and that are expected to apply when the related deferred income tax asset is realised, or the deferred income tax liability is settled.
Deferred income tax assets are recognized to the extent that it is probable, that future taxable profit will be available against which the temporary differences can be utilised.

The Company shall offset deferred tax assets and deferred tax liabilities if the Company has a legally enforceable right to set them off and if they relate to income taxes to be paid to the same tax authority.

2.15. 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 impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

2.16. Employee benefits

Pension plans and jubilee awards

The Company has defined benefit and defined contribution plans.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligations to pay further contributions in case the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Unfunded defined benefit pension plan

According to the contract with the Trade Unions effective from 1 April 2017 till 31 December 2019 the Company is obliged, based on the number of years in service, to pay its employees on retirement or disability the following multiples of their average monthly salary (condition that an employee is not entitled to termination benefits must be met):

Years of service	Multiple of the average monthly salary
Up to 10 years	2x
10-15 years	3x
15-20 years	4x
20-25 years	5x
25-30 years	6x
30-35 years	7x
Over 35 years	8x

The minimum requirement of the Labour Code of one-month average salary payment on retirement and disability is included in the above multiples.

The Company also pays life jubilees benefits. Jubilee benefits when the employee reaches age of 50 years depend on the length of the service within the Company and are as follows:

Years of service	Benefit
Over 5	EUR 374
Over 10	EUR 500
Over 20	EUR 670

The same or similar obligation had been included in the contracts with the Trade Unions since 1994. The Company has created expectations on the side of its employees that it will continue to provide the benefits, and according to the management's judgment that it is not realistic for the Company to cease providing them.

The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period.

The defined benefit obligation is calculated annually by independent actuaries using the Projected Unit Credit Method. For determining the present value, the discount rate derived from the yield curve for high quality Europe corporate bonds (AA) quoted as at 20 December 2018 (2017: 14 December 2017) was used (source: Bloomberg). Subsequently, the figures were adjusted by program applying R Svensson method to calculate forward discount rate used. The yield curves used are not materially different compared to the yield curves as of the year-ends.

Re-measurements (formerly Actuarial gains and losses) arising from experience adjustments and changes in actuarial assumptions are recognized immediately in Other comprehensive income (OCI).

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognised immediately in profit or loss as past service costs.

Defined contribution pension plans

The Company contributes to government and to private defined contribution pension plans.

The Company makes contributions to government health, retirement benefit, accidental and guarantee insurance, solidarity reserve funds and unemployment schemes at the statutory rates being in force during the year, based on the gross salary payments. Throughout the year, the Company contributed to such schemes in the amount of up to 35.2% (2017: 35.2%) of gross salaries up to a monthly salary, which is defined by the relevant law together with the contributions of the employees of a further up to 13.4 % (2017: 13.4%) of gross salaries. The costs contributed by the Company are charged to the profit or loss in the same period as the related salary costs.

In addition, with respect to employees who have chosen to participate in a supplementary pension scheme, the Company contributed to the supplementary scheme based on tariff wages and years of service provided in the Company in the following way:

	Benefit	
Years of service	**From 1 January 2018**	**From 1 April 2017**
up to 5 years	1.50 % of gross salary	1.50 % of gross salary
from 5 till 10 years	1.75 % of gross salary	1.75 % of gross salary
from 10 till 15 years	2.00 % of gross salary	2.00 % of gross salary
from 15 till 20 years	2.50 % of gross salary	2.50 % of gross salary
from 20 till 25 years	3.00 % of gross salary	3.00 % of gross salary
from 25 till 30 years	3.50 % of gross salary	3.50 % of gross salary
from 30 till 35 years	4.00 % of gross salary	4.00 % of gross salary
from 35 till 40 years	5.00 % of gross salary	5.00 % of gross salary
Over 40 years	6.00 % of gross salary	6.00 % of gross salary

Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits at the earlier of the following dates: (a) when the Company can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefit. In the case of an offer made to encouraged voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

2.17. Provisions and contingent liabilities

A provision is recognized by the Company when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognized for future operating losses. An entity may expect reimbursement of some or all expenditure required to settle a provision (e.g. through insurance contracts). It recognizes a reimbursement when, and only when, it is virtually certain that reimbursement will be received.

When 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 recognized 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 in the provision due to passage of time is recognized as interest expense.

Contingent liability is defined as (a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity, or (b) a present obligation that arises from past events, but not recognized, because: (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or (ii) the amount of the obligation cannot be measured with sufficient reliability.

2.18. Revenue from contracts with customers

The Company has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018. The standard provides a single, principles based five-step model to be applied to all contracts with customers:

- identify the contract(s) with a customer
- identify the performance obligations in the contract
- determine the transaction price
- allocate the transaction price to each performance obligation
- recognise revenue when a performance obligation is satisfied

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 are met for each of the Company's activities as described below. Revenue comprises the fair value of the consideration received or receivable.

Revenues from supply and distribution of electricity and gas

General revenue recognition policies

The Company sells electricity and gas primarily to final users of commodities and recognizes revenues from such sales for both supply and distribution. Customer contracts combining supply and distribution of commodity are called integrated contracts.

The Company subcontracts its sister company VSD and other electricity distribution companies in Slovakia for delivering the distribution services.

The Company sells gas to final users in households segment since December 2017 after acquisition of ČEZ portfolio (see Note 1). The Company subcontracts one gas distribution company for delivering the distribution services in all regions of Slovakia.

Integrated customer contracts contain in general three promises – supply of commodity, distribution of commodity via the distribution system of the distribution company, and balancing services for the clients' deviations from nominated amounts of the commodity. The Company has made judgment that distribution of commodity is not a separate performance obligation, because in practice customers tend to pay for distribution services under the integrated customer contracts to the Company and this is also a market standard. In exceptional cases it is possible for final user of commodity to conclude a separate contract for the distribution of a commodity directly with a distribution company or grid operator, depending on connection requirements. The customers in fact contract for a combined output and not the sum of individual inputs (commodity and distribution). Therefore, distribution service is not distinct and it is not considered to be a separate performance obligation.

Volume flexibility clauses in customer contracts (take-or-pay clauses or balancing services provided to customers) could be considered as written option, however the Company has considered that the written option is not genuine. Therefore IFRS 9 will not be applicable. Promise to deliver balancing services is considered to be highly interrelated with the supply of commodity and as such, it is not distinct and not a separate performance obligation.

The supply and distribution of wholesale customers is measured and billed on monthly basis for both commodities.

The supply and distribution of electricity retail customers in households segment is measured and billed on annual basis for each of eleven billing cycles. Each customer is allocated to one of these eleven billing cycles.

Annual metering of billing cycles is phased during the year, each month until January to November approximately one eleventh of the customers is measured. The Company uses type diagrams of delivery (TDD) for estimation of the monthly supply to the household segment between the date of last measurement and the end of the reporting period. Retail customers in household segment are billed on a monthly basis in the form of advance payments. The final bill is issued after measurement once a year.

The supply and distribution of gas retail customers in households segment is measured and billed on annual basis for each of twelve billing cycles. Each customer is allocated to one of these twelve billing cycles. Annual metering of billing cycles is phased throughout the whole year. The Company uses type diagrams of delivery (TDD) for estimation of the monthly supply to the household segment between the date of last measurement and the end of the reporting period. Retail customers in household segment are billed on a monthly basis in the form of advance payments. The final bill is issued after measurement once a year.

The supply and distribution of retail customers in electricity commodity, in the segment of small entrepreneurs, is measured and billed on the annual basis from 1 January till 31 December. Small entrepreneurs pay monthly or quarterly prepayments during the year.

The energy supply has the character of contractual performance rendered over time and the Company recognises revenue in the moment of the commodity delivery, based on the measured or estimated volume and price for the unit and after the customer discounts.

Revenue from sale of electricity on the spot market is recognized when the contract is fulfilled.

Specific revenue recognition policies for B2C customers (households and small enterpreneurs) for commodities

Commodity contracts with B2C customers are mainly based on pricelists and have no minimum contract duration. Customers can choose different tariffs driven by energy consumption, number of electricity phases, smart meters presence and other factors. There is a legal option as per Slovak energy legislation to change the energy supplier in case of price changes, therefore any discount programmes for these customers do not impact revenue recognition as there is no minimum contract duration in case of price changes. Volume of such discounts has historically been not material.

Specific revenue recognition policies for B2B customers (large and medium businesses) for commodities

The Company has B2B customers with commodity contracts that include take-or-pay clauses with minimum contract duration, typically 12 months. These clauses provide customers with unexercised rights upon inception of customer contracts. The Company has performed analysis of probability of activation of these take-or-pay clauses and concluded that they are very rarely used. The Company monitors activation of these clauses periodically and if they became material, the Company would recognize revenue and contract asset.

Non-commodity products and services and multiple element arrangements considerations

Revenues from rent of non-commodity products and services provided to households

The Company rents out the following goods – LED bulbs, shower heads, energy conserving sockets, alarms. The Company has a separate pricelist for leasing out these goods. The contracts with customers are rolling month-to-month and there is no minimum contract duration. The stand-alone selling price is equal to the transaction price and there are no bundles except for the offering discussed in the paragraph below. The Company accounts for revenues over time on as-billed basis.

The Company offers its customers rent of the goods mentioned above also in bundles with discounts for one or more elements included in the bundle. Contract duration is typically 24 months but the customer can terminate the contract without penalty and there is no enforceable right of the Company beyond one-month period. Therefore the Company accounts for revenues over time on as-billed basis.

The Company also leases out water heaters and washing machines. These customer contracts have a lease term of 36 months with pre-agreed right of customer to purchase the equipment at the end of the lease term for an agreed price. In case the contract is terminated by a customer, the customer must pay a fine equal to outstanding payments. Such customer contract is a finance lease as the Company will receive the entire fair value of the water heater during the contract duration via lease payments. Revenues are recognized over time during the period of the lease contract.

Revenues from customer loyalty programmes provided to households

The Company offers loyalty card programme where a customer paid monthly fee depending on the level of services. In this scheme, customers receives benefits such as year-round discounts in shops. Additionally, customers could choose from or combine the following levels of services:

- assistance services
- warranty services for electric appliances
- warranty services for gas appliances
- family doctor services.

All of the above services are undertaken by a third party contracted by VSE. In the event of emergency, the customer contacts a call center operated by a third party. Since 1 December 2017 the Company has become a contractual agent of the insurance company, in provision of insurance embedded in loyalty card programme. As a result, the Company is an agent in the scheme and recognizes commission revenues from loyalty card programme.

Since September 2018, the Company launched the new customer loyalty programme called innogy SuperDomov (iSD). The products and services previously and also currently sold as separate products or as a part of the previous Loyalty Card programme, were grouped and currently they are sold in the form of the bundles within three possible packages. The differences in the content and price of the packages reflect the Company's estimate of the behaviour and needs of its customers. According to IFRS 15 each product or service included in the package is identified and allocated separate transaction price which takes into consideration also the price discounts and variable payments for the sale of commodity (electricity/gas). The basis for the separate transaction price allocation are individual selling prices for which the Company provides these products and services separately. In case that the total price of the customer loyalty programme package is lower than the sum of the individual selling prices, the Company allocates the discount pro rata to each individual products and services. The volume of revenues sold in this scheme and its impact on revenue recognition in 2018 was not material.

Revenues from these programmes are recognized over time.

Revenues from services provided to businesses

The Company performs work on electrical equipment, installation of circuit breakers, special coatings against heat or cold and projects for lighting of manufacturing halls, buildings and installations of gas boilers e-mobility packages. These contracts are typically short-term in nature and there is no significant financing component. Revenue is recognized over time.

Revenues within the group VSEH

Revenues from sales and sales support services provided for innogy Slovensko s.r.o.:

Revenues are based on Service Level Agreement ('SLA') and are recognized over time. The Company provides sales, marketing and sales support services to the customers on behalf of innogy Slovensko s.r.o. Revenues are recognized over time.

Revenues from electricity purchase and sales to Východoslovenská distribučná a.s.:

The Company recognizes revenue from services related to purchase of electricity to cover losses. The revenues are recognized over time.

2.19. Contract assets and contract liabilities

Contract asset is established in accordance with IFRS 15 in case the Company provides services or goods ahead of payment schedules of customer contracts or in case the related performance obligation is either not yet completely fulfilled or if the right to payment is conditional on a future event. The Company recognizes a loss allowance for contract assets following the adoption of IFRS 9.

The Company has analysed accounting for contract assets and concluded that there are no material contract assets to be recognized.

Contract liabilities in accordance with IFRS 15 are established in case the Company received payments from customers exceeding the services provided or commodities delivered to customers. In comparative period, such balances were recognized within Trade and other payables (unbilled electricity and gas).

2.20. Contract costs

Incremental costs of obtaining a customer contract that the Company would not have incurred had the contract not been obtained, are capitalized and amortized during the estimated period in which the economic benefits from the contract will flow to the Company. The capitalized costs are regularly tested for impairment according to the standard IAS 36 and adjusted for the contracts cancelled and the contracts where the customer payments are delayed.

The Company has assessed that the incremental costs of obtaining the contract as immaterial and no adjustment upon initial application of IFRS 15 and as of 31 December 2018 was booked.

2.21. Net loss from balancing services with OKTE

OKTE's responsibility is to calculate, bill and to collect or settle deviations caused by more or less electricity being offtaken than nominated and by overall balance of electricity network. Therefore contract between the Company and OKTE related to balancing services is not in scope of IFRS 15. As a result, the annual loss from settlement of balancing services with OKTE is presented on net basis in profit or loss.

In 2017, positive deviations were presented in Revenues from contracts with customers (EUR 6,233 thousand) and negative deviations were presented in Purchases of gas, electricity and distribution costs (EUR 12,154 thousand).

2.22. Interest income

Interest income is recognized on accrual basis using the effective interest rate method independent of timing of settlement of interest. The Company derives interest revenue from finance lease arrangements described in Note 2.18.

2.23. Related party disclosures

The Company applies exemptions under IAS 24 and discloses only qualitative and selected quantitative disclosures with entities under control of the government.

2.24. Offsetting financial instruments

Financial assets and liabilities are offset, and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Company did not offset any financial assets and financial liabilities and has no offsetting arrangements.

2.25. Transactions under common control

The Company applies acquisition accounting as set out in IFRS 3 as accounting policy for business combinations under common control. This is relevant for historical contribution-in-kind described in Note 1 when supply part of business was contributed from VSEH to the Company.

2.26. Share-based payments

Strategic Performance Program ('SPP')

Selected executives of innogy SE as well as selected executives of legally independent subsidiaries which are controlled by innogy SE if these subsidiaries have declared their participation in the SPP for the respective tranche are eligible to participate in the SPP.

Performance shares are granted as a voluntary, additional bonus payment in yearly tranches. The repeated grant of performance shares shall not give rise to any rights to subsequent grants of performance shares or benefits of equal value. innogy SE and the legally independent subsidiaries decide annually at their own discretion whether and to what extent performance shares may be granted. The grant of the annual tranches is performed through personalized grant letters which also state the individual grant amount ("Target Amount").

The SPP comprises four tranches (the Company executives are eligible only for 3 tranches beginning in 2017) which start in the four consecutive fiscal years 2016, 2017, 2018 and 2019 respectively. The beginning of each term (2016 - 2019) is 1 January of the respective fiscal year. For the tranches 2017 to 2019, performance shares are granted on 1 January of the respective fiscal year.

For the tranches 2017 to 2019, the determination of the number of conditionally granted performance shares is conducted at the beginning of the respective grant year. For the conversion to conditionally granted performance shares, the target amount is divided by the arithmetic mean, commercially rounded to two decimal

places, of the closing prices of innogy SE (ISIN: DE000A2AADD2) as quoted on the XETRA trading system of Deutsche Börse AG over the last 30 trading days prior to 1 January of the respective grant year.

The conditionally granted performance shares have a vesting period of four years in total. The vesting period begins on 1 January of the respective grant year and ends on 31 December of the third year following the respective grant year.

Performance shares do not bear voting rights or dividend entitlements.

The payout amount is calculated using the number of finally allocated performance shares multiplied with the sum of the arithmetic mean of the closing prices of innogy SE over the last 30 trading days prior to the end of the vesting period and dividends paid per share in the fiscal years between the final allocation of performance shares and the end of the vesting period.

Dividends are not reinvested or eligible to any interest payments. If a dividend payment occurs within the 30 trading days prior to the end of the vesting period, share prices of the trading days before the payment (cum-prices) are adjusted for the dividend payment to avoid proportionate double counting of the dividends.

The liability of EUR 63 thousand (2017:15 thousand) resulting from 2017 and 2018 tranches is presented in Trade and other payables in SOFP.

3. Financial risk management

The Company's activities are exposed to a variety of financial risks: market risk (including risk of changes in foreign currency exchange rates, interest rates, and price risk), credit risk and liquidity risk. The strategy of risk management of the Company is focused on the mitigation of potential negative impacts on financial results of the Company. The Company has established risk management framework, focusing on contractual, credit and financial risk.

3.1 Credit risk

The Company is exposed to credit risk because of the possibility of failure of business partner and subsequent non-payment or non-delivery of commodity, goods or services supplied. The assessment of credit risk associated with customers of the Company is covered by internal directive ("CBO manual") on responsibility segregation for process of elaboration of price offer, conclusion of contracts, products development, spot market trading, and reporting.

The Company is exposed to credit risk due to financial guarantees. For information on guaranteed borrowings see Note 25.

The group has the following types of financial assets that are subject to the expected credit loss model:

- Trade and other receivables
- Cash and cash equivalents.

Trade and other receivables

Majority of trade and other receivables are with external customers. Key customers of the Company are final users of commodity.

The Company is applying a system of advance payments for small price-list customers (retail), thus significantly eliminating credit risk for the period for which the customers offtake of commodity is not measured. Consumption of households are measured during the year in eleven cycles for electricity delivery and in twelve cycles for gas delivery. Consumption of small entrepreneurs is measured during December of each year for electricity customers or in twelve monthly cycles for gas customers (see Note 2.18 for more details). At the year-end, the advance payments billed to households are recognized within unbilled electricity balance in the Statement of Financial Position. Respective individual net debit balance is presented in trade receivables and individual net credit balance is presented in contract liabilities.

Credit risk of customers is taken into account within the process of commenting and approving standard contracts and terms and conditions for customer segments as well as individual contracts for large customers.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables. The Company has analysed historical credit losses experienced over a period of 24 months before 31 December 2018 and 1 January 2018 respectively. The historical loss rates were adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the counterparties to settle the receivables. The Company has identified the GDP and the unemployment rate in Slovakia and European Union countries to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors. The Company has concluded that there is immaterial impact on allowance for trade and other receivables and did not record any adjustment to opening allowance for trade and other receivables as of 1 January 2018 nor to the allowance for trade and other receivables as of 31 December 2018. The following is a matrix based on due dates of trade and other receivables and percentage of expected credit losses.

As at 31 December 2018	Not yet due	Overdue 0 to 1 months	1 to 2 months	2 to 3 months	3 to 6 months	6 to 12 months	More than 12 months	Total
Wholesale								
Expected credit loss percentage	1.1%	2.6%	7.9%	52%	90.0%	90.0%	90.0%	-
Trade and other receivables	14,299	693	254	25	18	8	56	15,353
Expected credit loss	157	18	20	13	16	7	50	281
Recognized bad debt allowance	21	6	9	8	16	7	56	123
Retail – commercial								
Expected credit loss percentage	2.2%	4.8%	16.3%	38.2%	70.2%	90.0%	90.0%	-
Trade and other receivables	8,437	642	92	34	25	80	601	9,870
Expected credit loss	186	31	15	13	18	72	541	876
Recognized bad debt allowance	31	22	12	12	16	73	601	767
Retail – households								
Expected credit loss percentage	6.0%	14.6%	35.6%	54.0%	86.1%	90.0%	90.0%	-
Trade and other receivables	5,306	2,077	506	208	275	264	608	9,244
Expected credit loss	318	303	180	112	237	238	547	1,935
Recognized bad debt allowance	12	91	50	37	115	227	608	1,140
Other operations								
Expected credit loss percentage	1.0%	2.0%	5.0%	6.0%	7.0%	11.0%	90.0%	-
Trade and other receivables	7,795	-	-	19	9	4	25	7,852
Expected credit loss	78	-	-	1	1	-	23	103
Recognized bad debt allowance	-	-	-	-	1	2	25	28
Receivables within VSE H group								
Expected credit loss percentage	1%	1.2%	1.4%	1.6%	1.8%	2%	2.2%	-
Trade and other receivables	2,050	-	-	-	-	-	-	2,050
Expected credit loss	21	-	-	-	-	-	-	21
Recognized bad debt allowance	-	-	-	-	-	-	-	-
Customers in bankruptcy								
Expected credit loss percentage	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	-
Trade and other receivables	85	11	11	30	5	17	10,164	10,323
Expected credit loss	77	10	10	27	5	15	9,148	9,292
Recognized bad debt allowance	-	11	11	30	5	17	10,164	10,238

As at 1 January 2018	Not yet due	Overdue 0 to 1 months	1 to 2 months	2 to 3 months	3 to 6 months	6 to 12 months	More than 12 months	Total
Wholesale								
Expected credit loss percentage	1.1%	1.7%	18.9%	66.6%	90.0%	90.0%	90.0%	-
Trade and other receivables	16,211	1,350	74	12	17	10	89	17,763
Expected credit loss	178	23	14	8	15	9	80	327
Recognized bad debt allowance	23	7	7	5	15	10	89	156
Retail – commercial								
Expected credit loss percentage	2.0%	5.0%	17.1%	38.2%	70.2%	90.0%	90.0%	-
Trade and other receivables	4,856	660	70	26	94	89	350	6,145
Expected credit loss	97	33	12	10	66	80	315	613
Recognized bad debt allowance	33	24	11	10	65	83	350	576
Retail – households								
Expected credit loss percentage	6.0%	14.6%	35.6%	54.0%	86.1%	90.0%	90.0%	-
Trade and other receivables	1,168	1,586	479	201	301	301	605	4,641
Expected credit loss	70	232	171	109	259	271	545	1,657
Recognized bad debt allowance	23	109	75	58	215	301	605	1,386
Other operations								
Expected credit loss percentage	1.0%	2.0%	5.0%	6.0%	7.0%	11.0%	90.0%	-
Trade and other receivables	2,974	-	-	-	2	1	1	2,978
Expected credit loss	30	-	-	-	-	-	1	31
Recognized bad debt allowance	-	-	-	-	-	-	1	1
Receivables within VSE H group								
Expected credit loss percentage	1%	1.2%	1.4%	1.6%	1.8%	2%	2.2%	-
Trade and other receivables	1,431	-	-	-	-	-	-	1,431
Expected credit loss	14	-	-	-	-	-	-	14
Recognized bad debt allowance	-	-	-	-	-	-	-	-
Customers in bankruptcy								
Expected credit loss percentage	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	-
Trade and other receivables	22	10	5	24	3	25	9,811	9,900
Expected credit loss	20	9	5	22	3	23	8,830	8,912
Recognized bad debt allowance	-	10	5	24	3	25	9,811	9,878

Almost all of the balances representing customers in bankruptcy and related bad debt provision are significantly aged balances and therefore historical analysis performed by the Company for relevant period excluded this impact except for customers entered to bankruptcy during analyzed period whose impact was reflected in relevant other categories.

Until 31 January 2019 Company collected EUR 30,830 thousand of trade receivables unpaid as at 31 December 2018 (31 January 2018: EUR 18,558 thousand of trade receivables unpaid as at 31 December 2017).

The movements of bad debt provisions are presented in the profit or loss on line "Net impairment losses on financial assets". Movements are presented below:

in EUR thousand	2018	2017
Balance at 1 January	**12,003**	**11,294**
Creation of bad debt provision	293	149
Impact of ČEZ customer portfolio acquisition (Note 1)	-	560
Balance at 31 December	**12,296**	**12,003**

During the year, the following gains/(losses) were recognised in profit or loss in relation to impaired financial assets:

in EUR thousand	2018
Creation of bad debt provision	293
Write-off of receivables	560
Total	**853**

Previous accounting policy for impairment of trade and other receivables

In the prior year, the impairment of trade and other receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively to determine whether there was objective evidence that an impairment had been incurred but not yet been identified. For these receivables the estimated impairment losses were recognised in a separate provision for impairment. The Company considered that there was evidence of impairment if any of the following indicators were present:

- significant financial difficulties of the debtor
- probability that the debtor will enter bankruptcy or financial reorganisation, and
- default or late payments.

Receivables for which an impairment provision was recognised were written off against the provision when there was no expectation of recovering additional cash.

Disclosure for comparative period based on previous standard is as follows:

in EUR thousand	2017
Financial instruments:	
Receivables not due, not impaired	28,220
Receivables due, impaired	14,644
Trade receivables	**42,864**
Less provision for impairment of receivables	(12,003)
Trade receivables – net	**30,861**

Bad debt provision was set-up by the Company as follows:

Bad debt provisions for receivables due from companies in bankruptcy were accounted up to the amount of submitted claims. In this case the provisions are tax deductible.

Bad debt provisions for receivables due from debtors which are not in bankruptcy are created based on the ageing structure of individual receivables, and the percentage of creation is dependent on the type of customer. Moreover, for wholesale customers, the Company creates bad debt provision on an individual basis and impairs the receivables when there is evidence that the Company will not be able to collect all the amounts due according to the original terms of receivables.

a/ Creation of bad debt provisions for receivables overdue – other operations

Days overdue From – till	**% bad debt**
1 – 90 days	5 %
91 – 180 days	10 %
181 – 360 days	20 %
361 and longer	100 %

b/ Creation of bad debt provisions for receivables overdue – wholesale

Days overdue From – till	**% bad debt**
1 – 60 days	15 %
61 – 120 days	20 %
121 – 150 days	30 %
151 – 360 days	50 %
361 and longer	100 %

c/ Creation of bad debt provisions for receivables overdue - retail – commercial

Days overdue From – till	**% bad debt**
1 – 60 days	15%
61 – 120 days	44 %
121 – 210 days	80 %
211 – 330 days	90 %
331 – 360 days	100 %
361 and longer	100 %

d/ Creation of bad debt provisions for receivables overdue - retail – households

Days overdue From - till	% bad debt
1 – 90 days	15 %
91 – 180 days	50 %
181 – 360 days	80 %
361 and longer	100 %

e/ Receivables due from commercial both electrical and gas customers in bankruptcy and from illegal take-offs were fully provided with specific bad debt provision regardless of overdue days. Specific provisions for receivables due from hospitals are created at 50% and 100%, respectively, depending on particular hospital.

The Company's collaterals used for credit risk are not significant to the Company, and therefore do not affect bad debt provision.

The analysis of trade receivables, which are not due yet and are not impaired, is in the following table:

in EUR thousand	2017
Wholesale	19,719
Retail commercial	1,196
Retail households	2,400
Other trade receivables	4,905
Total	**28,220**

Ageing structure of overdue receivables from electricity and gas was as follows (in EUR thousand):

	As at 31 December 2017	
Wholesale	**Receivables**	**Bad debt provision**
Till 2 months overdue	2,003	300
2 – 4 months overdue	35	7
4 – 5 months overdue	12	4
5 – 12 months overdue	62	31
More than 12 months overdue	169	169
Total	**2,281**	**511**
Retail – commercial		
Till 2 months overdue	152	23
2 – 4 months overdue	30	13
4 – 7 months overdue	69	55
7 – 11 months overdue	19	17
111 – 12 months overdue	29	29
More than 12 months overdue	305	305
Total	**604**	**442**

Retail – households		
Till 3 months overdue	1,126	169
3 – 6 months overdue	302	151
6 – 12 months overdue	301	241
More than 12 months overdue	605	605
Total	**2,334**	**1,166**

Ageing structure of overdue receivables from other operations is as follows (in EUR thousand):

	As at 31 December 2017	
Other operations	**Receivables**	**Bad debt provision**
Till 3 months overdue	64	3
3 – 6 months overdue	5	1
6 – 12 months overdue	2	0
More than 12 months overdue	2	2
Total	**73**	**6**
Total overdue receivables	**5,292**	**2,125**

Impaired receivables due from both gas and electricity commercial and wholesale customers in bankruptcy were in amount of EUR 9,902 thousand as of 31 December 2017, where specific bad debt provision of EUR 9,878 thousand as of 31 December 2017 was created.

Cash and bank accounts

Credit risk also originates from cash and bank accounts. Risk resulting from bank accounts is reduced through diversification of deposits in several banks. As a result, the Company evaluates the risk of bank accounts as standard.

The table below shows the amounts of cash and bank accounts and overdraft facilities:

in EUR thousand	**Rating**		**Bank balance**	
Bank	**2018**	**2017**	**31 December 2018**	**31 December 2017**
VÚB	A2/P-1	A2/P-1	5,670	516
ING bank	Aa3/P-1	A1	7,104	5,931
Citibank	A1/P-1	A1/P-1	651	194
Total			**13,425**	**6,641**

The Company has also receivables from cash-pooling within the group VSEH. These receivables are considered to be part of Cash and cash equivalents and are presented on the SOFP accordingly. See Note 2.10.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

3.2 Liquidity risk

For the Company, prudent liquidity risk management means maintaining sufficient cash and availability of credit facilities and the ability to close out market positions. The Company's financing position management is focused on maintaining flexibility of financing by ensuring availability of credit lines within the group VSEH, which can be used by the Company. Management monitors interim liquidity forecasts based on expected cash flows that are presented in cash and cash equivalents.

The table below shows the analysis of financial liabilities of the Company according to residual contractual maturities. The amounts in the table present the undiscounted cash flows. The amounts due up to 12 months are equal to their carrying amount, as the impact of discounting is not significant.

in EUR thousand	Less than 3 months	3 months to 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
31 December 2018						
Trade and other payables (net of liabilities within the VSE H Group) (Note 12)	27,135	-	-	-	-	27,135
Liabilities within the VSE H group (Note 12)	10,964	-	-	-	-	10,964
Total	**38,099**	**-**	**-**	**-**	**-**	**38,099**
31 December 2017						
Trade and other payables (net of liabilities within the VSE H Group) (Note 12)	33,445	-	-	-	-	33,445
Liabilities within the VSE H group (Note 12)	10,376	-	-	-	-	10,376
Total	**43,821**	**-**	**-**	**-**	**-**	**43,821**

The Company is exposed to credit risk due to financial guarantees. For information on guaranteed borrowings see Note 25.

3.3 Cash flow interest rate risk

As the Company has no other significant interest earning assets besides bank accounts and finance lease receivables, the interest income and operating cash-flow are only slightly dependent on the changes of market interest rates. As the interest paid is not significant for the Company, the impact of the interest rate risk is limited.

3.4 Foreign exchange risk

Management does not consider foreign exchange risk as a significant exposure to the Company's operations as it has only immaterial volume of transactions in currency other than its functional currency.

3.5 Capital management

The Company defines capital as equity increased by loans and decreased by cash and cash equivalents. The Company's capital management objective is focused on maintaining optimal structure of debt and own capital (debt/equity ratio) on the consolidated level of VSEH. Management monitors debt/equity ratios only at the level of consolidated financial statements for the VSEH group. The value of ratio as at 31 December 2018 is 99% (106% as at 31 December 2017). Currently, the Company is financed wholly by internal resources. The balance of cash and cash equivalents is EUR 22,372 thousand as at 31 December 2018 (EUR 11,339 thousand as at

31 December 2017). In case of need of external resources there is available cash pooling financing (Note 2.10) implemented within VSEH group and additional credit facilities available for VSE H.

3.6 Fair value estimation of financial instruments

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured initially at fair value and subsequently at amortised cost as the Company has no other financial instruments. To provide an indication about the reliability of the inputs used in determining fair value, the group classifies its financial instruments into the three levels prescribed under the accounting standards.

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The Company has no financial instruments classified within Level 1 of fair value hierarchy.

Level 2: The fair value of financial instruments that are not traded in an active market is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Due to the short-term nature of the trade and other receivables, their carrying amount is considered to be the same as their fair value. The carrying amounts of trade and other payables are considered to be the same as their fair values, due to their short-term nature. Fair value of cash and cash equivalents and cash pooling balances is not significantly different from respective carrying amounts.

Fair values analysed by level in fair value hierarchy for financial assets and liabilities is as follows:

Level 1 – Cash in hand (Note 10)

Level 2 – Cash and cash equivalents except for cash in hand (Note 10), Trade and other receivables (Note 3.1), Trade and other payables (Note 12),

Level 3 – Contract liabilities (Note 13), Financial guarantee (Note 25)

4. Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are considered to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. 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 outlined below.

Unbilled revenues from electricity supply and distribution

As a result of the fact that the retail customers in the household segment are metered at one of the eleven cycles which are phased between January and November of a calendar year (more detailed description in Note 2.18), remaining part of electricity supply and distribution for the reporting period gives rise to unbilled revenues from electricity supply and distribution. It is an accounting estimate which is based on:

- the estimate of the supplied resp. distributed volume to households in technical units (MWh) between the date of last metering and the end of the reporting period, and
- the estimate of the unit price of EUR/MWh which will be used for billing for the supply and distribution in the future. Price is based on actual price list valid for the respective calendar year.

The balance of unbilled revenues from electricity supply and distribution is determined as the estimated delivery in MWh multiplied by unit price in EUR/MWh deducted by the amount of advance billing to the customers. It is determined on individual customer level.

If the estimate of supply in households segment was higher by 1%, or 11 GWh (2017: 10 GWh), the volume of unbilled electricity would be changed by EUR 1,566 thousand (2017: EUR 1,270 thousand). The balance sheet would be debited and profit or loss would be credited by these amounts.

If the estimate of price invoiced for supplies in the future was higher by 1%, or 1.40 EUR/MWh (2017: 1.27 EUR/MWh), the volume of unbilled electricity would be changed by EUR 1,566 thousand (2017: EUR 1,270 thousand). The balance sheet would be debited and profit or loss would be credited by these amounts.

Unbilled revenues from gas supply and distribution

As a result of the fact that the retail customers in the household segment, and partially also in segment of small entrepreneurs are metered at one of the twelve cycles which are phased throughout whole calendar year (more detailed description in Note 2.18), remaining part of gas supply, and distribution for the reporting period gives rise to unbilled revenues from gas supply and distribution. It is an accounting estimate which is based on:

- the estimate of the supplied, and distributed volume to households and small entrepreneurs in technical units (MWh) between the date of last metering and the end of the reporting period, and
- the estimate of the unit price of EUR/MWh which will be used for billing for the supply, and distribution in the future. Price is based on actual price list valid for the respective calendar year.

The balance of unbilled revenues from gas supply and distribution is determined as the estimated delivery in MWh multiplied by unit price in EUR/MWh deducted by the amount of advance billing to the customers. It is determined at individual customer level.

If the estimate of supply in households segment was higher by 1%, or 3.44 GWh (2017: 0.71 GWh), the volume of unbilled gas would increase by EUR 130 thousand (2017: EUR 14 thousand). The balance sheet would be debited and profit or loss would be credited by these amounts.

The same increase in the volume of unbilled gas would apply also for 1 % increase of price invoiced for supplies: 0.37 EUR/MWh (2017: 0.19 EUR/MWh). The balance sheet would be debited and profit or loss would be credited by these amounts.

Economic useful life of tangible and intangible fixed assets

The economic useful life of tangible and intangible fixed assets stated in Note 2.3 and Note 2.4 was based on the best estimate of the Company's management. Should the estimated useful life of tangible and intangible fixed assets be shorter by 10%, the Company would record additional annual amortization and depreciation charge of tangible and intangible fixed assets of EUR 469 thousand (2017: EUR 486 thousand). Should the estimated residual useful life of tangible and intangible fixed assets be longer by 10%, the Company would record depreciation and amortization charge lower by EUR 504 thousand (2017: EUR 397 thousand).

Impairment of financial assets

The loss allowances for financial assets are based on assumptions about the risk of default and expected loss rates. The Company uses judgment in making these assumptions and selecting the inputs to the impairment calculation based on the Company's past history, existing market conditions as well as forward looking estimates. Details on on expected loss rates are in Note 3.1.

5. Property, plant and equipment

in EUR thousand	Land	Buildings and infrastructure	Machinery, equipment, vehicles and office equipment	Construction in progress	Total
At 1 January 2017					
Cost	-	-	1,907	-	1,907
Accumulated depreciation	-	-	(800)	-	(800)
Impairment	-	-	-	-	-
Net book value	**-**	**-**	**1,107**	**-**	**1,107**
Additions	-	-	-	920	920
Transfers	-	-	920	(920)	
Depreciation charge	-	-	(679)	-	(679)
Closing net book value	**-**	**-**	**1,348**	**-**	**1,348**
At 31 December 2017					
Cost	-	-	2,827	-	2,827
Accumulated depreciation	-	-	(1,479)	-	(1,479)
Net book value	**-**	**-**	**1,348**	**-**	**1,348**
At 1 January 2018					
Cost	-	-	2,827	-	2,827
Accumulated depreciation	-	-	(1,479)	-	(1,479)
Impairment	-	-	-	-	-
Net book value	**-**	**-**	**1,348**	**-**	**1,348**
Additions	-	-	-	1,528	1,528
Transfers	-	-	1,483	(1,483)	-
Assets leased under finance lease (lessor)	-	-	(1,440)	-	(1,440)
Depreciation charge	-	-	(297)	-	(297)
Closing net book value	**-**	**-**	**1,094**	**45**	**1,139**
At 31 December 2018					
Cost	-	-	2,431	45	2,476
Accumulated depreciation	-	-	(1,337)	-	(1,337)
Net book value	**-**	**-**	**1,094**	**45**	**1,139**

Main part of property, plant and equipment is represented by products rented to customers as described in the Note 2.18 (EUR 1,094 thousand as of 31 December 2018; EUR 1,348 thousand as of 31 December 2017).

No property, plant and equipment is pledged. If the customer fails to pay for the purchase / rental of non-commodity products, the Company has the right of return of rented products immediately.

The Company recognizes and uses no significant real-estate subscribed in Cadastral Register, which are not legally permitted for the usage of the Company as at the end of the reporting period.

The Company did not insure its property, plant and equipment in 2018, considering financial impact of potential damage as negligible.

6. Intangible assets

in EUR thousand	Computer software and other	Customer portfolio	Intangible assets not yet ready for use	Total
At 1 January 2017				
Cost	4,881	67,050	232	72,163
Accumulated amortization	(1,532)	(6,705)	-	(8,237)
Net book value	**3 349**	**60,345**	**232**	**63,926**
Additions	-	-	645	645
ČEZ portfolio acquisition (Note 1)	-	7,998	-	7,998
Transfer from CIP	273	-	(273)	-
Amortization charge	(985)	(2,709)	-	(3,694)
Closing net book value	**2,637**	**65,634**	**604**	**68,875**
At 31 December 2017				
Cost	5,154	75,048	604	80,806
Accumulated amortization	(2,517)	(9,414)	-	(11,931)
Net book value	**2,637**	**65,634**	**604**	**68,875**
At 1 January 2018				
Cost	5,154	75,048	604	80,806
Accumulated amortization	(2,517)	(9,414)	-	(11,931)
Net book value	**2,637**	**65,634**	**604**	**68,875**
Additions	442	-	1,173	1,615
Transfer from CIP	709	-	(709)	-
Amortization charge	(1,132)	(3,001)	-	(4,133)
Closing net book value	**2,656**	**62,633**	**1,068**	**66,357**
At 31 December 2018				
Cost	6,305	75,048	1,068	82,421
Accumulated amortization	(3,649)	(12,415)	-	(16,064)
Net book value	**2,656**	**62,633**	**1,068**	**66,357**

There are no restrictions of ownership relating to intangible assets. No intangible assets are pledged.

Internally generated intangible assets are not material.

7. Financial instruments by category

Financial assets

in EUR thousand	As at 31 December 2018	As at 31 December 2017
Financial assets at amortised cost		
Trade and other receivables	42,437	30,861
Cash and cash equivalents (Note 10)	22,372	11,339
Total financial assets	**64,809**	**42,200**

Implementation of IFRS 9 standard resulted in reclassification of cash and cash equivalents and trade and other receivables from measurement category 'Loans and receivables' to measurement category 'Amortised cost' as of 1 January 2018.

Financial liabilities

in EUR thousand	As at 31 December 2018	As at 31 December 2017
Financial liabilities at amortised cost		
Trade and other payables net of liabilities within VSE H Group (Note 12)	27,135	33,445
Liabilities within VSE H Group included in trade and other payables (Note 12)	10,964	10,376
Total financial liabilities	**38,099**	**43,821**

8. Other non-financial assets

in EUR thousand	As at 31 December 2018	2017
Income tax receivable	-	2,309
VAT receivable	-	1,183
Other receivables including prepayments and other accrued income	248	2,923
Total	**248**	**6,415**

9. Inventories

in EUR thousand	As at 31 December 2018	2017
Merchandise	599	515
Total	**599**	**515**

The cost of inventory recognized as an expense and recognized as "Merchandise sold" amounted to EUR 147 thousand (2017: EUR 355 thousand).

10. Cash and cash equivalents

in EUR thousand	As at 31 December 2018	2017
Receivables from cash pooling	8,940	4,694
Cash at bank	13,425	6,641
Cash in hand	7	4
Total	**22,372**	**11,339**

The effective interest on a weighted average basis on cash pooling deposits was 0.0% p.a. (2017: 0.0% p.a.) with daily settlements (unchanged to 2017).

For the purposes of the Statement of Cash Flows, the cash and cash equivalents comprise of the above-mentioned items.

Citibank issued bank guarantees for the Company in the amount of EUR 4,785 thousand (2017: EUR 6,513 thousand).

The Company had no restrictions related to cash and cash equivalents in 2018 and 2017.

11. Equity

The amount of subscribed and paid share capital of the Company as to 31 December 2018 is EUR 58,751 thousand (31 December 2017: EUR 58,751 thousand).

The total authorized number of ordinary shares is 2. One share in a nominal value of EUR 35 thousand and one share in a nominal value of EUR 58,716 thousand in relation to transition of Sales division from VSEH to VSE in 2014.

There is no share capital not listed in the Commercial Register as at 31 December 2018.

The Company created the legal reserve fund in amount of 20% of share capital established at the transformation to the joint-stock company.

Financial statements of the Company for prior accounting period have been approved by General Meeting on 24 April 2018 that decided to use profit for the year in full amount of EUR 1,869 thousand for partial settlement of unsettled losses from prior periods balance.

The decision on profit distribution for accounting period 2018 will be made by the General Meeting of the Company. The Board of Directors had not presented a proposal for distribution of 2018 profit as of the date of these financial statements.

12. Trade and other payables

in EUR thousand	As at 31 December 2018	2017
Financial liabilities at amortised cost		
Trade and other payables net of liabilities within VSE H Group (Note 7)	26 842	24,835
Liabilities within VSE H Group included in trade and other payables (Note 7)	10,964	10,376
Unbilled electricity and gas balance	-	4,738
ČEZ customer portfolio acquisition payable	-	3,599
Payables to employees	293	273
Total financial liabilities	**38,099**	**43,821**

There are no liabilities pledged or secured in another way.

The Company recognizes no payables overdue as at 31 December 2018 and as at 31 December 2017.

13. Contract liabilities

in EUR thousand	2018
Contract liability from net customer prepayments for unmeasured period (See Note 2.18)	10,490
Total	**10,490**

14. Other non-financial liabilities

in EUR thousand	As at 31 December 2018	2017
Income tax liability	1,487	-
Social securities and other taxes	338	309
Other	2,895	2,046
Total	**4,720**	**2,355**

15. Deferred income tax

Deferred income taxes are calculated in full on temporary differences under the liability method using an enacted tax rate of 21% with an uplift of 7.3% related to a special levy legislation (2017: enacted tax rate of 21% with an uplift of 18.5% related to a special levy legislation). For the effect of changes in estimate related to prospective special levy scheme refer to Note 21 below.

in EUR thousand	As at 31 December 2018	2017
Deferred tax assets:		
- Deferred tax asset to be recovered after more than 12 months	156	150
- Deferred tax asset to be recovered within 12 months	1,365	1,204
	1,521	**1,354**
Deferred tax liabilities:		
- Deferred tax liability to be recovered after more than 12 months	12,713	14,602
- Deferred tax liability to be recovered within 12 months	51	56
Total	**12,764**	**14,658**

The gross movement on the deferred income tax account is as follows:

in EUR thousand	2018	2017
At the beginning of the period	(13,304)	(14,093)
Income in profit or loss (Note 21)	2,061	789
At 31 December	**(11,243)**	**(13,304)**

The movement in deferred tax assets and liabilities during the year is as follows:

in EUR thousand	At 1 January 2018	(Charged)/ credited to the profit or loss	At 31 December 2018
Difference between tax base and carrying amount of non-current assets	(14,602)	2,275	(12,327)
Finance lease receivable	-	(386)	(386)
Provisions against bad debts	855	(28)	827
Provision for other liabilities and charges	443	200	643
Total	**(13,304)**	**2,061**	**(11,243)**

in EUR thousand	At 1 January 2017	(Charged)/ credited to the profit or loss	At 31 December 2017
Difference between tax base and carrying amount of non-current assets	(15,446)	844	(14,602)
Provisions against bad debts	747	108	855
Provision for other liabilities and charges	606	(163)	443
Total	**(14,093)**	**789**	**(13,304)**

16. Provisions for other liabilities and charges

in EUR thousand	Pensions and other staff benefits	Restructuring	Legal claims	Total
At 1 January 2018	**590**	**27**	**15**	**632**
Creation of provision	111	54	2	167
Used/paid during year	(11)	(27)	(17)	**(55)**
At 31 December 2018	**690**	**54**	**-**	**744**

in EUR thousand	Pensions and other staff benefits	Restructuring	Legal claims	Total
At 1 January 2017	**470**	**27**	**-**	**497**
Creation of provision	121	-	15	**136**
Used/paid during year	(1)	-	-	(1)
At 31 December 2017	**590**	**27**	**15**	**632**

Restructuring provision

In accordance with long-term plans of the Company, a reduction of 4 jobs will be made in 2019. This decision was approved in 2018 by the Company's representatives and communicated to the trade unions. The estimated staff restructuring costs to be incurred are EUR 54 thousand and the provision will be used in 2019. Similar restructuring programme was in place in 2017 which resulted in recognition of provision in the comparative period in the amount EUR 27 thousand.

Provision for legal claims

The provision includes amounts in respect of certain legal claims brought against the Company by its customers. In the opinion of the Company's management, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant loss beyond the amounts provided. Use of the provision depends on decision of the court in respective cases.

Provision for retirement and other employee benefits

These provisions are described in Note 17. Use of the provision for retirement depends on the termination of employment by employees at the normal retirement date which is expected in accordance with actual legislation. Provision for jubilee awards is expected to be used at life or work milestones, when such an event occurs.

Analysis of total provisions for other liabilities and charges:

in EUR thousand	As at 31 December 2018	2017
Non-current (long-term portion of pension liability)	685	587
Current (legal claims, restructuring and short-term portion of pension liability)	59	45
Total	**744**	**632**

17. Employee benefits

The following amounts have been recognized with respect of the defined benefit pension plan in the financial statements:

in EUR thousand	As at 31 December 2018	2017
Balance sheet obligation for:		
Present value of recognized unfunded retirement obligations	616	522
Jubilee awards	33	32
Disability benefits	41	36
Liability in the SOFP	**690**	**590**

in EUR thousand	2018	2017
Income statement charge included in operating and financial profit		
Current service cost	71	59
Interest cost	11	10
Past service cost, other	3	2
Total charge / (credit) included in employee benefit expense	**85**	**71**

in EUR thousand	2018	2017
Re-measurements for:		
Defined pension benefits	24	51
Total re-measurements	**24**	**51**

The movements in defined benefit pension over the year are as follows:

in EUR thousand	Present value of obligation
As at 1 January 2018	**590**
Current service cost	71
Past service cost	2
Interest cost	11
	674
Re-measurements:	
- Gain from change in financial assumptions	(21)
- Loss from change in future wages growth assumptions	45
- Gain from change in demographic assumptions	(17)
- Gain from change in fluctuation	(19)
- Loss from other actuarial assumptions	36
	24
Payments from plan	(8)
As at 31 December 2018	**690**

in EUR thousand	Present value of obligation
As at 1 January 2017	**470**
Current service cost	59
Past service cost	2
Interest cost	10
	541
Re-measurements:	
- Gain from change in financial assumptions	(2)
- Gain from change in future wages growth assumptions	(34)
- Loss from change in demographic assumptions	19
- Loss from change in fluctuation	11
- Loss from other actuarial assumptions	57
	51
Payments from plan	(2)
As at 31 December 2017	**590**

The principal actuarial assumptions to determine the pension liability were as follows:

31 December 2018	
Number of employees with entitlement to the benefits	277
Percentage of employees, who will annually terminate their employment with Company prior to retirement (withdrawal rate)	2.52%
Expected salary increases	4,0% p.a. in 2019 – 2021 and 2,7% in following years
Discount rate	Bloomberg's yield curve for high quality Euro corporate bonds AA in range from (0.330)% to 2.010%

31 December 2017	
Number of employees with entitlement to the benefits	247
Percentage of employees, who will annually terminate their employment with Company prior to retirement (withdrawal rate)	2.43%
Expected salary increases	2,5% p.a. in 2018 and also in following years
Discount rate	Bloomberg's yield curve for high quality Euro corporate bonds AA in range from (0.480)% to 1.767%

Through its defined benefit pension plans, the Company is exposed to a number of risks, the most significant of which is change in bond yields. A decrease in corporate bond yields will increase plan liabilities.

Sensitivity analysis of liability for employee benefits of the Company is stated in following table (in EUR thousand):

Description of change of parameter	Liability as at 31 December 2018	Change in comparison with basic scenario	Change in comparison with basic scenario in %
Basic scenario	691		
Increase of fluctuation by 2%	507	(184)	(27)
Decrease of fluctuation by 2%	888	197	29
Increase in salaries +1% compared to principal assumptions	744	53	8
Increase in salaries -1% compared to principal assumptions	643	(48)	(7)
Discount rate +1% compared to principal assumptions	594	(97)	(14)
Discount rate -1% compared to principal assumptions	812	121	18

Description of change of parameter	Liability as at 31 December 2017	Change in comparison with basic scenario	Change in comparison with basic scenario in %
Basic scenario	590		
Increase of fluctuation by 2%	436	(154)	(26)
Decrease of fluctuation by 2%	729	139	24
Increase in salaries +1% compared to principal assumptions	682	92	16
Increase in salaries -1% compared to principal assumptions	513	(77)	(13)
Discount rate +1% compared to principal assumptions	507	(83)	(14)
Discount rate -1% compared to principal assumptions	691	101	17

Sensitivity analysis is based on a change in one assumption while holding all other assumptions constant. In practise, this is unlikely to occur, and changes in some of the assumptions may be correlated.

The methods and types of assumptions used in preparing the sensitivity analyses did not change compared to the previous period.
Model enhancement was based on more accurate modelling of future growth of maximum deduction base and on implementation of a new legislation that will be in force from 1 January 2019.

Amounts paid for defined contribution pension plans:

in EUR thousand	2018	2017
Defined contribution pension plans	428	388
Total	**428**	**388**

18. Revenue from contracts with customers

The Company derives revenue from the transfer of commodities, goods, services and leases. Further details are as follows:

in EUR thousand	2018	2017
Revenues for supply, distribution and transmission of electricity, from which:	425,262	386,005
- *Revenues within VSE H group*	*13,893*	*12,475*
Revenues for supply, distribution and transport of gas	12,997	2,332
Electricity & gas sales and distribution:	**438,259**	**388,337**
Revenues with customers within VSE H group	2,764	2,636
Revenues from customer loyalty programmes	3,371	3,185
Revenues from non-commodity products, from which:	7,892	3,978
- *Revenues from finance lease arrangements with customers*	*1,548*	-
- *Other revenues from non-commodity products*	*6,344*	*3,978*
Other revenues	321	16
Operating revenues:	**14,348**	**9,815**
Total revenues from contracts with customers	**452,607**	**398,152**

19. Profit from operations

The following amounts have been charged or credited in arriving at profit from operations:

in EUR thousand	2018	2017
Revenues	**452,607**	**398,152**
Purchases of electricity and gas	(167,929)	(134,479)
Distribution and transmission costs	(239,731)	(235,093)
Electricity and gas costs:	**(407,660)**	**(369,572)**
Raw materials and other consumed materials, merchandise sold	**(2,412)**	**(1,282)**
Wages and salaries	(7,109)	(6,483)
Defined contribution pension plan	(428)	(388)
Social security costs	(1,305)	(1,186)
Other staff costs	(857)	(768)
Employee benefit expense	**(9,699)**	**(8,825)**
Costs from Service Level Agreements (SLA) within the VSE H group:		
Shared and customer services from VSE H – parent company	*(4,689)*	*(4,689)*
Other services from VSE H – parent company	*(783)*	*(433)*
IT and security services from VSD	*(118)*	*(118)*
Other SLA services	*(264)*	-
Marketing services	(1,361)	(1,965)
Services from subcontractors related to non-commodity business	(3,856)	(2,347)
IT and telecommunication charges	(559)	(432)
Cash collection & post services	(1,648)	(914)
Personnel lease and part time services	(223)	(98)
Consultancy fees	(225)	(347)
Other services	(840)	(979)
Assurance services provided by auditor	(42)	(31)
Services	**(14,608)**	**(12,353)**
Depreciation	(297)	(679)
Amortization	(4,133)	(3,694)
Depreciation and amortization	**(4,430)**	**(4,373)**
Net impairment losses on financial asset	(853)	-
Net loss from balancing services with OKTE (Note 2.21)	(4,650)	-
Other net	1,307	379
Other operating income / (expenses)	**(4,196)**	**379**
Profit from operations	**9,602**	**2,126**

20. Finance income and costs

in EUR thousand	2018	2017
Interest income - finance lease	162	-
Interest expense	(64)	(12)
Net finance income / (costs)	**98**	**(12)**

21. Income tax expense

in EUR thousand	2018	2017
Current tax	3,121	1,034
Deferred tax (Note 15)	(2,062)	(789)
Income tax expense	**1,059**	**245**

The reconciliation between the reported income tax cost and the theoretical amount that would arise using the standard tax rates is as follows:

in EUR thousand	2018	2017
Profit before tax	9,700	2,114
Income tax calculated at tax rate of 21% (2017: 21%)	2,037	444
Tax effects of:		
Expenses not deductible for tax purposes	66	123
Effect of changes in estimate related to prospective special levy scheme payments	(1,159)	(81)
Other	115	(241)
Tax charge	**1,059**	**245**
Effective tax rate	**11%**	**12%**

The corporate income tax rate applicable for the year 2018 is 21% (2017: 21%).

The Company pays a special levy that is relevant for regulated business. The special levy is presented under income tax expense, as special levy is profit based expense, and therefore also in scope of IAS 12. Basis for special levy payment is profit before tax.

Until 2016, the legislation on special levy was approved annually for only one year ahead with very limited impact on deferred tax. Amendment 338/2016 to this legislation effective from 31 December 2016 has changed the annual approval to indefinite period of time and temporary has increased special levy rates for next 4 years.

Under standard conditions, 21% would be the rate applied on temporary differences to calculate deferred tax position in the statement of financial position. However, as special levy is de facto tax, the size of the uplift to 21% tax rate should be determined by projecting the special levy payments for future periods.

The Company performed this projection resulting into adjusted tax rate of 22.52% (2017:24.88%) applied for deferred tax determination. Change in estimate related to prospective special levy scheme payments resulted in effective tax rate being 11% in the current period.

22. Cash generated from operations

The Company prepared cash flow statement using indirect method.

in EUR thousand	2018	2017
Profit before tax	**9,700**	**2,114**
Adjustments for:		
Depreciation (Note 5)	297	679
Amortization (Note 6)	4,133	3,694
Change in provisions (Note 16)	112	84
Change in bad debt provision (Note 3.1)	293	149
Interest income - finance lease	(162)	-
Interest expense	64	12
Shortages and damages	6	(19)
Changes in working capital:		
Inventories (Note 9)	(84)	56
Trade and other receivables (Note 3.1.)	(11,283)	(7,573)
Trade and other payables (Note 12)	(7,427)	(993)
Contract liabilities	10,490	-
Other non-financial assets	3,858	-
Other non-financial liabilities	3,405	-
Cash generated from operations	**13,402**	**(1,797)**

23. Share-based payments

Strategic Performance Program

Set out below are summaries of options granted under program:

	2018		2017	
	Average price per share	Number of performance shares	Average price per share	Number of performance shares
As at 1 January	40.00	1,481	-	-
Granted during the year	40.33	2,517	40.00	1,481
As at 31 December	40.33	3,998	40.00	1,481
Vested and exercisable at 31 December	-	-	-	-

24. Contingencies

Taxation

Due to the presence in Slovak tax legislation of provisions allowing more than one interpretation management's judgment of the Company's business activities may not coincide with interpretation of the same activities by the tax authorities. The fiscal years from 2009 to 2018 remain open to the possibility that tax authority could levy the tax. The Company's management is not aware of any circumstances that may give rise to a future material expense in this respect.

25. Commitments

Capital commitments

As at 31 December 2018, the Company does not have material capital commitments (31 December 2017: none). Non-cancellable lease commitments were not significant in both periods.

Commitments of Guarantor

During 2018 the Company has become a Guarantor for additional two long term borrowings of parent company VSE H. In case that VSE H fails to fulfil its payment obligations against banks, the Company is obliged to perform the obligations of VSE H to the banks as if the Company is the bank's primary obligor. The borrowings of VSE H guaranteed by the Company are as follows:

in EUR thousand	2018	2017
ING Bank, a Branch of ING-DiBa AG	60,000	60,000
ING Bank, a Branch of ING-DiBa AG	50,000	-
UniCredit Bank Czech Republic and Slovakia, a.s.	60,000	60,000
Slovenská sporiteľňa, a.s.	50,000	-
Total	**220,000**	**120,000**

The Company has assessed that fair value of these financial guarantees is not material to the financial statements as there is a history of bank loans provided to VSEH that were not secured by financial guarantees and interest differential was insignificant between the guaranteed and unguaranteed loans.

26. Related party transactions and balances

Related parties are divided into following categories:

a) Parent company
- VSE H

b) Entities under control of RWE Group that are not part of VSE H Group

- RWE Supply&Trading GmbH
- RWE AG
- RWE Hrvatska d.o.o.
- RWE Energija, d.o.o.
- innogy SE (RWE IT GbmH)
- RWE International SE
- innogy SE (RWE Effizienz GmbH)
- innogy Česká republika a.s. (RWE Česká republika a.s.)
- innogy Polska S.A. (RWE Polska Spolka Akcyjna)
- innogy South East Europe s.r.o. (RWE Slovensko s.r.o.)
- innogy Solutions s.r.o. (KA Contracting SK, s.r.o.)
- ELMŰ-ÉMÁSZ Energiakereskedő Kft

c) Entities controlled by government or where government has significant influence

Routine trading transactions with the Slovak government including its departments and agencies and transactions between state-controlled entities, which are providers of public utilities, services, for which the standard terms and conditions have been applied and which do not represent a significant portion of a type of transaction, and which do not represent a significant portion of a type of transaction, are excluded from the scope of related party disclosures.

d) Entities under control of VSE H

- Východoslovenská distribučná a.s. (VSD)
- Východoslovenská energetika a.s. (VSE)
- innogy Slovensko s. r. o. (former RWE Gas Slovensko, s.r.o.)
- VSE Call centrum, s.r.o.
- VSE Ekoenergia, s.r.o.
- Bioplyn Rozhanovce, s.r.o. (until 31 July 2017 when VSE H lost control over the entity)

e) Key management personnel of the Company
- members of the Board of Directors
- members of Supervisory Board

The related party transactions were made on an arm's length basis.

The nature of relationship with related parties where the Company carried out significant transactions or had significant balances as at 31 December 2018 and 31 December 2017 with, are described below.

a) Parent company

Transactions with parent company VSE H are stated in the following table:

in EUR thousand	2018	2017
Sale of electricity (Note 18)	171	160
Purchase of services	(5,472)	(5,122)
Purchase of intangible assets	(395)	(255)
Other expenses	-	(2)
Dividends paid (Note 11)	-	(7,308)

Balances with parent company VSE H are stated in the following table:

in EUR thousand	As at 31 December 2018	2017
Trade receivables (gross)	-	1
Cash and cash equivalents – cash pooling (Note 10)	8,940	4,694
Trade and other payables (Note 12)	598	726

b) Entities under control of RWE Group that are not part of VSE H Group

Balances with entities under control of RWE Group are stated in the following table:

in EUR thousand	2018	2017
Sale of electricity	7,297	3,246
Sale of services	40	1
Other revenues	-	18
Electricity procurement	(27,767)	(5,661)
Purchase of services	(65)	(216)
Other purchase	(225)	(17)

Balances with entities under control of RWE Group are stated in the following table:

in EUR thousand	As at 31 December 2018	2017
Trade receivables (gross)	494	-
Trade and other payables	2,632	580

c) Entities controlled by government or where government has significant influence

The Company performs collectively significant transactions with entities controlled by government or where government has significant influence. These transactions are represented by:

in EUR thousand	2018	2017
Sale of electricity	17,153	8,366
Purchase of electricity	(204,621)	(188,593)
Purchase of gas incl. distribution	(4,993)	-
Purchase of services	(1)	(665)

The Company sold electricity mainly to OKTE, Západoslovenská energetika, a.s. group and Stredoslovenská energetika Holding, a.s. group.

Electricity purchases related predominantly to OKTE, Slovenské elektrárne, a.s., Západoslovenská energetika, a.s. group and Stredoslovenská energetika Holding, a.s. group.

Balances are stated in the following table:

in EUR thousand	As at 31 December 2018	2017
Trade receivables (gross)	1,642	851
Trade and other payables	10,538	10,407

d) Entities under control of VSE H

Transactions with entities under control of VSE H are stated in the following table:

in EUR thousand	2018	2017
Revenues from sales of electricity (Note 18)	13,722	12,315
Revenues from sales of services (Note 18)	2,764	2,636
Purchase of electricity	(3)	(96)
Purchase of gas	(6,349)	(1,391)
Purchase of distribution services	(113,595)	(118,626)
Purchase of other services	(382)	(118)

Balances with entities under control of VSE H are stated in the following table:

in EUR thousand	As at 31 December 2018	2017
Trade receivables (gross)	1,998	1,496
Trade and other payables (Note 12)	10,366	9,432

e) Key management personnel of the Group

Transactions with key management personnel of the entity are stated in the following table:

	2018		2017	
in EUR thousand	**Board of directors**	**Supervisory board**	**Board of directors**	**Supervisory board**
Short-term employee benefits	327	88	220	86
Total	**327**	**88**	**220**	**86**

Additionally, there was share-based payment expense incurred in the amount of EUR 48 thousand in 2018 (2017: EUR 15 thousand) attributable to key personnel of the Company.

Information about members of Board of Directors

Dipl.-Volksw. Thomas Jan Hejcman
Chairman of Board of Directors from 5 July 2014 and Chief Operating Officer from 1 July 2014
Date of birth:
10 February 1962
Education:
University Tübingen/ Hohenheim/ Freiburg, economy study
Other Executive Positions:
Managing Director of innogy Zákaznícke služby, s.r.o., Ostrava, Česká republika (2007-2011)
Managing Director of innogy South East Europe s.r.o. (from 2013)
Chairman of Board of Directors of VSE H (from 1 January 2012 until 31 March 2014)
Chairman of Board of Directors of VSE (from 1 July 2014)
Managing Director of iSK (from 1 September 2015)

Mgr. Miroslav Kulla
Member of Board of Directors from 1 July 2014
Date of birth:
3 April 1976
Education:
Paris Business School, France, ESCP – EAP, Master degree
Comenius Unviersity of Bratislava, Faculty of management – Master
Other Executive Positions:
Managing Director, innogy Slovensko s.r.o. (from 1 September 2015)

Ing. Marián Suchý
Member of Board of Directors from 1 July 2014
Date of birth:
21 February 1977
Education:
University of Economics in Bratislava, Faculty of Business Economics, Košice
Other Executive Positions:
Managing Director, innogy Slovensko s. r. o. (from 1 September 2015)
Managing Director, VSE Ekoenergia, s.r.o. (from 1 August 2012)
Member of Supervisory Board, Energotel,a.s. (from 1 January 2018)
Proxy, innogy South East Europe s.r.o. (from 21 June 2013)
Proxy, Bioplyn Rozhanovce, s.r.o. (from 10 August 2012)

Ing. Ján Mihalik (till 27 Sep 2018)
Member of Board of Directors from 1 July 2014
Date of birth:
4 June 1982
Education:
Technical University of Košice, Faculty of Electrican Engineering and Informatics
Technical University of Košice, Faculty of Economics
Other Executive Positions:
Managing Director, innogy Slovensko s. r. o. (from 1 September 2015)
Managing Director, All Group s.r.o. (from 30 April 2015)
Managing Director, Fornas s.r.o. (from 5 January 2018)
Managing Director, TOPAGRO, s.r.o. (from 16 January 2016)
TOPAGRO, s.r.o., Odštepný závod Košice

Roman Šipoš, MBA
Vice-chairman of Board of Directors (from 1 July 2014 until 14 February 2017)
Date of birth:
19 September 1986
Education:
University of South Carolina Aiken, Bachelor of Science in Finance
Business School Lausanne, Lausanne Switzerland, Master of Business Administration /MBA
Other Executive Positions:
Member of Board of Directors, Východoslovenská energetika Holding a.s. (from 12 September 2014 until 28 February 2017)
Managing Director, rwm corporation, s.r.o. (from 30 July 2010)

Information about Supervisory Board members

JUDr. Marek Šedovič
Chairman of Supervisory Board from 5 July 2017
Date of birth:
30 April 1975
Education:
University of Pavol Jozef Šafárik in Košice, Faculty of Law
Other Executive Positions:
Chairman of Supervisory Board, innogy Slovensko s. r. o. (from 5 July 2017)

Ing. Vladimír Palko (from 1 July 2014 until 26 January 2017)
Chairman of Supervisory Board from 1 July 2014 till 26 January 2017
Date of birth:
26 January 1968
Education:
Technical University of Košice, Faculty of Electrical Engineering
Other Executive Positions:
Managing Director, KOMI Constructions s.r.o. (from 1 February 2013)
Chairman of the Supervisory Board, innogy Slovensko s. r. o. (from 1 September 2015 until 25 January 2017)
Member of Board of Directors, SEPS, a.s. (from 1 January 2017)

JUDr. Jitka Adámková, MBA
Vice-chairman of Supervisory Board from 1 July 2014
Date of birth:
1 November 1975
Education:
Masaryk University in Brno, Law faculty
Brno International Business school/ Nottingham Trent University – Master of Business Administration (MBA Senior Executive)
Other Executive Positions:
Vice-chairman of Supervisory Board, innogy Slovensko s. r. o. (from 1 September 2015)

Ivan Varinský (till 15 Sept 2018)
Member of Supervisory Board from 16 June 2016
Date of birth:
20 May 1973
Education:
Secondary education with secondary school leaving examination

Mgr. Katarína Gočíková (till 15 Sept 2018)
Member of Supervisory Board from 16 September 2014
Date of birth:
17 May 1978
Education:
University of Pavol Jozef Šafárik in Košice, Faculty of Science

Ing. Peter Fortuna (till 15 Sept 2018)
Member of Supervisory Board from 16 September 2014
Date of birth:
20 April 1985
Education:
Technical University of Košice, Faculty of Electrical Engineering and Informatics

JUDr. Vladimír Janočko (till 30 June 2018 and from 25 July 2018 till 27 Sept 2018)
Member of Supervisory Board from 1 July 2014
Date of birth:
11 June 1950
Education:
University of Pavol Jozef Šafárik in Košice, Faculty of Law

JUDr. Ivan Roháč, PhD., LL.M., MBA (till 31 January 2018)
Member of Supervisory Board from 1 July 2014
Date of birth:7 July 1984
Education:
University of Pavol Jozef Šafárik in Košice, Faculty of Law
Masaryk University, Law Faculty
Nottingham University, Great Britain, LL.M.
Universität Wien, Faculty of business, economics and statistics
University of Matej Bel in Banská Bystrica, Law faculty – Master
Other Executive Positions:
Managing Director, ADMIRENT s.r.o. (from 23 August 2016)
Managing Director, ADVOKÁTSKA KANCELÁRIA JUDr. Ivan Roháč, s.r.o. (from 1 November 2012)
Associate, Energit plus s. r. o. (from 11 April 2014)
Chairman of Board of Directors, Gazdovské družstvo (from 26 June 2015)
Managing Director, R&S Capital, s.r.o. (from 6 March 2015)
Member of Supervisory Board, SEALS Slovakia a.s. (from 19 August 2017)

JUDr. Jozef Tuhovčák (till 30 June 2018 and from 25 July 2018 till 27 Sept 2018)
Member of Supervisory Board from 1 July 2014
Date of birth:
4 December 1960
Education:
Comenius Univerisity in Bratislava, Law faculty

PhDr. Ctibor Holík (till 30 June 2018 and form 25 July 2018 till 27 Sept 2018)
Member of Supervisory Board from 1 July 2014
Date of birth:
14 January 1958
Education:
Comenius University in Bratislava, Faculty of Arts

Ing. Róbert Gold, CA
Member of Supervisory Board from 1 February 2018
Date of birth: 28 January 1960
Education:
Slovak University of Agriculture in Nitra, Faculty of Economics
Certification of Statutory Audit according to legislative act no. 423/2015
Other Executive Positions:
Managing Director, AUDIT GOLD s.r.o. (from 19 August 2010)
Associate, AUDIT GOLD s.r.o. (from 19 August 2010)
Member of Board of Directors ,Stavebné bytové družstvo I, Košice (from 02 January 2004)

Ing. Daniel Bito
Member of Supervisory Board from 16 Sept 2018
Date of birth: 5 September 1987
Education:
Technical University of Košice, Faculty of Mechanical Engineering

Ing. Ivan Petrík
Member of Supervisory Board from 16 Sept 2018
Date of birth: 12 June 1960
Education:
Technical University of Košice, Faculty of Electrical Engineering and Informatics

Ing. Peter Revický
Member of Supervisory Board from 16 Sept 2018
Date of birth: 12 November 1981
Education:
University of Economics in Bratislava
Other Executive Positions:
Managing director and Associate, Recount, s.r.o. (from 18 June 2013)
Managing director and Associate, Pemador s.r.o. (from 22 November 2018)
Managing director and Associate, Akadémia vzdelávania s.r.o. (from 20 December 2018)

27. Events after the reporting period

There has been no event after the reporting period that should be disclosed in Notes prepared in accordance with IFRS as adopted by EU.

Člen innogy

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Člen innogy

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1. Foreword by the Chairman of the Board of Directors

Dear Customers, Partners,

One of the most significant events of 2018 was definitely the extraordinary growth of wholesale commodity prices which culminated in the second half of the year. There were several reasons for this, mainly the global demand for energies, increase of renewable energy sources (RES) share in the production, prices of emission allowances for coal power plants, as well as the oil price.

The stated resulted in the increase of electricity and natural gas prices in all countries of the European Union.

In case of Slovak customers, natural gas prices increased as of December 2018 and electricity prices followed as of January 2019.

Customers are sensitive to every change in the market, especially the price increase. That is why in VSE we have been supporting our customers for a long period and bringing them solutions in the area of energy efficiency.

From the perspective of our business activities, the year 2018 confirmed that the conception of a smart household or facility management is the right way. With the use of modern technologies, customers get higher user comfort and can reduce their energy bills.

These innovative energy solutions were available to household customers via a unique concept of innogy Energy Advisory.

I am convinced that last year we also managed to open a new era of care for customers' households. We introduced a unique service of innogy SuperDomov (SuperHome) to the market. On top of this, we help reduce energy costs, look after their households functioning. This way, customers can enjoy their comfort and advantages of several benefits which the service combines.

Offering complex energy solutions became a trend for business customers. We create unique solutions for every facility and simultaneously offer suitable forms of financing of entire projects.

We keep looking for new, innovative solutions which help establishments or homes of our customers become more effective and save money.

In 2019, we will also continue with these activities and we will also focus on customers, listen to their needs and fulfil their requirements. Our intention is to move forward also in the area of customer experience and increase customer satisfaction in all the aspects of our business.

Košice, 28 February 2019

Thomas Jan Hejcman
Chairman of the Board of Directors

2. Foreword by the Chairman of the Supervisory Board

Dear Ladies and Gentlemen,

In 2018 and in line with its approved business plan, Východoslovenská energetika a.s. was focused mostly on keeping its position in the area of electricity sales. The business strategy also included the best possible development of services in the area of energy innovativeness and efficiency. Via projects in the area of smart households, our customers could fully perceive our strengths, such as knowing the market, technological maturity and innovativeness of energy solutions.

In 2018, we recorded a significant increase of wholesale commodity prices caused by a high global demand for energies.

The Supervisory Board, as the supreme inspection body of the company, successfully held its meetings throughout the year 2018 and supervised the execution of the Board of Directors powers and the performance of business activities.

There were several personnel changes in the composition of the Supervisory Board in 2018. As of 1 February 2018, Ing. Róbert Gold, CA became a new member of the Supervisory Board as a state representative and nominee of the Slovak Republic.

Elections of members of the Supervisory Board to be voted for by the company employees were held on 5 September 2018 and three new members of the Supervisory Board as employee representatives were elected. The term of office of the Supervisory Board members is four years. The Vice-Chairwoman of the Supervisory Board, JUDr. Jitka Adámková, MBA was re-elected as of 1 July 2018 after her term of office had expired.

In 2018, the Supervisory Board was supervising the performance of activities of the Board of Directors, business activities and management of the company, as well as the observance of the Articles of Association, all in compliance with the Slovak legislation and the Articles of Association.

There were three regular meetings, one extraordinary meeting and three *per rollam* voting rounds of the Supervisory Board held in 2018.

The regular agenda of ordinary meetings of the Supervisory Board included basic information regarding development of sales activities of the company, information regarding resolutions adopted by the Board of Directors in the previous periods and also an overview of affiliate and related party agreements.

At its meeting held on 13 December 2018, the Supervisory Board discussed and took due note of the individual annual business plan of the company for 2019.

Among other things, the Supervisory Board:

- looked into the financial statements drawn up as of 31 December 2017 and recommended to the General Meeting to approve them;
- approved a proposal to appoint an auditor of the financial statements for the business year 2018;
- took due note of the plan of consultancy and advisory services for 2019;
- approved an amendment to the Organizational Rules of VSE a.s. with effect as of 1 April 2018 and as of 1 October 2018.

In the course of the year, the Supervisory Board was informed by the Board of Directors, in both oral and written form, of the facts related to:

- financial results,
- electricity and gas procurement and sales volumes,
- investments and operating costs.

Based on the results of its continuous inspection, the Supervisory Board concludes that the Board of Directors carried out all the necessary activities to develop business and to maintain good reputation of the company.

The report of an auditor, as well as the financial statements consisting of a statement of financial position, income and loss statement, statement of changes in equity, cash flow statement, and notes to the financial statements will be discussed by the Supervisory Board members at their meeting held on 26 March 2019.

The Supervisory Board will look into the financial statements drawn up as of 31 December 2018 and will recommend to the General Meeting to approve them.

The Supervisory Board will approve a proposal made by the Board of Directors regarding the 2018 profit distribution. The Supervisory Board will recommend to the General Meeting to approve the distribution of the 2018 profit in accordance with the proposal of the Board of Directors.

Košice, 28 February 2019

JUDr. Marek Šedovič

Chairman of the Supervisory Board

3. Basic company data

FORMATION AND FOUNDING OF THE COMPANY

Východoslovenská energetika a.s. is a 100% subsidiary of Východoslovenská energetika Holding a.s.

Východoslovenská energetika a.s., as we know it today, was established on 1 April 2014 by a change of its legal form from a limited liability company - VSE Development, s.r.o. to a joint-stock company - VSE Development, a.s.

In the period that followed and with the aim to gradually meet regulation requirements for the demerger of distribution and sales activities, the sales activities of Východoslovenská energetika a.s. (now Východoslovenská energetika Holding a.s.) were demerged on 1 July 2014 by establishing a 100% subsidiary called VSE Development, a.s.

On the same date, the company name of Východoslovenská energetika a.s. was changed to Východoslovenská energetika Holding a.s. (hereinafter referred to as "VSE Holding a.s.") and the company name of VSE Development, a.s. to Východoslovenská energetika a.s. (hereinafter referred to as "VSE a.s.") as we know them today.

Currently, VSE a.s. is registered with the Commercial Register maintained by District Court Košice I, section: Sa, insert No.: 1628/V, as follows:

Company name: Východoslovenská energetika a.s.
Registered office: Mlynská 31, 042 91 Košice
Company No. (IČO): 44 483 767

Východoslovenská energetika a.s. works mostly in the area of Košice, Prešov, and a part of Banská Bystrica region, where it provides for the electricity supply to almost 600 thousand customers.

COMPANY HISTORY

On 1 July 2014, the Sales Division of the mother company VSE Holding a.s. was demerged into VSE a.s. resulting in the concentration of business activities of the Group related to electricity supply.

Similarly, on 1 July 2014, the General Meeting elected members of the statutory body and members of the supervisory body who were joined by another three members elected as employee representatives in the election held on 16 September 2014.

The company is building on experience and customer portfolio that moved into VSE a.s. from its mother company which does not perform any business activities related to electricity supply.

LINES OF BUSINESS

The main line of business of VSE a.s. is electricity supply to households and corporate customers as well as the provision of services of an energy audit and the sale of non-commodity products.

All lines of business:

- intermediary service in the area of sales;
- intermediary service in the area of services;
- electricity supply;
- administrative services;
- activity of business, organization and economic advisors;
- purchase of goods for the purpose of its sale to the end consumer (retail) or to other trade operators (wholesale);
- organization of cultural and other social events;
- IT services;
- lease of movable property;
- market surveys and public opinion polls;
- advertisement and marketing services;

- services related to computer data processing;
- intermediary service in the area of production;
- accounting;
- public procurement;
- performance of extra-curricular activities;
- research and development in the field of natural and applied sciences;
- research and development in the field of social sciences and humanities;
- performance of activities of an energy auditor;
- granting credits or loans from funds obtained without a public call and or public offers of assets;
- provision of financial leasing;
- provision of energy services with guaranteed savings;
- preparatory works for constructions;
- execution of constructions and their changes;
- finishing construction works when executing exteriors and interiors,
- activities of an independent financial agent for the insurance and reinsurance sector;
- natural gas supply;
- operation of chargers for electric vehicles;
- provision of a support energy service.

SHAREHOLDER STRUCTURE

As of 31 December 2018, the share capital of VSE a.s. in the amount of EUR 58,751,000 consisted of two ordinary registered and subscribed shares divided as follows:

- 1 share of nominal value of EUR 35,000
- 1 share of nominal value of EUR 58,716,000

The sole shareholder of VSE a.s. with a 100% share in the share capital and voting rights is:

Východoslovenská energetika Holding a.s.
Mlynská 31, 042 91

STRUCTURE OF THE COMPANY BODIES

Board of Directors

Dipl.-Volksw. Thomas Jan Hejcman, Chairman of the Board of Directors

Mgr. Miroslav Kulla, Member of the Board of Directors

Ing. Marián Suchý, Member of the Board of Directors

Ing. Ján Mihalik, Member of the Board of Directors (until 27 September 2018)

Supervisory Board

JUDr. Marek Šedovič, Chairman of the Supervisory Board

JUDr. Jitka Adámková, MBA, Vice-Chairman of the Supervisory Board

Ing. Róbert Gold, CA, Member of the Supervisory Board (since 1 February 2018)

Ing. Peter Revický* , Member of the Supervisory Board (since 16 September 2018)

Ing. Ivan Petrík*, Member of the Supervisory Board (since 16 September 2018)

Ing. Daniel Bito*, Member of the Supervisory Board (since 16 September 2018)

Ing. Peter Fortuna, Member of the Supervisory Board (until 15 September 2018)

Mgr. Katarína Gočiková, Member of the Supervisory Board (until 15 September 2018)

PhDr. Ctibor Holík, Member of the Supervisory Board (until 30 June 2018 and since 25 July 2018 until 27 September 2018)

JUDr. Vladimír Janočko, Member of the Supervisory Board (until 30 June 2018 and since 25 July 2018 until 27 September 2018)

JUDr. Ivan Roháč, PhD., LL.M., MBA, Member of the Supervisory Board (until 31 January 2018)

Ivan Varinský, Member of the Supervisory Board (until 15 September 2018)

JUDr. Jozef Tuhovčák, Member of the Supervisory Board (until 30 June 2018 and since 25 July 2018 until 27 September 2018)

**an employee representative*

4. Sales

In 2018, VSE focused on the development of services supporting the company vision.

Our company kept strengthening its position of a partner which the customers can rely on in the comprehensive care for their homes or businesses.

SOLUTIONS FOR CUSTOMERS

The year 2018 in VSE was marked with the preparation of a household customers care programme. VSE brought several services which outline a new trend in the household care and help customers ensure a smooth operation of their home. We extended our portfolio with gas condensing boilers and dealt with the quality improvement of our existing solutions. We continued in developing a unique concept of innogy Energy Advisory for households. Thanks to the service, customers receive an analysis of the energy utilization in their household and proposals of efficient innovative measures. This way, they can reduce their energy costs and upgrade their households via further innovations thanks to the savings.

Products focused on savings in households:

- Zonal heating regulation
- Washing Without Worries service
- Cost and energy saving LED bulbs
- Cost and energy saving and smart electric water heaters
- Cost and energy saving shower heads
- Stand-by service
- Benefits Card programme with year-round discounts in shops and with the Warranty Plus service
- Gas boiler

Modern packages for health and safety to households:

- Water filters
- Alarms (carbon monoxide, natural gas and smoke alarms)
- Medical Assistance service
- Emergency Assistance service

In the course of 2018 and in the area of complex energy services for corporate customers, the company mostly engaged in the presentation of these solutions to its customers. This was reflected in the number of implemented projects thanks to which corporate customers made the energy utilization in their plants more effective and provided their companies with technological preconditions to achieve savings.

We keep looking for new, innovative solutions which help make establishments of our customers more efficient and, as a result, lead to savings. We offer turnkey solutions for production halls, industrial plants, administrative buildings, hotels, schools, medical centres, towns and municipalities.

Our complex solutions concerning heating, cooling, ventilation and air-conditioning for companies and organizations include:

- optimization of heat supply system operation (boiler houses, heat exchangers),
- design of new heat sources for heat supply systems,
- modernization and renewal of heat sources and central heating systems,
- hydraulic regulation for even heat distribution among heating units,
- design and implementation of projects regarding heat generation from renewable energy sources (biomass, heat pumps, photovoltaics),
- operation of heat sources and heat supply as a service (in selected executions also a guaranteed energy service)
- systems for ensuring thermal comfort,
- smart controlling of heat distribution, metering and regulation for different types of buildings and industrial halls,
- cooling systems of industrial, administrative and public premises, cooling of machines and technologies.

WE LISTEN TO OUR CUSTOMERS

Customer satisfaction if the key value of the company. We want to build a correct relationship with the customer and become their partner. This includes constant interaction. In 2018, VSE made it more systematic via the Customer Experience (CX) platform which provides for the continuous monitoring of customer opinions, evaluates their incentives and proposes solutions to increase their satisfaction.

When dealing with their requests, customers still prefer a phone contact, in case of more complex request, customer choose a personal visit of our Customer Service Centres. The number of customers dealing with their service requests online is growing. There, they can use e-mail communication, Webcentrum and online chat.

In the previous year, VSE continued in refurbishing its Customer Service Centres. The appearance of a modern living room was given to the waiting area in Humenné which joined already refurbished Customer Service Centres in Košice and Prešov.

CUSTOMER ASSESSMENT IN 2018

The satisfaction of VSE customers reached high values also in 2018. Customers appreciate VSE mostly because of the approach of its service staff when dealing with their requests. The high level of satisfaction was shown by our customers not only with electricity supply but also with so-called non-commodity products. They consider VSE to be an innovative supplier that is interested in making their lives easier.

Corporate customers expressed their satisfaction mainly with the helpfulness of the staff, as well as with comprehensible communication. They also appreciated the quality and level of the service.

COMMUNICATION WITH CUSTOMERS

In 2018, VSE and innogy Slovensko continued in the tradition of popular Energy Seminars which customers appreciate mainly because of the opportunity to share professional news and experience. The autumn event called Business Club provided social experience to selected customers.

Within its year-round communication, VSE also deals with customer education. The main topic of 2018 consisted of recommendations related to prevention of sharp practices.

At the same time, we informed our customers on amendments to the rules of personal data protection. The activity was also conveniently used to update the contact details of customers.

VSE and innogy introduced several electronic newsletters on the developments on the energy market and news in their service offer mostly to corporate customers. Both companies use e-mail newsletters, letters, customer magazines, media campaigns, web pages and social networks for communication. VSE and innogy actively cooperate with the media by which they help customers get useful information.

5. Purchase and sales of commodities

VSE carried out electricity purchase for customers in line with their requirements.

Majority of the purchased electricity was from Slovenské elektrárne, a.s. (37 %), as well as from renewable energy sources and combined heat and power generation sources (17%).

The year 2018 was marked with growing pressures across energy markets.

At the beginning of 2018, 500 MW of nuclear capacities of the Hungarian PAKS were missing in the Eastern European markets, on top of that, Czech nuclear power plants were put out of their operation - Temelín in January and February and the same happened later in spring in Dukovany.

The increased price levels on the daily market persisted during the entire summer season. Despite the growing capacities from renewable energy sources (which should reduce the price of the energy mix), the prices responded to the extreme heat in summer months, as well as to the problems with the French nuclear fleet. Extreme droughts in the South Europe were reducing the production of watercourses. The volumes of supplies from German wind parks dropped below the average of the previous 3 years. Conventional sources had problems to substitute the missing "green" electricity in the grid. Little rainfall and hot weather cut down the production of hydroelectric power stations, as well as lignite and nuclear power plants, as the low level of water and its temperature in European reservoirs endangered the effectiveness of their turbines´ cooling.

The electricity prices on a daily market did not decrease even in autumn when the increasing value of emission allowances overpriced the generation from lignite and gas power stations. Similarly, higher prices of fuel led to the increased input costs of the energy industry.

During the year, the more expensive energy mix was also reflected in the prices of forward products. The price of these commodities was growing in 2018. The forward prices at PXE reached the positions of EUR 60 during autumn. Specifically, baseload with the supply in 2019 reached its annual maximum of EUR 60.55 / MWh in mid-December at PXE.

Products with a later date of their supply to the electricity market remain cheaper than closer forward prices. The reason is the same trend in the fuel market. Fears of faster decommissioning of the German lignite power production have not been fulfilled yet. So-called coal commission in Germany has not introduced any schedule for their decommissioning. The current trend in the energy markets may also point out to a lack of confidence of investors with regard to the further growth of the world economy.

VSE carried out its gas purchase for household customers in line with their requirements; the purchase of the commodity was done exclusively from the sister company innogy Slovensko.

Tab.: Structure of electricity sales to end customers per segments

GWh	2017	2018
Households	1,094	1,154
Corporate customers	1,963	1,903
Total	**3,057**	**3,057**

Tab.: Natural gas sales to household customers

GWh	December 2017	2018
Households	71	343

6. Economic situation analysis

In 2017 and in line with art. 17a of Act No. 431/2002 Coll. on Accounting, the company started to prepare financial statements in accordance with the international financial reporting standards ("IFRS").

The following table include the key performance indicators of VSE a.s. for 2018 and the preceding period:

Economic data	Unit of measurement	2018	2017
Total revenues	EUR thousand	454,268	399,411
Total costs	EUR thousand	444,568	397,297
Profit before tax	EUR thousand	9,700	2,114
Profit after tax	EUR thousand	8,641	1,869
Total assets	EUR thousand	133,152	119,353
Equity	EUR thousand	67,856	59,241
Registered capital	EUR thousand	58,751	58,751

Total revenues increased in 2018 by EUR 54,857 thousand (13.7%) on a year-on-year basis. The increase was a result of the following most significant factors:

1. The increase of the commodity component of the price is related to the price increase in the wholesale market.
2. Slight increase of the total supply to end customers.
3. Higher revenues from the electricity sales in the spot market.
4. Higher supply and revenues for the gas sales to households (in 2017, the gas supply included 1 month only - December 2017).
5. Increase of revenues from non-commodity products and services.

Total costs in 2018 (compared to 2017) were mostly influenced by the increase of costs for the electricity procurement and its related distribution and transmission, as well as the increase of costs related to the gas purchase (impact of its higher price and volume).

Company assets increased by EUR 13,799 thousand (11.6%) mostly on the part of non-current assets (investments) and current assets (trade receivables). The change in **equity** reflects the year-on-year increase of the Company profitability; its **registered capital** is without any change.

The **profit for 2017** was utilized to decrease the residual amount of the unsettled loss of previous periods which had occurred upon the reporting transfer to IFRS.

The Board of Directors of VSE a.s. had not presented a proposal for distribution of the **profit for 2018** as of the date of this annual report.

7. Employees

Our company has been one of the several large, stable employers with their registered office in Eastern Slovakia providing attractive working conditions and high-standard employee care in all aspects.

The year 2018 was extraordinary for us as the professional and lay public rewarded our company as the BEST for several times. We ranked as TOP 2 best employer of Slovakia in the category "Production and Industry" in the survey of the portal profesia.sk.
We also received the award for the Best Training of the Year in Slovakia. The latter concerned a system of interactive trainings in the OHS area for all the company employees.
Last but not least, we ranked among the four most successful companies in Slovakia in the area of diversity promotion in the competition Via Bona, mostly thanks to our success in working with the young generation.
The successes prove our concentrated work on creating the employer branding externally and internally.

As of 31 December 2018, the company was employing 255 employees. The increase in the number of jobs was recorded thanks to the organization transformation in the segment of corporate customers where we started to strengthen our offer of non-commodity energy solutions for our customers.

The voluntary staff turnover was low at the level of 2.9 %. The average age of employees was 41 years. The average years worked for the company reached the level of 7 years.

SUPPORT OF TRANSFORMATION PROJECTS

Transformation projects focused on increasing customer satisfaction, maintaining motivation and engagement of employees, management culture and maintaining costs of the company continued in their post-implementation phases.

We continued in the targeted management development via LeadershipAcademy. We focused mostly on interactive workshops to share our best practice.

The business transformation was focused on the organizational units within the sales and services for corporate customers. We started to create so-called E+ organization, that means, organizational units which create, offer and implement energy solutions for customers.

EMPLOYEE SATISFACTION AND ENGAGEMENT SURVEY AND COOPERATION BAROMETER

As part of building our internal culture, satisfaction surveys regarding cooperation among organizational units became a standard in our company - cooperation barometer, as well as employee engagement surveys PulseCheck and ESAT. The engagement index of employees reached 86% in the engagement survey. The latter reaches the level of the best employers in Slovakia.

Tab.: Overview of basic data:

Headcount structure	Unit of measure	2018	2017
Status as of 31 Dec	Quantity	255	229
Average headcount	Quantity	244	214
Voluntary staff turnover	%	2.9	3.3
Total staff turnover	%	17.6	16.8

8. Additional information

In 2018, the Company did not invest in research and development activities.

The Company did not procure any of its own shares, temporary share certificates and shareholding of its mother entity.

The Company management is currently not aware of any risks that would significantly influence the company economic result in the future.

The Company has no establishment abroad.

The Company applies a comprehensive system of environmental protection in all its activities.

9. Post balance sheet events

After 31 December 2018, no events occurred that would require recognition or disclosure in the financial statements and the annual report for the year 2018.

10. Business outlook 2019

The mission of our company in 2019 is still to provide reliable and complex services reflecting the requirements of our customers, including the offer of innovations and trendy solutions.

The values which we will fulfil are the following: trust, reliability, customer orientation, performance and mainly shaping the future of the energy industry.

We will focus on further innovative products and services which will help our customers save their money, will bring them comfort and secure their homes or businesses.

We will observe all the legal regulations and quality standards on the supply to end electricity and natural gas customers also in 2019 to rank again among the group of enterprises which run their business transparently and responsibly.

One of the biggest events of 2018 was the extraordinary growth of wholesale commodity prices which culminated in the second half of the year. This resulted in the increase of electricity and gas prices in all countries of the European Union.

In case of Slovak customers, natural gas prices increased as of 1 December 2018 and electricity prices increased as of 1 January 2019.

Therefore, we will recommend our customers to pay attention to energy efficiency which has a much bigger impact on savings and consumption reduction than energy prices or cutting down or switching off their heating.

Člen innogy

11. Attachment - Contact details

Východoslovenská energetika a.s.

Mlynská 31
042 91 Košice
Slovak Republic

E: info@vse.sk
I: www.vse.sk
I: www.KartaVyhod.sk

Households

Customer Hotline
T: 0850 123 333

Corporate customers

Customer Hotline
T: 0850 123 333

Emergency Hotlines:

VSD Emergency Hotline
T: 0800 123 332
ZSD Emergency Hotline
T: 0800 111 567
SSE-D Emergency Hotline
T: 0800 159 000
SPP-Distribúcia Emergency Hotline
T: 0850 111 727

Safe Sales Hotline - Freephone

T: 0800 123 532

Customer Service Centres

Bardejov
Radničné námestie 9

Humenné
Námestie slobody 61

Košice
Hollého 3

Michalovce
Štefánikova 2

Poprad
Nám. sv. Egídia 97/42

Prešov
Levočská 3

Rožňava
Šafárikova 2

Spišská Nová Ves
Zimná 34

Trebišov
M. R. Štefánika 1515

Make an appointment in one of our offices online at www.vse.sk.