Stredoslovenská energetika Holding, a.s.

Independent Auditors' Report and Consolidated financial statements as at 31 December 2019

Prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union

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

Stredoslovenská energetika Holding, a.s.

Consolidated Financial Statements for the year ended 31 December 2019 prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union have been authorized for issue on 5 March 2020.

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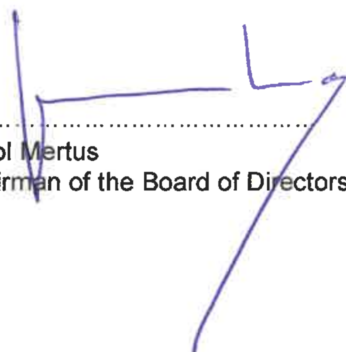
Mgr. Petr Sekanina
Chairman of the Board of Directors



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Ing. Pavol Mertus
Vice chairman of the Board of Directors

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Translation of the Auditors' Report originally prepared in Slovak language

Independent Auditors' Report

To the Shareholders, Supervisory Board and Board of Directors of Stredoslovenská energetika Holding, a.s.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Stredoslovenská energetika Holding, a.s. and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated income statement, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section. We are independent of the Group in accordance with the ethical requirements of the Act No. 423/2015 Coll. on statutory audit and on amendments to Act No. 431/2002 Coll. on accounting as amended ("the Act on Statutory Audit") including the Code of Ethics for an Auditor that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Statutory Body for the Consolidated Financial Statements and Those Charged with Governance for the Consolidated Financial Statements

The statutory body is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the statutory body determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

KPMG Slovensko spol. s r. o., a Slovak limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Obchodný register Okresného súdu Bratislava I, oddiel Sro, vložka č. 4864/B
Commercial register of district court Bratislava I, section Sro, file No. 4864/B

IČO/Registration number: 31 348 238
Evidenčné číslo licencie audítora: 96
Licence number of statutory auditor: 96

In preparing the consolidated financial statements, the statutory body is responsible for assessing the Group'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 the statutory body either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the statutory body.

- Conclude on the appropriateness of the statutory body'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance 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.

Report on Other Legal and Regulatory Requirements

Reporting on Information in the Consolidated Annual Report

The statutory body is responsible for the information in the consolidated Annual Report prepared in accordance with the Act No. 431/2002 Coll. on Accounting as amended ("the Act on Accounting"). Our opinion on the consolidated financial statements, mentioned above, does not cover other information in the consolidated Annual Report.

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

The consolidated Annual Report was not available to us as of the date of this auditors' report.

When we obtain the consolidated Annual Report, we will consider whether it includes the disclosures required by the Act on Accounting, and, based on the work undertaken in the course of the audit of the consolidated financial statements, we will express an opinion as to whether:

- the information given in the consolidated Annual Report for the year 2019 is consistent with the consolidated financial statements prepared for the same financial year; and

- the consolidated Annual Report contains information according to the Act on Accounting.

In addition, we will report whether we have identified any material misstatement in the consolidated Annual Report in light of the knowledge and understanding of the Group and its environment that we have acquired during the course of the audit of the consolidated financial statements.

13 March 2020
Bratislava, Slovak Republic

Auditing company:
KPMG Slovensko spol. s r.o.
License SKAU No. 96

Responsible auditor:
Ing. Branislav Prokop
License UDVA No. 1024

Consolidated Statement of financial position

	Note	Balance as at 31 December 2019	2018
ASSETS			
Non-current assets			
Non-current tangible assets	5	586 010	561 848
Non-current intangible assets	6	14 685	16 502
Trade receivables	9	3 102	1 933
Investments in joint ventures	8	1 441	1 438
		605 238	**581 721**
Current assets			
Inventories		3 148	2 700
Trade and other receivables	9	85 780	72 599
Accrued income	10	138 248	97 832
Income tax assets		-	667
Other current financial assets	8	-	3
Cash and cash equivalents	11	203 649	116 226
Contract assets		285	1 870
		431 110	**291 897**
Total assets		**1 036 348**	**873 618**
EQUITY			
Equity			
Share capital	13	116 754	116 754
Legal reserve fund	13	26 493	26 493
Other funds		2 324	2 324
Other comprehensive income		(763)	(1 142)
Retained earnings		624 787	486 497
Total equity		**769 595**	**630 926**
LIABILITES			
Non-current liabilities			
Non-current trade liabilities	16	4 562	-
Non-current bank loans	17	7 500	12 400
Non-current provisions	19	10 978	11 621
Non-current contract liabilities	15	34 858	32 182
Non-current portion of deferred income	14	33 851	32 465
Deferred tax liabilities	18	42 333	38 921
		134 082	**127 589**
Current liabilities			
Trade and other payables	16	108 615	96 802
Income tax payable		5 737	-
Current bank loans	17	4 900	6 200
Contract liabilities	15	12 879	11 705
Provisions for current liabilities and charges	19	540	396
		132 671	**115 103**
Total liabilities		**266 753**	**242 692**
Total equity and liabilities		**1 036 348**	**873 618**

Stredoslovenská energetika Holding, a.s.
Consolidated Income statement and consolidated Statement of comprehensive income for the year ended 31 December 2019 prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union
(All amounts are in thousands of EUR, unless stated otherwise)

Consolidated Income statement

	Note	Year ended 31 December 2019	2018
Revenue	20	1 025 457	1 010 002
Purchase of electricity, gas, distribution and related fees	21	(726 356)	(812 059)
Personnel expenses	22	(53 776)	(49 091)
Depreciation and impairment allowance	5,6	(35 116)	(33 153)
Capitalisation		10 288	10 223
Materials used	24	(6 214)	(6 802)
Other operating income	23	9 616	10 022
Other operating expenses		(31 561)	(30 350)
Operating profit		**192 338**	**98 792**
Interest income	25	37	43
Interest expense	25	(570)	(662)
Net other financial income	25	241	203
Net financial expenses		**(292)**	**(416)**
Profit share in joint ventures	8	3	26
Profit before tax		192 049	98 402
Income tax	26	(44 766)	(22 331)
Profit for the period		**147 283**	**76 071**

Consolidated Statement of comprehensive income

		Year ended 31 December 2019	2018
Profit for the year		**147 283**	**76 071**
Other parts of comprehensive income:			
Actuarial gain/(loss) from long-term employee benefits	19	479	(257)
Deferred tax		(100)	54
Other parts of comprehensive income total		379	(203)
Comprehensive income for the period		**147 662**	**75 868**

Consolidated Statement of changes in equity

	Share capital	Legal reserve fund	Other funds	Retained earnings	Actuarial loss from long-term employee benefits net of tax	Total equity
Balance as at 1 January 2019	**116 754**	**26 493**	**2 324**	**486 497**	**(1 142)**	**630 926**
Profit for the period 2019	-	-	-	147 283	-	147 283
Other parts of comprehensive income total	-	-	-	-	379	379
Dividends	-	-	-	(8 993)	-	(8 993)
Balance as at 31 December 2019	**116 754**	**26 493**	**2 324**	**624 787**	**(763)**	**769 595**
Balance as at 1 January 2018	**116 754**	**26 493**	**2 325**	**417 072**	(939)	**561 705**
Profit for the period 2018	-	-	-	76 071	-	76 071
Other parts of comprehensive income total	-	-	-	-	(203)	(203)
Dividends	-	-	-	(6 411)	-	(6 411)
Other	-	-	(1)	(235)	-	(236)
Balance as at 31 December 2018	**116 754**	**26 493**	**2 324**	**486 497**	**(1 142)**	**630 926**

Consolidated Statement of cash flows

	Note	Year ended 31 December 2019	2018
Profit before tax		192 049	98 402
Adjustments for:			
Depreciation and amortisation	5, 6	36 078	34 162
Change in impairment allowances for non-current tangible assets	5, 6	(962)	(1 009)
Profit from sale of non-current tangible assets	24	(347)	(285)
Net interest expenses	25	533	619
Profit share in joint ventures	8	(3)	(26)
Change in allowance for impairment of receivables	9	1 507	1 478
Changes in provisions	19	198	1 166
Other non-monetary changes		127	26
Operating profit before working capital changes		**229 180**	**134 533**
Changes in working capital:			
(Increase) / Decrease in trade and other receivables and accruals / deferrals		(54 794)	52 495
Increase in inventories		(469)	(460)
Increase / (Decrease) in trade and other liabilities and accruals / deferrals		11 201	(5 311)
Cash flows from operating activities		**185 118**	**181 257**

Consolidated Statement of cash flows

	Note	Year ended 31 December 2019	2018
Cash flows from operating activities			
Cash generated from operations		185 118	181 257
Income tax paid		(35 062)	(27 173)
Net cash flows from operating activites		**150 056**	**154 084**
Cash flows from investing activities			
Purchase of non-current tangible and intangible assets	5, 6	(46 460)	(48 394)
Dividends received	25	282	259
Proceeds from sale of non-current tangible assets		741	1 190
Proceeds from sale of other financial assets	8	3	8
Interest income		37	43
Net cash flows used in investing activities		**(45 397)**	**(46 894)**
Cash flows from financing activities			
Repayments of loans and borrowings		(6 200)	(6 210)
Interest paid		(581)	(680)
Dividends distributed	13	(8 993)	(6 411)
Lease payments - principal		(1 462)	-
Net cash flows used in financing activities		**(17 236)**	**(13 301)**
Net increase in cash and cash equivalents		**87 423**	**93 889**
Cash and cash equivalents at the beginning of the period	11	**116 226**	**22 337**
Cash and cash equivalents at the end of the period	11	**203 649**	**116 226**

1 General information

Trade name and registered address of the Company

The company Stredoslovenská energetika Holding, a.s. (hereinafter “the Company“, “SSE Holding“) is located at:

Pri Rajčianke 8591/4B
010 47 Žilina
Slovak Republic

Registration number (IČO): 36403008
Tax registration number (DIČ): 2020106682
Tax registration number for VAT purposes (IČ DPH): SK2020106682

SSE Holding, in its current legal form as a joint stock company, was originally established as Stredoslovenská energetika, a.s. on 17 December 2001, and incorporated in the Commercial register on 1 January 2002 (Commercial Register of the District court Žilina, Section Sa, Insert No. 10328/L), under the trade name Stredoslovenská energetika, a.s. With effect from 1 January 2019, the Company changed its business name to Stredoslovenská energetika Holding, a.s.

SSE Holding, along with its subsidiaries, is referred to as the “Group” in these consolidated financial statements.

As at 31 December 2019, the following subsidiaries are part of the Group:

Name	Abbreviation in notes	Country of registration	Share in %
SSE – Metrológia, s.r.o.	MEV	Slovak Republic	100%
Elektroenergetické montáže, s.r.o.	EEM	Slovak Republic	100%
SSE CZ, s.r.o.	SSE CZ	Czech Republic	100%
Stredoslovenská distribučná, a.s.	SSD	Slovak Republic	100%
Stredoslovenská energetika - Project Development, s.r.o.	SSE-PD	Slovak Republic	100%
SSE–Solar, s.r.o.	SSE-Solar	Slovak Republic	100%
SPV100, s. r. o.	SPV	Slovak Republic	100%
Stredoslovenská energetika, a. s.	SSE	Slovak Republic	100%
SSE – MVE, s.r.o.	MVE	Slovak Republic	100%

Some of the Group's activities are governed by the terms of the license granted in accordance with the Energy act (the “Energy license”). Certain aspects of the relationship between the Group and its customers, including pricing of electricity and distribution services provided to certain groups of customers, are regulated by the Regulatory Office for Network Industries (“ÚRSO”).

The main business activities of the Group are:

- Purchase and supply of electricity
- Distribution of electricity in Central Slovakia
- Purchase and supply of gas
- Construction and maintenance of distribution network and related assets
- Generation of electricity
- Calibration of meters
- Provision of services related to voltage work

(i) Additional information about the Company preparing the consolidated financial statements

The Company is one of the successors of Stredoslovenské energetické závody, a state-owned entity. As at 31 December 2001, this state enterprise was wound up without liquidation, based on resolution No. 686/2001 of the Slovak government. The following day, its assets and liabilities were transferred to the National Property Fund of the Slovak Republic ("NPF SR"), in accordance with the privatisation project.

The assets and liabilities were valued at historic carrying amounts, as reported by Stredoslovenské energetické závody, as at 31 December 2001.

On 31 October 2002, the NPF sold 49% of the total share capital of SSE Holding to E.D.F. INTERNATIONAL ("EDFI"), France. At the same time, EDFI gained managerial control over SSE Holding.

On 1 July 2007, the electricity distribution business was transferred into the subsidiary Stredoslovenská energetika - Distribúcia, a.s. ("SSE – D"), in accordance with Slovak and EU legal requirements ("unbundling"). Effective from 1 March 2018, SSE - D changed its name to Stredoslovenská distribučná, a.s.

On 27 November 2013, EDFI and Energetický a průmyslový holding, a. s. ("EPH") completed a transaction, the subject of which was transfer of the 49% shareholding, and managerial control in the Company, from EDFI to EPH Financing II, a. s.

On 26 May 2014, the companies EPH Financing II, a.s. (dissolved company) and EP Energy, a.s. (successor company) concluded a merger agreement, where equity of the dissolved company was transferred to the successor company. The decisive date of the transaction was 1 January 2014. The company EPH Financing II, a.s. was deleted from the Commercial Register on 25 August 2014.

On 1 August 2014, according to Act No. 197/2014, the shareholding held by the National Property Fund (51%) was transferred to the Ministry of Economy of the Slovak Republic.

As at 1 January 2019, the Group was reorganised to create a Group holding arrangement.

As at 1 January 2019, part of the Company's business, related to purchase and supply of electricity and gas, and provision of energy support services and energy efficiency projects, was contributed to the subsidiary Stredoslovenská energetika Obchod, a. s. ("SSE - Obchod"). Effective from 1 January 2019, SSE - Obchod changed its business name to Stredoslovenská energetika, a. s. The price of electricity (the commodity) is regulated for households and small businesses with an annual consumption up to 30 MWh. The price of electricity for wholesale customers is not regulated. Distribution fees are fully regulated for all customers. A detailed breakdown of revenue is disclosed in Note 20.

Concurrently, as part of another transaction of business contribution, the hydroelectric division of the Company was contributed to the subsidiary MVE, as at 1 January 2019.

The structure of the Company's shareholders at 31 December 2019 and 31 December 2018 is as follows:

	Absolute amount in thousands of EUR	Ownership interest %	Voting rights %
Ministry of Economy of the Slovak Republic	59 545	51%	51%
EP Energy, a.s.	57 209	49%	49%
Total	**116 754**	**100%**	**100%**

Ministry of Economy of the Slovak Republic, based in Mlynské nivy 44/a, 827 15 Bratislava 212, owns a 51% shareholding in the registered capital of the Company, since 1 August 2014.

EP Energy, a.s. ("investor", "EPE"), based in Pařížská 130/26, Josefov, 110 00, Prague 1, Czech Republic, ICO: 29 259 428, registered in the Commercial Register of the District Court in Prague, section B, file No. 21733, Czech Republic, owns a 49% share in the registered capital of the Company. As at 31 December 2019, EPE does not prepare consolidated financial statements.

The Company, as well as the Group, are included in the consolidated financial statements of EP Infrastructure, a.s. so sídlom Pařížská 130/26, Josefov, 110 00 Praha 1, IČO: 024 13 507, registered in the Commercial Register of the Municipal court in Prague, section B, file no. 21608, Czech Republic. The consolidated financial statements of EP Infrastructure for 2019 will be published in the above-mentioned Commercial Register.

As at 31 December 2019, the consolidated financial statements of the widest group of entities are prepared by EP Investment S.à r.l., with its registered office at 39, Avenue John F. Kennedy, L-1855 Luxembourg. Its consolidated financial statements for the year ended 2018 are deposited at the registered office of EP Investment S.à.r.l. The address of the registration court, maintaining the business register where the consolidated financial statements are stored, is Luxembourg Business Registers GIE, 14 Rue Erasme L-1468 Luxembourg , RCS Luxembourg C24.

As at 31 December 2018, the Company, as well as the Group, were included in the consolidated financial statements of EPE. The consolidated financial statements of the widest group of entities, as at 31 December 2018, were prepared by EP Investment S.à r.l., having its registered office at 39, Avenue John F. Kennedy, L-1855 Luxembourg. Its consolidated financial statements for the year 2018 are available at the registered office of EP Investment S.à.r.l. The address of the Commercial Register, where the consolidated financial statements are stored, is Luxembourg Business Registers G.I.E., 14 Rue Erasme L-1468 Luxembourg, R.C.S. Luxembourg C24.

As part of the sale of 49% of shares to EPH Financing II, a.s., the NPF SR, Ministry of Economy of the Slovak Republic, EPH Financing II, a. s. and EPH have entered into a shareholders' agreement, which sets out the areas of responsibility and decision making for the Board of Directors, and for the Supervisory Board of the Company.

The Chairman and two members of the Board of Directors are nominated by the investor. The Ministry of Economy of the Slovak Republic is represented by the Vice-chairman and one member of the Board of Directors.

Vice-chairman is nominated by the investor to the Supervisory Board. The Ministry of Economy of the Slovak Republic is represented by the Chairman and four members of the Supervisory Board. The employees of the Group are represented by three members of the Supervisory Board.

Competencies and duties of the Company's Board of Directors (BoD), in addition to the legally defined ones, are as follows:

- Manages the Company on a daily basis, and can approve and commit the Company to transactions other than those which are within the competencies of the Supervisory Board, as described below

- Submits to the General Meeting for its approval, the ordinary and extraordinary separate financial statements, the consolidated financial statements, and proposals for profit distribution or loss settlement
- Prepares the report on related party transactions, and provides a copy of this report to the Supervisory Board within 180 days of the end of the accounting period
- Submits for approval, to the Supervisory Board and General Meeting, a three-year strategic business plan of further development and significant projects of the Group
- Submits to the Supervisory Board the annual budget and business plan of the Group, and individual annual budget and business plan of the Company, for review and comments
- Submits the exercise of shareholder rights in respect of subsidiaries, subject to the approval of the General Meeting, to the General Meeting for approval
- Submits proposals for appointment, removal or replacement of the auditors of the Company to the General Meeting

Competencies of the Supervisory Board:
- The Supervisory Board is the supreme controlling body of the Company
- The Supervisory Board reviews, and may submit to the General Meeting, reports concerning:
  - Proposals of the Board of Directors regarding the annual budget and business plan
  - Proposals of the Board of Directors regarding individual annual budgets and business plans of the Company
  - Announcements of financial transactions made by the Company, with related parties of relevant companies (except for SSD)

The Supervisory Board makes decisions about:
- Reducing the number of employees, where this would lead to redundancies equal to or higher than five percent (5%) of all employees
- The strategic business plan for a three-year period of further development and significant projects;
- Any use of non-current tangible assets (except for the assets of SSD), if the value of a transaction, or total value of related transactions, exceeds five percent (5%) of net assets, stated in the latest audited financial statements of the Company (except for establishing of pledge for the purpose of approved financing)
- Investment projects of the Company, in cases when the value of one investment project exceeds 4 million EUR (4 000 000 EUR), (even if the capital expenditures arise over several years).

According to the Articles of Association of the Company, the Board of Directors of the Company prepares a three-year strategic plan of further development and significant projects on a yearly basis, which is submitted to the Supervisory Board for approval, and is subsequently submitted to the General Meeting for approval.

Information on unlimited liabilities

Neither the Company or any of its subsidiaries, are shareholders with unlimited liabilities in other entities.

Date of approval of the consolidated financial statements for the previous accounting period

The Company's General Meeting approved the Company's consolidated financial statements for the previous accounting period ended 31 December 2018, on 27 June 2019.

Publication of the consolidated financial statements for the prior accounting period

The consolidated financial statements, and the auditors' report on the audit of the consolidated financial statements as at 31 December 2018, were filed and published in the Register of financial statements on 25 June 2019. The consolidated annual report, with the appendix to the Independent Auditors' Report as at 31 December 2018, were filed in the Register of financial statements on 15 July 2019.

Appointment of the auditor

The Company's General Meeting approved KPMG Slovensko spol. s r.o. as the auditor of the consolidated financial statements for the year ended 31 December 2019, on 27 June 2019.

The Company's statutory bodies

The list of members of the Board of Directors of the Company and the Supervisory Board is publicly available in the Commercial Register, operated by the Ministry of Justice of the Slovak Republic, at www.orsr.sk.

Number of employees of the Company

In 2019, the Group had on average 1 663 employees (2018: 1 637), of which 14 were managers (2018: 15).

(ii) Additional information about the subsidiaries

MEV was established on 3 April 2003 and entered in the Commercial Register on 17 April 2003 as a limited liability company 100% owned by the Company. On 1 January 2004, the Company transferred part of the company related to calibration of electricity metering equipment to MEV.

EEM was established on 2 July 2003 as a joint stock company and incorporated in the Commercial Register on 12 August 2003 as 100% owned by the Company. On 1 September 2004, the Company transferred parts of the business related to electrical distribution construction to EEM. With effect from 1 August 2017, the legal form was changed from a joint stock company to a limited liabilities company.

SSE - CZ was established on 13 October 2005 and incorporated in the Commercial Register of the Czech Republic on 12 December 2005, as a limited liability company 100% owned by the Company. SSE – CZ trades electricity and provides purchase and sale of electricity between the Company and foreign partners.

SSD was established on 22 March 2006 as Stredoslovenská energetika – Distribúcia, a.s., and incorporated in the Commercial Register on 8 April 2006 as a joint-stock company 100% owned by the Company.

SSD has engaged in the distribution of electricity in Central Slovakia since 1 July 2007, when it was unbundled from the Company by a contribution of part of the enterprise. The requirement to unbundle distribution businesses from other commercial activities of integrated electricity companies was established by European directive 2003/54 on common rules for internal markets with electricity. The directive was transposed into Slovak legislation by the Act on Energy No. 656/2004 issued in 2004.

SSE-PD was established on 3 June 2008 and incorporated in the Commercial Register on 11 June 2008 as 100% owned by the Company. SSE-PD was established with the purpose to build and operate a power plant in Central Slovakia.

SSE–Solar was established on 29 March 2010 and incorporated in the Commercial Register on 2 April 2010. SSE-Solar was established with the purpose to build and operate photovoltaic power stations.

SPV was established on 25 April 2012 and incorporated in the Commercial Register on 9 June 2012. The Company acquired a 100% share in SPV, effective 1 April 2017. SPV, as a local distribution system operator, engages in the distribution of electricity within the industrial area of Priemyselná 1, Liptovský Mikuláš.

SSE was established on 19 July 2018 as Stredoslovenská energetika – Obchod, a. s., and incorporated in the Commercial Register on 3 August 2018 as 100% owned by the Company. Effective from 1 January 2019, Stredoslovenská energetika – Obchod, a. s. changed its business name to Stredoslovenská energetika, a. s. As at 1 January 2019, parts of the Company's business related to purchase and supply of electricity and gas, provision of energy support services and energy efficiency projects were contributed to SSE within transaction of a contribution of part of the business.

MVE was established on 19 July 2018 and incorporated in the Commercial Register on 3 August 2018. As at 1 January 2019, the hydroelectric part was contributed to MVE within transaction of a contribution of part of the business.

The subsidiaries mentioned above do not own or control subsidiaries of their own.

Neither the Company nor its subsidiaries are shareholders with unlimited liabilities in other accounting entities.

2 Summary of significant accounting policies

Significant accounting policies applied in the preparation of these consolidated financial statements are described below. These policies have been consistently applied to all years presented.

2.1 Basis for preparation of the financial statements

Legal reason for preparation of the financial statements:
The Company's consolidated financial statements as at 31 December 2019 have been prepared as ordinary financial statements under § 22 Sec. 6 of the Slovak Act No. 431/ 2002 Coll. ("the Act on Accounting") for the accounting period from 1 January 2019 to 31 December 2019.

The Slovak Act on Accounting requires the Company to prepare the consolidated financial statements for the year ended 31 December 2019 in accordance the International financial reporting standards as adopted by the European Union ("IFRS EU").

These consolidated financial statements have been prepared in accordance with IFRS as adopted by the EU. The Company applies all IFRSs issued by the International accounting standards board ("IASB"), and interpretations issued by the International financial reporting interpretation committee ("IFRIC") as adopted by the EU, which are effective as at 31 December 2019.

The consolidated financial statements have been prepared under the historical cost measurement basis except for the revaluation of joint ventures using the equity method.

The consolidated financial statements have been prepared on an accrual basis and under the going concern principle.

The Board of Directors of the Company may propose amendments of the consolidated financial statements to the Company's shareholders, before their approval at the General Meeting. If, after the consolidated financial statements are approved, management identifies that comparative information would not be consistent with the current period, IFRS EU allows entities to restate comparative information for the accounting period in which the relevant facts are identified.

Preparation of the financial statements, in conformity with IFRS as adopted by the EU, requires the use of certain significant judgments and estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies to complex transactions. The areas involving higher degrees of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

These consolidated financial statements are prepared in thousands of Euro ("EUR thousand"), unless stated otherwise.

Changes in accounting principles

IFRS 16 supersedes IAS 17 Leases and related interpretations. The Company initially applied IFRS 16 from 1 January 2019, using the modified retrospective approach model, with the value of initially recognised assets equal to the value of the relevant lease liabilities. The standard had no impact on the equity of the Company as at 1 January 2019. The accounting standard is applied with no change to figures for the previous period.

The new standard introduces a number of exceptions for the lessee which include:
- Leases with a lease term of 12 months or less containing no purchase options, and
- Leases where the underlying assets have a low value (so called small-ticket leases).

Introduction of the new standard had an impact on previously recognised operating leases. The standard eliminated the dual tenant accounting model under IAS 17, eliminating the distinction between operating and financial leases. Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified assets for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. As at 1 January 2019, to measure lease liabilities (determining the present value of lease payments), which were previously recognised as operating leases, the Group used an average weighted discount rate (determined as the lessor's incremental borrowing rate) of 1.82%.

Transition to IFRS 16 had no impact on the initial amount of retained earnings as at 1 January 2019.
Due to initial application of IFRS 16, the Group applied the following practical expedients in accordance with IFRS 16:
• Used a uniform discount rate for leasing contracts with similar characteristics
• Recognised cost of rents with residual lease terms of less than 12 months from date of initial application comparably to short-term rents, within operating expenses on a straight-line basis over the lease term
• Did not take into account initial direct costs of the lessee on initial recognition of the right-of-use assets
• Used a retrospective assessment based on current facts (e.g. when assessing whether a lease contains an option for renewal or early termination)

The effect of initial application of IFRS 16 on individual items in the Statement of financial position, as at 1 January 2019, is as follows:

Recognition of right-of-use assets within non-current tangible assets	5 972
Recognition of lease liabilities within non-current trade payables	5 972
Effect on equity as at 1 January 2019	-

For the year ended 31 December 2019, the Group reported depreciation in the amount of EUR 1 501 thousand, and interest expenses from lease liabilities amounting to EUR 104 thousand. Application of the standard also reduced operating costs by EUR 1 566 thousand.

Lease liabilities which were not recognised in the Statement of financial position as at 31 December 2018, reconciled with lease liabilities as at 1 January 2019 are set out in the following table:

Unrecognised liabilities from operating lease as at 31 December 2018	7 035
Operating lease liabilities at interest rate of 1.82% at initial application, as at 1 January 2019	6 564
Short-term leases up to 12 months, recognised on a straight-line basis over the lease term	(150)
Leases of low-value assets, recognised on a straight-line basis over the lease term	(442)
Lease liabilities recognised as at 1 January 2019	5 972

Further information regarding accounting policies for lease recognition is described in Note 2.11.

New standards and interpretations not yet adopted

Standards, interpretations and amendments to standards, adopted by the EU, that have not yet entered into force for the period beginning 1 January 2019, have not been used in the preparation of these financial statements.

Amendments to IAS 1 Presentation of financial statements, and IAS 8 Accounting policies, changes in accounting estimates and errors

Effective for annual periods beginning on or after 1 January 2020.

The amendments clarify and align the definition of ‘material’ and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards.

The Company does not expect the amendments to have a significant impact on the financial statements when initially applied.

The Company does not plan to apply the new standards, amendments to standards and interpretations before their effective date. All new standards, amendments to standards and interpretations relevant to the Company will be applied by the Company when they become effective.

Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture

The European Commission has decided to defer the endorsement indefinitely.

The amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:
- a full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while
- a partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The Company does not expect the amendments to have any significant impact on the financial statements when initially applied.

IFRS 17 Insurance contracts

Effective for annual periods beginning on or after 1 January 2021 and should be applied prospectively. Earlier application is permitted.

IFRS 17 replaces IFRS 4, which was brought in as an interim Standard in 2004. IFRS 4 has given companies dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches.

IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values, instead of historical cost.

The Company does not expect the standard to have a significant impact on the presentation of the Company's financial statements when it is first applied, as the Company does not operate in the insurance business.

Amendments to IFRS 3 Business combinations

Effective for annual periods beginning on or after 1 January 2020.

The amendments narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business.

The Company does not expect the amendments to have a significant impact on the financial statements when initially applied.

Amendments to IFRS 9, IAS 39 and IFRS 7 Interest rate benchmark reform

Effective from 1 January 2020. Earlier application is permitted.

The amendments address issues affecting financial reporting in the period leading up to IBOR reform, are mandatory and apply to all hedging relationships directly affected by uncertainties related to IBOR reform.

All companies with hedges affected by IBOR reform are required to:

- Assume that the interest rate benchmark on which hedged cash flows are based is not altered as a result of IBOR reform when assessing whether the future cash flows are highly probable. Also, for discontinued hedging relationships, the same assumption is applied for determining whether the hedged future cash flows are expected to occur.
- Assess whether the economic relationship between the hedged item and the hedging instrument exists based on the assumptions that the interest rate benchmark on which the hedged item and the hedging instrument are based is not altered as a result of IBOR reform.
- Not discontinue a hedging relationship during the period of uncertainty arising from IBOR reform solely because the actual results of the hedge are outside the range of 80-125%.
- Apply the separately identifiable requirement only at the inception of the hedging relationship. A similar exception is also provided for redesignation of hedged items in hedges where dedesignation and redesignation take place frequently – e.g. macro hedges.

The Company does not expect that the amendments will have a significant impact on the financial statements when initially applied.

2.2 Subsidiaries and interests in equity-accounted entities

(i) Subsidiaries

Subsidiaries are those entities, including structured entities, over which the Group has the power to govern because it (i) has a right to control relevant activities of the entity that have significant influence on its profitability and revenue, (ii) is exposed, or has the right to, variable returns from the entity and (iii) has the ability to use its powers to affect return on investment in the entity. The existence and effect of substantive rights, including potential voting should be considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder of a right needs to have a practical ability to exercise the right in time, when relevant decisions on the entity's activities are made. The Group may have a right over the entity even though it owns less than half of the voting rights. In such a case, the Group assesses the size of the voting rights of other investors, in comparison with its own rights. The Group also assesses the structure of ownership of the other investors' voting rights, in order to determine whether it has de-facto decision-making power over the entity. Protecting rights of other investors, such as those that relate to substantive changes in the activities of the entity, or those which are applicable only in exceptional circumstances, shall not prevent the Group from controlling another entity.
Business combinations in which the Group acquires control are subject to the acquisition method.

The consideration transferred in the acquisition is generally valued at fair value, as are the net assets acquired. Goodwill which arises is tested annually for impairment. Any gains on bargain purchases are recognised in the consolidated Income statement immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of relationships existing before the business combination. Such amounts are recognised in the consolidated Income statement.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration, that meets the definition of a financial instrument, is classified as equity, then it is not remeasured, and its settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in the consolidated Income statement.

If share-based payment awards or replacement awards are required to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all, or a portion of the amount, of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards, compared with the market-based value of the acquiree's awards, and the extent to which the replacement awards relate to pre-combination service.

If the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interests and other components of equity. Any resulting gains or losses are recognised in the consolidated Income statement. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Intercompany transactions, balances, and unrealised gains from transactions among the companies within the Group are eliminated. Unrealised losses are also eliminated, unless the transaction provides evidence that the value of the transferred assets has been impaired. Accounting methods for subsidiaries were changed to ensure consistency within the Group.

(ii) Interests in equity-accounted entities

The Group's interests in equity-accounted investees comprise interests in associates and joint ventures.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and joint ventures are accounted for using the equity method. They are initially recognised at cost, including transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of profit / loss, and other comprehensive income of equity-accounted investees, until the date on which significant influence or joint control ceases.

Scope of consolidation

As at 31 December 2019, 12 entities were included in the consolidation (2018: 12 entities), of which 10 entities (2018: 10 entities) were consolidated using the full consolidation method, and 2 entities (2018: 2 entities) using the equity method.

All entities prepared their financial statements as at 31 December 2019. These entities are presented in Note 1 (Subsidiaries) and Note 8 (Joint ventures).

2.3 Foreign currency translation

(i) Functional and presentation currencies

Items included in these consolidated financial statements are presented in EUR, which is the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in thousands of euro ("EUR thousand"), unless stated otherwise. The euro is the functional and presentation currency of each of the Group's accounting entities, except SSE CZ, where the functional currency is the Czech Crown (CZK).

(ii) Transactions and balances in the consolidated Statement of financial position

Transactions denominated in foreign currencies are translated to EUR, as at the date of the accounting transaction, by the reference exchange rate determined and declared by the European Central Bank ("ECB") or National Bank of Slovakia ("NBS"), as at the date preceding the date of the accounting transaction.

Financial assets and liabilities denominated in a foreign currencies are translated to EUR at the reporting date, according to the reference exchange rate determined and declared by the ECB or NBS, as at the reporting date, and are recorded with an impact on profit or loss.

Non-financial assets and liabilities, and advance payments made and received, denominated in foreign currencies, are translated to EUR as at the date of the accounting transaction, by the reference exchange rate determined and declared by the ECB or NBS, as at the date preceding the date of the accounting transaction.

2.4 Non-current tangible assets

All non-current tangible assets are measured at acquisition cost, less accumulated depreciation and accumulated impairment loss.

(i) Acquisition cost

Acquisition costs include expenditures which are directly attributable to the acquisition of assets. Interest expenses are capitalised if they meet the criteria of IAS 23 as a part of acquisition costs, otherwise borrowing costs are expensed as incurred.

Self-constructed non-current tangible assets are valued at their conversion cost. Conversion cost includes all direct costs incurred during production or other activities, and indirect costs related to production or other activities.

Subsequent expenditures are included in the asset's carrying amount or recognised as a consolidated asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company, and the cost of the item can be measured reliably. The carrying amounts of replaced parts are derecognised. All other repairs and maintenance expenditures are charged to the consolidated Income statement during the financial period in which they are incurred.

The most significant part of non-current tangible assets are distribution networks. Networks mainly include power lines, pylons and switching stations.

(ii) Depreciation

Depreciation of non-current tangible assets starts in the month when they became available for use, in accordance with the approved depreciation plan. Tangible assets are depreciated in line with the approved depreciation plan, using the straight-line method. Monthly depreciation charge is determined as the depreciable basis, divided by the estimated useful life of an item of asset. The depreciable basis is acquisition cost, less the expected residual value of the asset at the time of disposal.

In 2019 and 2018, the estimated useful lives of individual groups of assets were as follows:

Buildings, halls and structures	10 - 70 years
Machinery, equipment and vehicles	4 – 45 years
Other non-current tangible assets	5 – 15 years

Assets' residual values and useful lives are reviewed, and adjusted if appropriate, as at each reporting date.

Land and assets under construction are not depreciated.

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset, less estimated costs of disposal, if the asset is already of an age and condition expected at the end of its useful life. The residual value of an assets is nil, or its scrap value, if the Group expects to use the asset until the end of its useful life.

Each part of an item of a non-current tangible asset, with a cost that is significant in relation to the total cost of the item, is depreciated separately. The Group allocates the amount initially recognised in respect of an item of non-current tangible asset proportionally to its significant parts and depreciates each part separately.

An asset's carrying amount is immediately written down to its recoverable amount, if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.6).

Assets which are disposed of are derecognised from the consolidated Statement of financial position, along with corresponding accumulated depreciation and accumulated impairment loss. Gains and losses from disposals are determined by comparing proceeds with carrying amounts, and are included in operating profit/loss.

2.5 Non-current intangible assets

Non-current intangible assets are initially valued at acquisition cost. Non-current intangible assets are recognised if it is probable that the future economic benefits which are attributable to the assets will flow to the Group, and the cost of the assets can be measured reliably. After initial recognition, non-current intangible assets are measured at cost, less accumulated amortisation and any accumulated impairment loss. Interest expenses are capitalised as part of acquisition costs, if they meet the criteria of IAS 23, otherwise borrowing costs are expensed as incurred. The Group does not have non-current intangible assets with indefinite useful lives. Non-current intangible assets are amortised on a straight-line basis over their useful lives, not exceeding a period of 20 years.

The amortisation of non-current intangible assets starts in the month when the non-current intangible asset is put into use. Non-current intangible assets are depreciated in line with the approved depreciation plan, using the straight-line method. The monthly depreciation charge is determined as the depreciable basis, divided by the estimated useful life of the non-current intangible asset. The depreciable basis is the acquisition cost, less the expected residual value of the assets at the time of disposal.

Residual values of non-current intangible assets are assumed to be zero, if:

- There is no commitment by a third party to purchase the assets at the end of their useful life, or
- There is no active market for the assets, and so residual value cannot be determined by the reference to that market, and it is improbable that such a market will exist at the end of the assets' useful life

Expenses associated with maintaining computer software are recognised when they are incurred.

Subsequent expenditures, which enhance or extend the performance of computer software beyond their original specification and meet the criteria for recognition as intangible assets according to IAS 38, are recognised as technical improvements, and added to the original cost of the software. Each part of an item of non-current intangible assets, whose value is material in comparison to the total value of assets, is amortised separately. The Group divides the value of original items to significant parts proportionally and amortises the parts separately.

2.6 Impairment of non-financial assets

Non-current intangible assets with an indefinite useful life, and intangible assets not yet in use, are not subject to amortisation, and are tested for impairment annually. Non-financial assets, except for deferred tax assets and inventory, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount is higher than the recoverable amount. If an indicator of impairment exists, the asset's recoverable amount is estimated. An impairment loss is recognised in the consolidated Income statement, for the amount by which the asset's, or cash generating unit's, carrying amount exceeds its recoverable amount. The recoverable amount is the asset's fair value, less costs to sell or value in use, depending on which one is higher.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are individually identifiable cash flows. Non-financial assets, other than goodwill, whose value decreased, are reviewed for possible reversal of the impairment as at each reporting date of the consolidated financial statements.

2.7 Financial instruments

Trade receivables and issued debt securities are initially recognised on the date that they are originated. All other financial assets and financial liabilities are recognised initially in the consolidated Statement of financial position, on the date at which the Group becomes a contract party to the agreements containing financial instruments.

Financial assets (except for trade receivables which do not contain a significant financial component) or financial liabilities are initially recognised at fair value, increased by costs related to the acquisition or issue of financial instruments, except for items measured at fair value through profit or loss (FVTPL). Trade receivables which do not contain a significant financial component will initially be recognised at transaction value.

2.8 Financial assets

The Group classifies its financial assets by initial recognition in the following categories:

- Amortised costs
- At fair value through other comprehensive income (FVOCI)
- At fair value through profit or loss (FVTPL)

Financial assets are not reclassified subsequent to their initial recognition, unless the Group changes its business model for managing financial assets.

A financial asset is valued at amortised cost if it meets both of the following conditions and is not classified at FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows
- The contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Regarding equity investments that are not held for trading, the Group may irrevocably elect to present subsequent changes in fair value (foreign exchange rate and losses included) in other comprehensive income. They cannot be reclassified to profit or loss under any circumstances.

All financial assets not classified at amortised cost or FVOCI are measured at FVTPL. This includes all derivative financial assets.

Subsequent valuation and gains and losses

- Amortised cost – the asset is subsequently valued at amortised cost using the effective interest method, reduced by impairment loss. Interest income, foreign exchange gains and losses, and impairment are recognised in profit or loss.
- FVTPL – the asset is subsequently valued at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
- Equity investments at FVOCI – the asset is subsequently valued at fair value. Dividends received are recognised in profit or loss. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

2.9 Financial liabilities

Financial liabilities are initially classified as valued at amortised cost or FVTPL. The Group classifies a financial liability at FVTPL if it is classified as held-for-trading, if it is a derivative, or if it is designated as such at initial recognition. When a financial liability is initially recognised at FVTPL, the Group measures this liability at fair value, and net gains and losses, including any interest expenses, are recognised in profit or loss.

Other financial liabilities are subsequently valued at amortised cost using the effective interest method. Interest expenses and foreign exchange gains and losses are recognised in profit or loss. Any gains or losses on derecognition is also recognised in profit or loss.

The Group has the following non-derivative financial liabilities: loans and borrowings, trade and other payables.

The Group has no financial assets that are valued in FVOCI or FVTPL other than equity investments.

Derecognition of financial instruments

The Group derecognises financial assets, if:

a) The assets are redeemed or the rights to cash flows from the assets otherwise expire, or
b) The Group has transferred the rights to the cash flows from financial assets, or entered a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the assets in their entirety to an unrelated third party, without needing to impose additional restrictions on the sale.

Financial liabilities (or its parts) are derecognised from the consolidated Statement of financial position of the Group when, and only when, it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires.

The difference between the carrying amount of disposed financial assets and the consideration paid is recognised in profit or loss.

Offsetting

Financial assets and liabilities are offset, and the net amount presented in the consolidated Statement of financial position, if the Group has a legally enforceable right to offset the amounts of these assets and liabilities, and it intends either to realise the assets and settle the liabilities simultaneously, or to settle them on a net basis.

The Group has no financial assets that are valued in FVOCI or FVTPL other than equity investments.

2.10 Impairment of financial assets

The “incurred loss“ model is replaced by the “expected credit loss“ (ECL) model, which means that a loss event will no longer need to occur before an impairment allowance is recognised. The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets.

Financial assets valued at amortised cost, using the effective interest method, comprises trade and other receivables, cash and cash equivalents.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date, and
- Lifetime ECLs: these are ECLs that results from all possible default events over the expected life of a financial instrument

When determining whether the credit risk of a financial asset has increased significantly since initial recognition, and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group’s historical experience and informed credit assessment, and including forward-looking information.

The Group considers financial assets to be in default when:

- The borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security; or
- The financial assets are more than 90 days overdue

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of financial assets. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Valuation of ECLs

ECLs are estimates, calculated as weighted averages of impairment probabilities and credit loss realizations. Credit losses are measured as the present value of all cash shortfalls, i.e. the difference between cash flows due to the Group in accordance with the contract, and cash flows that the Group expects to receive.

ECLs are not discounted, as they do not contain any significant financial component.

Impairment losses

Impairment losses related to trade and other receivables are recognised in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in profit or loss.

The carrying amount of receivables is impaired through an allowance account. Creation and reversal of impairment losses are recognised in the Income statement within other operating expenses. Trade receivables that cannot be collected are written off. Trade receivables that are written off and subsequently repaid by the debtors are recognised in the Income statement within other operating income.

The revenue recognition policy of the Group is described in Note 2.21.

2.11 Leases - IFRS 16

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group considers a contract to be a lease when all of the following conditions are met:

- Identifiable asset exists, specified explicitly or implicitly
- A lessee has the right to obtain substantially all of the economic benefits from use of the assets
- A lessee has the right to direct the use of the assets

This policy is applied to contracts entered into on or after 1 January 2019.

The Group applied an exemption and applied the new IFRS 16 to all contracts it concluded before 1 January 2019 and identified them as leases under IAS 17 and IFRIC 4. This means that it does not reassess leases which have been classified as leases under IAS 17, as to whether they meet the new definition of leasing under IFRS 16.

Upon initial recognition and subsequent revaluation of a lease contract which includes a lease component, the Group assigns the contractually agreed consideration to each lease component on a pro rata basis, if agreed separately. The Group recognises separately the leasing and non-leasing components in the lease of vehicles, land and property. For the lease of land, property and other assets, the Group does not account for both the leasing and non-leasing components separately but considers them as one leasing component.

Leased assets (the Group as a lessee)

The Group recognises right-of-use assets and lease liabilities at the commencement of the lease. Initial value of right-of-use assets is determined as the sum of the initial value of the lease liabilities, lease payments made before or on the commencement date of the lease, and initial direct cost to the lessee, less any lease incentives received.
In determining the lease term, the length of the agreed lease term, as well as the possibility of its early termination or prolongation are considered. In assessing the probability of exercising the option to extend or prematurely terminate the lease term, the Group takes into account all relevant facts and circumstances that provide economic incentives to exercise (or not exercise) those options. The period by which the contract can be renewed (or the period following the possibility to terminate the contract early) will be included in the lease term only if the Group is certain that the prolongation will be exercised.
Right-of-use assets are depreciated on a straight-line basis over the lease term, from lease commencement to termination. If the lease involves a transfer of ownership or a call option, the right-of-use assets are depreciated on a straight-line basis over the useful life of the assets. If the lease involves

a transfer of ownership or a call option, right-of-use assets are depreciated on a straight-line basis over the useful life of the assets. Depreciation begins on the date of commencement of the lease.

Assessment of possible impairment of right-of-use assets is carried out in a similar way to the impairment assessment of non-financial assets, as described in Note 2.6 Impairment of non-financial assets.

Lease liabilities are initially measured on the date when leased assets are made available to the lessee (the lease commencement date). Lease liabilities are initially valued at the present value of the lease payments, over the lease term that were not paid at initial measurement, using the discount rate, which is the incremental borrowing rate. Lessee's incremental borrowing rate is determined on the basis of available financial information relating to the Group. Subsequent revaluation of lease liabilities is made in the event of a change in the contractual terms (e.g. a change in the lease term due to the option to extend or prematurely terminate the contract, a change in lease payment based on exercise of the call option, etc.). Any subsequent reassessment of lease liabilities will also affect valuation of right-of-use assets. If this leads to a negative value for right-of-use assets, the remaining impact is recognised in profit or loss (so the resulting right-of-use assets will be recognised at nil). During the accounting period, the Group did not recognise revaluation of lease liabilities due to the above changes.

The Group has exercised an optional exemption, and does not recognise right-of-use assets or lease liabilities for any types of lease contracts with a lease term of twelve months or less. The costs associated with these leases are recognised in the financial statements as operating expenses on a straight-line basis over the lease term.

The Group has also exercised an optional exemption and does not report right-of-use assets or lease liabilities in lease contracts where the value of the leased assets is clearly less than USD 5 000. The estimated value of assets is based on the assumption that they are new assets. If the value of assets cannot be reliably determined, the optional exemption is not applied to such leases.

In the Statement of financial position, the Group recognises right-of-use assets under non-current tangible assets, lease liabilities under long-term and short-term trade, and other payables. In addition, the Group recognises lease transactions in the Statement of cash flows as follows:

- Principal payments relating to lease liabilities in cash flows from financial activities
- Interest payments relating to lease liabilities in cash flows from operating activities
- Payments for short-term leases, lease of low-value assets, and payments for variable parts of leases which are not included in valuation of lease liabilities, in cash flows from operating activities.

Leases – IAS 17 (comparative period)

IAS 17 defines a lease as a contract, whereby the lessor grants the lessee, in exchange for a payment or a series of payments, the right to use the assets for an agreed period.

Lease of assets where the lessor bears a significant proportion of the risks and rewards of ownership are classified as operating leases with the lessee. Payments made under operating leases (after deducting discounts from the lessor) are recognised on a straight-line basis in the Income statement over the lease term.

The Group has no financial leases.

2.12 Inventories

Inventories are valued at the lower of either cost or net realisable value. Valuation of inventories is recalculated using the weighted arithmetic average method. Cost includes all acquisition costs, such as customs and shipping, less discounts and rebates. Net realisable value is an estimate of selling price in the ordinary course of business and is reduced by the relevant cost of sale.

2.13 Construction contracts

The Group uses the percentage of contract completion method to determine the amount of revenue to be recognised during the accounting period. The percentage of completion is determined as the ratio of the cost already incurred to execute the contract, at the date on which the financial statements are prepared, to the total estimated cost of each contract separately. Related costs are recognised in the consolidated Income statement as incurred. Advances received are included in contract liabilities.

2.14 Cash and cash equivalents

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

Bank overdrafts that are due on demand are part of the cash management of the Group, and are included in cash and cash equivalents for the purposes of the consolidated Statement of cash flows.

2.15 Share capital

Ordinary shares are classified as share capital.

Incremental expenses directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds from this issue.

2.16 Current and deferred income taxes

The current income tax is calculated on the basis of tax laws enacted at the reporting date. Management regularly evaluates positions taken in tax returns, with respect to situations in which applicable tax regulation is subject to interpretation, and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is disclosed in the financial statements using the balance sheet method, based on temporary differences arising between the tax basis of assets and liabilities, and their carrying amounts in the financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, which is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates that have been enacted or substantively enacted by the reporting date, and are expected to be applied when the related deferred income tax asset is realised, or the deferred income tax liability is settled.

Current and deferred taxes are recognised in the consolidated Income statement, except to the extent that it relates to items recognised directly in equity, or in the consolidated Statement of comprehensive income.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit of the Group will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Group, and it is probable that the temporary difference will not reverse in the foreseeable future.

The Group offsets deferred tax assets and deferred tax liabilities, when the Group has a legally enforceable right to offset them, and they relate to income taxes levied by the same tax authority.

2.17 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are not recognised for future operating losses. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset only when the reimbursement is almost certain.

Where there are a number of similar obligations, the probability that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any item included in the same class of obligations is small.

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

2.18 Contingent liabilities

Contingent liabilities are not recognised in the consolidated Statement of financial position. They are disclosed in the notes to the consolidated financial statements, if the probability of an outflow of resources embodying the economic benefits is low. They are not disclosed in the notes to the consolidated financial statements if the possibility of an outflow of resources embodying the economic benefits is remote.

2.19 Contract liabilities

Contract liabilities represent the Group's obligation to transfer goods or to provide customers with a service, where the Group has already received consideration for those goods or services. They mainly represent received contractual advances from customers for electricity and gas, when control over the assets has not been transferred to the customer.

2.20 Employee benefits

The Group has both defined benefit and defined contribution plans.

Pension plans

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive upon retirement. It is dependent on one or more factors such as age, years of service and compensation.

A defined contribution plan is a pension plan according to which the Group pays fixed contributions to third parties or to the Government. The Group has no legal or constructive obligations to pay further contributions, if the funds do not hold sufficient assets to pay to employees all the benefits to which they have a right, for both the current and prior periods.

Unfunded defined benefit pension plan

According to the Corporate collective agreement of the Group for the years 2017 – 2019, the Group is obliged, based on the number of years in service, to pay its employees upon retirement or disability the following multiples of their average monthly salary:

	Average salary multiple
up to 10 years	2
11 - 15	4
16 - 20	5
21 - 25	6
over 25	7

The minimum requirement of the Labour code of one-month average salary payment upon retirement is included in the above multiples.

Other defined benefits

The Group also pays the following work and life jubilee benefits:

- One additional monthly salary on the 25th annual work anniversary
- A single payment of 40% to 110% of employee’s monthly salary, depending on the number of years worked for the Group, when the employee reaches the age of 50 years

The Group's employees expect the Group to continue providing these benefits and, in the opinion of management, it is unlikely that the Group will stop providing them.

The liability recognised in the consolidated Statement of financial position, in respect of defined benefit pension plans, is the present value of the defined benefit obligation at the reporting date.

The defined benefit obligation is calculated annually by the Group using the Projected Unit Credit method. The present value of the defined benefit obligation is determined by (a) discounting the estimated future cash outflows using interest rates of high quality government or corporate bonds, which have terms to maturity approximating the terms of the related pension liabilities and (b) then attributing the calculated present value to the periods of service based on the plan.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are immediately recognised in the period incurred. Pension liabilities are included in the consolidated Statement of comprehensive income, and life and work jubilee benefits are included in the consolidated Income statement. Past-service costs are recognised immediately in the consolidated Income statement.

Defined contribution pension plans

The Group contributed to state and private pension schemes with determined contributions.

The Group makes contributions to government health, sickness, pension, accidental and guarantee insurance, and unemployment schemes at the statutory rates in force during the year, based on gross salaries paid.

Throughout the year, the Group made contributions to these funds amounting to 35.2% (2018: 35.2%) of gross salaries up to a monthly salary ceiling, which is defined by the relevant law as EUR 6 678 (2018: EUR 6 384) depending on the type of fund, along with contributions made by employees of a further 13.4% (2018: 13.4%), while the base for health and accidental insurance was unlimited. The cost of these payments is charged to the consolidated Income statement in the same period as the related salary cost.

In addition, with respect to employees who have chosen to participate in a supplementary pension insurance, the Group makes contributions between 2% and 6% of the monthly wages, up to a maximum of EUR 1 400.

Termination benefits

Termination benefits are paid whenever an employee's employment is terminated by the employer before the normal retirement date, upon agreement between the employer and employee, resulting from redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: (a) terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or (b) provide termination benefits as the result of an offer made to encourage voluntary redundancy. Present value of termination benefits does not significantly differ from the carrying amount, as the impact of discounting is not significant.

2.21 Revenue recognition

Revenue represents the fair value of consideration received or receivable for the sale of goods and services in the ordinary course of business of the Group. Revenue is recognised net of value added tax, excise duties, anticipated returns of goods and services, rebates and discounts.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group, and specific criteria as described below were met.

The amount of revenue is not considered to be reliably measurable until all conditions related to sale are met. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the conditions of each specific contract.

Revenue from sales of electricity and gas are recognised when the electricity and gas is delivered to the customer. Consumption of wholesale customers is metered and billed on a monthly basis. The billing cycle of retail customers - households and small businesses with yearly consumption up to 30 MWh, and yearly gas consumption up to 100 MWh, is carried out on an annual basis.

Contract assets represent the Group's right to consideration that it expects to receive under contract for goods or services that have already been delivered, or provided to the customer but not yet invoiced.

Revenue from unbilled but delivered electricity is an accounting estimate, which is based on the estimate of the electricity supply in technical units (GWh) at low voltage level and its price. The estimate of the electricity supply at this voltage level is mainly based on the estimate of yearly consumption at the offtake point, and the value of relevant diagram offtake type for a rate to which the offtake point is included.

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

Dividend income is recognised when the right to receive the payment is established, and inflow of economic benefits is probable.

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

Revenue from fees for connection to the distribution network, and subsequent access to distribution services are recognised as contract liabilities, and are released to income in the current period, over the average useful life of the electricity distribution assets.

In accordance with existing legislation, assets obtained by withholding (e.g. transformer stations), assets acquired free of charge, and identified inventory surpluses of assets are initially recognised at fair value in deferred income, while the amount equal to the annual depreciation charge of assets is recognised in income of the current reporting period.

Fees for relocation of energy equipment are recognised in the same way as withheld assets, i.e. the amount of such fees is recognised in deferred income, while the amount of the annual depreciation charge for these assets is recognised in the revenue of the current reporting period.

2.22 Dividend distribution

Distribution of dividends to the Group's shareholders is recognised as a liability in the Group's consolidated financial statements in the period in which the dividends are approved by the Group's shareholders.

3 Financial risk management

3.1 Financial risk factors

As a result of its activities, the Group is exposed to a variety of financial risks: market risk (including foreign exchange, price and interest rate risks), operational, credit and liquidity risks. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Financial risk management is performed by the central financial department in accordance with procedures approved by the Board of Directors. The central financial department identifies, assesses and hedges financial risks, in cooperation with operational departments within the Group. The Board of Directors and the Group's management issue written principles for overall risk management, as well as written procedures covering specific areas such as foreign exchange, interest rate and credit risks, and the use of non-derivative financial instruments.

(i) Market risk

(a) Foreign exchange risk

The Group is not exposed to foreign exchange risk as expenses and revenue in foreign currency are not significant for the Group.

(b) Price risk

Supply of electricity and natural gas

The Group is exposed to price risk that may cause losses due to changes in prices of commodities (electricity, gas), where there is an open position (surplus or shortage) of commodity for the period. The objective of price risk management is to ensure that the Group will not suffer higher losses than permitted by agreed limits.

The limits on price risk management are approved by the Risk committee of SSE, which also defines the risk management policy. Price risk is managed using certain financial ratios: VaR (Value at Risk), risk capital (maximum possible loss), and VaR days indicator, i.e. the number of days during which risk capital can be spent, based on scenarios with certain probabilities. These indicators are evaluated on a daily basis for individual portfolios. As at 31 December 2019, the risk capital in commodity supply was positive. The drawdown was 49% at the set VaR limit, and more than one hundred VaR days.

The Group categorises its customers according to the volume of electricity supplied. The Group protects against price changes and customer loss via contractual conditions, which are adjusted according to the probability of customer loss for each customer group.

Sales prices for final customers are based on market prices for which the Group is able to acquire electricity on the market at the time of sale. The Group monitors price changes from time of sale to time of purchase, and minimises potential losses from market prices changes, by early purchase. These gains/losses, along with the value of open positions (VaR), forms the risk capital. The value of risk capital is regularly evaluated, and if the value approaches the set limit, measures are undertaken to ensure that the limit will not be exceeded.

The sale prices of electricity and gas for households and small businesses are subject to price regulation by ÚRSO. Based on its own price proposal, ÚRSO approves the decision on maximum prices for supply of electricity and gas during the regulated period, which usually changes each regulated year.

The Group purchases commodity based on individual contracts, defining a conditional sale to the specified customer (back-to-back), thus minimising any risks resulting from open positions in the segment. For regular customers, the Group purchases commodity continuously, over a period of one to three years prior to the commencement of delivery.

Distribution services

Distribution services provided by the Group are subject to the price regulation of ÚRSO. Based on the adopted regulatory policies for 2017 - 2021, the office determines the scope and method of price regulation. ÚRSO sets the price decree for distribution services of the Group for the whole regulatory period, usually changing them each regulatory year. These prices are binding for the Group for invoicing. Reasonable profit is derived from the Regulated Asset Base ("RAB") and the rate of return set by ÚRSO. Nevertheless, there may be circumstances outside the Group's direct control that will result in an adjustment of the price decree during the year, and thus have a negative or a positive impact on the Group's profit or loss. The level of such risk cannot be quantified in advance. In the event of such occurrences, the Group's management enters into negotiations with ÚRSO in order to minimise negative impacts on the Group.

(c) Interest rate risk affecting fair value and cash flows

The Group is not exposed to interest rate risk due to its long-term loans.

As at 31 December 2019 and 31 December 2018, all loans denominated in EUR bear fixed interest rates, and are recognised at amortised cost. For more details see Note 17.

(ii) Operational risk

Operational risk is the risk of direct or indirect losses, arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, or from external factors other than credit, market and liquidity risk, such as those arising from legal and regulatory requirements, and generally accepted standards of corporate behaviour. Operational risk arises from all of the Group's operations.

The Group's objective is to manage operational risk, so as to balance avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness, and to avoid control procedures that restrict initiative and creativity. Primary responsibility for the development and implementation of controls to address operational risk is assigned to top management of the Group.

The Internal audit department performs regular reviews to ensure that the Group's processes comply with internal guidelines. Results of internal audits are discussed by the Group's top management.

(iii) Credit risk

Credit risk arises from cash and cash equivalents, and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and future transactions from concluded contracts. Regarding banks and financial institutions, the Group only enters into relationships with those that have high independent rating assessments.

Where independent ratings of large customers are available, these ratings are used. In the absence of such assessment, the customer's creditworthiness shall be assessed, taking into account its financial position, historical data and other factors.

The key commodity of the Group is electricity, which is invoiced to customers, normally along with distribution and other services related to electricity, in the form of an integrated contract.

The Group also invoices distribution and related services to electricity suppliers (traders) operating in the Group's distribution territory, as well as to end customers who have a separate agreement on electricity distribution and grid access.

The Group implemented an individual assessment of credit risk for major customers, based on its own valuation model. The input information for the model includes for instance: ratings from external credit risk rating companies, customer payment discipline, performance indicators derived from financial statements, and information where available on customer indebtedness. This group of customers includes those with the highest purchases of electricity supply and distribution. Payment conditions are structured according to model results. In addition, advances are used to mitigate risk.

In the industrial customers segment, those with a higher risk of insolvency have higher advance payments. For small entrepreneurs, the Group uses the option of earlier advance payments compared to standard ones.

Regarding trade receivables, mainly due to the large number of various customers, the Group has no significant concentration of credit risk. The Group uses a reminder system, that can result in disruption of supply, or disconnection from the distribution network, as the most common way to enforce payment discipline for all categories of customers.

The table below shows the balances due from banks as at the reporting date:

		Balance as at 31 December	
Counterparty	**Rating***	**2019**	**2018**
Banks			
Všeobecná úverová banka, a.s.	A2	182 767	103 684
UniCredit Bank, a.s.	Baa1	260	260
Tatra banka, a.s.	A3	1 493	5 682
ČSOB, a.s.	Baa1	3 501	2 515
Prima banka Slovensko, a.s.	n/a	143	71
Slovenská sporiteľňa, a.s.	A2	11 120	1 620
Komerční banka, a.s.	A1	4 348	2 387
Other	n/a	17	7
Total		**203 649**	**116 226**

As at 31 December 2019, the value of cash and short-term deposits with banks is in the amount of EUR 203 632 thousand (2018: EUR 116 219 thousand).

As at 31 December 2019, the Group did not have an authorised overdraft for current accounts. As at 31 December 2019, the Group was not in a position to freely dispose of cash and cash equivalents in the amount of EUR 63 thousand (2018: the Group was not in a position to freely dispose of cash and cash equivalents in the amount of EUR 331 thousand).

* The Company uses independent ratings from Moody’s, Standard & Poor’s, and Fitch.

Credit risk exposure

As at 31 December 2019 and 2018, the values of financial assets represent the maximum credit risk, which are as follows:

		Balance as at 31 December	
Financial instruments	**Note**	**2019**	**2018**
Trade and other receivables	9	108 123	93 491
Cash and cash equivalents	11	203 649	116 226
Total		**311 772**	**209 717**

(iv) Liquidity risk

Prudent liquidity risk management involves maintaining sufficient cash and marketable securities, availability of funds through the adequate amounts of committed credit facilities, and the ability to close out market positions. Due to the dynamic nature of the underlying activities, the Group aims to maintain flexibility in funding by keeping open credit lines.

The Group also takes advantage of payment terms between the Group and its suppliers to secure sufficient financing funds to cover its needs. The maturity of supplier's invoices is between 14 and 90 days.

The Group monitors movements of financial resources across its bank accounts on a regular basis.

Expected cash flows is prepared as follows:

- Expected future cash inflows from the main operations of the Group
- Expected future cash outflows securing operations of the Group, and leading to settlement of all liabilities of the Group, including tax payables

A cash flows forecast is prepared monthly. It identifies the immediate need for cash and, if funds are sufficient, it enables the Group to make short-term deposits and other investments.

The management monitors, on the basis of expected cash flows, interim forecasts of liquidity reserves, which represent undrawn balance of the credit line (Note 17), and cash and cash equivalents (Note 11).

The table below analyses the Group's financial liabilities according to the remaining period of maturity. The amounts disclosed in the table are contractual undiscounted cash flows. The difference between carrying and expected values of liabilities represent future expected interests.

	Carrying amount	Less than 1 year	From 1 to 2 years	From 2 to 5 years	Total
Balance as at 31 December 2019					
Bank loans (principal incl. future interest)	12 400	5 185	2 642	5 113	12 940
Trade and other liabilities (excluding liabilities not in the scope of IFRS 7)	117 535	117 535	-	-	117 535
Total	**129 935**	**122 720**	**2 642**	**5 113**	**130 475**
Balance as at 31 December 2018					
Bank loans (principal incl. future interest)	18 600	6 677	5 185	7 755	19 617
Trade and other liabilities (excluding liabilities not in the scope of IFRS 7)	95 327	95 327	-	-	95 327
Total	**113 927**	**102 004**	**5 185**	**7 755**	**114 944**

3.2 Capital management

For the purposes of managing capital, the management considers equity as capital. The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern, in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. As at 31 December 2019, the Group's management administers shareholders' capital, reported under IFRS, amounting to EUR 769 595 thousand (2018: EUR 630 926 thousand).

To be consistent with other companies within the industry, the Group monitors capital according to gearing ratio. This ratio is calculated as total debt, divided by total liabilities and equity. Total debt is calculated as the sum of bank loans and current liabilities, as presented in the consolidated Statement of financial position.

In 2019, as in 2018, the Group's strategy was to maintain the gearing ratio below the 60% limit stated in the Group's loan agreements.

In 2019 and 2018, the Group complied with all externally imposed capital requirements (mainly bank covenants) at the levels required by its creditors.

3.3 Fair value estimation

The fair value of financial instruments traded in the active markets is based on listed market prices, as at the reporting date of the consolidated financial statements. The listed market price used for the valuation of the Group's financial assets is the spot bid price, and for financial liabilities the spot ask price.

The fair value of financial instruments that are not traded in the active markets is determined using the valuation methods. The Group uses various valuation methods and assumptions which are based on market conditions as at each reporting date, such as discounting the expected cash flows.

Carrying amounts of receivables, less impairment allowances and carrying amounts of trade payables, are approximately equal to their fair values.

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for the issue of similar financial instruments.

4 Significant accounting estimates and judgments

Use of estimates and judgments

Preparation of the financial statements, in accordance with IFRS EU, requires management to make judgments, estimates and assumptions that affect the application of accounting policies, and the reported amounts of assets, liabilities, income and expenses. Estimates and related assumptions are based on historical experience, and other factors deemed appropriate under the circumstances.

Estimates and underlying assumptions are constantly reviewed. If a correction affects only the current period, revisions to accounting estimates are recognised in the current period. If a correction affects both current and future periods, revisions to estimates are recognised in the period of correction and future periods.

Information about significant areas of estimation uncertainty, and critical judgment in the use of accounting policies, which have the most significant impact on amounts reported in the financial statements, are described below.

(i) Estimated useful lives of assets

The useful lives of non-current tangible and intangible fixed assets are determined by the management, in cooperation with internal and external experts. If the revised useful lives of the assets are shorter by 10% than the management's estimate, as at 31 December 2019, the Group would recognise additional depreciation of assets, comprising mainly the distribution network, in the amount of EUR 3 818 thousand (2018: EUR 3 878 thousand), charged to the consolidated Income statement.

(ii) Impairment allowances for irrecoverable receivables

Under IFRS 9, impairment allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within 12 months after the reporting date, and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument

The Group decided to value impairment allowances for trade receivables at the value of lifetime ECLs.

Impairment allowances relating to trade and other receivables are recorded to profit or loss. The impairment loss will be reversed, if the reversal can be related objectively to an event occurring after the impairment was recognised.

(iii) Estimation of unbilled electricity

For revenue which is generated from customers whose energy consumption is not metered as at the end of the period, particularly customers of low-voltage electricity, revenue must be estimated for delivered but unbilled electricity, as at the reporting date.

The Group has developed a model which allows it to estimate revenue with a satisfactory level of accuracy. The model also ensures that the risk of a significant variance between quantities delivered and resulting estimated revenue can be considered as insignificant.
The historical average differences between estimates of unbilled electricity and actual results are on average below 4%.

5 Non-current tangible assets

	Land	Buildings, halls and structures	Machinery, equipment, vehicles and other assets	Tangible assets not yet in use including advances	Total
Balance as at January 2018					
Acquisition cost	8 775	582 191	426 781	18 660	1 036 407
Accumulated depreciation and impairment allowances	(76)	(257 247)	(235 311)	(262)	(492 896)
Net book value	**8 699**	**324 944**	**191 470**	**18 398**	**543 511**
Year ended 31 December 2018					
Opening balance	8 699	324 944	191 470	18 398	543 511
Additions	100	21 250	8 410	18 804	48 564
Transfers from investments not yet in use	8	5 473	7 300	(12 781)	-
Disposals	(175)	(578)	(173)	(113)	(1 039)
Depreciation	-	(15 438)	(14 759)	-	(30 197)
Creation of impairment allowances	-	(40)	(5)	(2)	(47)
Use / Reversal of impairment allowances	-	362	694	-	1 056
Net book value at the end of the period	**8 632**	**335 973**	**192 937**	**24 306**	**561 848**
As at 31 December 2018					
Acquisition cost	8 708	605 844	439 054	24 570	1 078 176
Accumulated depreciation and impairment allowances	(76)	(269 871)	(246 117)	(264)	(516 328)
Net book value	**8 632**	**335 973**	**192 937**	**24 306**	**561 848**
Net book value as at 1 January 2019	**8 632**	**335 973**	**192 937**	**24 306**	**561 848**
Right-of-use assets- impact of IFRS 16	480	2 168	3 324	-	5 972
Adjusted net book value as at 1 January 2019	**9 112**	**338 141**	**196 261**	**24 306**	**567 820**
Year ended 31 December 2019					
Opening balance	9 112	338 141	196 261	24 306	567 820
Additions	34	21 457	9 835	18 331	49 657
Transfer from investments not yet in use	7	11 549	6 589	(18 145)	-
Disposals	(68)	(247)	(93)	(109)	(517)
Depreciation	(41)	(14 571)	(17 300)	-	(31 912)
Use / Reversal of impairment allowances	-	270	691	1	962
Net book value at the end of the period	**9 044**	**356 599**	**195 983**	**24 384**	**586 010**
Balance as at 31 December 2019					
Acquisition cost	9 161	638 081	451 706	24 649	1 123 597
Accumulated depreciation and impairment allowances	(117)	(281 482)	(255 723)	(265)	(537 587)
Net book value	**9 044**	**356 599**	**195 983**	**24 384**	**586 010**

Buildings, halls and structures mainly include distribution networks, administrative offices, customer centres, warehouses and parking premises.

Machines, equipment and vehicles mainly represent transformer stations, hardware, servers, telephone exchanges, remote controllers, system failure detectors, air conditioners, commercial vehicles and others.

Additions mainly include construction and technical improvement of the distribution network, and acquisition of information technologies.

Information on assets acquired free-of-charge (withheld assets, relocations), and contributions to the acquisition of non-current assets, is set out in Note 14 and 15.

The Group does not have a limited right to dispose of non-current tangible assets and does not use it as a collateral.

Provisions for impairment loss are mainly created for gas power plant and for unused buildings (recreational facilities, apartments and other unused assets). As at 31 December 2019, the value of impairment allowance for gas power plant amounted to EUR 14 534 thousand (31 December 2018: EUR 15 426 thousand), and for other assets to EUR 884 thousand (31 December 2018: EUR 1 068 thousand).

Overview of right-of-use assets under IFRS 16, recognised under non-current tangible assets:

	Land	**Buildings, halls, constructions and networks**	**Machinery, equipment and other assets**	**Total**
Balance as at 1 January 2019	-	-	-	-
Impact of IFRS 16	480	2 168	3 324	**5 972**
Additions	-	207	1 383	**1 590**
Depreciation	(41)	(245)	(1 215)	**(1 501)**
Disposals	-	-	-	-
Balance as at 31 December 2019	**439**	**2 130**	**3 492**	**6 061**

Method and amount of tangible assets insurance

The Group has insured its property, plant and equipment except for electric distribution networks against the following risks:

	Insured amount as at 31 December	
	2019	**2018**
Insurance for natural disasters	**1 133 843**	**1 134 053**
Buildings, halls and structures	567 459	567 459
Machinery, plant and equipment	560 080	560 080
Other non-current movable assets	320	420
Other (liabilities for damage)	5 984	6 094
Insurance of machinery	**15 616**	**15 616**

6 Non-current intangible assets

	Computer software	Other non-current intangible assets	Intangible assets not yet in use including advance payments	Total
Balance as at 1 January 2018				
Acquisition cost	54 153	990	1 576	56 719
Accumulated amortisation and impairment allowances	(38 699)	(336)	-	(39 035)
Net book value	**15 454**	**654**	**1 576**	**17 684**
Year ended 31 December 2018				
Opening balance	15 454	654	1 576	17 684
Additions	1 854	16	913	2 783
Transfer from intangible assets not yet in use	762	20	(782)	-
Amortisation	(3 936)	(3)	(26)	(3 965)
Net book value at the end of the period	**14 134**	**687**	**1 681**	**16 502**
Balance as at 31 December 2018				
Acquisition cost	56 768	887	1 707	59 362
Accumulated amortisation	(42 634)	(200)	(26)	(42 860)
Net book value	**14 134**	**687**	**1 681**	**16 502**
Year ended 31 December 2019				
Opening balance	14 134	687	1 681	16 502
Additions	1 785	13	551	2 349
Transfer from intangible assets not yet in use	599	160	(759)	-
Amortisation	(4 158)	(8)	-	(4 166)
Net book value at the end of the period	**12 360**	**852**	**1 473**	**14 685**
Balance as at 31 December 2019				
Acquisition cost	59 181	1 060	1 473	61 714
Accumulated amortisation and impairment allowances	(46 821)	(208)	-	(47 029)
Net book value	**12 360**	**852**	**1 473**	**14 685**

Software mainly includes the customer information system (SAP ISU/CRM), maintenance management information system (EAM), graphical information system (GIS) and management information system (RIS). Additions mainly represents technical evaluations of software (SAP, RIS, GIS).

There are no restrictions in ownership relating to non-current intangible assets, and no intangible assets are pledged.

7 Financial instruments by category

Analysis of financial instruments by valuation categories, under IFRS 9 is as follows:

	Balance as at 31 December	
	2019	**2018**
Assets per Statement of financial position		
Trade and other receivables (before impairment allowance) (Note 9)	108 123	93 491
Cash and cash equivalents (Note 11)	203 649	116 226
Total	**311 772**	**209 717**
Liabilities per Statement of financial position		
Trade and other payables (Note 16)	113 177	96 802
Bank loans (Note 17)	12 400	18 600
Total	**125 577**	**115 402**

8 Other assets

(i) Emission allowances

	Balance as at 31 December	
	2019	**2018**
As at the beginning of the year	3	11
Disposals	(3)	(8)
As at the end of the year	**-**	**3**

(ii) Investments in joint ventures

	Balance as at 31 December	
	2019	**2018**
As at the beginning of the year	1 438	1 412
Profit share in joint ventures	3	26
As at the end of the year	**1 441**	**1 438**

The increase in value in 2019, in the amount of EUR 3 thousand (2018: an increase of EUR 26 thousand), represents the revaluation of profit share in joint ventures using the equity method.

The Group has a share in the following companies:

Name of the entity	Country of Registration	Share in %	Activities	Balance as at 31 December 2019	2018
Energotel, a. s.	Slovak Republic	20.00%	Data and telecommunication	1 384	1 384
SPX, s.r.o.	Slovak Republic	33.30%	Consultancy services in energy industry	57	54
Investments in joint ventures				**1 441**	**1 438**

Based on shareholder agreement with other investors in the companies, the Group has joint control over financial and operating policies of these companies.

The financial results of the significant joint ventures are as follows:

Energotel, a.s.	Balance as at 31 December 2019	2018
ASSETS		
Non-current assets	4 679	4 966
Current assets	7 266	7 169
Total	**11 945**	**12 135**
LIABILITIES		
Long-term liabilities	169	124
Short-term liabilities	4 857	5 090
Total	**5 026**	**5 214**
Net assets	**6 919**	**6 921**

	Year ended 31 December 2019	2018
Operating income	12 037	11 825
Operating expenses	10 218	10 012
Profit before tax	**1 819**	**1 813**
Income tax	411	403
Profit for the period	**1 408**	**1 410**
Other comprehensive income	-	-
Comprehensive income for the period	**1 408**	**1 410**

9 Trade and other receivables

	Balance as at 31 December	
	2019	**2018**
Long-term rade receivables:		
Receivables due	3 102	1 933
Short-term trade receivables and advance payments made:		
Receivables due	63 974	53 142
Receivables due and impaired	8 318	6 799
Receivables overdue and impaired	24 006	23 274
Trade receivables (before impairment allowance)	**99 400**	**85 148**
Less: Impairment allowance for receivables	(21 353)	(21 081)
Net trade receivables	**78 047**	**64 067**
Guarantees	8 723	8 343
Other receivables	2 112	2 122
Trade and other receivables	**88 882**	**74 532**

The structure of trade receivables by maturity is as follows:

	Balance as at 31 December	
	2019	**2018**
Receivables due	75 394	61 874
Receivables due overdue	24 006	23 274
Total	**99 400**	**85 148**

The structure of trade receivables that are neither past due nor impaired, according to their credit quality is as follows:

	Balance as at 31 December	
	2019	**2018**
Retail - households	1 164	856
Retail - small businesses	3 937	5 806
Wholesale - legal entities	34 337	26 624
Traders with electricity and gas	15 906	10 174
Regulators of electricity and gas markets	5 957	6 170
Electricity producers	80	63
Other customers	5 695	5 382
Trade receivables which are due and not impaired	**67 076**	**55 075**

Impaired receivables relate to both large and small customers, who are experiencing an unexpectedly difficult economic situation. Part of the receivables are expected to be repaid. The aging structure of these receivables is as follows:

	Balance as at 31 December	
	2019	**2018**
Due	8 318	6 799
Overdue 1 to 90 days including	3 430	2 731
Overdue 91 to 180 days including	588	551
Overdue 181 to 360 days including	720	833
Overdue more than 361 days	19 268	19 159
Total individually impaired receivables	**32 324**	**30 073**

Movements in impairment allowances for trade receivables are recognised in the consolidated Income statement in other operating expenses. Movements are presented below:

	2019	**2018**
At the beginning of the year	21 081	22 637
Creation of impairment allowance	2 731	2 297
Reversal of unused impairment allowance	(1 224)	(523)
Use of impairment allowance	(1 235)	(3 330)
At the end of the period	**21 353**	**21 081**

Release of impairment allowances was caused by subsequent repayments of some receivables, for which allowances were originally created or were written off. The provision for receivables is calculated as 100% of the value of individual receivables from companies in bankruptcy proceedings, and receivables from legal collection.

The carrying amounts of trade and other receivables of the Group are denominated in the following currencies:

	Balance as at 31 December	
	2019	**2018**
EUR	88 876	74 529
CZK	6	3
Total	**88 882**	**74 532**

The Group is not exposed to a concentration of credit risk because it has a large number of customers. The Group does not use any significant form of collateral to secure its receivables.

No receivables have been pledged as collateral. The Group’s rights over the receivables are not restricted.

10 Accrued income

Up to and including 31 December 2019, the Group is required to bear all costs related to support of OZE/KVET, which include purchase of electricity from OZE/KVET, assuming responsibility for variance, and paying surcharges at the amount approved by ÚRSO. These expenses are covered by the system operation tariff ('TPS'). For the period 2018 (2018: for 2017), the Group incurred a loss, due to the difference between costs related to the support of OZE/KVET and revenue from TPS. Based on the ÚRSO decision of December 2019 (2018: of December 2018), the Group recognised accrued income in the Statement of financial position, in the amount of ÚRSO approved compensation of a 2018 loss (2018: for 2017) that enters the TPS for 2020 (2018: in 2019) in the amount of EUR 138 248 thousand (2018: EUR 97 832 thousand).

11 Cash and cash equivalents

	Balance as at 31 December	
	2019	**2018**
Cash at bank accounts and in hand	203 649	116 226
Total	**203 649**	**116 226**

As at 31 December 2019, cash and cash equivalents were not fully available for the Group's use in the amount of EUR 63 thousand (2018: EUR 331 thousand).

As at 31 December 2019 and 31 December 2018, the carrying amounts of cash and cash equivalents are not substantially different from their fair value. Maximum exposure to credit risk is equal to the carrying amount of cash and cash equivalents.

Analysis of credit quality is reported in Note 3.1 (iii).

12 New acquisitions

In 2019 and 2018, there are no new acquisitions within the Group.

13 Equity

No changes were made with respect to share capital during 2019 and 2018. The Group has no subscribed share capital that has not been registered in the Commercial Register.

As at 31 December 2019, the share capital comprises 3 516 682 ordinary shares (2018: 3 516 682), with a nominal value of EUR 33.2 per share. All authorised shares are issued and fully paid.

As at 31 December 2019, a total number of 1 793 508 shares (51%) are owned by the Ministry of Economy of the Slovak Republic, and 1 723 174 shares (49%) are owned by EP Energy, a.s., Czech Republic.

The commercial code requires that the Group creates a legal reserve fund, in the amount of 10% of its share capital at the time of incorporation of the Group. This amount must be increased annually by at least 10% from net profit, until the legal reserve fund reaches 20% of share capital. Use of this fund is restricted under the commercial code, to cover losses of the Group, and it is not a distributable reserve. As at 31 December 2019, the legal reserve fund amounted to EUR 26 493 thousand (2018: EUR 26 493 thousand) and reached its full required limit.

The General Meeting, held on 27 June 2019, approved the consolidated and separate financial statements for the previous period, and agreed to distribute dividends for 2018 to shareholders, in the amount of EUR 8 993 thousand (2018: EUR 6 411 thousand). Dividends per share represent EUR 2.56 (2018: EUR 1.82).

As at 31 December 2019, retained earnings of the Group amounted to EUR 624 787 thousand (2018: EUR 486 497 thousand).

The Board of Directors of the Company did not propose the distribution of the 2019 profit as at the date of preparation of the financial statements.

14 Non-current portion of deferred income

	Balance as at 31 December	
	2019	**2018**
Contributions for acquisition of non-current assets (a)	2 512	2 730
Withheld assets (b)	1 879	1 958
Relocations of electricity equipment (c)	26 024	23 869
Assets identified in stocktake (d)	3 436	3 908
Total	**33 851**	**32 465**

(a) Contributions for the acquisition of non-current assets mainly consist of contributions paid by customers for investments in their interest, as well as assets transferred free-of-charge forming part of the distribution network. Contributions are non-recoverable and are recognised in other operating income during the depreciation period of related assets.

(b) Withheld assets (transformer stations, lines) acquired free-of-charge are recognised initially at fair value in the deferred income, and the amount of annual depreciation charge for these assets is recognised in the income of the current period.

(c) Fees for relocation of energy devices are accounted for similarly as withheld assets as described in (b) so as collected fees for energy devices relocation are accounted for as deferred income and are released to revenues in the amount equal to annual accounting depreciation of these assets.

(d) Assets which are recorded on the Group's letters of ownership and have not been recorded in the accounting records. The value of these assets is recognised in the same way as retained transformer stations described in (b), meaning that the value of such assets is recognised in deferred income, and the amount of annual depreciation charge for these assets is recognised in income of the current period.

15 Contract liabilities

	Balance as at 31 December	
	2019	**2018**
Connection fees - non-current part	34 858	32 182
Connection fees - current part	1 104	1 007
Received advances from customers for electricity and gas	10 513	10 319
Received advances to ongoing contracts (construction contracts)	819	379
Total	**47 294**	**43 887**

The contract liabilities represent mainly the fees for connection to the distribution network and subsequent access to delivery of distribution services. The contract liabilities are released to revenues of the current accounting period over the average useful life of the asset related to the distribution of electricity.

The Group estimated annual proceeds from the release of contract liabilities in the amount of approximately EUR 1 104 thousand as at 31 December 2019 (as at 31 December 2018: approximately EUR 1 007 thousand), which will be released over the period 2020 to 2060.

Advances received for electricity and gas from customers are reported net, i. e. advances received are reduced by unbilled electricity and gas at the customer segment level.

For electricity, there are MOO, MOP, VO segments, and for gas, there are MOO and MOP segments. Unbilled electricity / gas (contract assets), and advances received (contract liabilities), relate to the same trading partners. If the result of offsetting is “outstanding balance” (unbilled electricity / gas higher than advances received), then net value for the segment is reported under contract assets. If the result of offsetting is “overpayment” (unbilled electricity/gas lower than advances received), then net value for the segment is reported under contract liabilities.

16 Non-current and current trade and other liabilities

	Balance as at 31 December	
	2019	**2018**
Trade liabilities - current	84 733	74 559
Trade liabilities - non-current	4 562	-
Deferred income - current	1 379	1 475
Liabilities to employees	1 970	1 672
Social security	1 362	1 175
Accrued liabilities to employees	6 794	5 803
Social fund	142	178
VAT liabilities	8 935	8 365
Contribution to the National Nuclear Fund	1 508	1 879
Other liabilities	1 792	1 696
Total	**113 177**	**96 802**

Fair value of trade and other payables is not significantly different from their carrying amount.

No payables are secured by a lien or other collateral.

The structure of liabilities by maturity is as follows:

	Balance as at 31 December 2019	2018
Liabilities due	113 055	96 507
Liabilities overdue	122	295
Total	**113 177**	**96 802**

The structure of lease liabilities by residual maturity is as follows:

	Balance as at 31 December 2019
Up to 1 year	1 541
1 - 5 years	2 998
More than 5 years	1 564
Total	**6 103**

The structure of lease liabilities recognised in the Statement of cash flows is as follows:

	Balance as at 31 December 2019
Total lease payments	1 566
Total	**1 566**

Payments for leases relating to principal during the accounting period, in the amount of EUR 1 462 thousand, are reported within cash flow from financial activities in the Statement of cash flows. Interest payments related to lease liabilities in the amount of EUR 104 thousand are reported as cash flows used in operating activities in the Statement of cash flows.

The carrying amounts of liabilities are denominated in the following currencies:

	Balance as at 31 December 2019	2018
EUR	113 155	96 774
CZK	22	28
Total	**113 177**	**96 802**

17 Bank loans

The maturity of bank loans is as follows:

Maturity	Balance as at 31 December 2019	2018
Short-term portion of bank loans	4 900	6 200
Long-term portion of bank loans		
From 1-5 years	7 500	12 400
Over 5 years	-	-
Total	**12 400**	**18 600**

The fair value of loans, as at 31 December 2019, does not significantly differ from the carrying amount as the impact of discounting is not significant.

The loan agreement with Slovenská sporiteľňa contains certain contractual terms and conditions, which require the Group to achieve minimum specified indicators of total indebtedness, liquidity, profitability, cash receipts, interest rate coverage and total debt to operating profit ratio (bank covenants), calculated according to data in the consolidated financial statements of the Group. The Group has met all terms and conditions as at the reporting date of these consolidated financial statements.

As at 31 December 2019 and 2018, bank loans and their structure are as follows:

Bank/creditor	2019	2018	Interest rate % p. a.	Final maturity	Type of collateral
Všeobecná úverová banka, a.s.	-	425	Fixed 3.88% + 0.3%	30.6.2019	-
Všeobecná úverová banka, a.s.	-	875	Fixed 4.80%	1.12.2019	Blank bill of exchange
Tatra banka, a.s.	2 400	4 800	Fixed 3.55%	31.12.2020	-
Slovenská sporiteľňa, a.s.	10 000	12 500	Fixed 2.25%	30.6.2023	-
Total	**12 400**	**18 600**	**X**	**X**	**X**

18 Deferred income tax

Deferred income tax is calculated from temporary differences using the balance sheet method. For the purpose of deferred income tax calculation, a tax rate of 21% was used as at 31 December 2019 and 2018.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset a current asset and a current liability, and when deferred income tax relates to the same tax authority.

	Balance as at 31 December	
	2019	**2018**
Deferred tax assets		
- Deferred tax assets to be settled after more than 12 months	2 420	3 939
- Deferred tax assets to be settled within 12 months	2 088	1 631
	4 508	**5 570**
Deferred tax liabilities		
- Deferred tax liabilities to be settled after more than 12 months	(46 645)	(44 295)
- Deferred tax liabilities to be settled within 12 months	(196)	(196)
	(46 841)	**(44 491)**
Net deferred tax liability	**(42 333)**	**(38 921)**

Movements in deferred tax assets and liabilities during the year are as follows:

	Balance as at 1 January 2019	**(Debited) / credited to the Income statement**	**Recognised in equity**	**Balance as at 31 December 2019**
Depreciation difference*	(44 294)	(2 350)	-	(46 644)
Provision for employee benefits and compensation	3 065	(136)	(100)	2 829
Impairment allowances for irrecoverable receivables	1 848	(1 429)	-	419
TPS, OZE liabilities, unbilled supplies	494	497	-	991
Other	(34)	106	-	72
	(38 921)	**(3 312)**	**(100)**	**(42 333)**

	Balance as at 1 January 2018	**(Debited) / credited to the Income statement**	**Recognised in equity**	**Balance as at 31 December 2018**
Depreciation difference*	(39 349)	(4 945)	-	(44 294)
Provision for employee benefits and compensation	3 108	(97)	54	3 065
Impairment allowances for irrecoverable receivables	1 628	158	62	1 848
TPS, OZE liabilities, unbilled supplies	655	(161)	-	494
Other	104	(138)	-	(34)
	(33 854)	**(5 183)**	**116**	**(38 921)**

* Depreciation difference represents differences between carrying value and tax base of non-current tangible and intangible assets.

The Group did not recognise a deferred tax asset in the amount of EUR 3 052 thousand (2018: EUR 3 239 thousand) due to a provision for a gas power plant, as it is unlikely to be realised in the future.

19 Provisions for liabilities

	Pension programs (a)	Termination benefits (b)	Other	Total
Balance as at 1 January 2019	**11 113**	**774**	**130**	**12 017**
Creation of provisions	167	-	39	206
Use of provisions	(511)	(164)	(22)	(697)
Reversal of unused provisions	-	-	(8)	(8)
Balance as at 31 December 2019	**10 769**	**610**	**139**	**11 518**

	Pension programs (a)	Termination benefits (b)	Other	Total
Balance as at 1 January 2018	**10 576**	**956**	**171**	**11 703**
Creation of provisions	1 016	793	45	1 854
Use of provisions	(479)	(300)	(73)	(852)
Reversal of unused provisions	-	(675)	(13)	(688)
Balance as at 31 December 2018	**11 113**	**774**	**130**	**12 017**

Analysis of total provisions	**Balance as at 31 December 2019**	**2018**
Non-current	10 978	11 621
Current	540	396
Total	**11 518**	**12 017**

(a) Pension programs and other employee benefits

Pension programs with defined benefits, and other long-term employee benefits, are recognised as follows:

(i) Pension programs upon retirement

	Balance as at 31 December 2019	**2018**
Present value of unfunded retirement obligations	9 442	9 771
Liability recognised in the consolidated Statement of financial position	**9 442**	**9 771**

The amounts recognised in the consolidated Income statement are as follows:

	Year ended 31 December	
	2019	**2018**
Current service cost	499	497
Interest expenses	36	101
Total charge included in personnel expenses in consolidated Income statement	**535**	**598**

Movements in the present value of pension program liabilities are as follows:

	Balance as at 31 December	
	2019	**2018**
Present value of unfunded obligations at the beginning of the year	9 771	9 250
Current service cost	499	497
Interest expenses	36	101
Paid	(385)	(334)
Actuarial (gain)/loss	(479)	257
Present value of unfunded obligations at the end of the year	**9 442**	**9 771**

(ii) Other long-term employee benefits (jubilees and loyalties)

	Balance as at 31 December	
	2019	**2018**
Current unfunded obligations relating to retirement	1 327	1 342
Liability recognised in the consolidated Statement of financial position	**1 327**	**1 342**

The amounts recognised in the consolidated Income statement are as follows:

	Year ended 31 December	
	2019	**2018**
Current service cost	118	115
Actuarial (gain)/loss	(9)	35
Interest expenses	3	11
Total charge included in personnel expenses in the consolidated Income statement	**112**	**161**

Movements in the present value of pension program with defined benefits are as follows:

	Balance as at 31 December	
	2019	**2018**
Present value of unfunded liabilities at the beginning of the year	1 342	1 326
Current service cost	118	115
Interest expenses	3	11
Paid	(127)	(145)
Actuarial (gain)/loss	(9)	35
Present value of unfunded liabilities at the end of the year	**1 327**	**1 342**

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

	2019	**2018**
Number of employees as at 31 December	1 683	1 654
Employee fluctuation rate	2.20 % p.a.	2.14 % p. a.
Expected increase in salaries - long-term	1.70% p. a.	2.60 % p. a.
Expected increase in salaries - short-term	2.50% p. a.	2.90 % p. a.
Discount rate	0.00 – 1.06% p. a. (2020 - 2063)	0.00 – 1.93 % p. a. (2019 - 2062)

If actual discount rates differed by 1% from estimated discount rates, the carrying amount of pension obligations would be by EUR 1 150 thousand lower or EUR 311 thousand higher (2018: EUR 1 253 thousand lower or EUR 1 040 thousand higher).

(b) Provision for termination

Provision for termination represents an estimate of payments to employees as a result of the approved and communicated restructuring process, which is expected to be completed in 2021 (2018: to be completed in 2021). It is expected that payments in accordance to relevant detailed plans accompanying the restructuring process will be made as follows:

	Balance as at 31 December	
Provision for termination	**2019**	**2018**
Expected compensation in 2019	-	266
Expected compensation in 2020	401	299
Expected compensation in 2021	209	209
	610	**774**

20 Revenue

Revenue includes the following:

	2019	2018
Revenue from electricity supply and distribution:		
Large and small businesses	434 932	427 260
Households	183 583	169 356
Long-term contracts, spot contracts, intermediation, variances, cross-border profile	72 125	92 111
Compensation for green energy purchases	230 121	222 248
TPS revenue - ÚRSO correction (Note 10)	40 416	(40 344)
Other revenue:		
Sale of gas and distribution fees	51 338	126 779
Non-commodity products	4 019	1 944
Construction and mounting services	4 904	6 465
Other revenue	4 019	4 183
Total	**1 025 457**	**1 010 002**

ÚRSO regulates some aspects of the Group's relationship with customers, including the price of electricity and services provided to certain customers of the Group.

Revenue from electricity distribution is regulated by ÚRSO, through bundling decisions that define distribution fees over a specified period, and for specific customer groups based on their tariffs.

In most cases, distribution fees are invoiced to all customers in the Central Slovakia region who use the SSD distribution network, regardless of who the electricity supplier is.

Revenue from the sale of electricity on the spot market, and from settlement of variances in consumption, mainly represents revenue from sale of surplus electricity purchased on the short-term market for standard customers. The surplus arises due to unexpected short-term variance in consumption diagrams. They also include fees paid by long-term customers, for variations from their planned consumption curve. This revenue is usually realised on the spot market or abroad.

Revenue from mediation represent fees for transfer of electricity to customers who are not long-term customers of the Group.

All revenue is recognised when electricity is delivered, or when contractual terms are met.

TPS revenue is from OKTE, a.s. (2018: OKTE, a.s.) based on the TPS tariff (Note 10) stipulated by ÚRSO.

21 Purchase of electricity and gas, distribution and related fees

The following items are included in purchase of electricity and related fees:

	2019	2018
Purchase of electricity from:		
Long-term contracts	167 760	143 324
Mid-term contracts	26 007	44 752
Spot agreements and costs of variance settlement	49 448	65 674
Supplies from abroad	59	5 837
Heating and gas power plants	13 821	11 625
Cost of renewable sources	215 872	223 986
Charges paid to the transmission system operator (system service , network operation, distribution network access and other charges)	200 937	188 896
Purchase of gas and related distribution fees	50 889	126 323
Other (green certificates, mediation fees)	1 563	1 642
Total	**726 356**	**812 059**

22 Personnel expenses

	2019	2018
Wages and salaries	37 028	33 654
Other personnel expenses	3 526	3 205
Social and health insurance expenses - defined contribution plans	12 575	11 473
Pensions and other long-term employee benefits	647	759
Total	**53 776**	**49 091**

23 Other operating expenses

	2019	2018
IT services	4 230	3 712
Cutting of trees	3 035	1 622
Subdeliveries	2 923	2 317
Repairs and maintenance	2 688	3 443
Postage and telecommunication expenses	2 149	2 004
Marketing expenses	1 989	1 568
Lease - right-of-use	1 800	3 520
Audit and consultancy services fees	1 565	1 878
Creation of impairment allowance for bad debts	1 507	1 478
Security service	1 179	1 002
Excavation and construction work	1 036	852
Insurance	793	750
Taxes and other fees	614	716
Electricity consumption metering	475	407
Other operating expenses	5 578	5 081
Total	**31 561**	**30 350**

Audit and advisory expenses include the cost of audit of the Group's financial statements, and other services provided by the auditing company:

	2019	2018
Audit of the financial statements	124	119
Other assurance services	25	38
Relating audit services	-	-
Other non-audit services	14	1
Total	**163**	**158**

24 Other operating income

	2019	2018
Release of accrued income (Note 14)	2 807	2 654
Income from use of assets*	1 903	1 371
Customer service fees (SIPO, PPP U)	1 228	1 305
Revenue from lease of assets	597	898
Profit from sale of non-current assets	347	285
Other	2 734	3 509
Total	**9 616**	**10 022**

* Income from provided fibre optic capacity and support points, as at 31 December 2019 is EUR 1 612 thousand (2018: EUR 984 thousand), plus rental services in the amount of EUR 291 thousand (2018: EUR 387 thousand).

25 Net financial expenses

	2019	**2018**
Interest income		
- Interest income from short-term deposits in bank and bank accounts	37	43
Interest expenses:		
- Interest expenses from bank loans	(466)	(662)
- Interest expenses from lease liabilities	(104)	-
Exchange rate gains	25	-
Dividend income	282	259
Net other financial expenses	(66)	(56)
Net financial expenses	**(292)**	**(416)**

The following table summarises lease-related transactions recognised in profit or loss:

	2019
Interest expenses	104
Short-term lease expenses	200
Lease expenses from low-value tangible assets except for short-term low-value tangible assets lease expenses	362
Total	**666**

26 Income tax

Reconciliation between theoretical and recognised income taxes is as follows:

	Year ended 31 December	
	2019	**2018**
Profit before tax	192 049	98 402
Theoretical income tax for current period at the rate of 21%	40 330	20 664
- Income not subject to taxation (permanent differences)	(51)	(545)
- Tax non-deductible expenses (permanent differences)	229	167
- Income tax related to previous periods	18	(85)
- Special levy for business activities in regulated industries	5 185	3 062
- Tax impact of special levy	(1 089)	(643)
- Other	144	(289)
	44 766	**22 331**
Total income tax recognised		
Total income tax for current period consists of:		
- Deferred tax (Note 18)	3 312	5 183
- Current tax expense for the current period	41 436	17 233
- Income tax for previous periods	18	(85)
	44 766	**22 331**

The income tax rate for 2019 is 21% (2018: 21%). The effective income tax rate for 2019 is 23.31% (2018: 22.69%).

The Group is obliged to pay a special levy in accordance with the Special levy act for businesses in regulated industries.

In 2019, the base for the levy is profit or loss before tax of SSE and SSD, recognised according to Slovak accounting standards for the period, multiplied by a coefficient. The coefficient for the special levy base is calculated as the ratio of income from the regulated activity, to total income for the period, for which recognised profit or loss was used to calculate the special levy base. For 2019, the coefficient for SSE is 0.52, and for SSD 0.49 (2018: SSE: 0.57; SSD: 0.57). For 2019, the rate of the levy is 0.00545 per calendar month, which amounts to 0.0654 (6.54%) for 12 months. The levy is calculated by multiplying the base by the rate. The levy is paid on a monthly basis and is subject to annual settlement.

Special levy rates according to 2016 amendment are applied as follows:
0.00726 per month (8.712 % p.a.) for 2017 - 2018,
0.00545 per month (6.54 % p.a.) for 2019 - 2020,
0.00363 per month (4.356 % p.a.) for 2021 and later.

27 Contingent assets and liabilities

Contingent receivable from TPS

Up to and including 31 December 2019, the Group was obliged to purchase electricity from renewable energy sources, and cogeneration of electricity and heat producers (OZE/KVET), to cover losses, to assume responsibility for the variance, and to pay a surcharge in the amount approved by ÚRSO. These expenses are compensated in TPS.

Expenses related to the support of OZE/KVET exceeded revenue from TPS. In this respect, the Group incurred contingent asset, to compensate the loss incurred in 2019, in the estimated amount of EUR 88 123 thousand. In accordance with legislation in force, this estimated value will be compensated by TPS in the t+2 period, i.e. in 2021.

Based on the decision of ÚRSO from December 2019, the Group recognised an accrued income in the Statement of financial position (Note 10) in the amount of ÚRSO approved compensation of the 2018 loss that will be included in the TPS for 2020.

Taxation

Many parts of Slovak tax legislation remain untested and there is uncertainty about the interpretation that the tax authorities may apply in a number of areas. The effect of this uncertainty cannot be quantified and will only be resolved as legislative precedents are set or when the official interpretations of the authorities are available. Management is not aware of any circumstances that would cause any significant costs for the Group.

Litigation

The Group currently registers 236 lawsuits, which are subject to an action for reimbursement of part of network access fees, paid for different time periods. The total claimed amount cannot be reliably and accurately determined. Based on a legal analysis, the Group's management considers the settlement of these disputes to be unlikely, and the Group therefore did not create a provision for these litigations.

28 Commitments

(a) Capital commitments

Capital expenditures contracted as at the reporting date, but not recognised in the consolidated Statement of financial position are as follows:

	Balance as at 31 December	
	2019	**2018**
Non-current tangible assets	21 722	17 398
Intangible assets	2 613	1 253
Total	**24 335**	**18 651**

(b) Purchase contracts (electricity and gas)

Expenditures which were contractually agreed, as at the balance sheet date, but not recognised in the consolidated Statement of financial position, from electricity and gas purchase contracts to cover expected sales, are as follows:

Purchase contracts (electricity and gas)	Balance as at 31 December	
	2019	**2018**
Purchase contracts for the year 2019	-	183 940
Purchase contracts for the year 2020	275 883	26 992
Purchase contracts for the year 2021	33 151	20 451
Purchase contracts for the year 2022 and later	43 964	-
Total	**352 998**	**231 383**

(c) Guarantees provided

The Group provided partner guarantees to electricity and gas trading companies for SSE and SSE CZ subsidiaries.

	Balance as at 31 December	
	2019	**2018**
Guarantees provided until 2022	45 000	-
Guarantees provided until 2023	15 000	-
Total	**60 000**	**-**

29 Related party transactions

Related parties with the Group include:

a. the direct and ultimate parent company
- EP Energy, a.s.
- EP Investment S.a.r.l.

b. entities controlled, under common control of EP Investment, associated entities and their branches
- EP ENERGY TRADING, a.s., branch
- EP Investment Advisors, s.r.o.
- eustream, a.s.
- SPP - distribúcia, a.s.
- NAFTA, a.s.
- EP Commodities, a.s.
- Slovenské elektrárne, a.s.
- SE Predaj, s.r.o.

c. related parties through key management personnel of the companies within the Group
- Members of the Board of Directors
- Members of the Supervisory Board
- Divisional directors

d. entities controlled by the Government of the Slovak Republic, and entities where the state has a significant influence
- OKTE, a.s.
- Slovenská elektrizačná prenosová sústava, a.s.
- Železnice Slovenskej republiky,
- Západoslovenská distribučná, a.s.
- ZSE Energia, a.s.
- Východoslovenská distribučná, a.s.
- Martinská teplárenská, a.s.
- Zvolenská teplárenská, a.s.
- Žilinská teplárenská, a.s.
- other (municipalities, water companies, public hospitals, etc.)

e. joint ventures
- Energotel, a.s. Bratislava
- SPX, s.r.o., Žilina

Transactions and balances with related parties

The types of related party relationships, with which the Group has made significant transactions or has significant balances, as at 31 December 2019, are described below. Related party transactions were performed under common market conditions.

Balances with related parties as at 31 December 2019 are shown in the following table:

	b	c	e
Trade and other receivables (gross)	6 155	7	85
Trade and other payables	(13 451)	-	(206)

Income and expenses with related parties for the year ended 31 December 2019 are as follows:

	b	c	e
Sale of electricity, gas	71 748	427	15
Revenue from provided services, dividends	21	-	282
Purchase of electricity, gas and related charges	(141 842)	-	(7)
Services	(227)	-	(484)

Balances with related parties as at 31 December 2018 were as follows:

	b	c	e
Trade and other receivables (gross)	4 106	10	67
Trade and other payables	(10 542)	-	(302)

Income and expenses with related parties for the year ended 31 December 2018 were as follows:

	b	c	e
Sale of electricity, gas	146 630	416	16
Revenue from provided services, dividends	19	-	907
Purchase of electricity, gas and related charges	(209 466)	-	(7)
Services	(263)	(20)	(528)

The Government of the Slovak Republic has a significant influence over the Group, and is therefore its related party. Management of the Group has exerted a reasonable effort to identify entities under the control of the State, or those with a significant influence of the State. Management of the Group discloses information that its current accounting system enables it to disclose, in relation to activities with state-controlled companies, and companies that the Group's management believes, to the best of its knowledge, could be considered as state-controlled companies.

Transactions with state institutions and state-controlled entities are performed under common market conditions.

Outstanding balances with state-controlled entities, or those where the state has a significant influence are as follows:

	Balance as at 31 December	
	2019	**2018**
Trade receivables (gross)		
- SEPS / OKTE	9 418	10 587
- other companies	9 022	8 902
Trade and other payables		
- SEPS / OKTE	(5 334)	(6 821)
- other companies	(6 317)	(4 851)

Revenue and expenses with state-controlled entities, or those where the state has a significant influence are as follows:

	2019	**2018**
Sale of electricity, gas and related fees		
- SEPS / OKTE	221 212	232 456
- other companies	89 048	74 117
Purchase of electricity, gas and related fees		
- SEPS / OKTE	(215 433)	(203 146)
- other companies	(58 708)	(45 502)

Remuneration of statutory representatives and key management personnel

The structure of remuneration received by members of the Board of Directors, key management personnel, and other members of statutory bodies is as follows:

	Year ended 31 December	
Board of Directors and other key management	**2019**	**2018**
Salaries and other short-term employee benefits	1 447	1 393
Other non-monetary income	67	70
Total	**1 514**	**1 463**

	Year ended 31 December	
Supervisory Board	**2019**	**2018**
Salaries and other short-term employee benefits	156	157
Other non-monetary income	-	-
Total	**156**	**157**

30 Events after the reporting date

After 31 December 2019, there were no events which would require disclosure or recognition in the financial statements for 2019.