



**STREDOSLOVENSKÁ
ENERGETIKA**

ANNUAL REPORT 2018



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PRESENTATION OF THE CHIEF EXECUTIVE OFFICER

Dear customers, business partners, shareholders and colleagues,

It has been another year of SSE's existence, which proves that even in such a challenging competitive environment and in ever-changing market conditions, we can succeed if we work responsibly to fulfill our pursued objectives. Regarding the assessment of the last year, I am very pleased that I can talk about a successful year for SSE, although I know it was not always easy.

In relation to trade, specifically in the sales of energy commodities for the B2B segment, Stredoslovenská energetika has carried out contracted electricity and gas supplies for the year 2018 in the expected volumes, thanks to which we fulfilled the business objective for this fiscal year. We also worked intensively on securing the sales of both electricity and gas for the years 2019 to 2021. Despite the fact that the market situation was heavily influenced by tension due to the continuous increase of the price for electricity, we managed not only to maintain the current customer portfolio, but thanks to significant acquisitions also increase the volume of contracted electricity and gas supply. In the B2C segment, customer portfolio stabilisation activities on one hand together with the fulfillment of ambitious growth objectives on the other, have even produced the best result since the market liberalization.

We have also noted continuous growth in the sales of non-commodity products, especially in solutions for the improvement of energy efficiency. The target segment of these services primarily includes our B2B and B2C customers from the area of industry, commerce, services and municipality. In 2018, we designed more than 90 solutions for them, and we successfully implemented 32 projects worth more than 2.2 million euros. Thanks to our innovative measures, the companies can save on average more than 50% of energy costs. Solutions designed by us increase safety and hygienic standards of operations and have a positive impact on the quality of the environment. The fact that we are also implementing other projects of this kind for several customers, after the first positive experience with SSE services, brings satisfaction from our efforts in this area.

I am convinced that our energy efficiency solutions together with clear customer orientation expressively helped by the fact that SSE is perceived by the public as a modern energy company with a traditional background in the best sense of the word.



A blue ink handwritten signature of JUDr. Zdenek Schraml.

JUDr. Zdenek Schraml
General Director

We are constantly bringing tailor-made solutions for all our groups of customers and working to improve relationships with customers. In April last year, for example, we opened a subsidiary office of Lučenec customer centre in Rimavská Sobota. The close interconnection and cooperation of our teams for sales of commodity and non-commodity products has also been proven, which we adopted in August as well as the launch of a pilot project for private household sales in October 2018.

During the last year, two events significantly affected the internal working atmosphere in Stredoslovenská energetika, where the responsible implementation was crucial for the management of SSE's corporate processes. I am glad that in May, we responsibly handled the implementation of the Regulation of the European Parliament and European Council (EU) 2016/679 on the protection of personal data processing of natural persons (known as GDPR) and as of 1 January 2019 we have smoothly managed the transition to the new holding structure of the company. Since the beginning of 2019, SSE has a holding structure, while its parent company is Stredoslovenská energetika Holding, a. s.

I am aware that coping with both processes as well as all the other challenges of the past year, has required considerable effort from our employees and often enormous workload. I would like to thank them for their professional attitude. It is also thanks to their personal and highly human attitude, with which they regularly participate in SSE social responsibility projects, whether it concerns charity projects, restoration of historical monuments, support of sport or voluntary activities. Thanks to it, Stredoslovenská energetika is able to fulfill its vision of solidarity with the people and region in which it operates.

My thanks also go to all our customers, business partners and shareholders. SSE could not be proud of the credit of a modern, dynamically growing and reliable energy company without their trust.

ABOUT THE COMPANY

BASIC INFORMATION ON THE COMPANY

In 2018, Stredoslovenská energetika, a. s., (SSE) was a power supply company. The company provides comprehensive services related to the supply and use of electricity and gas to its customers. SSE was founded on 1 January 2002.

The shareholders of the Company are the Slovak Republic, on behalf of which acts the Ministry of the Economy of the Slovak Republic, and the company EP Energy, a. s. with its registered seat in Prague.

With effect from 1 January 2019, the Company has undergone a change in its organisational structure, while in addition to changing its business name to Stredoslovenská energetika Holding, a. s., it has contributed part of its business representing electricity and gas supply activities and other business activities to the company Stredoslovenská energetika Obchod, a. s., and part of the business representing power generation from small water power plants to the company SSE - MVE, s. r. o. The company Stredoslovenská energetika Obchod, a. s. subsequently changed its business name to Stredoslovenská energetika, a. s. with effect from 1 January 2019.

Since the Annual Report is prepared for the year 2018, the business names and logos valid for 2018 will be used in the Annual Report.

BUSINESS ACTIVITIES

In 2018, SSE was undertaking its SSE business based on permits issued by the Regulatory office for Network Industries in the following main activities:

- electricity supply
- power generation
- gas supply

In addition to the specified activities, SSE is also carrying out its business on the basis of issued trade and other licenses in other activities, in particular:

- the provision of energy services with a guarantee of energy savings
- the provision of energy support services
- performance of the activity of energy auditor
- financial intermediation - performance of the activity of bound financial agent in the insurance and reinsurance sector.

SHAREHOLDER STRUCTURE

The Slovak Republic, on behalf of which acts the Ministry of the Economy of the Slovak Republic, having its registered seat on Mlynské nivy 44/a, 827 15 Bratislava, Registration number: 00683832, a majority shareholder owning 1,793,508 shares in a company with a nominal value of EUR 59,544,465.60 a and the number of votes in the General Assembly 1,793,508 (51%).

The company EP Energy, a. s. having its registered seat in Prague, Pařížská 130/26, Jozefov, Prague 1, Czech Republic, Identification number: 29 259 428, registered in the Commercial Register of the Municipal Court in Prague, Section: B, Insert no. 21733, a minority shareholder owning 1,723,174 shares in the company with a nominal value of EUR 57,209,376.80 and the number of votes in the General Assembly of 1,723,174 (49%).

IDENTIFICATION DATA FOR THE YEAR 2018

SSE, a. s.
Pri Rajčianke 8591/4B
010 47 Žilina
Company ID No.: 36 403 008
VAT ID No.: SK 202 010 6682
Banking details
VÚB, a. s. Žilina, account no.: 702 432 / 0200
IBAN: SK91 0200 0000 0000 0070 2432

Public limited liability company is registered in Commercial register of the District Court Žilina, Section: Sa, Insert No.: 10328/L, date of registration 1 January 2002.

Phone: 041/519 1111
E-mail: sse@sse.sk
Fax number: 041/519 2575
Internet: www.sse.sk

COMPANIES WITH SHARES IN SSE

Stredoslovenská distribučná, a. s.

Electricity distribution in Central Slovakia region.

Stredoslovenská energetika Obchod, a. s.

Commercial activity within free trade. Electricity and gas supply authorisation holder.

Elektroenergetické montáže, s. r. o.

Production, assembly, reconstructions, repairs and maintenance of selected electrical devices and their parts.

SSE Metrológia, s. r. o.

Calibration of electrical quantity meters, verification and replacement of electricity meters and water meters.

Stredoslovenská energetika - Project Development, s. r. o.

Generation and supply of electricity. Operation of the Panické Dravce power plant with a capacity of 50 MW.

SSE-Solar, s. r. o.

Generation and supply of electricity. Operation of seven photovoltaic power plants in Southern Slovakia with a capacity of 9.82 MW.

SSE- MVE, s. r. o.

Operation of three small hydropower plants in Central Slovakia with a total installed capacity of 3 MW.

SPV100, s. r. o.

Electricity distribution through a local distribution company in Liptovský Mikuláš.

SSE CZ, s. r. o.

Trade of electricity and gas to final customers on the Czech market.

Energotel, a.s.

Provider of high-quality services based on telecommunications infrastructure of the Slovak power industry.

SPX, s. r. o.

Founders of the company SPX, s. r. o. are three companies, SSE, VSE and ZSE. Activity of the company focuses on the exchange of information in electricity trading through the SPX internet portal.

COMPANY MANAGEMENT UNTIL 31 DECEMBER 2018

BOARD OF DIRECTORS:

Mgr. Petr Sekanina	Chairman
Mgr. Ing. Márius Hričovský, Dr. oec.	Vice-Chairman
Mgr. Ing. Pavol Kolenčík, PhD.	Member
Ing. Jiří Feist	Member
Ing. Petr Tomášek	Member

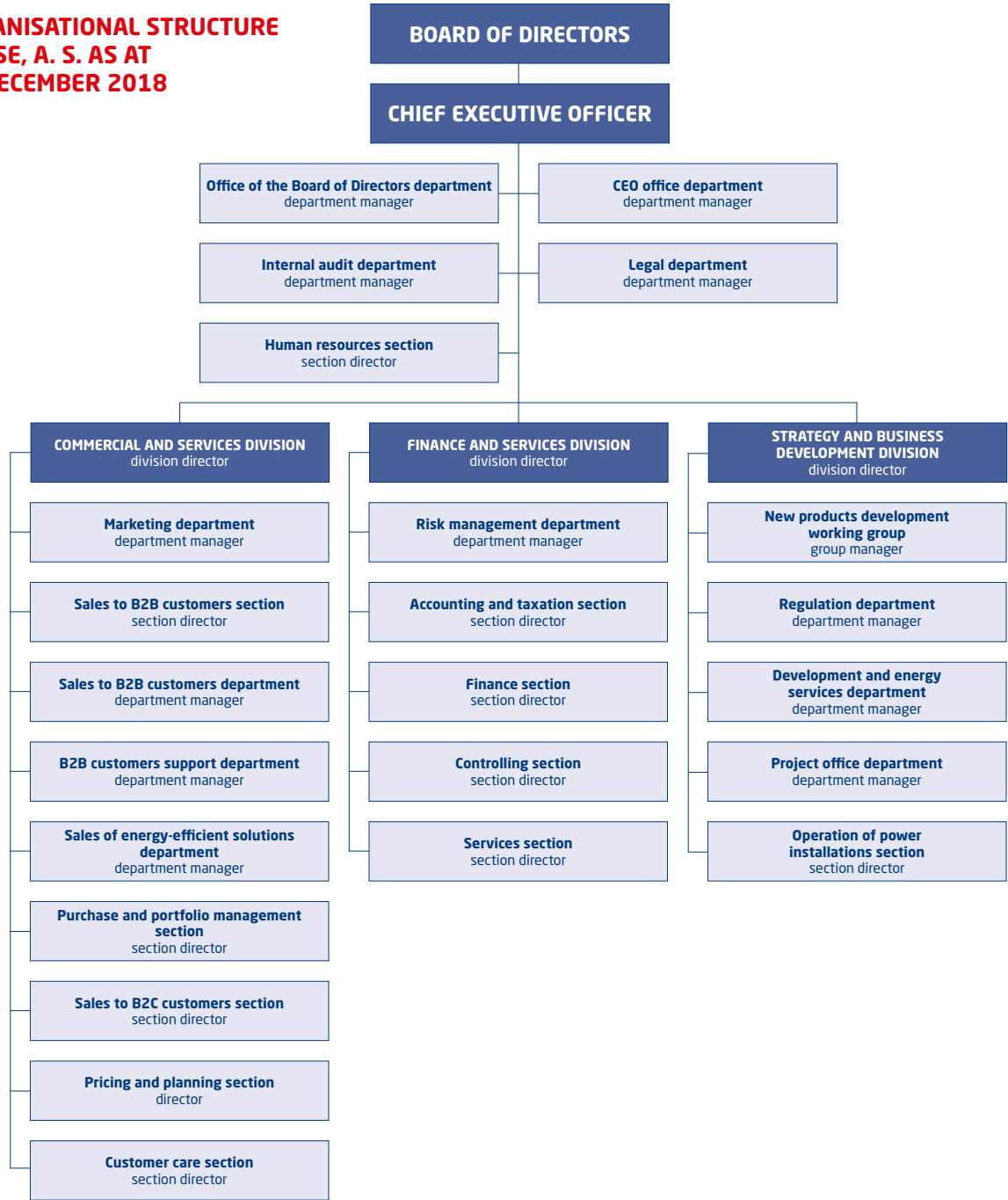
SUPERVISORY BOARD:

Mgr. Karol Hatápka	Chairman
Ing. Jozef Antošík	Vice-Chairman
Ing. Ján Voštenák	Member
Ing. Ivan Ivanič	Member
Ing. Miroslav Martoník	Member elected by employees
Ing. Igor Pištík	Member elected by employees
Mgr. Juraj Kadaši	Member elected by employees

EXECUTIVE MANAGEMENT:

JUDr. Zdeněk Schraml	Chief Executive Officer
Mgr. Szilárd Mangult	Director of Commercial and Services division
Ing. Peter Ďurmek	Director of Finance and Services division
Ing. Pavel Bárdoš	Director of Strategy and business development division

ORGANISATIONAL STRUCTURE
OF SSE, A. S. AS AT
31 DECEMBER 2018



COMPANY'S ACTIVITIES

COMMERCIAL AND SERVICES

SALES TO B2B CUSTOMERS

We evaluate the past year in the Sales segment for B2B customers as very challenging, however also very successful. For the year 2018, we have succeeded in implementing the contracted supplies of electricity and gas in the expected volumes, and thus we have met the business target set for the fiscal year 2018.

Our main activity throughout the year was securing the sale of electricity for the years 2019 to 2021. The situation on the market was significantly affected by tension caused by the continuous increase in the price of electricity. Nevertheless, we have not only managed to keep the current customer portfolio, but thanks to significant acquisitions, even increase the volume of contracted electricity and gas supply.

Sales of solutions for energy efficiency improvement have grown successfully and we continue to enlarge the portfolio of supply products. Traditionally, the most desirable product was the refurbishment of indoor lighting in buildings, we implemented projects to improve the production of compressed air, projects for the replacement of heating technology, ventilation systems, construction or reconstruction of transformer stations, energy audits and more.

The close interconnection and cooperation of teams for the sales of commodity and non-commodity products, which occurred in August 2018, has proven its worth. We are constantly working on relationships with customers, trying to bring tailor-made solutions, quality customer service and, last but not least, innovation for each customer.

SALE OF ENERGY-EFFICIENT SOLUTIONS

Also in 2018, the energy efficiency projects played an important role in providing non-commodity products. The target segment consists primarily of our B2B and B2C customers, further projects were implemented for them after

the first positive experience. The main group of customers includes industry, trading, services and a growing trend can be seen in the municipal sector.

We are constantly trying to offer innovative measures that make their operations more efficient, less energy intensive and more competitive.

Apart from significant financial savings and an increase of energy efficiency, the solutions we proposed will ensure compliance with safety and hygienic standards and have a positive impact on the quality of the environment. In 2018, we designed more than 90 solutions, of which we successfully implemented 32 projects worth over EUR 2.2 million. On average, the companies can save more than 50% of energy costs thanks to innovative measures. The average return on investment of an enterprise is around 3 years.

Refurbishment of lighting still remains the most common innovative measure. In 2018, we have seen increased interest in combined heat and power (cogeneration and trigeneration) solutions. Due to the adopted legislative changes in the energy sector, there is a growing interest in renewable energy solutions, especially photovoltaic systems, heat pumps and biomass boilers.

Energy audits and feasibility studies represent other products provided in the heating sector. It concerns the reconstruction of boiler rooms and heating systems with a design of the most suitable heating system, intelligent heating control systems, ventilation system and compressed air technology. In the field of power engineering, these are reactive power compensations, transformer stations, power regulation, elimination of problems related to power network quality, especially power failures and voltage drops. We expanded our product portfolio with new categories such as electromobility and smart solutions.

SALES TO B2C CUSTOMERS

The year 2018 was marked by fundamental changes in B2C segments and by launching activities aimed at further stabilisation of the customer portfolio as well as fulfilling ambitious growth targets. Despite the unfavorable situation with the market price for commodities and its increase, we have seen the best result since market liberalization. We have achieved this by active retention in the households segment by using a discounted price offer as a valuation of our customers' loyalty. In the Mid-market segment, due to the unfavorable development of electricity and gas prices, we have implemented a number of retention activities based on new value segmentation with differentiated care and benefits for the groups of customers.

Sales channels, their width, capacity and, of course, success and efficiency are the key when acquiring new customers. Personal experience and communication with customers is very important to us. We have managed to increase the performance parameters of all sales channels, and as an innovation, we introduced personal sales for the households segment. Our priority is the quality of services provided not only for the new sales channel. Therefore, we constantly increase the qualification of both internal and external first contact staff by training focusing on both, sales and communication skills.

The overall transformation of SSE Customer Centres supported the positive results of the year 2018 and resulted in a significant increase of sales results as well as customer satisfaction. Employees are the best advisors for customers in the area of electricity, gas and non-commodity products sales due to their communication skills, professional attitude and professional knowledge. We continue to create space for active work with clients at branches by gradually moving and centralizing administrative activities.

We are aware of the complexity of energy issues, therefore we proceeded to simplify and accelerate multiple processes for the benefit of our customers. We focused on active communication, not only by offering advantageous products, but mainly advising on energy savings and costs for customers and building a positive customer experience from

each interaction. We have been actively involved in the Green for Households National project for which we have implemented heat pumps, solar and photovoltaic panels as well as biomass boilers as a novelty.

CUSTOMER CARE

In terms of customer care, the year 2018 brought major changes. At the beginning of the year, we focused on changing the call centre organisation. New modern management has helped us to adapt to more efficient working practices and increase performance. A positive experience has a significant impact on customers' loyalty. That is why we have started to focus more on the customer as an individual. We have come to unify and extend the availability of a telephone line for households and entrepreneurs so that customers have more time to reach us. At the same time, we have launched a new service enabling the customer to use a call back service in the event of a large volume of calls to individual customer lines.

Over the past year, we have also focused more on the development and education of our staff. The customer inevitably needs and expects expert advice, quality information and, last but not least, a human but professional attitude. Therefore we have established communication standards that make our communication with customers unified, understandable and effective. We have also carried out a wide range of training sessions in cooperation with educational agencies in order to increase and improve the communication skills of our employees.

Customer satisfaction and continuous improvement in customer care are undoubtedly among our priorities. They give us a competitive advantage, not just in comparison with new suppliers. Following the quality improvement, we have mapped all processes in which the customer is directly involved in the implementation of his/her request. We were looking for ways to make it as simple as possible and, in particular, streamline the handling process. Thanks to a detailed analysis, we have successfully implemented effective solutions that have greatly contributed to increasing the comfort and subsequent speed in solving individual re-

quests. Quality care is the best way to build long-term trust and fair relationships with our customers.

PRICING AND PLANNING

One of the conditions for achieving the satisfaction of our customers is to offer them competitive products with a choice of solutions targeted at their energy cost requirements. Whether it concerns the possibility of price fixing, gradual purchases or agreement of individual conditions according to the customer's requirements. It applies to both electricity and gas supplies. The achievement of set sales targets in 2018 confirms the correctness of our approach.

One of the opportunities for the preparation of new products is the increasing number of so-called smart metering devices (SMD) for power supply. In 2018, we installed such meters in more than 300 supply points in the households segment and nearly 3000 supply points for corporate customers. Overall, SSE has 55,000 supply points with installed SMD in its balance group. According to the analysis of its consumption, the customer can achieve savings by transferring the consumption to a lower-priced tariff. In particular, this option could be of interest to household customers, where, however, it is necessary to adjust the control setting for the area deployment.

PURCHASE AND PORTFOLIO MANAGEMENT

The Slovak energy market with commodities is fully liberalized in all its segments. The market participants primarily represent traditional participants being traditional suppliers, system operators and customers. Alternative suppliers and electricity traders are also active alongside them. Stredoslovenská energetika has been a participant in the energy market in Slovakia as a traditional trader/supplier of energy commodities for end consumer. The liberalized energy market increases competition, therefore we must respond flexibly to the changing environment, conditions and requirements of the market.

In 2018, we managed to achieve our set objectives despite the fact that during the year, the company was again confronted with increasing prices of commodities being traded in the area of resources. The stabilization of the market position and the fulfillment of economic expectations were priority objectives, which were also achieved by contributing to the activities of the Purchase and Portfolio management section. This section predominantly carries out the wholesale market purchases of traded commodities, electricity and gas, which are subsequently sold to the end customers' portfolio through other sections of our company.

Development of prices on forward electricity markets in 2018 represented an increase of 30%. While the mild winter in January and February brought a short-term fall in prices on the spot as well as long-term contracts, the invasion of the Arctic air at the beginning of March literally shook the electricity and gas market. Gas tanks throughout the EU were almost empty at the end of winter, and demand for this commodity grew enormously at the end of the supply cuts from Norway and thus its price, which increased to 30 €/MWh in the summer. However, the main factor behind the increase in electricity prices on the market were emission allowances, which increased throughout the year from 8 €/t to 25 €/t, mainly due to the uncertainty of what the market situation will be like in 2019 after the implementation of the so-called market stabilization reserve.

Extreme weather fluctuations increasingly contribute to commodity prices. A hot summer and a lack of rainfall have lowered watercourse levels to such an extent that coal from Dutch ports could not be transported along the river Rhine to coal-fired power plants in Germany, and thanks to that the price of coal hit as much as 100 \$/t. Prices for electricity reached their annual peak in September, and by the end of the year they had effectively only moved in the range from 50 to 55 €/MWh. The electricity market and other commodities market are increasingly volatile; overambitious targets and statements by EU governments concerning the increase of RES share in the energy mix and the gradual decommissioning of nuclear and coal bring many unanswered questions and increase market nervousness.

Apart from the fundamental impacts on the increase of prices for commodities during 2018, the summary of which is stated above, it can be concluded that the other no less significant factor affecting the increase of prices for commodities in 2018 was the continuing trend of improving global economy.

MARKETING

In terms of marketing communication, in 2018 we focused on a comprehensive consulting service in the area of energy topics and energy efficiency. We provided our customers with useful tips and tips on savings for daily household activities through an existing communication channel. We have started to use a new channel, YouTube. We released 16 SSE promo videos last year. These include explanatory, educational videos from installations of green energy-producing devices. Thanks to them, our customers will get an idea of how the installation itself works in practice. Energy saving is also actively communicated on our Facebook profile, where we bring the subject closer to the younger generation in an easy and entertaining way.

Regarding social responsibility, we are also trying to teach and motivate children to take a responsible approach to energy. We have prepared a competition and an educational brochure for them that explains how they can contribute to saving energy.

We are constantly improving our website www.sse.sk, in which we have incorporated a special "whisperer" to find information. This tool is able to learn for itself the kind of information visitors are looking for and then optimize the whispering based on the collected data. The customer will then find the required information much faster.

FINANCE AND SERVICES

Financing of the company in 2018 was carried out in accordance with the agreed strategy respecting the principles of the balance between long-term assets and liabilities, the balance between short-term assets and liabilities and an acceptable debt ratio.

In the field of electricity and gas supply invoicing, the trend of increasing the share of customers with electronic invoice delivery and the use of the direct debit payment method continues, which increases the comfort of communication and servicing of customers. It is also reflected in a high degree of collection.

STRATEGY AND BUSINESS DEVELOPMENT

The company focused on the development of strategic initiatives, management of projects in the field of energy efficiency and related energy services. In the field of regulation, we also focused on legislation and relationships with state institutions in 2018.

In terms of this process, we have continued the preparation and implementation of projects in the following areas:

- public lighting,
- industrial lighting,
- compressed air systems,
- electric drivers and their control as well as
- air conditioning and ventilation systems.

In the field of electro mobility, we have continued our cooperation with the city of Banská Bystrica, Zvolen and Žilina by renting electric cars. The key to our approach is a corporate and social responsibility and financial feasibility.

REGULATION - MARKET SITUATION (MARKET RULES, IMPLEMENTATION OF MARKET RULES)

From the regulatory point of view, the year 2018 has meant the continuation of the regulatory period 2017-2021, in which the legally established price regulation of electricity and gas supply further continued to apply to vulnerable customers, i.e. electricity and gas consumers in households and small businesses.

The Regulatory Office for Network Industries (ÚRSO) approved the submitted proposal for a variation of prices in the area of electricity supply for the year 2018 that reflected an average increase in commodity prices in wholesale markets, which represented an increase in the final price of electricity of 2,7%. In 2018, the adopted business policy was continued in the area of gas supply and the guaranteed discount, up to 16%, when prices were applied across the year in comparison to the regulated approved prices of the most important gas supplier on the Slovak Republic market. Following the business policy, the gas supply portfolio expanded slightly, while, in 2018, the business activities of the Stredoslovenská energetika, a. s. concentrated on maintaining its position as a major electricity supplier, particularly in the territory of Central Slovakia.

In 2018, in the area of quality regulation, the company Stredoslovenská energetika, a. s. reached the level of quality standards set by legislation in electricity supply up to 99.8% and gas supply up to 99.3%, which is well above the minimum standard required by the Regulatory Office for Network Industries. The company thus confirmed its reputation as a reliable energy supplier. Above all, it is the effort and cooperation of individual departments to achieve improved efficiency in the company processes which undoubtedly ensured compliance with the quality standards and the subsequent excellent results. Thanks to this cooperation and also the quality data, the company Stredoslovenská energetika, a.s. has been able to maintain its quality standards for such a long time at a very high level.

INTERNAL AUDIT

Internal Audit provides the Company's management with independent information concerning the security of important risks and functions of the internal management and control system.

The Internal Audit department activity plan is based on the risk assessment of individual processes and initiatives of management staff.

The output of the completed audits are written reports that document all findings and related risks. The reports also contain internal audit recommendations in order to minimize identified risks and remedial measures for responsible employees. The top management of the company is informed about the results of individual audits. The fulfillment of measures taken is assessed on a semi-annual basis. Audits carried out in 2018 reflected the company's strategic intentions and were focused on business activity of the company and the resulting credit and price risk as well as risks associated with the development of new products. The Internal Audit department also continuously assessed fraud risk management. Other activities reflected increased risks resulting from current legislative changes, especially in the areas of GDPR and cybersecurity.

GDPR

The year 2018 was a significant milestone in the field of personal data protection, because on 25 May 2018, the Regulation of the European Parliament and the European Council 2016/679 dated 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/ES (General Data Protection Regulation), known as "GDPR", (hereinafter referred to only as the "regulation") and at the same time the new Act no. 18/2018 Coll. on personal data protection and amending and supplementing certain acts (hereinafter referred to only as the "act") entered into force.

The legislation amendment has affected all who come into contact with personal data. In Stredoslovenská energetika, a.s. we were preparing for this change through an ongoing project, which consisted of two phases, analytical and implementation. The objective of the analytical phase was to revise all areas of the Regulation's impact and to identify the key areas which we were required to deal with as a company.

In the implementation and post-implementation phase, we have gradually incorporated a number of aspects that the Regulation has brought to our company's life (e.g. the elaboration of processing activity records, the conclusion of personal data processing agreements with our intermediaries in accordance with the Regulation, the elaboration of the wording of information memoranda for the persons concerned, creation of proportionality tests where a legitimate interest is the legal basis for personal data processing, setting up a process for the performance of individual rights of persons concerned, and many other activities). We have to point out that the care for personal data in SSE does not stop there, because in connection with the obligations imposed by the Regulation and the Law for the entities that process personal data, the agenda of personal data protection is a living mechanism which it is necessary to constantly work with.

SOCIAL RESPONSIBILITY

SOCIAL RESPONSIBILITY

Social responsibility has been innate to us for years. It is part of our business and internal policies. Our intention is to do good and the right things. The right things towards our employees, customers, business partners but also towards the community we live in.

As a company with a responsible approach to the community, in 2018 we implemented a new comprehensive strategy called OUR social responsibility. It focuses on 5 areas, namely support for children and youth, charity, volunteering, ecology and development. Responsibility is our way of thinking about the future and others every day, and we take the specific steps in cooperation with our employees.

There are various activities through which we help and support each year. For many years we have been protecting and restoring the Banská Štiavnica Calvary in cooperation with the Kalvársky fond civic association. In addition to financial support, we also contributed manpower last year. As part of Family Day, we dedicated our time and got stuck in by getting our hands dirty carrying scaffolding.

Our cooperation with the charity of Svätá Alžbeta in Zvolen also continued last year. However, not everything is about the financial support. We also supported charity through the collections in which our employees contributed what was needed.

One of the most important activities carried out in 2018 was a sports event for children from orphanages and childrens' crisis centres called "Move with our energy". Nine orphanages, a hundred children, met at the end of June for the Sports Day with SSE.

INTEGRATED MANAGEMENT SYSTEM

Our company has made a long-term effort to compete in the electricity and gas markets. Quality delivery of electricity and gas and consequently good quality customer service has been rewarded by customer loyalty, but ISO and OHSAS certification is seen as something similar to an international standard. Thus, in the eyes of a customer, a certified company is a safer choice because the customer understands that certain quality standards are adhered to within the company, without which the company would not have been able to obtain a certificate.

The objective of Stredoslovenská energetika is to fulfill the relevant needs and expectations of customers and other parties involved to the highest quality with regard to the environment and health and safety protection at work. In order to improve the activities of our company, we have an integrated and certified management system for the following three areas:

Quality Management System (ISO 9001:2015),
Environmental Management system in accordance with the standard requirements (ISO 14001:2015),
Occupational Health and Safety Management System (OHSAS 18001:2007).

In 2018, we successfully completed either a recertification or supervisory audit for all three of the above mentioned systems.

We have been actively involved in the pan-European campaign "Healthy workplaces - Occupational health and Safety week and Healthy workplaces control dangerous chemicals" organized by the European Agency for Occupational health and safety.

EMPLOYEES



Stredoslovenská energetika provides its employees with an above-standard working environment and the possibility of professional development and career growth. Therefore, it is one of the most attractive employers operating in the Central Slovakia region.

The number of employees as at 31 December 2018 was 296, of which 72% are women and 28% are men. Stredoslovenská energetika is an organization with an average age of 41.64 years and a 64.5% share of university-educated employees. The average number of years worked at the company per employee was 12.84.

During the year 2018, SSE employed 34 new employees from the external environment, mainly for the area of business and customer services. Voluntary employee turnover in 2018 was at the level of 5.5%.

"Employees are our most valuable capital". The objective is to make this statement not just a cliché, but to work effectively with employees, exploiting their real potential, which they offer to us, and on the other hand creating a quality and attractive working environment.

In 2018, the area of human resource management and activities to ensure the quality of human capital were marked by sales support, new product development and solutions for our customers and associated services.

One of the main objectives for 2018 in the area of Human Resources was the education and development of employees. In order to strengthen our position as a reliable and successful supplier not only of electricity and gas, but also of energy-efficient solutions, we mainly focused the training of employees of sales and customer services on the development of sales skills, communication skills and internal product training. We have launched a new SSEminár program, the objective of which is to develop the managerial competencies and skill sets of our managers and thus ensure SSE has at its disposal pre prepared internal successors in key managerial positions. The program is attended by 81 employees.

We have invested EUR 128,940.00 on the education of employees, and each employee of the company spent 7 days at educational activities.

OUR TRAINEE PROGRAM has long been one of the most successful programs working in cooperation with schools. The goal is to find and select the most talented students during their studies and involve them in our teams. The current TRAINEE PROGRAMME 2018-2020 is a two-year programme designed for the ambitious and talented daily university students. We selected eleven students in their fourth-year of university studies for the programme in 2018. Now they have a professional opportunity to acquire practical skills and knowledge within the complex area for the rules and principles of trading on the energy market, as well as developing an understanding of the functioning of individual organizational units within the company as a whole. At the same time, they have the opportunity to apply in practice the theoretical knowledge from their studies.

Since 1 October, we have managed to launch a novelty in the form of a system for managing improvement proposals of employees. We have typically named this system EDISON that allows employees to become processors of process improvement and thus increase our competitiveness. Improvements carried out by employees will offer the possibility of professional development, personal as well as financial appraisal.

In order to support a balance between work and the private life of employees, we offer many attractive benefits. The standard benefits include extended holiday entitlement, flexible working time, contribution to supplementary pension savings, and contribution to pre-school facilities for children of employees, various sports and cultural events, health days for employees, and many others. Our employees also have the opportunity to use more favorable conditions and discounts at various shops and service providers. We continue to be very active in the support of women and men on maternity and paternity leave.

The company Stredoslovenská energetika once again received an award in the field of effectiveness of human capital management. In 2018, it was awarded the title "Company with the most effective human capital management in the energy sector" for the fourth time in a row. The award from PwC consulting company is designed for companies that effectively manage their human capital and determine the best practices in the human resources market.

FUTURE

Customer orientation and the creation of a positive customer experience is a priority for us. We are interested in any innovative measure that brings more efficiency to the operations of our customers and decreases their energy use. We want to continue to bring an increasing quality service and energy consultancy for effective energy use to our customers. We want to continue to provide an increasing quality of service and consultancy services for the effective use of energy by our customers. We focus on accelerating and simplifying processes, continually improving accessibility for our customers and focusing on, electronic communication thus reducing the need for paper communication.

Innovative products on the customer's side allowing for the active management of consumption with the aim of making savings is a method through which we are supportive to our existing and potential customers.

In addition to traditional commodity products, the development of the electricity and gas market, the development of competition and the ambition to grow our market share also requires the supply and sale of additional, non-commodity products that are a prerequisite for a comprehensive service to customers. This offer will play an important role in customer decision-making in relation to their choice of energy supplier. The development and marketing of these products will become the market standard and we can improve our market position, compared to the competition, by developing and marketing new products.

We will continue to improve the quality of the services we have been providing, because we see an opportunity to differentiate ourselves from the competition even in this strongly regulated area of the Slovak energy market. At the current time the presence of electricity supply regulation limits resources for the development and launch of new products, nevertheless we would like to focus on products that mean real energy savings to the customer. Our belief is that, smart

home solutions should not be "boxes to be played with" or a demonstration on the phone when meeting friends.

We are an energy company that understands the industry in which it operates, therefore our focus is on real smart heating management and the integration of renewable resources across the whole system. In the unregulated segment, we successfully continued to develop activities in energy efficiency solutions for 2018, and in SSE we believe this is the right way. In this segment, competition and pressure on commodity prices is enormous, and the know-how we possess is becoming a new pillar in our strategy.

REPORT ON THE ECONOMIC RESULTS AND OPERATION OF THE COMPANY SSE FOR THE YEAR 2018

FINANCIAL RESULTS

Individual profit and loss statement of SSE, a. s. (in thousands of EUR)		
Specification	2018	2017
Sales	728,893	611,217
Purchase of electricity, related charges and distribution fees	-699,438	-585,523
Personal expenses	-9 834	-9,586
Consumption of material and sub-deliveries	-396	-470
Other operational income	2 928	2,619
Other operational expenses	-12,342	-12,680
EBITDA	9,811	5,577
Depreciation and value adjustments to assets	-996	-1,025
Operating profit	8,815	4,552
Interest income	535	668
Interest expense	-423	-558
Income from dividends	259	782
Other financial revenues	2,071	2,088
Net financial revenues	2,442	2,980
Profit before tax	11,257	7,532
Income tax	-2 264	-1,121
Profit for the financial year	8,993	6,411

Individual profit and loss statement of the company Stredoslovenská energetika, a. s. for the year 2018 was prepared in accordance with International Financial Reporting Standards (IFRS). Operating profit expressed as an indicator of EBITDA achieved in 2018 amounted to EUR 9.8 mil., which represents an increase of EUR 4.2 mil. The increase was mainly caused by an increase in the electricity supply gross margin.

The main subject of activity for the company is the supply of electricity and gas, in particular, in the region of central Slovakia. The revenues from the sale of electricity and gas accounted for the most significant proportion of total sales. Another part of the turnover is attributable to sales for meter connection and checking fees for electricity consumers, for services to the subsidiaries on the basis of SLA agreements as well as sales from energy efficiency projects.

The purchase of electricity and gas accounted for a significant proportion of the total costs.

The economic result after tax amounted to EUR 9 mil. and compared to the year 2017, it is an increase of EUR 2.6 mil. EUR mainly due to the increased gross margin by EUR 5.2 mil.

More detailed financial data is contained in the report of the independent auditor in the separate financial statements as at 31 December 2018.

REPORT ON THE ACTIVITIES OF THE SUPERVISORY BOARD OF STREDOSLOVENSKÁ ENERGETIKA, A. S. FOR THE YEAR 2018

(since 1 January 2019 under the business name Stredoslovenská energetika Holding, a.s.)

THE SUPERVISORY BOARD CONSISTED OF THE FOLLOWING COMPOSITION THROUGHOUT THE YEAR:

Mgr. Karol Hatápka	Chairman
Ing. Jozef Antošík	Vice-Chairman
Ing. Ján Voštenák	Member
Ing. Ivan Ivanič	Member
Ing. Miroslav Martoník	Member
Ing. Igor Pištík	Member
Mgr. Juraj Kadaši	Member

The Supervisory board met four times in 2018, where it had a quorum at each meeting.

Within the exercise of its competence according to the Articles of Association and the Commercial Code:

(a) has approved:

- proposals for the variable parts of remuneration of members of the Board of Directors for each period;
- report on the activities of the Supervisory Board for 2017;
- opinion of the Supervisory Board to the audited annual individual financial statements drawn up as at 31 December 2017 according to IFRS standards and the proposal for profit distribution for the year 2017;
- opinion of the Supervisory Board to the audited consolidated financial statements prepared as at 31 December 2017 according to IFRS standards;
- a proposal for a three-year Strategic Plan for the further development of the SSE Group and the significant project of the SSE Group;
- disposition of the assets of SSE, a. s., by depositing its part of the business to the subsidiary Stredoslovenská energetika Obchod, a. s. when increasing the company's registered capital;

- disposition of the assets of SSE, a. s., by depositing its part of the business to the subsidiary SSE - MVE, s. r. o. when increasing the company's registered capital.

(b) has noted:

- quarterly management reports including profit and loss account, balance sheet and cash flow statement for the periods;
- the draft of the annual budget and the business plan of SSE Group for the year 2018;
- draft of the individual annual plan and business plan of the company for 2018;
- regular individual accounts of SSE, a. s. for the year 2017 including the auditor's report and the proposal for distribution of profits of SSE, a. s. for the year 2017;
- regular consolidated financial statements drawn up as at 31 December 2017;
- information about the underlying intentions of the management of SSE, a. s. as well as information on the status of the assets of the foreseeable development, finance and revenues of SSE within the meaning of section 193 of the Commercial Code for the period of 2018;
- statement of the Board of Directors for the members of the Supervisory Board within the meaning of Article XII (22) (a) (ii) of the Articles of Association concerning financial transactions carried out by the company with related parties, in which the value of any such transaction or series of related individual transactions when combined exceeds the amount of one hundred thousand EUR (EUR 100,000), and the company's transactions concluded under other than standard commercial conditions;
- increase of the registered capital of Stredoslovenská energetika Obchod, a. s., a SSE - MVE, s. r. o., by depositing part of the Stredoslovenskej energetiky, a. s. business.

The Supervisory Board did not request the Board of Directors of the company to convoke the Extraordinary General Assembly during the year 2018.

The company's share capital was not increased or decreased during 2018.

CONCLUSION:

The Supervisory Board has properly fulfilled its supervisory function within the meaning of the Articles of Association and the section 197 et seq. of the Commercial Code.

The Supervisory Board did not record any violation of the Articles of Association and laws in force on the part of the Board of Directors within the performance of the business activities of the company.

This report was approved at the meeting of the Supervisory Board of SSE, a. s., which was held on 16 May 2019.

In Žilina on 16 May 2019



JUDr. Peter Hajduček
Chairman of the Supervisory Board
Stredoslovenská energetika Holding, a. s.

A PROPOSAL OF THE BOARD OF DIRECTORS FOR THE DISTRIBUTION OF PROFITS FOR THE YEAR 2018

(since 1 January 2019 under the business name Stredoslovenská energetika Holding, a.s.)

The audited net profit for the year 2018	EUR 8,992,887.29
The allocation to legal reserve fund	EUR 0.00
Contribution to social fund	EUR 0.00
Royalties for members of the Board of Directors and of the Supervisory Board	EUR 0.00
Part of the profits retained in equity as a result of management in previous years	EUR 0.00
The share of income of the current year (2018) proposed for payment	EUR 8,992,887.29
Undistributed profits from previous periods proposed for payment	EUR 0.00
The Proposed payment of dividends to shareholders	EUR 8,992,887.29
of which to the individual shareholders as follows:	
- dividends to shareholder MoE of SR 51%	EUR 4,586,372.52
- dividends to shareholder EP Energy, a. s. 49%	EUR 4,406,514.77

Events of special relevance occurring occurring after the accounting period for which the annual report is prepared

With effect from 1 January 2018, the Company changed its business name to Stredoslovenská energetika Holding, a.s.

As at 1 January 2019, the Group was reorganized in order to create a holding organisation of the Group.

As part of the transaction of the contribution of part of the business as at 1 January 2019, a part of the Company was contributed to the subsidiary Stredoslovenská energetika Obchod, a. s., which with effect from 1 January 2019 changed its business name to Stredoslovenská energetika, a. s.

The contributed part of the business represents all activities and employees related to the purchase and supply of electricity and gas, the provision of energy support services and energy efficiency projects and related business units. The net book value of the contributed part of the business mainly represents the long-term intangible and long-term tangible assets, receivables and payables of business and labour and legal relationship and other items of assets related to the contributed part of the company was as of 1 January 2019 EUR 10,735.00 ths. in total. Contributed long-term tangible and intangible assets were of the net book value EUR 2,306.00 ths, set of receivables and other assets in book value EUR 69,757.00 ths. and liabilities in the amount of EUR 61,329.00 ths. This transaction was made on the basis of the Company's decision of 25 October 2018 as the sole shareholder of the subsidiary Stredoslovenská energetika Obchod, a. s. The Board of Directors of the Company decided at the General Meeting of Stredoslovenská energetika Obchod, a. s.

At the same time, as part of another transaction concerning a contribution of a part of business, as of 1 January 2019, a part of the Company's business was contributed to the subsidiary, SSE - MVE, s. r. o. The contributed part of the company represents all the activities and employees related to water power plants. The net book value of the contributed part of the business mainly representing the long-term tangible assets, receivables and payables of business and labour and legal relationship related to the contributed part of the company was as of 1 January 2019 EUR 328 ths. Contributed long-term tangible and intangible assets was in the net book value of EUR 423 ths., receivables of book value EUR 5 ths. and the receivables to the value of EUR 100 ths. This transaction was made on the basis of the Company's decision of 25 October 2018 as the sole shareholder of the subsidiary SSE - MVE, s. r. o. The Board of Directors of the Company decided as the General Meeting of SSE - MVE, s. r. o.

Expenses related to activities in the field of research and development

The company Stredoslovenská energetika, a. s. did not have any expenses related to activities in the field of research and development in 2018.

Acquisition of own shares, temporary certificates, business shares and stocks

As part of the SSE Group reorganisation, in 2018 the company established the subsidiary Stredoslovenská energetika Obchod, a. s. in order to separate activities related to the purchase and supply of electricity and gas activities, provision of energy supporting services and projects of energy efficiency. At the same time, the company established the subsidiary SSE - MVE, s. r. o. for the purpose of operating small hydropower plants.

Organisational units of the accounting entity abroad

The company does not have any units abroad.

Opinion of the Supervisory Board of Stredoslovenská energetika, a.s. on regular separate financial statements as at 31 December 2018 and on the proposal for distribution of profits for the year 2018

(since 1 January 2019 under the business name Stredoslovenská energetika Holding, a.s.)

The Supervisory Board of Stredoslovenská energetika Holding, a. s., at its meeting on 16 May 2019, reviewed the regular individual statements of the company as at 31 December 2018 including the report of an independent auditor KPMG Slovensko, spol. s r. o., SKAU license No. 96 dated 14 March 2019 and the proposal of the Board of Directors for the distribution of the profits of the company for the year 2018.

On the basis of the aforementioned, the Supervisory Board of Stredoslovenská energetika Holding, a. s.,

recommends the Regular General Assembly of Stredoslovenská energetika Holding, a. s.:

1. approve the regular separate financial statements of Stredoslovenská energetika Holding, a. s., as at 31 December 2018;
2. approve the proposal for the distribution of profits of the company Stredoslovenská energetika Holding, a. s. for the year 2018, as follows:

The audited net profit for the year 2018	EUR 8,992,887.29
The allocation to legal reserve fund	EUR 0.00
Contribution to social fund	EUR 0.00
Royalties for members of the Board of Directors and of the Supervisory Board	EUR 0.00
Part of the profits retained in equity as a result of management in previous years	EUR 0.00
The share of income of the current year (2018) proposed for payment	EUR 8,992,887.29
Undistributed profits from previous periods proposed for payment	EUR 0.00
The Proposed payment of dividends to shareholders	EUR 8,992,887.29
of which to the individual shareholders as follows:	
- dividends to shareholder MoE of SR 51%	EUR 4,586,372.52
- dividends to shareholder EP Energy, a. s. 49%	EUR 4,406,514.77

The Supervisory Board of Stredoslovenská energetika Holding, a. s., at the same time **recommends** the Regular General Assembly of Stredoslovenská energetika Holding, a. s., to approve the payment of dividends to shareholders in one payment within 30 days of the day of the General Assembly.

In Žilina on 16 May 2019



JUDr. Peter Hajduček
Chairman of the Supervisory Board
Stredoslovenská energetika Holding, a. s.



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