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 2019 and Independent Auditor's Report

February 2020

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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 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

What we have audited

The Company's financial statements comprise:

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing. 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 2019 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, 28 February 2020

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

Havalda

Ing. Peter Havalda, FCCA
UDVA licence No. 1071

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 2019

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 2019, prepared in accordance with International Financial Reporting Standards as adopted by European Union were approved and authorized for issue on 28 February 2020 by the Board of Directors.

Mgr. Miroslav Kulla
Member of the Board of Directors

Ing. Marián Suchý
Member of the Board of Directors

Index to the financial statements

Independent auditors' report to the Shareholders, Supervisory Board and Board of Directors of Východoslovenská energetika a.s.

in EUR thousand	Note	As at 31 December 2019	2018
ASSETS			
Non-current assets			
Intangible assets	7	63,045	66,357
Property, plant and equipment	5	1,547	1,139
Right-of-use assets	6	529	-
Investments in subsidiaries	8	1,900	-
Financial investments at fair value through other comprehensive income	9	322	-
Loans to subsidiaries	3.1	200	-
Trade and other receivables	3.1	2,815	3,093
		70,358	**70,589**
Current assets			
Inventories	11	745	599
Trade and other receivables	3.1	43,154	39,344
Receivable from cash-pooling	2.12	21,089	-
Cash and cash equivalents	12	7,726	22,372
Other non-financial assets	10	1,208	248
		73,922	**62,563**
Total assets		**144,280**	**133,152**
EQUITY			
Equity attributable to the owners of the parent			
Share capital	13	58,751	58,751
Legal reserve fund	13	11,808	11,808
Retained earnings	13	3,426	(2,703)
Total		**73,985**	**67,856**
LIABILITIES			
Non-current liabilities			
Lease liabilities	6	458	-
Deferred income tax liabilities	17	10,369	11,243
Employee benefit obligations	19	789	685
		11,616	**11,928**
Current liabilities			
Trade and other payables	14	40,946	38,099
Contract liabilities	15	13,858	10,490
Lease liabilities	6	67	-
Employee benefit obligations	19	25	5
Bank overdraft		3	-
Provisions	18	361	54
Other non-financial liabilities	16	3,419	4,720
		58,679	**53,368**
Total liabilities		**70,295**	**65,296**
Total equity and liabilities		**144,280**	**133,152**

in EUR thousand	Note	2019	2018
Revenue from contracts with customers	20	491,637	452,607
Purchases of electricity, gas and distribution costs	21	(446,307)	(407,660)
Material consumption	21	(1,544)	(2,412)
Employee benefit expense	21	(10,520)	(9,699)
Services	21	(15,408)	(14,608)
Depreciation and amortization expense	5, 6, 7, 21	(4,931)	(4,430)
Net impairment losses on financial assets	3.1	(3,386)	(853)
Net loss from balancing services with OKTE *	2.23	(3,502)	(4,650)
Other operating expenses	21	(466)	(192)
Other operating income	21	2,631	1,499
Profit from operations		**8,204**	**9,602**
Finance income / (expenses)			
Finance income	22	296	162
Finance expense	22	(18)	(64)
Net finance income / (expenses)		**278**	**98**
Profit before income tax		**8,482**	**9,700**
Income tax expense	23	(2,313)	(1,059)
Profit for the year		**6,169**	**8,641**
Other comprehensive income – items that will not be to profit or loss			
Re-measurements of post-employment benefits obligation	19	(40)	(24)
Other comprehensive income for the period, net of tax		**(40)**	**(24)**
Total comprehensive income for the year		**6,129**	**8,617**

* OKTE means Organizátor Krátkodobého Trhu s Elektrinou (Organiser of short-term electricity market). Further see Note 2.23.

in EUR thousand	Share capital	Legal reserve fund	Retained earnings	Total equity
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**
Balance as at 1 January 2019	**58,751**	**11,808**	**(2,703)**	**67,856**
Dividends paid	-	-	-	-
Total transactions with owners, recognized directly in equity	**-**	**-**	**-**	**-**
Profit for the year	-	-	6,169	6,169
Other comprehensive income for the year	-	-	(40)	(40)
Total comprehensive income for the year	**-**	**-**	**6,129**	**6,129**
Other	-	-	-	-
Balance at 31 December 2019	**58,751**	**11,808**	**3,426**	**73,985**

in EUR thousand	Note	Year ended 31 December 2019	2018
Cash flows from operating activities			
Cash generated from operations	24	13,925	13,402
Interest received	22	296	162
Payments for short-term and low-value leases	6	(8)	-
Net transfer to receivables from cash-pooling		(21,089)	
Income tax (-) paid / (+) received		(4,296)	675
Net cash from operating activities		**(11,172)**	**14,239**
Cash flows from investing activities			
Loan provided to subsidiary	3.1	(200)	-
Acquisition of subsidiaries	1	(1,278)	-
Purchase of property plant and equipment ("PPE") and intangible assets	5, 7	(1,924)	(3,143)
Proceeds from sale of PPE		-	1
Net cash used in investing activities		**(3,082)**	**(3,142)**
Cash flows from financing activities			
Drawings of borrowings		3	-
Principal elements of lease payments	6	(56)	-
Interest paid from lease liability	6	(1)	-
Interest paid except for interest paid from lease liability	22	(18)	(64)
Net cash used in financing activities		**(72)**	**(64)**
Net increase/ (decrease) in cash, cash equivalents and bank overdrafts		**(14,646)**	**11,033**
Cash, cash equivalents at beginning of year	12	**22,372**	**11,339**
Cash, cash equivalents at end of year	12	**7,726**	**22,372**

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 household 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 has acquired 100% share and control over innogy Solutions s.r.o. (hereinafter "iSOL"), KVT control s.r.o. and KVT servis s.r.o. on 1 April 2019. KVT Control and KVT Services has merged into iSOL on 1 August 2019.

The Company has established a new subsidiary iWATT s.r.o. on 1 June 2019. As at 31 December 2019 the Company has 100% share in iWATT s.r.o.

The Company has acquired 10 % share in People2People, s. r. o. on 25 May 2018 for EUR 1. On 11 March 2019, the Company increased the investment by EUR 21 thousand (the share remained 10.00%). On 2 August 2019, the Company increased the investment by EUR 302 thousand. The carrying amount of investment as at 31 December 2019 is EUR 322 thousand (8.77% share) which is considered to be fair value of the investment, as evidenced by recent transactions and overall business development of the investee.

The Company's shareholder structure as at 31 December 2019 and 31 December 2018 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 260 staff on average during 2019 (2018: 244).

Members of the statutory bodies of the Company:

Board of Directors:	**Changes in 2019 and status as at 31 December 2019**	**Changes in 2018 and status as at 31 December 2018**
Chairman	Dipl.-Volksw. Thomas Jan Hejcman	Dipl.-Volksw. Thomas Jan Hejcman
Vice Chairman	JUDr. Martin Petruško (from 13 Feb 2019)	-
Members	Mgr. Miroslav Kulla Ing. Marián Suchý Ing. Štefan Kapusta (from 13 Feb 2019)	Mgr. Miroslav Kulla Ing. Marián Suchý Ing. Ján Mihalik (until 27 Sep 2018)

Supervisory Board:	**Changes in 2019 and status as at 31 December 2019**	**Changes in 2018 and status as at 31 December 2018**
Chairman	JUDr. Marek Šedovič	JUDr. Marek Šedovič
Vice Chairman	JUDr. Jitka Adámková, MBA (until 11 Dec 2019)	JUDr. Jitka Adámková, MBA
Members	Ing. Róbert Gold, CA Ing. Peter Revický Ing. Ivan Petrík Ing. Daniel Bito Ing. Igor Šimko, PhD. (from 13 Feb 2019) Ing. Jakub Špilár (from 13 Feb 2019) - - - - - -	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 (from 16 Sept 2018) PhDr. Ctibor Holík (until 30 June 2018 and from 25 July 2018 until 27 Sept 2018)

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 VSE H 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 VSE H, RWE Gas International N.V., changed its business name to innogy International Participations N.V. (hereinafter referred to as "innogy").

On 20 August 2019, the General Meeting of Východoslovenská energetika Holding a.s. approved the transfer of 49% shares of VSE Holding from innogy International Participations N.V., with its registered office: Kingdom of the Netherlands, 5211AK 's-Hertogenbosch, Willemsplein 4 to RWE Slovak Holding B.V., with its registered office: Kingdom of the Netherlands,4931NC Geertruidenberg, Amerweg 1. The registration with the Central Securities Depository of the Slovak Republic took place on 22 August 2019.

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 RWE. 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 RWE. 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 group company VSD in total principal amount of EUR 220,000 thousand. In comparative period, the guarantees were provided to the banks in respect of bank loans of VSE H as VSE H. Accounting policy for these guarantees and further details are in Note 26.

The financial statements for the period ended 31 December 2018 have been approved by the General Meeting held on 20 June 2019.

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 2019 in accordance with International Financial Reporting Standards as adopted by the European Union (hereinafter "IFRS").

The financial statements for the year ended 31 December 2019 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 2019 to 31 December 2019.

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 2019. 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 SOFP 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,
- issued financial guarantee contracts, and
- financial assets at fair value through other comprehensive income.

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 2019

The following new standards and interpretations became effective for the Company and were applied from 1 January 2019:

IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. 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 Statement of Profit or Loss and Other Comprehensive Income. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. Effective date is 1 January 2019. This standard has been endorsed by the EU on 31 October 2017.

Impact

The Company has set-up a project team which has reviewed all the leasing arrangements over the year 2018 in light of new accounting rules in IFRS 16. This standard has affected primarily the accounting for the Company's operating leases where the Company is a lessee. The Company has selected to use simplified transition approach for all leases where the Company is a lessee. The Company has not restated comparative amounts for the year prior to first adoption of the standard, therefore the amounts for the current year and for comparative period are not comparable.

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review (there were no onerous contracts as at 1 January 2019);
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

On adoption of IFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as of 1 January 2019. The weighted average Company's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 0.74%.

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

Reconciliation of the non-cancellable operating lease commitments as of 31 December 2018 when IAS 17 was applied, and lease liabilities as of 1 January 2019 is in the following table:

	31 December 2018 / 1 January 2019
Non-cancellable operating lease commitments as at 31 December 2018	167
Impact of lease term determined according to IFRS 16	-
Total projected payments from leases that were previously as per IAS 17 classified as operating leases	167
Discounted using the lessee's incremental borrowing rate of at the date of initial application	119
Lease liability recognised as at 1 January 2019	**119**
Of which are:	
Current lease liabilities	46
Non-current lease liabilities	73

Right-of-use assets is measured at the amount of the lease liability adjusted for any prepaid or accrued lease payments relating to that lease or provisions and allowances recognized in the Statement of Financial Position (hereinafter "SOFP") as of 31 December 2018.

The change in accounting policy affected the following items in the SOFP on 1 January 2019:

- right-of-use assets – increase by EUR 119 thousand
- lease liabilities – increase by EUR 119 thousand

There was no impact on retained earnings on 1 January 2019.

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 interpretation has had immaterial impact on these 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 amendments have had immaterial impact on these 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 amendments have had immaterial impact on these financial statements. Effective date is 1 January 2019. 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, e.g. 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 amendments have had immaterial impact on these financial statements. Effective date is 1 January 2019. These amendments have been endorsed by the EU on 14 March 2019.

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 amendments have had immaterial impact on these financial statements. Effective date is 1 January 2019. These amendments have been endorsed by the EU on 13 March 2019.

b) New standards, amendments and interpretations issued and effective for the financial year beginning 1 January 2020 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 2020 or later, and which the Company has not early adopted.

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 is currently assessing the impact of the standard on its financial statements. This standard has 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.

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.

Interest rate benchmark reform – Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020). The amendments were triggered by replacement of benchmark interest rates such as LIBOR and other inter-bank offered rates ('IBORs'). The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by the IBOR reform. Cash flow hedge accounting under both IFRS 9 and IAS 39 requires the future hedged cash flows to be 'highly probable'. Where these cash flows depend on

IBOR, the relief provided by the amendments requires an entity to assume that the interest rate on which the hedged cash flows are based does not change as a result of the reform. Both IAS 39 and IFRS 9 require a forward-looking prospective assessment in order to apply hedge accounting. While cash flows under IBOR and IBOR replacement rates are currently expected to be broadly equivalent, which minimises any ineffectiveness, this might no longer be the case as the date of the reform gets closer. Under the amendments, an entity may assume that the interest rate benchmark on which the cash flows of the hedged item, hedging instrument or hedged risk are based, is not altered by IBOR reform. IBOR reform might also cause a hedge to fall outside the 80 - 125% range required by retrospective test under IAS 39. IAS 39 has therefore been amended to provide an exception to the retrospective effectiveness test such that a hedge is not discontinued during the period of IBOR-related uncertainty solely because the retrospective effectiveness falls outside this range. However, the other requirements for hedge accounting, including the prospective assessment, would still need to be met. In some hedges, the hedged item or hedged risk is a non-contractually specified IBOR risk component. In order for hedge accounting to be applied, both IFRS 9 and IAS 39 require the designated risk component to be separately identifiable and reliably measurable. Under the amendments, the risk component only needs to be separately identifiable at initial hedge designation and not on an ongoing basis. In the context of a macro hedge, where an entity frequently resets a hedging relationship, the relief applies from when a hedged item was initially designated within that hedging relationship. Any hedge ineffectiveness will continue to be recorded in profit or loss under both IAS 39 and IFRS 9. The amendments set out triggers for when the reliefs will end, which include the uncertainty arising from interest rate benchmark reform no longer being present. The amendments require entities to provide additional information to investors about their hedging relationships that are directly affected by these uncertainties, including the nominal amount of hedging instruments to which the reliefs are applied, any significant assumptions or judgements made in applying the reliefs, and qualitative disclosures about how the entity is impacted by IBOR reform and is managing the transition process. The Company is currently assessing the impact of the amendments on its financial statements. The amendments have not been endorsed by the EU yet.

Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022). The amendments provide more general approach to classification of liabilities in accordance with IAS 1 based on contractual arrangements valid as of the reporting date. The Company is currently assessing the impact of the amendments on its financial statements. The amendments have 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. Subsidiaries

The Company applies acquisition accounting as set out in IFRS 3 as accounting policy for business combinations under common control (relevant for contribution in kind described in Note 1).

Subsidiaries are all entities (including structured entities) over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Investments in subsidiaries are carried at cost in these separate financial statements according to IAS 27. Impairment losses are recognized using respective allowance accounts.

2.3. Financial investments with changes in fair value recognized through other comprehensive income (FVOCI)

Investments in shares and business interests are recognized at fair value. Dividends from the investments in share and business interests are recognized in profit or loss for the year as other financial income, when the Company has the right to receive payment, and it is likely that dividends will be received. Investment in shares and interests are classified as financial assets with changes in fair value recognized in the last comprehensive income and comprise equity securities that are not held for trading, and the Group has decided to irrevocably classify them in this category.

2.4. 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.

2.5. 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 2.20 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 in case of sold property, plant and equipment. In case of disposals of assets without their sale, net book value of disposed items is recognized in profit or loss within Depreciation and amortisation expense.

2.6. 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 2019 is EUR 52,300 thousand (31 December 2018: EUR 54,981 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 2019 is EUR 7,332 thousand (31 December 2018: 7,652 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

2.7. 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.

2.8. Financial assets

Classification

The Company classifies its financial assets in two measurement categories - i) financial assets measured at amortised cost and ii) financial assets measured at fair value through other comprehensive income.

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 instalment 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 impact of discounting is immaterial.

Impairment

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 model for estimation of expected credit loss for trade and other receivables. 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.

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 "Net impairment losses on financial assets". Trade receivables that cannot be collected are written off against the allowance accounts for trade receivables and are recognized in the profit or loss also within "Net impairment losses on financial assets".

Trade receivables that were written off and subsequently paid by the paid by the debtors are recognized in the profit or loss within "Net impairment losses on financial assets".

2.9. Leases

Lease arrangements where the Company is a lessee

From 1 January 2019, leases are presented as right-of-use assets and corresponding lease liabilities initially at the commencement date of the lease, which is the date when leased assets are available for use by the Company. Right-of-use assets are presented on a separate line in the SOFP after adoption of IFRS 16. Until the 2018 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases.

The Company leases various administrative offices. Rental contracts are typically made for definite period of time. Contracts may contain both lease and non-lease components. The Company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.
Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- lease payments to be made based on determined lease term (the Company has lease arrangements where more than insignificant economic penalty is present).

There are no significant variable lease payments, residual value guarantees provided by the Company, purchase options, or contractual penalties for terminating leases.

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

To determine the incremental borrowing rate, the Company used recent third-party financing received by the VSE H Group as a starting point, adjusted to reflect changes in financing conditions since third party financing was received. The weighted average Company's incremental borrowing rate applied to the lease liabilities on 31 December 2019 was 0.61%.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Lease liabilities are subsequently measured at amortized cost using effective interest rate. Carrying amount of lease liability is subsequently remeasured in order to reflect any reassessment or modification of the lease or changes in in-substance fixed payments.

Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability. There are no significant lease payments made at or before the commencement date, initial direct costs or restoration costs.

Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Carrying amount of right-of-use assets is also adjusted by accumulated impairment allowance and by any revaluation of lease liability resulting from modification of lease contracts.

In case the lease contracts define rental period, the lease term is established based on this period. When the Company considered that it is reasonably certain to exercise extension options available in the contracts the lease term was extended. In case of the contracts with indefinite rental periods and equal termination options of the Company and lessors, which typically cover few months, the Company has estimated the lease terms to 5 years.

The Company assessed the following lease terms for contracts with indefinite rental periods:

ROU Asset	Lease term (in years)
Administrative premises	5-10

Payments associated with short-term leases of buildings and all leases of low-value assets (which are assets with individual value of EUR 5,000 or less when new) are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise equipment and small items of office furniture.

The Company does not have any non-cancellable lease arrangements, which would not be effective yet as of the balance sheet date.

Lease arrangements where the Company is lessor

The Company's activities as a lessor are not material and hence the Company did not need to make any adjustments to the accounting for assets held as lessor as a result of the adoption of IFRS 16.

Accounting policies applied until 31 December 2018

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

The Company is a lessee of certain property, plant and equipment. Leases of property, plant and equipment, where the Company has substantially all the risks and rewards of the ownership of the asset are classified as finance leases. Finance leases are recognized as assets in the Company's SOFP at the commencement of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is split into the liability and finance charges to achieve a constant periodic rate of interest on the remaining balance of the liability. The corresponding rental obligations, net of finance charges, are included in non-current liabilities or current liabilities, depending on the maturity date. The interest part of financial expenses is accounted in the profit or loss during the period of lease in the way that a constant periodic rate of interest on the remaining liability for each period is achieved. If there is reasonable certainty that the lessee will obtain ownership of the asset by the end of the lease term, the period of expected use is the useful life of the asset and the asset is depreciated accordingly; otherwise the asset is depreciated over the shorter of the lease term and its useful life.

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 SOFP 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 SOFP based on their nature.

The description of the nature of the lease arrangements where the Company acts as a lessor is disclosed in Note 2.20 Revenue from contracts with customers.

2.10. Financial liabilities

The Company classifies its financial liabilities according to IFRS 9 "Financial Instruments "as other financial liabilities held at amortized cost except for issued financial guarantee contracts.

Issued financial guarantee contracts are recognised as financial liabilities at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of (i) the amount determined in accordance with the expected interest loss model under IFRS 9, or (ii) the initial measurement less the accumulated amount of revenue recognised in accordance with IFRS 15. The fair value is based on the present value of the difference in cash flows between the contractual interest payments required to satisfy the guarantee and the payments that would be required without the guarantee or the expected amount that would be paid to the third party for the guarantee. The Company estimated the carrying amount of the issued financial guarantees as immaterial.

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 SOFP 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.

2.11. 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.

2.12. 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.

As at 31 December 2019 the Company has recognised receivable from cash-pooling in the amount of EUR 21,089 thousand. During 2019, the borrowing facility of VSE Holding of EUR 40 million became uncommitted which represents change in circumstances and receivable from cash-pooling no longer meets the definition of cash and cash equivalents. As a result, the Company presented cash-pooling receivable on a separate line in SOFP. Receivables from cash-pooling within the VSE H group are repayable on demand. The Company has recognised receivable from cash-pooling of EUR 8,940 thousand as at 31 December 2018, which was presented as Cash and cash equivalents (Note 12).

2.13. 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.

2.14. 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.

2.15. 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.

2.16. 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.

2.17. 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 SOFP 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.

2.18. 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 SOFP 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 11 December 2019 (2018: 20 December 2018) 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 retirement benefit 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 14.0% (2018: 14.0%) 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 4.0% (2018: 4.0%) 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 2019**	**From 1 January 2018**
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.

2.19. 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.

2.20. 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 (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 entrepreneurs) 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 pays monthly fee depending on the level of services. In this scheme, customers receive 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 the above services are undertaken by a third party contracted by VSE. In the event of emergency, the customer contacts a call centre 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 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 2019 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 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 for VSD. The revenues are recognized over time.

2.21. 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).

2.22. 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 2019 was booked (31 December 2018:0).

2.23. 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.

2.24. 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 2.20.

2.25. 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.

2.26. Offsetting financial instruments

Financial assets and liabilities are offset, and the net amount reported in the SOFP 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.

2.27. 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.

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 26.

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

- Trade and other receivables
- Receivables from cash-pooling
- 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 2.20 for more details). At the year-end, the advance payments billed to households are recognized within unbilled electricity balance in the SOFP. 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 considered 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 2019 and 31 December 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 the allowance for trade and other receivables as of 31 December 2019 or 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 2019	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	0.05%	0.1%	0.3%	1.3%	61.3%	90.1%	100.0%	
Trade and other receivables	22,219	1,274	264	31	7	1	1	23,797
Expected credit loss	11	1	1	-	4	-	1	18
Recognized bad debt allowance	9	1	1	-	4	-	1	16
Retail – commercial								
Expected credit loss percentage	0.8%	2.6%	9.3%	23.0%	53.1%	88.5%	100.0%	
Trade and other receivables	6,560	594	89	22	22	10	1	7,298
Expected credit loss	52	15	8	5	12	9	1	102
Recognized bad debt allowance	46	15	8	5	12	9	1	96
Retail – households								
Expected credit loss percentage	2.1%	5.8%	14.2%	24.8%	47.0%	85.5%	100.0%	
Trade and other receivables	6,160	2,737	589	209	297	141	-	10,133
Expected credit loss	55	158	84	52	140	121	-	610
Recognized bad debt allowance	10	213	102	64	178	129	-	696
OKTE								
Expected credit loss percentage	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Trade and other receivables	464	-	-	-	-	657	-	1,121
Expected credit loss	-	-	-	-	-	-	-	-
Recognized bad debt allowance	-	-	-	-	-	-	-	-
Other operations								
Expected credit loss percentage	11.7%	25%	25%	25%	46.4%	53.0%	100.0%	
Trade and other receivables	4,391	-	-	72	16	90	4	4,573
Expected credit loss	514	-	-	18	8	48	4	592
Recognized bad debt allowance	400	-	-	16	11	53	4	484
Receivables within VSE H group								
Expected credit loss percentage	0.0%	0.0%	1.0%	1.4%	1.8%	2.2%	2.6%	
Trade and other receivables	-	173	-	-	-	-	-	173
Expected credit loss	-	-	-	-	-	-	-	-
Recognized bad debt allowance	-	-	-	-	-	-	-	-
Customers in bankruptcy								
Expected credit loss percentage	90.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Trade and other receivables	779	224	70	52	250	587	10,831	12,793
Expected credit loss	701	224	70	52	250	587	10,831	12,715
Recognized bad debt allowance	647	217	64	46	237	587	10,829	12,627

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	9,911
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

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 analysed period whose impact was reflected in relevant other categories.

Until 31 January 2020 Company collected EUR 25,943 thousand of trade receivables unpaid as at 31 December 2019 (31 January 2019: EUR 30,830 thousand of trade receivables unpaid as at 31 December 2018).

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	2019	2018
Balance at 1 January	**12,296**	**12,003**
Creation of bad debt provision	1,623	293
Balance at 31 December	**13,919**	**12,296**

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

in EUR thousand	2019	2018
Creation of bad debt provision	1,623	293
Write-off of receivables	1,436	560
Impairment of financial investment (Note 8)	315	-
Other	12	-
Total	**3,386**	**853**

Loan provided to subsidiary

In 2019 the Company provided a loan to its subsidiary iWATT in amount of EUR 200 thousand. The loan is provided with the interest rate of 5.00% p.a. and it is due as at 31 December 2022.

Receivables from cash-pooling

Identified impairment loss from receivables from cash-pooling was considered by management to be immaterial.

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	**2019**	**2018**	**31 December 2019**	**31 December 2018**
VÚB	A2/P-1	A2/P-1	713	5,670
ING bank	Aa3/P-1	Aa3/P-1	6,889	7,104
Citibank	Aa3/P-1	A1/P-1	121	651
Total			**7,723**	**13,425**

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 2019						
Lease liabilities (Note 6)	-	67	-	-	458	525
Trade and other payables (net of liabilities within the VSE H Group) (Note 14)	30,641	-	-	-	-	30,641
Liabilities within the VSE H group (Note 14)	10,305	-	-	-	-	10,305
Total	**40,946**	**67**	**-**	**-**	**458**	**41,471**
31 December 2018						
Trade and other payables (net of liabilities within the VSE H Group) (Note 14)	27,135	-	-	-	-	27,135
Liabilities within the VSE H group (Note 14)	10,964	-	-	-	-	10,964
Total	**38,099**	**-**	**-**	**-**	**-**	**38,099**

In addition, the Company issued financial guarantees as per Note 25 that can be called immediately in case the primary obligor does not meet its obligations.

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 2019 is 99% (99% as at 31 December 2018). Currently, the Company is financed wholly by internal resources. The balance of cash and cash equivalents is EUR 7,726 thousand as at 31 December 2019 (EUR 22,372 thousand as at 31 December 2018). In case of need of external resources there is available cash-pooling financing (Note 2.12) implemented within VSEH group and additional uncommitted credit facilities available for VSE H (2018: EUR 46 million of VSE H credit facilities were committed).

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 12);

Level 2 – Cash and cash equivalents except for cash in hand (Note 12), Receivables from cash-pooling (Note 2.12), Trade and other receivables (Note 3.1), Trade and other payables (Note 14); Lease liabilities (Note 6);

Level 3 – Issued financial guarantee contracts (Note 26), Financial investments at fair value through other comprehensive income (Note 9).

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 2.20), 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 (2018: 11 GWh) and assuming the level of advances received from customers would remain on the same level, the volume of unbilled electricity would be changed by EUR 811 thousand (2018: EUR 765 thousand). The SOFP 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 2.20), 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 3.11 GWh (2018: 3.44 GWh), the volume of unbilled gas would increase by EUR 121 thousand (2018: EUR 130 thousand). The SOFP 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 2.5 and Note 2.6 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 580 thousand (2018: EUR 469 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 475 thousand (2018: EUR 504 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 expected loss rates are in Note 3.1.

5. Property, plant and equipment

in EUR thousand	Machinery, equipment, vehicles and office equipment	Construction in progress	Total
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**
At 1 January 2019			
Cost	2,431	45	2,476
Accumulated depreciation	(1,337)	-	(1,337)
Impairment	-	-	-
Net book value	**1,094**	**45**	**1,139**
Additions	-	811	811
Transfers	723	(723)	-
Disposals	(43)	-	(43)
Depreciation charge	(360)	-	(360)
Closing net book value	**1,414**	**133**	**1,547**
At 31 December 2019			
Cost	2,679	133	2,812
Accumulated depreciation	(1,265)	-	(1,265)
Net book value	**1,414**	**133**	**1,547**

Main part of property, plant and equipment is represented by products rented to customers as described in the Note 2.20 (EUR 1,387 thousand as of 31 December 2019; EUR 1,094 thousand as of 31 December 2018).

No property, plant and equipment item 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 does not recognise or use any significant real estate subscribed in Cadastral Register, which is 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, considering financial impact of potential damage as negligible.

6. Leases

This note provides information for leases where the Company is a lessee.

Amounts recognised in the SOFP

The SOFP shows the following amounts relating to leases:

	31 December 2019	1 January 2019
Right-of-use assets		
Buildings	529	119
	529	**119**
Lease liabilities		
Current	67	46
Non-current	458	73
	525	**119**

Additions to the right-of-use assets during the 2019 financial year were EUR 557 thousand.

Amounts recognised in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

	2019
Depreciation charge of right-of-use assets	
Buildings	147
	147
Interest expense (included in finance cost)	1
Expense relating to short-term leases (included in service expenses)	8
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in service expenses)	-

The total cash outflow for leases in 2019 was EUR 64 thousand.

7. Intangible assets

in EUR thousand	Computer software and other	Customer portfolio	Intangible assets not yet ready for use	Total
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**
At 1 January 2019				
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**
Additions	-	-	1,112	1,112
Transfer from CIP	1,361	-	(1,361)	-
Amortization charge	(1,423)	(3,001	-	(4,424)
Closing net book value	**2,594**	**59,632**	**819**	**63,045**
At 31 December 2019				
Cost	7,666	75,048	819	83,533
Accumulated amortization	(5,072)	(15,416)	-	(20,488)
Net book value	**2,594**	**59,632**	**819**	**63,045**

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

Internally generated intangible assets are not material.

8. Subsidiaries

The Company's subsidiaries at 31 December 2019 are set out below. See Note 1 for further details on history of set up and acquisition of subsidiaries. These subsidiaries have share capital consisting solely of ordinary shares that are held directly by the Company, and the proportion of ownership interests held equals the voting rights held by the Company. The country of incorporation or registration is also their principal place of business.

Name	Country of incorporation	Date of incorporation	Date of commencement of operation	% interest held	Purpose
innogy Solutions s.r.o.	Slovak Republic	October 2003	October 2003	100%	HVAC Projects
iWATT s.r.o.	Slovak Republic	June 2019	June 2019	100%	IT and Marketing Services

Investments in subsidiaries measured at cost less impairment allowance is as follows:

in EUR thousand	As at 31 December 2019	2018
innogy Solutions s.r.o.	1,400	-
iWATT s.r.o.	500	-
Total	**1,900**	**-**

Financial results of subsidiaries are as follows:

2019 in EUR thousand	Assets	Liabilities	Equity	Profit / (loss)
innogy Solutions s.r.o..	2,017	1,581	436	(171)
iWATT s.r.o.	535	286	249	(251)
	2,552	**1,867**	**685**	**(422)**

The financial figures for year 2019 are based on interim not audited and not approved financial statements as at 31 December 2019. They are not expected to differ significantly from the final amounts.

Management of the Company has considered that there are impairment indicators related to financial results of subsidiaries, especially because the entities incurred losses. Management has analysed fair value and value in use of these subsidiaries and concluded that investment in innogy Solutions s.r.o. is impaired by EUR 315 thousand, which is already reflected in the table above.

9. Financial instruments by category

Financial assets

in EUR thousand	As at 31 December 2019	As at 31 December 2018
Financial assets – investments in subsidiaries at cost		
Investments in subsidiaries (Note 8)	1,900	-
Financial assets at fair value through other comprehensive income		
Financial investments at fair value through other comprehensive income (Note 1)	322	-
Financial assets at amortised cost		
Loan provided to subsidiary (Note 3.1)	200	-
Trade and other receivables	45,969	42,437
Receivable from cash-pooling (Note 2.12)	21,089	-
Cash and cash equivalents (Note 12)	7,726	22,372
Total financial assets	**77,206**	**64,809**

For change in circumstances in respect of presentation of receivable from cash-pooling, see Note 2.12.

Financial assets at fair value through other comprehensive income (Note 1) are as follows:

Name	% interest held As at 31 December 2019	As at 31 December 2018
People2People, s. r. o.	8.77%	10.00%

Financial liabilities

in EUR thousand	As at 31 December 2019	As at 31 December 2018
Financial liabilities at amortised cost		
Lease Liabilities (Note 6)	525	-
Trade and other payables net of liabilities within VSE H Group (Note 14)	30,314	26,842
Liabilities within VSE H Group included in trade and other payables (Note 14)	10,305	10,964
Payables to employees (Note 14)	327	293
Total financial liabilities	**41,471**	**38,099**

10. Other non-financial assets

in EUR thousand	As at 31 December 2019	2018
Deferred expenses	667	-
Other receivables including prepayments and other accrued income	541	248
Total	**1,208**	**248**

11. Inventories

in EUR thousand	As at 31 December 2019	2018
Merchandise	745	599
Total	**745**	**599**

The cost of inventory recognized as an expense and recognized as "Merchandise sold" amounted to EUR 176 thousand (2018: EUR 147 thousand).

12. Cash and cash equivalents

in EUR thousand	As at 31 December 2019	2018
Receivable from cash-pooling	-	8,940
Cash at bank (Note 3.1)	7,723	13,425
Cash in hand	3	7
Total	**7,726**	**22,372**

The effective interest on a weighted average basis on cash-pooling deposits was 0.0% p.a. (2018: 0.0% p.a.) with daily settlements (unchanged to 2018).

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 2,889 thousand (2018: EUR 4,785 thousand).

The Company had no restrictions related to cash and cash equivalents in 2019 and 2018.

Receivable from cash-pooling as at 31 December 2019 was presented on a separate line in SOFP. For more details see Note 2.12.

13. Equity

The amount of subscribed and paid share capital of the Company as to 31 December 2019 is EUR 58,751 thousand (31 December 2018: 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 2019.

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 20 June 2019 that decided to use profit for the year in amount of EUR 8,641 thousand for partial settlement of unsettled losses from prior periods balance and transfer of remaining part to retained earnings.

The decision on profit distribution for accounting period 2019 will be made by the General Meeting of the Company. The Board of Directors had not presented a proposal for distribution of 2019 profit as of the date of these financial statements.

14. Trade and other payables

in EUR thousand	As at 31 December 2019	2018
Financial liabilities at amortised cost		
Trade and other payables net of liabilities within VSE H Group (Note 9)	30,314	26 842
Liabilities within VSE H Group included in trade and other payables (Note 9)	10,305	10,964
Payables to employees (Note 9)	327	293
Total financial liabilities	**40,946**	**38,099**

There are no liabilities pledged or secured in another way.

The Company recognizes no payables overdue as at 31 December 2019 and as at 31 December 2018.

15. Contract liabilities

in EUR thousand	As at 31 December 2019	2018
Contract liability from net customer prepayments for unmeasured period (See Note 2.20)	13,858	10,490
Total	**13,858**	**10,490**

16. Other non-financial liabilities

in EUR thousand	As at 31 December 2019	2018
Income tax liability	377	1,487
Social securities and other taxes	498	338
Accrual for bonuses and untaken holiday	1,452	1,251
VAT liability	1,089	490
Other	3	1,154
Total	**3,419**	**4,720**

17. 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 related to a special levy legislation (2018: enacted tax rate of 21% with an uplift related to a special levy legislation). The change in tax rate is described in Note 23.

in EUR thousand	As at 31 December 2019	2018
Deferred tax assets:		
- Deferred tax asset to be recovered after more than 12 months	425	156
- Deferred tax asset to be recovered within 12 months	1,650	1,365
	2,075	**1,521**
Deferred tax liabilities:		
- Deferred tax liability to be recovered after more than 12 months	(12,393)	(12,713)
- Deferred tax liability to be recovered within 12 months	(51)	(51)
Total	**(12,444)**	**(12,764)**

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

in EUR thousand	2019	2018
At the beginning of the period	(11,243)	(13,304)
Income in profit or loss (Note 23)	874	2,061
At 31 December	**(10,369)**	**(11,243)**

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

in EUR thousand	At 1 January 2019	(Charged)/ credited to the profit or loss	At 31 December 2019
Difference between tax base and carrying amount of non-current assets	(12,354)	340	(12,014)
Finance lease receivable	(386)	142	(244)
Finance lease liability - IFRS 16	27	93	120
Provisions against bad debts	827	356	1,183
Provision for other liabilities and charges	643	(57)	586
Total	**(11,243)**	**874**	**(10,369)**

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)**

18. Provisions

in EUR thousand	Restructuring	Legal claims	Other	Total
At 1 January 2019	**54**	**-**	**-**	**54**
Creation of provision	4	-	320	324
Used/paid during year	(17)	-	-	(17)
At 31 December 2019	**41**	**-**	**320**	**361**

in EUR thousand	Restructuring	Legal claims	Other	Total
At 1 January 2018	**27**	**15**	**-**	**42**
Creation of provision	54	2	-	56
Used/paid during year	(27)	(17)	-	(44)
At 31 December 2018	**54**	**-**	**-**	**54**

Restructuring provision

In accordance with long-term plans of the Company, a reduction of 2 jobs will be made in 2020. This decision was approved in 2019 by the Company's representatives and communicated to the trade unions. The estimated staff restructuring costs to be incurred are EUR 41 thousand and the provision will be used in 2020.

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.

19. Employee benefits

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

	As at 31 December	
in EUR thousand	**2019**	**2018**
SOFP obligation for:		
Present value of recognized unfunded retirement obligations	731	616
Jubilee awards	37	33
Disability benefits	46	41
Liability in the SOFP	**814**	**690**

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.

in EUR thousand	2019	2018
Income statement charge included in operating and financial profit		
Current service cost	95	71
Interest cost	14	11
Past service cost, other	6	3
Total charge / (credit) included in employee benefit expense	**115**	**85**

in EUR thousand	2019	2018
Re-measurements for:		
Defined pension benefits	40	24
Total re-measurements	**40**	**24**

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

in EUR thousand	Present value of obligation
As at 1 January 2019	**690**
Reclass to other VSE H group company	(13)
Current service cost	95
Past service cost	6
Interest cost	14
	792
Re-measurements:	
- Gain from change in financial assumptions	95
- Loss from change in future wages growth assumptions	-
- Loss from change in demographic assumptions	(10)
- Loss from change in fluctuation	(45)
- Loss from other actuarial assumptions	-
	40
Payments from plan	(18)
As at 31 December 2019	**814**

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**

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

31 December 2019	
Number of employees with entitlement to the benefits	268
Percentage of employees, who will annually terminate their employment with Company prior to retirement (withdrawal rate)	2.82%
Expected salary increases	3.0% p.a. in 2020 – 2022 and 2.7% in following years
Discount rate	Bloomberg's yield curve for high quality Euro corporate bonds AA in range from (0.370)% to 1.160%

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%

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 2019	Change in comparison with basic scenario	Change in comparison with basic scenario in %
Basic scenario	814		
Increase of fluctuation by 2%	599	(215)	(26)
Decrease of fluctuation by 2%	1,113	299	37
Increase in salaries +1% compared to principal assumptions	876	61	8
Decrease in salaries -1% compared to principal assumptions	759	(56)	(7)
Discount rate +1% compared to principal assumptions	701	(114)	(14)
Discount rate -1% compared to principal assumptions	955	141	17

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	690		
Increase of fluctuation by 2%	507	(183)	(27)
Decrease of fluctuation by 2%	888	198	29
Increase in salaries +1% compared to principal assumptions	744	54	8
Increase in salaries -1% compared to principal assumptions	643	(47)	(7)
Discount rate +1% compared to principal assumptions	594	(96)	(14)
Discount rate -1% compared to principal assumptions	812	122	18

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 is in force from 1 January 2019.

Amounts paid for defined contribution pension plans:

in EUR thousand	2019	2018
Defined contribution pension plans	893	789
Total	**893**	**789**

20. 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	2019	2018
Electricity to industrial and commercial customers, of which:	268,044	235,948
- *Revenues within VSE H group*	*14,081*	*13,893*
Electricity to residential customers (MOO a SB)	198,720	189,314
Gas to residential customers	12,056	12,997
Revenues from non-commodity products and services	9,238	11,263
Revenue from services within VSE H Group	2,219	2,764
Other revenues	1,360	321
Total revenues from contracts with customers	**491,637**	**452,607**

21. Profit from operations

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

in EUR thousand	2019	2018
Revenues (Note 20)	**491,637**	**452,607**
Purchases of electricity and gas	(207,609)	(167,929)
Distribution and transmission costs	(238,698)	(239,731)
Electricity and gas costs:	**(446,307)**	**(407,660)**
Raw materials and other consumed materials, merchandise sold	**(1,544)**	**(2,412)**
Wages and salaries	(7,721)	(7,109)
Defined contribution pension plan (Note 19)	(893)	(789)
Social security costs	(1,563)	(944)
Other staff costs	(343)	(857)
Employee benefit expense	**(10,520)**	**(9,699)**
Costs from Service Level Agreements (SLA) within the VSE H group	(5,152)	(5,854)
Marketing services	(1,651)	(1,361)
Services from subcontractors related to non-commodity business	(3,843)	(3,856)
IT and telecommunication charges	(797)	(559)
Cash collection & post services	(1,981)	(1,648)
Personnel lease and part time services	(202)	(223)
Consultancy fees	(433)	(225)
Education and Trainings	(195)	-
Other services	(1,109)	(840)
Assurance services provided by auditor	(45)	(42)
Services	**(15,408)**	**(14,608)**
Depreciation (Note 5)	(360)	(297)
Amortisation of right-of-use assets (Note 6)	(147)	-
Amortization (Note 7)	(4,424)	(4,133)
Depreciation and amortization	**(4,931)**	**(4,430)**
Net impairment losses on financial asset (Note 3.1)	**(3,386)**	**(853)**
Net loss from balancing services with OKTE (Note 2.23)	**(3,502)**	**(4,650)**
Other net gains	2,165	1,307
Profit from operations	**8,204**	**9,602**

22. Finance income and costs

in EUR thousand	2019	2018
Interest income - finance lease	196	162
Interest income – non-commodity sale	100	-
Interest expense	(18)	(64)
Net finance (costs) / income	**278**	**98**

23. Income tax expense

in EUR thousand	2019	2018
Current tax	3,187	3,121
Deferred tax (Note 17)	(874)	(2,062)
Income tax expense	**2,313**	**1,059**

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	2019	2018
Profit before tax	8,482	9,700
Income tax calculated at tax rate of 21% (2018: 21%)	1,781	2,037
Tax effects of:		
Expenses not deductible for tax purposes	418	66
Effect of changes in estimate related to prospective special levy scheme payments	114	(1,159)
Other	-	115
Tax charge	**2,313**	**1,059**
Effective tax rate	**27%**	**11%**

The corporate income tax rate applicable for the year 2019 is 21% (2018: 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 SOFP. 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 22.68% (2018: 22.52%) applied for deferred tax determination.

24. Cash generated from operations

The Company prepared cash flow statement using indirect method.

in EUR thousand	2019	2018
Profit before tax	**8,482**	**9,700**
Adjustments for:		
Depreciation of property, plant and equipment (Note 5)	360	297
Amortisation of intangible assets (Note 7)	4,424	4,133
Amortisation of right-of-use assets (Note 6)	147	-
Payments for short-term and low-value leases (Note 6)	8	-
Change in provisions (Note 18 and Note 19)	391	112
Change in bad debt provision (Note 3.1)	1,623	293
Impairment of financial investment (Note 8)	315	-
Interest income (Note 22)	(296)	(162)
Interest expense (Note 22)	18	64
Shortages and damages	43	6
Write-off of receivables (Note 3.1)	1,436	560
Other non-cash operations	(95)	-
Changes in working capital:		
Inventories (Note 11)	(146)	(84)
Trade and other receivables (Note 3.1)	(6,891)	(11,843)
Trade and other payables (Note 14)	1,889	(7,427)
Contract liabilities (Note 15)	3,368	10,490
Other non-financial assets (Note 10)	(960)	3,858
Other non-financial liabilities (Note 16)	(191)	3,405
Cash generated from operations	**13,925**	**13,402**

25. Contingencies

Taxation

Tax legislation in Slovakia which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Company. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged by tax authorities. Slovak tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax challengeable counterparties. Management is not aware of any circumstances that may give rise to future material expenses in this respect.

26. Commitments and issued financial guarantees

Capital commitments

As at 31 December 2019, the Company does not have material capital commitments (31 December 2018: none).

Commitments of Guarantor

During 2019 the Company has become a guarantor for four long term bank borrowings of group company VSD (31 December 2018: The Company was a guarantor of the bank borrowings where the debtor was VSE H). In case the debtor fails to fulfil its payment obligations against banks, the Company is obliged to perform the obligations of the debtor to the banks. The principal amounts of borrowings of VSD (VSE H in 2018) guaranteed by the Company are as follows:

in EUR thousand	2019	2018
ING Bank, a Branch of ING-DiBa AG	60,000	60,000
ING Bank, a Branch of ING-DiBa AG	50,000	50,000
UniCredit Bank Czech Republic and Slovakia, a.s.	60,000	60,000
Slovenská sporiteľňa, a.s.	50,000	50,000
Total	**220,000**	**220,000**

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.

27. 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. (until 18 September 2019; from 19 Sep it is part of EON Group)
- RWE Energija, d.o.o. (until 18 September 2019; from 19 Sep it is part of EON Group)
- innogy SE (until 18 September 2019; from 19 Sep it is part of EON Group)
- innogy South East Europe s.r.o. (until 18 September 2019; from 19 Sep it is part of EON Group)

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.
- innogy Solutions s. r. o.
- iWATT s. r. o.

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 2019 and 31 December 2018 with, are described below.

a) Parent company

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

in EUR thousand	2019	2018
Sale of electricity (Note 20)	162	171
Purchase of services	(5,030)	(5,472)
Purchase of intangible assets	(173)	(395)
Dividends paid	-	-

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

in EUR thousand	As at 31 December 2019	2018
Receivable from cash-pooling (Note 2.12 and Note 12)	21,089	8,940
Trade and other payables (Note 14)	830	598

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

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

in EUR thousand	2019	2018
Sale of electricity	-	7,297
Sale of services	239	40
Electricity procurement	(27,830)	(27,767)
Purchase of services	(13)	(65)
Other purchase	(216)	(225)

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

in EUR thousand	As at 31 December 2019	2018
Trade receivables (gross)	-	494
Trade and other payables	2,812	2,632

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	2019	2018
Sale of electricity	19,127	17,153
Purchase of electricity	(166,134)	(204,621)
Purchase of gas incl. distribution	(4,510)	(4,993)
Purchase of services	(8)	(1)

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:

	As at 31 December	
in EUR thousand	2019	2018
Trade receivables (gross)	2,077	1,642
Trade and other payables	6,419	10,538

d) Entities under control of VSE H

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

in EUR thousand	2019	2018
Revenues from sales of electricity (Note 20)	13,919	13,722
Revenues from sales of services (Note 20)	2,219	2,764
Purchase of electricity	(4)	(3)
Purchase of gas	(6,880)	(6,349)
Purchase of distribution services	(110,716)	(113,595)
Purchase of other services	(892)	(382)

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

	As at 31 December	
in EUR thousand	2019	2018
Trade receivables (gross)	381	1,998
Trade and other payables (Note 14)	9,475	10,366

e) Key management personnel of the Group

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

	2019		2018	
in EUR thousand	**Board of directors**	**Supervisory board**	**Board of directors**	**Supervisory board**
Short-term employee benefits	469	92	327	88
Total	**469**	**92**	**327**	**88**

28. Events after the reporting period

On 1 January 2020 was Mr. Andreas Gehrmann appointed as a vice-chairman of the Supervisory board of the Company and Mr. Milan Dolný as a member of the Supervisory board of the Company.

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

ANNUAL REPORT

of the company
Východoslovenská energetika a.s.
for 2019

CONTENTS

1. Foreword by the Chairman of the Board of Directors

Dear Customers, Dear Partners,

The year of 2019 was for us a year of successful investments.

Our new innogy Solutions subsidiary could pride itself on the first completed projects and the first satisfied customers from the ranks of companies and organizations. For example, we put in operation the Sports Community Center in Liptovský Hrádok. We were responsible for the complete technology part of the construction, consisting of the ice-hockey ground, cooling system, heating, ventilation and dehumidifying equipment. I am glad that the unique technology solution was created by our workshop.

We have moved forward our cooperation with the company Bidgely in the area of artificial intelligence applications, and we introduced a new Elektrozoom service into the market. The service is designed for households which use smart-meters. By applying the technology of feedback analysis of the measured consumption, we can define the consumption fluctuations of specific households and recommend to the customers the most suitable products and services and/or prevent arrears of payment.

We have also invested funds in the modernization of our Call Center in order make its operation more efficient and to offer the customers even better services. Our aim was to improve the getting through by our customers and to gradually expand the online chat. In 2020 we will continue improving these services and utilizing the potential of our new multichannel platform.

At the same time, we perceive the year of 2020 as a year of support of renewable energy sources. The amendment to the Act on the Support of Electricity Production from Renewable Electricity Sources (hereinafter referred to as "RES") with effect from 1 January 2019 brought, in terms of electricity supply, modifications in the area of so-called compulsory purchase of electricity. A new subject has been assigned which will purchase electricity produced from RES. OKTE (the administrator of the short-term electricity market) has gained new competencies as well.

The negative phenomenon of the Slovak market is persistent unfair practices. Not only traditional energy suppliers point to this fact, ÚRSO as well regularly calls on customers to be cautious when switching energy suppliers through door-to-door vendors. Customer claims are also handled by other subjects. Unfair practices are typical not only for the energy market; they can be noticed in other segments as well. We expect therefore that this year will open a public discussion and bring specific measures.

Another major event in 2019 was the rise in wholesale commodity prices. The increase of the electricity price was mostly caused by reduction in CO2 allocations. Indeed, most EU countries attempt to contribute to decarbonization, which results in more expensive and decommissioned electricity production from coal. The result was an increase in electricity prices in all EU countries, including Slovakia.

In 2020, we will continue to offer our customers products and services which reduce their energy consumption and household expenses and/or company costs. We will focus on energy efficiency, innovations and customer satisfaction with all of our services.

Košice, 28 February 2020
Thomas Jan Hejcman
Chairman of the Board of Directors

2. Foreword by the Chairman of the Supervisory Board

Dear Ladies and Gentlemen,

In 2019, 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 2019, a significant increase in wholesale commodity prices was recorded, which was brought about by a high global demand for energies.

The Supervisory Board, as the supreme control body of the company, successfully held its meetings and supervised the execution of the Board of Directors powers and the performance of business activities throughout the entire year of 2019.

Several personnel changes in the composition of the Supervisory Board were made in 2019. Since 13 February 2019, two new members of the Supervisory Board, Mr. Ing. Igor Šimko and Mr. Ing. Jakub Špilár, have been representing the Slovak Republic in the Supervisory Board. On 20 August 2019, the Supervisory Board´s vice-person, Mrs. JUDr. Jitka Adámková, MBA gave up her function; her abdication came into effect on 11 December 2019.

There were three regular meetings, one extraordinary meeting and four *per-rollam* voting rounds of the Supervisory Board held in 2019.

The regular agenda of ordinary meetings of the Supervisory Board included basic information regarding 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 the meeting of 10 December 2019, the Supervisory Board members discussed and took due note of the Individual Annual Business Plan of the company for 2020.

Among other things, the Supervisory Board:

- approved a proposal to appoint an auditor of the financial statements for the business year 2019;
- took due note of the plan of consultancy and advisory services for 2020;
- approved the amendments to the Organizational Rules of VSE a.s. with effect from 1st August 2019,
- approved the draft amendment to the Articles of Association of VSE a.s., which were supplemented with new activities,
- approved the acquisition of shares in the companies KVT spol. s.r.o., KVT control s.r.o. and KVT servis s.r.o.,
- approved the establishment of the company iWATT s.r.o.

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,
- investments and operating costs.

Based on the results of its continuous control activities, the Supervisory Board concludes that the Board of Directors carried out all the necessary activities to develop business activities 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 24 March 2020.

The Supervisory Board will examine the financial statements as of 31 December 2019, and it will recommend to the General Meeting to adopt a resolution concerning its approval.

The Supervisory Board will approve a proposal made by the Board of Directors regarding the 2019 profit distribution. The Supervisory Board will recommend to the General Meeting to approve the distribution of the 2019 profit in accordance with the proposal of the Board of Directors.

Košice, 28 February 2020
JUDr. Marek Šedovič
Chairman of the Supervisory Board

3. Basic company data

FORMATION AND ESTABLISHMENT 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 separation 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 replaced by the name Východoslovenská energetika Holding a.s. (hereinafter referred to as "VSE Holding a.s.") and the company name of VSE Development, a.s. Was replaced by the name 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 Reg. No: 44 483 767

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

COMPANY HISTORY

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

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

The company is building on the experience and customer portfolio transfered from the parent company to VSE a.s. The parent company no longer performs activities related to electricity supply.

LINE OF BUSINESS

The main business of VSE a.s. is electricity supply to households and corporate customers as well as the performance of energy audits and the sale of non-commodity products.

The company business activities include the following:

- 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;
- 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

The registered capital of VSE a.s. in the amount of EUR 58,751,000 as of 31 December 2019 was composed of two ordinary book-entry registered inscribed shares.

- one share of the nominal value of EUR 35,000
- one share of the 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
Ing. Štefan Kapusta, Member of the Board of Directors (since 13 February 2019)
Mgr. Miroslav Kulla, Member of the Board of Directors
JUDr. Martin Petruško, Vice-Chairman of the Board of Directors (since 13 February 2019)
Ing. Marián Suchý, Member of the Board of Directors

Supervisory Board

JUDr. Marek Šedovič, Chairman of the Supervisory Board
JUDr. Jitka Adámková, MBA, Vice-Chairman of the Supervisory Board (until 11 December 2019)
Ing. Róbert Gold, CA, Member of the Supervisory Board
Ing. Peter Revický*, Member of the Supervisory Board
Ing. Ivan Petrík* , Member of the Supervisory Board
Ing. Daniel Bito* , Member of the Supervisory Board
Ing. Igor Šimko, PhD., (since 13 February 2019)
Ing. Jakub Špilár (since 13 February 2019)

**employee representative*

4.Sales

In 2019, VSE continued to strengthen its position of a household partner. It expanded its services and, at the same time, enriched its portfolio with new useful solutions for households.

SOLUTIONS FOR CUSTOMERS

In 2019, a significant portion of VSE activities included the development of the care of customer household program. Based on the feedback from customers, VSE adjusted some services within this program, thanks to which the possibilities of its usage were expanded. The VSE customer program reflects the dynamic lifestyle of the present-day population and offers help to the customers to ensure smooth operation of their homes.

The company product portfolio was expanded by air conditioning which enhance the comfort in customers´ homes. We have introduced a revolutionary service enabling households to monitor their electricity consumption in detail and to prevent the arrears. We focused on improving the unique innogy service called Energy Consultancy. We have introduce principles specifying the way the service is to be provided, and we have focused on improving the expertise of our consultants. The Energy Consultancy service is one of the ways of making household care for the customers easier - through the following:

- innovations aimed at the reduction of energy consumption,
- increasing safety,
- enhancing comfort.

VSE was devoted to the strengthening of its position as a provider of complex energy solutions. In 2019, the integration with KVT company was finished. The new company innogy Solutions was established to bring the customers innovative solutions with high added value mostly in the area of heating, cooling and air-conditioning (HVAC). Smart regulation and maintenance were also added to the portfolio. Thus the company opened additional possibilities for the corporate customers to improve the efficiency of the energy utilization at their operations and to ensure technological preconditions to achieve savings.

Products focused on savings in households:

- Zonal heating regulation
- 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 boilers
- ElektroZoom Service

Modern packages for health and safety:

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

WE LISTEN TO OUR CUSTOMERS

Customer satisfaction and loyalty are the key values of the company. We create it for the customers by making life easier for them - by helping them to ensure smooth running of their

homes. **We communicate with the customers and involve them in the preparation of new solutions and improvement of services.** Interaction with the customer is systematically managed via new specialized unit, which ensures 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 requests, the customers 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 Poprad and Rožňava, which joined already refurbished Customer Service Centres in Košice, Prešov and Humenné.

CUSTOMER ASSESSMENT IN 2019

Also in 2019, VSE customer satisfaction rate kept the stable high level. Customers appreciated adjustments in an invoice leading to the better comprehensibility. The approach of the service staff when dealing with the requests of customers is still evaluated very positively. The high level of satisfaction was shown by our customers not only with electricity supply but also with so-called non-commodity products.

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

COMMUNICATION WITH CUSTOMERS

Also in 2019, two subsidiary companies, VSE and innogy Slovensko, prepared favourite Energy Seminars. The customers attend the seminars mostly because of the possibility to share the expert news and experience. The autumn event called Business Club provided social experience to selected customers.

Within communication, VSE put emphasis on the education of customers. One level is the prevention of unfair practices. The other is sharing the knowledge related to household care, namely to the recommendations regarding the reduction of energy costs for households, safety and comfort improvement.

The company prepared a few electronic newsletters for the corporate customers and households regarding the news within the company and the events in the energy market which affect the energy prices. Both companies use mostly e-mail newsletters, letters, customer magazines, 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

Rather substandard supplies from German wind parks at the beginning of 2019 kept the prices of short-term electricity supplies higher, since the fossil sources were represented heavier in the energy mix; the fossil fuels are more expensive in terms of operation costs. The reversal occurred at the turn of January and February when the above-average temperature significantly limited the consumption. A minor impact may have been provided by photovoltaics - the sunny weather increased the electricity supply to the network. Although the increase in the share of renewables in the electricity mix due to their minimum operating costs should potentially reduce the price of electricity, in practice the low reliability of wind and solar power plants and the still very limited electricity storage facilities leave room for fossil fuel operation. Meanwhile, the operation costs of coal and gas power plants have been rising in recent years, primarily due to the increasing emission certificate price. A certain contribution to the increased spot prices in Germany and subsequently in Slovakia as well was made by the problems of the nuclear fleets in France and Belgium in recent years.

The electricity prices were increased in the second quarter because of the prices of the CO2 allowances. The allowances were at their 10-year maximum and their surplus on the market was decreased as well. This is due to EU´s effort to limit the quantity sold by auction by 40% at the beginning of 2019, increase the pressure on the producers of electricity from fossil fuels, and thus foster the development of innovative technologies which produce less green house gases. Supported is electricity acquired from the sun, wind and/or biomass. The electricity producers generating CO2 have to buy allowances on the market. The price of allowances were also pushed up by the delay of brexit. The British producers of the green house gases had to continue buying the emission allowances for them. However, they apparently hadn´t counted on it due to their expected leaving the EU.

The price increase of the emission allowances was so significant that it exceeded the decrease in the gas and coal prices from the beginning of 2019. The weakening of the electricity and gas prices was related mostly to the warmer weather at the beginning of the year.

In general, the European energy mix experiences the period of structural changes this year. The price decrease on the gas market complemented by the increased value of emission certificate increased the financial advantages of the gas power plants operation. That is why in 2019 a gradual increase in the share of gas in the German energy mix was observed, mostly at the expense of coal-fired power plants, which consume almost twice as much overpriced emission certificates. For example, the production of RWE's brown coal power plants in Germany decreased by around a third compared to the first half of 2018, while the production in the black coal-fired power plants even fell by more than 50%. On a long term basis, the production capacities of the renewable energy sources increase. It contributes to the price reduction of electricity on the stock exchange thanks to their minimum operation costs. Cheaper gas and increased volume of renewable energy sources are reflected in decreased prices of short-term electricity supplies. The favorable short term price trend in recent months is also positively influenced by the weather. The period of above-average temperatures was relatively short in middle Europe in 2019. The German electricity market, with regard to its size, cross-border flow volume and geographic proximity to Slovakia, determines the price trends on PXE.

The summer heats were the main factor pushing the electricity prices up in the summer. The demand for electricity necessary for air conditioning went up. At the end of July, the

demand for electricity by the air conditioning was joined by the risk of decommissioning of several French nuclear power plants. Due to poor rainfall in recent weeks, the level of French rivers was lowered significantly. Less water in the rivers got hotter faster. The temperature of river water approached the critical limit, above which it wouldn´t be possible to use it for the cooling of nuclear blocks. Because of the protection of the river fauna and flora it is not possible to discharge water above 28°C in the rivers. The missing electricity was then produced mainly from coal and in steam-gas facilities. These are significantly more expensive. The increased demand for coal, gas and emission quotas pushed their prices up and the electricity price followed this trend. In August the hot weather receded. Despite the reduced allocation on EEX auctions, the emission quotas tuned downwards. They were pushed down by the risk of hard brexit and by the concerns of coming recession. Electricity price followed and went down. In the autumn, the electricity prices went up sharply again. The reason for their increase, besides others, were the problems with welds on steam generators at several French nuclear reactors. 20 reactors are supposed to have been affected. After the company EdF announced that they don´t have to be shut down, the market calmed down and the electricity price decreased slightly.

VSE purchased electricity for its customers in accordance with their requirements.

Most of the purchased electricity was from Slovenské elektrárne, a.s. and ČEZ a.s. (26 %), as well as from renewable energy sources and combined heat and power generation sources (18 %).

VSE carried out its gas purchases 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	2019	2018
Households	1,143	1,154
Corporate customers	1,987	1,903
Total	**3,130**	**3,057**

Tab.: Natural gas sales to household customers

GWh	2019	2018
Households	320	343

6. Economic situation analysis

The following table includes the key financial indicators of VSE a.s. for 2019 and the preceding period in accordance with IFRS:

Economic data	UoM	2019	2018
Total revenues	EUR thousand	494,564	454,268
Total costs	EUR thousand	(486,082)	(444,568)
Profit before tax	EUR thousand	8,482	9,700
Net Profit	EUR thousand	6,169	8,641
Total assets	EUR thousand	144,280	133,152
Equity	EUR thousand	73,985	67,856
Registered capital	EUR thousand	58,751	58,751

Total revenues increased in 2019 by EUR 40,296 ths. (8.9 %) on a year-on-year basis. The increase resulted from the following most significant factors - increase in the commodity part of the price (in relation to the increased wholesale market price) and a higher supply to end customers.

Total costs in 2019 (compared to 2018) were mostly influenced by the increased costs of electricity procurement and the related distribution and transmission.

The company´s assets increased by 11,128 ths. EUR (8.4 %), mainly in the short-term assets part (sales accounts receivable and cash).

The change in **equity** reflects the year-on-year increase of the company profitability; its **registered capital** is without any change.

The **profit of 2018** was used to decrease the outstanding 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 2019** as of the date of this annual report.

7.Employees

Our company is one of several large stable employers based in Eastern Slovakia. Thanks to the high motivation of our employees, for whom "something more for the customer" goes without saying, we are able to provide services and solutions for all segments of our customers.

WE HAVE BEEN APPRECIATED BY BOTH THE EXPERTS AND LAY PUBLIC

The year 2019 was extraordinary for us as the professional and lay public rewarded our company as the BEST for several times. **We ranked again as TOP2 the best employer of Slovakia in the category "Production and Industry" in the survey of the portal profesia.sk.** The general public participated on the survey.

We were awarded the Best Project of the Year "HR Inspiration" award in Slovakia. It was a system of recruitment at schools for future professions in the field of power engineering. The system combines face-to-face and social networking activities. The system involves pupils and students, as well as their teachers.

In the **Via Bona competition**, organized by Pontis foundation, **we ranked among the four most successful companies in Slovakia in the Excellent Employer category**, mostly thanks to our success in working with the young generation.

Last but not least, among a hundred of exhibitors, our company was **declared the best exhibitor at the Profesia Days trade fair.**

The successes prove our concentrated work on creating the employer branding both externally and internally.

EMPLOYEE ENGAGEMENT SURVEY

In an engagement survey held in November 2019, **the employees confirmed their engagement up to 88 %**, well above the Slovak labor market standard.

The employee engagement is assessed through their positive responses; they respond to the questions whether they are engaged - enabled (they have all the conditions available for high quality performance) - energized (the work fills them and charges them with energy).

FULFILLED PRIORITIES OF 2019

When it comes to the recruitment of employees, we improved the company visibility via new recruitment portal, we prepared the concept of dual education for professions within the Customer Service, and we also enhanced the willingness to work as a call centre agent via the internal campaign.

Employee competencies and building of talents was supported by means of several priorities:

1. Design and implementation of academy for the colleagues in the B2B customer segment - non commodity business.
2. Internal assessment center and subsequent opening of a new year of programs for the development of employees with vertical career potential and building know-how in project management.

The business organization was developed primarily through the Retail 2.0 project, in which we achieved better process setup of the organization, tuning of the interfaces between organizational units and an update of the employee roles.

The acquisition of a company in the B2B segment in the spring of 2019 meant a new integration project. We were joined by 30 new colleagues who are very helpful in developing opportunities in the area of HVAC solutions (heating, cooling, air conditioning) for corporate customers.

Towards the end of 2019, we also integrated new colleagues to help us develop heat

management solutions for the households customer segment.

As of 31 December 2019, the company was employing 258 employees.

The voluntary staff turnover was low (5.4%), which is slightly higher when compared to the previous period. The reason was organization changes in the retail structure. The average age of employees was almost 42 years. The average time worked for the company reached the level of more than 7 years.

Tab.: Overview of basic data:

Headcount structure	UoM	2019	2018
Status as of 31 Dec.	Number	258	255
Average headcount	Number	260	244
Voluntary staff turnover	%	5.4	2.9
Total staff turnover	%	21.2	17.6

8. Additional information

The Company did not acquire any of its own shares, interim certificates, shares or interim certificates and shares of the parent entity.

In 2019, the Company incurred costs for activities in the area of research and development.

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

The company has no organization unit established abroad.

The company applies a complex environmental protection system in all its activities.

9. Actualities that occurred after the date of the balance sheet elaboration

On 1 January 2020 was Mr. Andreas Gehrmann appointed as a vice-chairman of the Supervisory board of the Company and Mr. Milan Dolný as a member of the Supervisory board of the Company.

No other events occurred after 31 December 2019 that would require recognition or disclosure in the financial statements and the annual report for the year 2019.

10. Business plan 2020

The mission of our company is to provide reliable and comprehensive services which respond to the requirements of our customers.

The values we follow are the following:

- trust,
- reliability,
- customer orientation,
- performance and
- creation of the energy industry future.

Besides the supply of electricity, gas and other related services, we also introduced to our customers new products and solutions, which help them save money, increase the security of their property, health and comfort.

Also in 2020, we will observe all legal regulations and quality standards on the supply of electricity and natural gas to the end customers, to rank again among the group of enterprises which run their business transparently and responsibly.

We demonstrate our responsibility in our relation to the company. We are a regular partner of several significant sports and cultural events. Together with the parent company, we fulfill the corporate responsibility strategy of the VSE Holding Group, and we support the public and the employees in meeting their own goals for the benefit of the community.

We are also actively opposing abusive practices in the energy market, and we expect that the year of 2020 will open up public debate and bring concrete measures to improve this negative situation.

11. Attachment – Contact details

Východoslovenská energetika a.s.

Mlynská 31
042 91 Košice
Slovenská republika

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

Households
Customer Hotline
T: No. 0850/123,333

Corporate customers
Customer Hotline
T: No. 0850/123,333

Emergency Hotlines:
VSD Emergency Hotline
T: No. 0800/123,332
ZSD Emergency Hotline
T: No. 0800/111,567
SSE-D Emergency Hotline
Telephone: 0800 159 000
SPP-Distribúcia Emergency Hotline
Telephone: 0850 111 727

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

Safe Sales Hotline - Freephone
Telephone: No. 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