Annual Report for 2020

Západoslovenská distribučná, a.s.

ZÁPADOSLOVENSKÁ DISTRIBUČNÁ

Content

1. Profile of Západoslovenská distribučná, a.s.

Ing. Tomáš Turek, PhD.
Chairman of the Board of Directors

Foreword by the Chairman of the Board of Directors

The year 2020 was exceptional and difficult in many aspects for Západoslovenská distribučná. We started implementing the ACON project, succeeded with the Danube InGrid project and completed many development activities. Nevertheless, the last year was affected mainly by the COVID-19 pandemic which was seen in all aspects of economic and social life.

Západoslovenská distribučná, as a strategic infrastructure Company, adopted specific measures in order to ensure sustainable operating regime and continuous distribution of electricity even during this difficult time. We strived to protect employees, contractors and business partners against the infection and minimise its outbreak in the Company.

The key employees worked in specific conditions and were isolated from the others as much as possible. We created spare workplaces and the dispatch was possible to be managed even from home, if it was needed. Despite the complicated conditions and situation, our technicians managed to remove failures with no significant delay.

We protected our customers too. We benefitted from our long intensive work on online services and we shifted the communication with customers to online environment without big problems, thus minimising the need for direct contact.

In the time when the majority of people studied and worked from home, we limited our works which required longer outages, in order not to lower their comfort. This obviously led to slowdown of some construction activities, however no substantial delays occurred.

I am delighted that despite complicated situation we managed to continue in our investments focusing on our distribution system upgrade. We continued in making investments in the ACON Smart Grids project which is focused on the mass deployment of the latest smart technologies, enabling the start of "new energy" when the distribution system is regarded as the bridge-builder between new technologies and customers. It is the first project of the distribution companies (ZSD and E.ON Distribuce) in the CEE region, which has succeeded among the EU common interest projects. The investment of almost EUR 3 million was made within the project in 2020. We will continue in implementing the project in the next years too. More than 190,000 customers, primarily in the areas sharing borders with the Czech Republic, will benefit from the greater customer comfort over the next five years.

In 2020, on the back of the success of this project, we commenced work on international project Danube InGrid. Its aim is to strengthen the interaction between the Slovak and Hungarian electricity market, using smart technologies and elements. The project will be implemented in 2020 - 2025, and its total value (all partners) reaches up to EUR 292 million.

Despite the difficult situation in 2020 we invested approximately EUR 100 million in the development and upgrade of the distribution system. These funds were invested either within international projects or our own investment intentions, however their common aim was to ensure high standard and reliable supply of electricity to our customers.

We also invested in the connection of new consumers and supply points. The region of West Slovakia is rather dynamic, which is illustrated by growth in consumption by 22% over the last 10 years, as well as growth in the number of supply points by 9%., that is almost 110 thousand new supply points. The speed of developing and upgrading the distribution Company must be adapted to this trend. We continue in investing into smart metering systems (smart meters). We keep on increasing the level of the system´s automation by extending the number of smart grid elements, that is automated elements of the distribution system including remote localisation of failures and control of distribution system elements.

In terms of the economic results and volume of investments, the year 2020 can be regarded as successful. I personally see the biggest success in the way we managed the pandemic, during which we were forced to change the entire functioning of the Company from day to day. I am proud of all employees because they were able to perform their duties with intensive engagement, ensuring smooth distribution of electricity to all customers. They proved that our profession is a real mission and they live our Company indeed. Realising the responsibility resulting from our market position, we wish to be a reliable partner to our customers, which - in my view - was proved in this crisis situation.

Company Bodies

The structure of statutory and supervisory bodies of Západoslovenská distribučná, a.s. in 2020 was as follows:

Statutory Body

Board of Directors	
As at 31 December 2020	
Chairman	Ing. Tomáš Turek, PhD. (start of the office on 21 September 2019)
Vice-Chairman	Mgr. Vladimír Cipciar (start of the office on 31 October 2017 and end of the office on 31. August 2020)
	Ing. Jana Somorovská (start of the office on 1 September 2020)
Member	Ing. Marian Kapec (start of the office on 21 March 2016 and end of the office on 21 March 2020)
	Ing. Marian Kapec (start of the office on 21 March 2020)
	Ing. Martin Mišík (start of the office on 23 January 2017 and end of the office 31 August 2020)
	Mgr. Kristián Takáč (start of the office on 1 September2020)
	Ing. Miroslav Otočka (start of the office on 16 May 2018)

Supervisory Body

Board of Supervisors	
As at 31 December 2020	
Chairman	Ing. Peter Hanúsek (start of office as a Member of the Supervisory Board on 23 January 2017,elected as the Chairman of the Supervisory Board on 1 February 2017 and end of the office as member and chairman on 19 November 2020)
	Ing. Kamil Panák (start of office as a Member of the Supervisory Board on 20 November 2020,elected as the Chairman of the Supervisory Board on 17 December 2020
Vice-Chairman	Marian Rusko (start of office as a Member and Vice-Chairman of the Supervisory Board on 1 February 2017; elected as the Vice-Chairman on 1 February 2017 and end of the office as member and chairman on 1 February 2020)
	Marian Rusko (start of office as a Member and Vice-Chairman of the Supervisory Board on 1 February 2020, elected as the Vice-Chairman on 7 April 2020)
Members	MUDr. Ján Zvonár , CSc. (start of office on 23 January 2017 and end of the office on 19 November 2020)
	RNDr. Michal Babiar, PhD. (start of office on 23 January 2017 and end of the office on 19 November 2020)
	Ing. Kamil Panák (start of office on 23 January 2017 and end of the office on 19 November 2020)
	JUDr. Andrea Vitkóová, PhD. (start of office on 23 January 2017 and end of the office on 19 November 2020)
	Robert Polakovič (start of office on 20 June 2019)
	Bc. Milan Černek (start of office on 20 June 2019)
	Ing. Juraj Nyulassy (start of office on 20 June 2019)
	Ing. Peter Ševčík (start of office on 20 November 2020)
	Ing. Dušan Rusňák (start of office on 20 November 2020)
	Ing. Michal Kubinský (start of office on 20 November 2020)
	Ing. Bc. Robert Tánczos (start of office on 20 November 2020)

The shareholders' structure in Západoslovenská distribučná, a.s. as at 31 December 2020 was as follows:

Shareholder structure			
As at 31 December 2019	**Absolute amount in €**	**Equity share in the share capital**	**Voting rights**
Západoslovenská energetika, a. s.	33 227 119	100 %	100 %

Scope of Business

Information on the Company and Its Scope of Business

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

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

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

The core business of the Company is electricity distribution. The Company doesn´t have any expenses on research and development.

The Company did not acquire any own shares, temporary certificates, any business shares or ownership interest, temporary certificates or business shares of the parent entity.
The Company doesn´t have any organisational entity abroad.

Risks and Uncertainties

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

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

During the normal course of business, claims against the Company may be received. Certain customers or their representatives contest fairness and appropriateness of decisions of the network industry regulator. These circumstances were taken into account in its Financial Statements as at 31 December 2020.

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

The significant events occurred after the end of 2020 requiring recognition or disclosure in the Annual report

Company is not aware of any other significant facts occurring after the 31 December 2020, which would have an impact on the financial statements.

"Compliance Programme"

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

The main objective of "Compliance Programme" is to prevent, reveal and respond to conduct which could be considered in conflict with internal and applicable laws, with the possible result in the personal responsibility of the persons involved, the management of the Company or the Company as such (criminal liability of legal persons).

Code of Conduct

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

ZSE Group has established the Line through which the employees may notify the breach of internal or applicable laws. Employees are instructed in detail on the methods of notification, on their position in the investigation process, and if they are interested, they can also make the notification anonymous using internal notification channels.

Zero Tolerance for Corruption

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

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

- **Contributions to political parties, charity and sponsorship gifts**
  Programmes for gifts and sponsorship are transparent. As a sponsor, the ZSE Group supports specific projects and initiatives in the areas such as education, environment protection, innovation and community development, if they meet the following criteria:
  - objectives are linked to the objectives and mission of the Company,
  - the funds have clearly defined purposes, and their use is properly and transparently documented and verifiable anytime.

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

- **Fight against money laundering and terrorist financing**
  In the fight on money laundering and terrorist financing, the ZSE Group proceeds in line with Slovak and European laws. The ZSE Group never excuses, facilitates or supports money laundering and terrorist financing which means that:
  – respects laws concerning money laundering and terrorist financing,
  – never engages in risk activities which could be focused on financing or support of criminal terrorist activities,
  – adopts measures and mechanisms of assessment of potential and current business partners.

- **Control Know your counterpart (KYC)**
  The ZSE Group selects its business partners on the basis of professional and economic criteria. However, the Group also pays close attention to the aspect of environmental protection, respect for human rights, labour and other generally standards or anti-discrimination and anti-corruption policies. When selecting business partners, also international sanctions, as well as regulatory, legal or reputational risks capable of causing serious effects on the ZSE Group, are strictly reflected.

Internal control mechanism:

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

1. **Internal Control Mechanisms**. Internal control mechanisms have been implemented at the level of individual processes with the aim of identifying and preventing risks of fraud, corruption and unfair practices. The aim of the system of internal controls is prevention and timely identification of errors and incorrections which may occur as a result of intentional fraud and unintentional action or omission.

2. **Internal audit** is a set of independent, objective, assurance and consulting activities aimed at improving management and control processes, taking into account the internationally accepted auditing standards "International Standards for Professional Practice in Internal Auditing". The ZSE Group has established Internal Audit unit which permanently controls the system of implemented control mechanisms, identifies shortcomings and proposes action plans to improve internal control system and make them more efficient.

The Chief Audit Officer is responsible for developing and implementing the Internal Audit Plan, which is based on a risk assessment, taking into account the Company's risk management framework as well as the level of risk management response to the various activities.

3. Part of the organizational structure of the ZSE Group is also the position of the **Compliance Manager**, whose role includes not only the responsibility for drafting and updating documentation related to the Business Compliance Program, elaboration and updating of the Code of Ethics of the ZSE Group and carrying out activities related to the investigation of violation of the Code of Ethics.

Pandemic-related measures in the ZSE Group

The ZSE Group started adopting measures significantly in advance as compared to many other companies and before the Slovak Government introduced the measures. The main objective was to protect its employees against the virus as much as possible and, at the same time, ensure continuity of its activities in order not to threaten smooth and safe supply of gas and electricity and electricity distribution. The measures had to be set in a way so as the ZSE Group, as the economic mobilisation entity, is able to safeguard sustainable operating regime and continuous distribution of electricity in case the situation worsens and the emergency situation is declared.

The Group´s central crisis team decided that as from 10 March 2020 all employees whose job allow them to do so work from home. It concerned approximately 1,000 employees. When the situation got better in summer, the employees started gradually going back to their workplaces. When the second wave arrived, the same decision was adopted in October 2020.

Stricter safety measures started being applied: mandatory masks, frequent disinfection of hands, measuring physical temperature at the entry to the building, mandatory self-isolation of employees returning from abroad, more frequent tiding up and cleaning of workplaces by disinfectants. All business trips to abroad were cancelled, encounters of employees at the workplaces minimised. Meetings and trainings were conducted online, and the number of employees who could be in common premises at once went down.

The special regime applied to the dispatch centres of Západoslovenská distribučná, which is necessary for non-stop operation of the distribution system. Redundant workplaces were created, and the third dispatch centre was added. The employees of the dispatch centres were isolated from the other employees in order to ensure their protection against the virus as much as possible.

Works on the spot were limited too. Západoslovenská distribučná limited the works which required electricity outages so as not to lower the customer comfort at the time when the majority of citizens studied and worked from home.

The crisis team regularly monitored the situation and adapted the extent and intensity of measures.

COVID-19 antigen testing

The ZSE Group enabled its employees to get tested in its own work premises in both rounds of the national mass testing. All employees and their relatives could get tested. The first testing was conducted on 31 October 2020 in Bratislava and Nitra. In total, 1,856 certificates were issued. The second round of the testing was organised only in those districts where the percentage of positive tests in the first round was over 0.7%. Within the ZSE Group, it was in Dunajská Streda, Trenčín and Senica. Within the second round, 414 certificates were issued.

In December 2020 the Company conducted its own testing. It concerned mainly the employees of the strategic infrastructure. The testing of all employees who did not work from home was conducted in January 2020 too, when the employees came back from Christmas leave. The Employer intended to eliminate the virus outbreak in the Company. In total, 144 positive cases were reported in the ZSE Group to 31 December 2020. Thanks to the adopted measures and responsible approach, the operation of the Company and smooth supply of electricity to customers was secured.

Economy

2.

Economy

In 2020, Západoslovenská distribučná, a.s., generated comprehensive income of € 70,222 thousand, with sales totaling € 352,658 thousand and costs totaling € 300,493 thousand.

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

Key figures as at 31 December

Key figures as at 31 December		
in € thousand	**2020**	**2019**
Non-current assets	1,166,077	1,132,854
Current assets	66,972	92,132
Total assets	**1,233,049**	**1,224,986**
Equity	207,477	206,341
Non-current liabilities	885,676	885,308
Current liabilities	139,896	133,337
Total equity and liabilities	**1,233,049**	**1,224,986**
Sales	352,658	490,074
EBIT (profit from operating activities)	**114,821**	**125,235**
EBITDA	196,397	194,324
Revenues	396,227	513,308
Expenses	300,493	400,286
Profit before tax	95,734	106,132
Net profit	**71,236**	**79,568**
Other comprehensive income	-1,014	-1,463
Total comprehensive income	**70,222**	**78,105**
Cash outflows for investing activities	**90,622**	**83,855**
Full-time equivalent of employees (FTE)	**1,506**	**1,467**

Information on sales in monetary terms from electricity distribution:

Indicators		
As at 31.12.	**2020**	**2019**
Volume of electricity distributed (GWh)	9,432	9,772
Sales from electricity distribution (€'000)	350,392	479,863
Number of supply points	1,180,159	1,165,554

Loans

Západoslovenská distribučná, a.s. did not draw bank loans in 2020, but it had an intercompany loan amounting to € 630,000 thousand in 2014.

Investments

Investments in 2020	
in € thousand	**2020**
Connection	21,647
Development and improvment of networks VN, NN, TS, EZ	21,866
Development and improvment of networks VVN (RZ, EZ, KZL)	28,470
Special projects (automatization, ecology)	2,645
Purchase of energy devices	237
Land and easements	1,301
Transformers, inductors, resistors	1,447
Electrometers	9,613
Low-value assets	594
Contracts for the purchase of leased assets	2,239
Interest expense capitalized	1,818
IT projects	5,963
Telco	1,093
Facility Management	789
Total	**99,720**

Major constructions in 2020 in terms of volume	
in € thousand	**2020**
VVN_ES_Žabí Majer	7,211
VVN_Rekonštrukcia vedenia VVN Nové Mesto nad Váhom	7,168
VVN_Rekonštrukcia vedenia VVN Smolenice - TP Trnava	4,701
VVN_Rekonštrukcia ES Veľký Meder	3,884
VVN_Rekonštrukcia ES Myjava	762

Planed major constructions in 2021 in terms of volume	
in € thousand	**2021**
VVN_Rekonštrukcia ES Madunice	6,500
VVN_ES Borský Sv.Jur - výstavba	4,000
VVN_Rekonštrukcia ES Veľký Ďur	3,000
VVN_Rekonštrukcia ES Čulenova	3,000
VVN_Rekonštrukcia vedenia VVN ES Trenčín-Vetropac	1,876

Distribution of the 2020 Profit

At its meeting on 24 March 2021 the Board of Directors of Západoslovenská distribučná, a.s., acknowledged, and recommended to the Supervisory Board of Západoslovenská distribučná, a.s. to discuss, the following proposal for the distribution of the Company's profit for 2020.

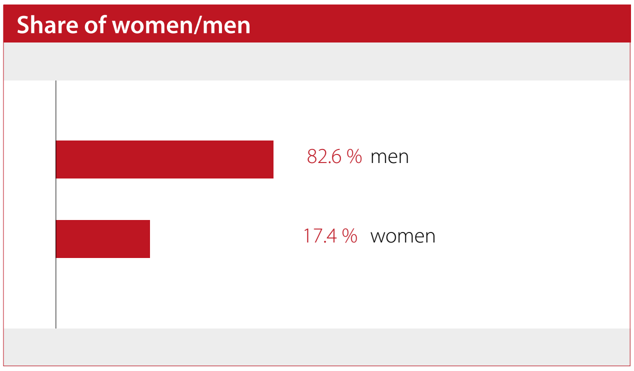
Proposal for 2020 profit distribution	
in € thousand	**2020**
Net Profit for the financial period	**71,236**
A/ contribution to reserve fund (10%)	7,124
B/ contrbution to social fund	1,335
C/ dividends	62,777

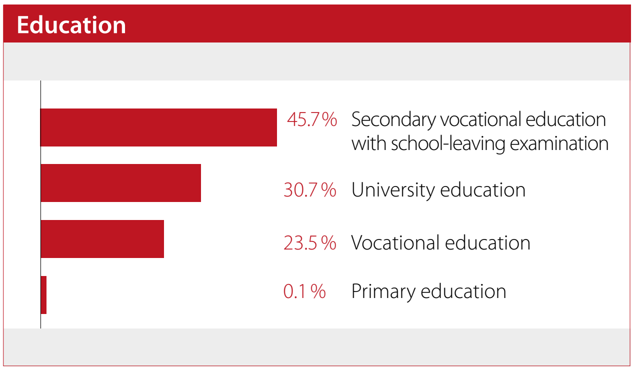
Human Resources

3.

Human Resources

In 2020, ZSD had 1 499.9 employees on average (excl. members of the Board of Directors and Supervisory Board and employees who worked on the basis of the agreement on performance of work). The average age of employee was 46.2 years. In 2020, the share of employees with university education went up by 1.04% on a year-on-year basis.





Remuneration and employee benefits
In line with the commitments resulting from the Collective Agreement, the companies of the ZSE Group raised the wage, consisting of the basic and variable part, by 4% on average. Employees were also remunerated on the basis of performance, which directly affected the amount of the variable component of the wage and extraordinary remuneration.

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

In 2020, the employer continued in contributing to the supplementary pension savings scheme of employees. Every employee was entitled to 5 days of holidays beyond the Labour Code.

Development of employees and cooperation with schools
Education focuses mainly on development of skills. The biggest part of these educational and training activities concerned courses required by law.

In the field of soft skills education, an educational and development program was introduced at the beginning of the year, the aim of which was to support well-being. Topics in the field of stress management, healthy leadership, support of teamwork were part of the programs for all groups of employees. A part of this concept was also a new lecture format of education „Without tension", which mediated topics from the field of mental and physical health to employees on a monthly basis.

Due to the pandemic situation, most educational activities in the field of soft skills took place online. Talent management programs took place equally in an online environment. In October, for the first time on the occasion of the International Day of Mental Health in Society, the „Online Mental Health Day" took place.

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

The Graduate Programme called Power is a key programme for practical preparation of young generation. It is intended for vocational secondary school and university graduates with electrical engineering education and it is aimed at education of successors for technical positions through systematic development and work positions in selected units.

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

Students of secondary vocational schools can participate in many projects, such as dual education, technical trainings or various competitions and events. Again, the Company organised a traditional, successful event "ZSE Open" for students of secondary vocational schools located in western Slovakia, to present them work of our technical colleagues. Students of secondary electrical schools participated in the next year of the 4E.ON competition, in which they produced important teaching aids for electrical engineering in the field of electrical engineering. The evaluation of the competition and the final event took place for the first time online.

Primary schools across all Slovakia could participate in a traditional competition "Finding Energy" which was held despite the closure of schools during the first wave of the pandemic situation. Selected primary schools were offered the travelling exhibition "Energy Experience" which presents the students where energy comes from.

4. Occupational Health and Safety

Occupational Health and Safety

Západoslovenská distribučná has been focusing on systematic development and training of employees in occupational health and safety in the long-run. Considering the nature of works in energy business, observance of OHS rules is the top priority.

At the time of the coronary crisis, the issue of the Act on Safety and Health at Work was addressed, the conditions for fulfilling obligations and deadlines in relation to acquaintance of employees, reconditioning stays, mandatory medical examinations, AOP and some other obligations under the Act on Safety and Health at Work were adjusted. Entrance training for new employees was carried out in the form of distance learning through the Teams application. We also provided familiarization by distance-provided familiarization for our suppliers, employee representatives for safety and simple work at heights.

In addition to standard trainings required by law in 2020, traumatological exercises and trainings for the use of defibrillators were carried out. The OHS campaigns were also supported by internal communication. In 2020, a sum of EUR 1,289,875 was invested for all ZSE Group companies into personal and protective work equipment and tools, obligatory training courses on occupational health and safety, and preventive medical check-ups.

The TRIF comb. indicator – a number of incidents incurred by the employees of the ZSE Group and of contractors per 1 million hours of work for the monitored period - is reported in the ZSE Group. In 2020, the TRIF comb. was 1.7. Five registered work accidents were reported in 2020, of which 1 work accident was injuries of our contractors. In 2020, employees of contractors worked 355,785 hours at the sites or facilities of the ZSE Group.

Within the supervisory audit in 2020, the ZSE Group showed improvement of the established System of Integrated Management (SIM) and managed to keep international certificates ISO 9001, ISO 14001 and ISO 45 001. The re-certification agency identified SIM strengths and improvements and came to the conclusion that SIM is in line with the requirements of ISO 9001, ISO 14001 and ISO 45 001 standards, applicable laws and achieves continuous improvement. The audit led to recommendations of the certification agency to continue with the certification. The audit was carried out in a remote form through information technology.

Environmental Protection

5.

Environmental Protection

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

In 2020, the companies of the ZSE Group invested EUR 250,5 thousand in environmental constructions and repairs. A sum of EUR 209,8 thousand was dedicated to the environmental operation and maintenance of the facilities and repairs of the objects, including waste disposal. Operating and servicing facilities was carried out in order to reduce the risk of polluting underground water, soil and air.

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

Západoslovenská distribučná has been focusing on environmental care of its lines in the long-run. It cooperates with experts from the Raptor of Protection Slovakia association, to set specific measures. In 2020, the Company continued in the Countryside project. In an effort to create a safer bird corridor along the Danube River, ZSD is a partner of the LIFE DANUBE FREE SKY project. Also as a partner of the project LIFE EUROKITE supports the protection of the red kite.

As a part of the project, the Company treats power lines in critical areas with elements that eliminate death of birds when they collide with power lines. It pays the same attention to lines that are located outside the project areas but are in high-risk areas due to the occurrence of protected bird species. So far, more than 1,000km of older lines have been treated. New lines are treated automatically. In total, more than EUR 1m was invested in the environmental improvement of the lines.

Biggest investments in 2020

6.

Biggest investments in 2020

Západoslovenská distribučná considerably modernises the region where it operates and is a part of significant investments which are made in Slovakia. With the aim of increasing the quality of service, every year it invests in the development of the modern distribution system and new products which are environmentally friendly and use mainly renewable sources.

In 2020 the following investments were made:

- **Reconstruction of the electrical station Žabí Majer Bratislava, which is the biggest and most complicated construction.** The aim of the reconstruction was to abandon the electrical station in premises of the former Tepláreň II, today known as combined heat-and-power cycle PPC Bratislava including full re-design of 22kV lines connection. As a part of the reconstruction, 110kV lines connection was changed, and a new 110/22kV transformer station was built with the output 2x40MVA. Approximately 50 km of 22kV cable lines were built. Almost 35 thousand supply points in the capital city will be affected by this reconstruction. Newly-built transformation station provides back-up supply to the surrounding part of the distribution system. The total amount of the investment was EUR 15 million, and approximately 35 thousand customers will benefit from it.

- Control and Information System in the electrical station Podunajské Biskupice was built. **Electrical station in Podunajské Biskupice** is the second biggest 110kV substation on the territory of Západoslovenská distribučná and the most important supply hub for the capital city of the Slovak Republic, Bratislava, and surrounding areas. The total value of the investment was EUR 6 million, and approximately 40 thousand customers will benefit from it.

- Full reconstruction of electrical stations including installation smart elements was made **in Veľký Meder** (investment of up to EUR 7 million), **Nové Mesto nad Váhom** (investment of up to EUR 9 million) and **Hurbanovo** (investment of up to EUR 6 million).

- **Line inlet in the electrical station Nitra North:** Building a new 5 km 2x110 kV line in the electrical station Industrial Park Nitra North. The aim of the construction was to boost reliability of supply to the Industrial park Nitra North, where one of the biggest customers is the assembly plant Jaguar Land Rover. The amount of the investment was EUR 3 million and approximately 25thousand customers will benefit from it.

- **Reconstruction of the 110kV line Smolenice - Trnava:** The 110kV line of the total length 20km was fully reconstructed. The amount of investment was EUR 4.5 million.

Projects cofinanced by the European Union

ACON Smart Grids

Project ACON is focused on fostering the integration of the Czech and Slovak energy markets, increasing competitiveness in the region, while ensuring adequate quality, security and stability of electricity supply. The aim of the project ACON is modernization and increasing the effectiveness of distribution network in different parts of Slovak Republic and Czech Republic focused primarily on border areas and cross-border connections. Implementation of the project ACON will enable efficient integration of behaviour and actions of grid users in order to ensure an economically efficient, sustainable electricity system with low losses and high quality and security of supply.

Project ACON will be implemented on the Slovak side by Západoslovenská distribučná, a.s. and on the Czech side by EG.D, a.s.

The main objective of the ACON project is to improve the existing power distribution grid primarily in the border areas of both countries concerned, but the project activities will also impact other parts of project promoters' distribution areas. This will create greater capacity for the development and connection of distributed electricity production and adequate space for possible connection of new distribution grid users in the region. Moreover, the distribution grid will be modernised through implementation of smart elements and new IT framework in order to create the "smart grid" energy network within the project impact area. Planned realisation period is till 2024. The project budget is EUR 182 million with 50% EU co-financing, amount of investments on Slovakia is EUR 92 million.

Project benefits

Global benefits: New experience with smart grids in the area of CEE region, better energy stability, security of supply, positive environmental impacts, intensification of international cooperation, strengthening of physical interconnection between both countries the Slovak Republic and Czech Republic..

Local benefits: Better quality of electricity supply, improvement of competitiveness, network connectivity for all users, long-term reduction of negative environmental impacts, potential for connection of new renewable energy sources.

Danube InGrid

The aim of the project Danube InGrid is to strengthen interaction and integration between Slovak and Hungarian electricity markets. Project is focused on deployment of smart technologies both internally and on cross-border level, what will contribute to the evolvement of modern energy infrastructure. It will efficiently integrate the behaviour and actions of all market users connected to the electricity network, mainly consumers, prosumers, generators, with the goal of integration of large amounts of electricity from renewable and distributed energy sources.

Project is realized by **Západoslovenská distribučná, a.s.** (Slovak distribution system operator), **E.ON Észak-dunántúli Áramhálózati Zrt**. (Hungarian distribution system operator) and S**lovenská elektrizačná prenosová sústava, a.s.** (Slovak transmission system operator). The aim of their cooperation is to efficiently integrate smart grids across borders of two EU members states and contribute to the upgrade of EU electricity networks and connect them (physically / digitally); in particular to integrate and increase the penetration of renewable energy within the project area. Project will also positively influence the quality of environment.

Project will be implemented during the period of 2020-2025 with the total value reaching eur 296 million. In October 2020, the project was allocated the highest grant co-financing in the smart grid category from the Connecting Europe Facility in the amount of EUR 102 million, while the total value of the project is EUR 292 million.

Project benefits

The main benefit is to provide better and more economically efficient delivery of services for the strategic industrial areas and final consumers of both mentioned countries. Project will improve quality of electricity supply, security of supply, connection of new renewable energy sources, network connectivity for all users and reduction of negative environmental impacts.

Development of Online services

7.

Development of Online services

Development of Online services: Západoslovenská distribučná, a.s., has been expanding online services to its customers for several years. The aim of these projects is to make the process of handling the requests more efficient and expand the online information service.

The progress of online services continued in 2020, although the year was affected by the pandemic. The relevant teams introduced the news on the website, distribution portal, online applications and ZSD mobile application.

Online applications: These are web applications which make the process of submitting requests easier (they present an alternative to the standard "paper" form). Furthermore, they enable to track the status of the request online. Currently, Application for Connection and Application for Connection of Small-Scale Source to the Distribution System can be submitted online. Thanks to the projects implemented in 2020, Request for the Opinion on the Project Documentation for Combined/Building Procedure can be submitted online too. Also, new design of online application was developed and will be gradually applied to all types of requests.

ZSD mobile application: Free-of-charge application enables the customers to have their electricity distributor at hand anytime: ZSD services, consumption, meter-reading, deduction, failures and outages, contact etc.). In 2020, several new functionalities were activated by the application team, such as Help module, which will make the work with the application easier.

At the time of the pandemic, the functionality Self meter-reading proved to be useful, as the customers can make the meter-reading themselves and no visit of our employee is required.

Website zsdis.sk: The website of Západoslovenská distribučná, a.s., was completely re-designed in 2016 and 2017. In the following years including 2020, new content and functionalities were added. One of the news introduced in 2020 is the web application When there is no electricity, which instructs the customers what to do if there is a power failure.

Distribution portal: It is a communication portal for ZSD customers and business partners.

Geoportal: Geoportal of Západoslovenská distribučná, a.s., offers functionalities such as informative view of networks, request for opinion on the existence of networks, provision of data in the DGN format, situation plans, map of failures and outages, request for the network manager and check of electroless status in the selected location.

Text message in case of failure: This service was introduced in 2020 and is available within the pilot operation on the entire territory of Západoslovenská distribučná, a.s., except the Bratislava districts. If there is a failure lasting more than 15 minutes, a text message is automatically sent to the customer. The customer is thus assured, without any action on his part that we are aware of the failure and work on its removal.

Searching for planned outages and current failures: The website www.zsdis.sk contains the integrated search for planned outages and reported failures.

Times for switching high and low tariffs (ripple control): This web application offers to customers with double-tariff electricity metering display the times of low and high tariffs. The relevant ripple control code must be entered, and a clear graph is displayed.

Recommended electricians: This web application enables to look for a certified electrician in the specified district who will help the customer get the supply point ready for the connection to the distribution system.

Corporate Social Responsibility

8.

Corporate Social Responsibility

In the area of corporate responsibility, the aim of ZSE Group is to support education, foster innovation, protect environment and develop communities.

Education

Elektrárňa Piešťany, a former municipality power plant, is a reconstructed industrial building from the early 20th century. It helps create space for both informal and formal education and direct contact with science for general public. Elektrárňa Piešťany gradually becomes a unique centre for experience education in science, technology and art. In a funny way it explains students and visitors how electrical, magnetic, solar and hydro energy functions, using interactive installations. Education for schools is presented in interactive expositions and workshops focusing on support of education and new knowledge in physics, ecology, sustainable development and natural science.

The ZSE Group contributed to better quality of education in Slovakia through the grant scheme Exceptional School. In 2020, the ZSE Foundation announced its second year. The aim of the programme is to support teachers at elementary and secondary schools across Slovakia who, despite obstacles, did not lose encouragement to teach differently and be inspiration for their students and colleagues. A total sum of EUR 73,770 was distributed within this programme, supporting 32 projects.

In 2020, education moved to the online environment. Since March 2020 the Slovak schools have been using distance learning. Therefore, in spring 2020 the ZSE Foundation decided to set up www.vynimocneskoly.sk website with interesting content which facilitates education for teachers, students and parents too. As the year progressed, the database of inspirational materials in various subjects was extended.

Protection of environment

Environmental responsibility has been among priorities of the ZSE Group in the long-run. For more than 20 years environmentalists and we have been jointly working to reach harmony between the landscape and industry on this territory which is also a part of the distribution area of ZSE. In 2020, the long-term environmental projects continued. With the Raptor Protection of Slovakia organisation, we managed to protect birds against collisions with electrical lines. ZSD employees helped installing the so-called deflectors at the poles, minimising risk of collisions in bad weather conditions. More than a million euro has been spent so far to make the lines more environmentally friendly. At the same time, in cooperation with ornithologists we installed up to 40 booths at the poles of high voltage lines.

Community development

Engagement of the ZSE Group employees has been one of our pillars of our activities within social responsibility. Effort and engagement of our colleagues help contribute to better environment we live in and in which our Company operates. For 15 years our volunteers have been involved in the projects with the aim of bringing positive and visible change. Through the Employees´ grant programme the ZSE Group supports volunteering activities of those employees who, besides their daily work and duties, are willing to be engaged in their community. In 2020, the amount of EUR 65,500 was distributed among 133 projects of active employees.

Mutual aid connects us

Unusual pandemic period we undergo presented many changes. In Slovakia, many initiatives were created over short-time, with one objective: mutually help each other. Humanity and solidarity, aid to the closed ones and others became normal part of our days.

The ZSE Group responded to the situation and supported #KtoPomozeSlovensku with the sum of EUR 20,000. Transparent system of the financing helped manage the current pandemic in hospitals, care homes and other facilities providing services to vulnerable groups of people.

In 2020, the cooperation of the ZSE Foundation with Disabled Aid Association (APPA) continued only through the implementation of projects supported in the third year of the charity grant programme **We Remove Barriers**, which received financial support in 2019 and their implementation exceeded 2020.

Through this program, the ZSE Foundation strengthens its activities in the field of community development in order to activate local communities to help people with disabilities who live among us. Natural persons, informal groups of citizens and non-governmental organisations could apply for support, with the aim of organising their own charity sport or cultural events or public collection in West Slovakia. Financial support from the program is for organizational and technical support charity event. The collection from these charity events are intended to optimize the lives of people with health handicap. The contribution can be used for rehabilitation, medication reimbursement, compensation and medical devices, to pay for barrier-free solution to residential areas and other things necessary to improve their quality of life.

Considering the global coronavirus pandemic that significantly threatens people with chronic diseases, the fourth year of the program was announced in 2020.
In the end of 2020, the ZSE Group decided to make nicer Christmas for people who are in need for various reasons. Christmas contribution to our teams´ meetings was provided, in cooperation with the Slovak Catholic Charity, to families in need, medically handicapped, single parents, mistreated women, homeless people and lonely seniors across Slovakia. Within the campaign "Don´t let hope die" the sum of almost EUR 40,000 was used to cope with the consequences of pandemic.

Annex

Financial Statements and Independent Auditor’s Report

as at 31 December 2020

Contents

Statement of Financial Position

Statement of Financial Position			
In thousands of EUR	**Note**	**31 December 2020**	**31 December 2019**
ASSETS			
Non-current assets			
Property, plant and equipment	6	1,074,655	1,042,412
Intangible assets	7	13,642	12,868
Right-of-use assets	8	77,78	77,574
Total non-current assets		**1,166,077**	**1,132,854**
Current assets			
Inventories	10	1,202	618
Trade and other receivables	11	40,772	46,155
Current income tax refund receivable		-	-
Cash and cash equivalents	13	4,797	4,813
Receivables from cash pooling	12	20,201	40,546
Total current assets		**66,972**	**92,132**
TOTAL ASSETS		**1,233,049**	**1,224,986**
EQUITY			
Share capital	14	33,227	33,227
Legal reserve fund	15	85,515	77,558
Retained earnings		88,735	95,556
TOTAL EQUITY		**207,477**	**206,341**
LIABILITIES			
Non-current liabilities			
Borrowings	9	630	630
Lease liabilities	8	70,666	70,557
Deferred income tax liabilities	16	86,603	89,823
Post-employment defined benefit obligations	17	10,622	9,265
Other long-term employee benefits	18	1,878	1,888
Contract liabilities from connection fees and customer contributions	20	85,907	83,775
Total non-current liabilities		**885,676**	**885,308**
Current liabilities			
Borrowings	9	8,534	8,534
Lease liabilities	8	7,906	7,212
Trade and other payables	21	80,620	89,945
CoContract liabilities from connection fees and customer contributions	20	6,176	5,793
Provisions for liabilities and charges	19	29,739	21,666
Current income tax payable		6,921	187
Total current liabilities		**139,896**	**133,337**
TOTAL LIABILITIES		**1,025,572**	**1,018,645**
TOTAL LIABILITIES AND EQUITY		**1,233,049**	**1,224,986**

These financial statements have been approved for issue by the Board of Directors on 24 March 2021.

Ing. Tomáš Turek, PhD.
Chairman of the Board of Directors

Ing. Marian Kapec
Member of the Board of Directors

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

Statement of Profit or Loss and Other Comprehensive Income

Statement of Profit or Loss and Other Comprehensive Income			
In thousands of EUR	**Note**	**2020**	**2019**
Revenue	22	**352,658**	**490,074**
Transmission fees payable to network operator		(58,161)	(59,453)
Purchases of electricity for losses, charges for electricity produced from renewable sources and other purchases		(41,256)	(154,102)
Employee benefits	23	(56,926)	(54,096)
Depreciation of property, plant and equipment	6	(69,424)	(66,210)
Amortisation of intangible assets	7	(4,478)	(2,879)
Depreciation of right-of-use assets	8	(7,674)	(6,890)
Other operating expenses	24	(43,48)1	(44,420)
Government grant for renewable energy purchases	34	20,478	-
Other operating income	0	5,449	4,791
Capitalized own costs		17,636	18,420
Profit from operations		**114,821**	**125,235**
Finance income / (costs)			
Interest income		6	23
Interest and similar expense	26	(19,093)	(19,126)
Finance costs, net		**(19,087)**	**(19,103)**
Profit before tax		**95,734**	**106,132**
Income tax expense	16	(24,498)	(26,564)
Profit for the year		**71,236**	**79,568**
Other comprehensive income			
Items that will not be subsequently reclassified to profit or loss			
Actuarial remeasurements of post-employment defined benefit obligations	17	(1,283)	(1,852)
Deferred tax on actuarial remeasurements of post-employment defined benefit obligations	16	269	389
Total other comprehensive loss for the year		**(1,014)**	**(1,463)**
Total comprehensive income for the year		**70,222**	**78,105**

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

Statement of Changes in Equity

Statement of Changes in Equity				
In thousands of EUR	**Share capital**	**Legal reserve fund**	**Retained earnings**	**Total equity**
Balance at 1 January 2019	**33,227**	**71,052**	**81,214**	**185,493**
Profit for the year	-	-	79,568	**79,568**
Other comprehensive loss for the year	-	-	(1,463)	**(1,463)**
Total comprehensive income for 2019	**-**	**-**	**78,105**	**78,105**
Dividends declared and paid (Note 14)	-	-	(57,257)	**(57,257)**
Contribution to legal reserve fund	-	6,506	(6,506)	**-**
Balance at 31 December 2019	**33,227**	**77,558**	**95,556**	**206,341**
Profit for the year	-	-	71,236	**71,236**
Other comprehensive income / (loss) for the year	-	-	(1,014)	**(1,014)**
Total comprehensive income for 2020	**-**	**-**	**70,222**	**70,222**
Dividends declared and paid (Note 14)	-	-	(70,304)	**(70,304)**
Contribution to legal reserve fund	-	7,957	(7,957)	**-**
Other movements	-	-	1,218	**1,218**
Balance at 31 December 2020	**33,227**	**85,515**	**88,735**	**207,477**

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

Statement of Cash Flows

Statement of Cash Flows			
In thousands of EUR	**Note**	**2020**	**2019**
Cash flows from operating activities			
Profit before tax		95,734	106,132
Adjustments for non-cash items:			
- Depreciation of property, plant and equipment	6	69,424	66,210
- Loss on disposal of property, plant and equipment	6	210	(259)
- Amortisation of intangible assets	7	4,478	2,879
- Depreciation of right-of-use assets	8	7,674	6,890
- Impairment of property, plant and equipment	6	1,171	-
- Interest income		**(6)**	**(23)**
- Interest and similar expense	26	19,093	19,234
- Other non-cash items		1,888	(26)
Cash generated from operations before changes in working capital		199,666	201,037
Changes in working capital:			
- Inventories		(584)	34
- Contract liabilities		(2,808)	(9,926)
- Trade and other receivables		5,383	(6,776)
- Trade and other payables		(20,510)	(4,235)
- Provisions for liabilities and charges		8,072	1,679
- Other		-	(1,624)
- Receivables from cash-pooling		20,345	4,324
Cash generated from operations before interest and taxes		**209,256**	**184,513**
Interest income received		6	23
Interest costs paid, except interest capitalised to property, plant and equipment and intangible assets		(19,029)	(15,467)
Income tax paid	34	(20,715)	(19,072)
Net cash from operating activities		**169,826**	**149,997**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(89,084)	(87,167)
Interest expense paid and capitalised		(1,817)	(1,691)
Cash received as a result of government grant		3	4,676
Proceeds from sale of property, plant and equipment and intangible assets	6	276	327
Net cash used in investing activities		**(90,622)**	**(83,855)**
Cash flows from financing activities			
Dividends paid	14	(70,304)	(57,257)
Repayment of principal element of lease liabilities	30	(8,916)	(7,949)
Net cash used in financing activities		**(79,220)**	**(65,206)**
Net change in cash and cash equivalents		**(16)**	**936**
Cash and cash equivalents at the beginning of the year		4,813	3,877
Cash and cash equivalents at the end of the year	**13**	**4,797**	**4,813**

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

Notes to the Financial Statements – 31 December 2020

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union for the year ended 31 December 2020 for Západoslovenská distribučná, a.s. (hereinafter "The Company" or "ZSD").

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

Principal activity. The Company provides electricity distribution and supply services primarily in the Western Slovakia region. The Company also provides information services to related parties.

Registered address and place of business. The Company's registered address is Čulenova 6, Bratislava 816 47, Slovak Republic. Its identification number (IČO) is: 36 361 518 and its tax identification number (IČ DPH) is: SK2022189048.
Presentation currency. These financial statements are presented in Euro ("EUR"), rounded to thousands, unless otherwise stated. Negative amounts are presented in brackets.

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

The Parent company is jointly controlled by E.ON and the Slovak Republic as a result of a shareholders agreement, which requires the parties to act jointly to direct the activities that significantly affect the returns of the parent company. The Parent company's governance structure dictates that the Parent company Strategic plan shall be approved by representatives of both E.ON and the Slovak Republic. Further, any decisions by general meeting of shareholders must be made jointly by the existing shareholders, because a qualified two thirds majority of votes is required to pass any decision, while restrictions exist for transfer of shares to parties not under control of existing shareholders.

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

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

Number of employees. The Company employed 1,506 staff on average during 2020, of which 23 were management (2019: 1,467 employees on average, of which 24 were management). Number of employees at 31 December 2020 was 1,512 (31 December 2019: 1,498).

2 Significant Accounting Policies

Basis of preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union under the historical cost convention. The principal accounting policies applied in the preparation of these financial statements are set out below.

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

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

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

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

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

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

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

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

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

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

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

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

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

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

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

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

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

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

Right-of-use assets. The Company leases lands, administrative and technical buildings and motor vehicles. Contracts may contain both lease and non-lease components. The Company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Company is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component. Assets that represent right-of-use of the underlying leased assets are initially measured at the present value of the future lease payments.

Right-of-use assets are measured at cost at the commencement date of a lease, comprising the following:
- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct (transaction) costs, and
- costs to restore the asset to the conditions required by lease agreements upon handover to the lessor at the end of the lease.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying assets' useful lives.

Depreciation on the items of the right-of-use assets is calculated using the straight-line method over their estimated useful lives as follows:

	Useful lives in years
Land	9 to 87 years
Office buildings and technical buildings	2 to 20 years
Power equipment	5 to 20 years
Motor vehicles	2 to 6 years

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

Trade receivables. Trade receivables are recognised initially at nominal value and subsequently measured at amortised cost using the effective interest method, net of allowance for ECL.

When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against impairment losses within "other operating expenses".

Value added tax. Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the statement of financial position on a net basis. Where provision has been made for the impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT, if this previously paid output VAT is not expected to be refunded by the authorities.

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

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.
Amortised cost ("AC") is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses ("ECL"). Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to the maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of the related items in the statement of financial position.

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

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

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

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

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

Financial assets – classification and subsequent measurement – cash flow characteristics. Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Company assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature. In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed.

The Company holds only trade receivables, receivables from cash pooling, and cash and cash equivalents. The nature of financial assets is short-term, and the contractual cash flows represent principal and interest payment that reflect the time value of money and therefore the Company measures them at amortized cost. In addition, the Company applies expected loss model to credit risk from contract assets.

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

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

Receivables measured at AC are presented in the statement of financial position net of the allowance for ECL.
The Company applies a simplified approach to trade receivables under IFRS 9, i.e. measures ECL using lifetime expected loss. The Company uses for the calculation of lifetime expected loss for trade receivables a matrix that

takes into account the amount of receivables turnover during the current period, revenues for the current period and the amount of receivables written off.

The amount of loss allowance was the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset was reduced using an allowance account, and the amount of the loss was expensed within "other operating expenses".

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

Financial assets - derecognition. The Company derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Company has transferred the rights to the cash flows from these financial assets as well as substantially all the related risks and rewards to an unrelated third party.

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

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

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

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

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

Cash and cash equivalents. Cash and cash equivalents 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. Cash and cash equivalents are carried at amortised cost because they are held for collection of contractual cash flows and those cash flows represent solely payments of principal and interest ("SPPI").

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

Business combination under common control. Purchases of subsidiaries, businesses or parts of a business from companies under common control are accounted for using the predecessor value method. Under this method, the financial statements of the entity that is the result of a business combination are prepared as if the business combination had taken place at the beginning of the oldest reporting period or since the date on which the companies or businesses are under common control. The assets and liabilities of the subsidiary, business or part of a business acquired from an entity under common control are recognized at the predecessor entity's carrying values.

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

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

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

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

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

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

Current income tax also includes a special levy on profits in regulated industries at a rate of 6.54% per annum (2019: 6.54%). The basis for the special levy is calculated as profit before tax * (revenues from regulated activities / total revenues). The special levy rate use for calculation was 6.54% p.a. for years 2019 – 2020 and a rate of 4.356% p.a. will apply from 2021. The levy is a deductible expense for the purposes of applying the standard corporate income tax rate.

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

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

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

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

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

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

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

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

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

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

Grants and contributions. Grants and other similar contributions are recognised at their fair value where there is reasonable assurance that the grant or contribution will be received and the Company will comply with all attached conditions. Grants and similar contributions relating to the purchase of property, plant and equipment are accounted as deferred income and subsequently recognised in other operating income on a straight line basis over the expected lives of the related assets. Grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate. Grants relating to past costs are recognised in profit or loss when it is reasonably certain that the grant will be received.

Trade payables. Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within less than one year, or within the entity's operating cycle. All other accounts payable are presented as non-current liabilities.
Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

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

Lease liabilities. Liabilities arising from a lease are initially measured on a basis of present value of future payments. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable,
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date,
- amounts expected to be payable by the Company under residual value guarantees,
- the exercise price of a purchase option if the Company is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

Extension and termination options are included in a number of property and equipment leases. These terms are used to maximise operational flexibility in terms of managing the assets used in the Company's operations. The majority of extension and termination options held are exercisable only by the Company and not by the respective lessor. Extension options (or period after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

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

To determine the incremental borrowing rate, the Company:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since the third party financing was received,
- uses a method adjusting risk-free interest rate by a credit risk margin, and
- makes adjustments specific to the lease, e.g. term, country, currency and collateral.

The Company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance costs. The finance costs are charged to profit or loss over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Company does not expect to pay anything under the guarantees.

Provisions / Contingent liabilities. Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax-rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase of the provision due to passage of time is recognised as interest expense. Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain.

Contingent liabilities are not recognised in the financial statements as liabilities. They are disclosed in the notes to the financial statements, unless the possibility of an outflow of resources embodying the economic benefits is remote. Revenue recognition. Revenue is recognised, net of value-added tax, estimated returns, rebates and discounts. The Company recognises revenue when it is probable that future economic benefits will flow to the Company, and in the case of variable consideration when it is highly probable that the recognized revenue will not have to be reversed and when specific criteria will be met for each of the Company's activities as described below.

Revenue from distribution of electricity. Revenue from distribution of electricity is recognized when the distribution service is rendered to electricity customers. Revenue from these services is recognized in the reporting 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. This is because the customer benefits from the service as it is being provided.

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

Sales of services. In the case of services where customer benefits from the service as it is being performed, revenue from the service is recognised in the reporting period in which the services are rendered, by reference to completion of the specific transaction assessed based on the actual service provided as a proportion of the total services to be provided.

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

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

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

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

3 Adoption of New or Revised Standards and Interpretations

The following amended standards became effective from 1 January 2020, but did not have any material impact on the Company:

- Amendments References to the Conceptual Framework for Financial Reporting (effective for annual periods beginning on or after 1 January 2020).
- Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).
- Interest rate benchmark reform – phase 1 amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020).
- Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from

the beginning of annual reporting period that starts on or after 1 January 2020).
- Covid-19-Related Rent Concessions – Amendments to IFRS 16 (issued on 28 May 2020 and effective for annual periods beginning on or after 1 January 2020).

4 New Accounting Pronouncements

Certain new standards, interpretations and amendments have been issued that are mandatory for annual periods beginning on or after 1 January 2021, and which the Company has not early adopted:

Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2023). These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument. The original amendment to IAS 1 on classification of liabilities as current or non-current was issued in January 2020 with an original effective date 1 January 2022. However, in response to the Covid-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement classification changes resulting from the amended guidance. The Company is currently assessing the impact of the amendments on its financial statements.

Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022). The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, are now recognised in profit or loss. An entity will use IAS 2 to measure the cost of those items. Cost will not include depreciation of the asset being tested because it is not ready for its intended use. The amendment to IAS 16 also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. An asset might therefore be capable of operating as intended by management and subject to depreciation before it has achieved the level of operating performance expected by management. The amendment to IAS 37 clarifies the meaning of 'costs to fulfil a contract'. The amendment explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling that contract; and an allocation of other costs that relate directly to fulfilling. The amendment also clarifies that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract. IFRS 3 was amended to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. Prior to the amendment, IFRS 3 referred to the 2001 Conceptual Framework for Financial Reporting. In addition, a new exception in IFRS 3 was added for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 or IFRIC 21, rather than the 2018 Conceptual Framework. Without this new exception, an entity would have recognised some liabilities in a business combination that it would not recognise under IAS 37. Therefore, immediately after the acquisition, the entity would have had to derecognise such liabilities and recognise a gain that did not depict an economic gain. It was also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date. The amendment to IFRS 9 addresses which fees should be included in the 10% test for derecognition of financial liabilities. Costs or fees could be paid to either third parties or the lender. Under the amendment, costs or fees paid to third parties will not be included in the 10% test. Illustrative Example 13 that accompanies IFRS 16 was amended to remove the illustration of payments from the lessor relating to leasehold improvements. The reason for the amendment is to remove any potential confusion about the treatment of lease incentives. IFRS 1 allows an exemption if a subsidiary adopts IFRS at a later date than its parent.

The subsidiary can measure its assets and liabilities at the carrying amounts that would be included in its parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. IFRS 1 was amended to allow entities that have taken this IFRS 1 exemption to also measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. The amendment to IFRS 1 extends the above exemption to cumulative translation differences, in order to reduce costs for first-time adopters. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption. The requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41 was removed. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis. The Company is currently assessing the impact of the amendments on its financial statements.

The following other new standards or their amendments were issued and will not to have a material impact:
- IFRS 14, Regulatory Deferral Accounts (issued on 30 January 2014 and effective for annual periods beginning on or after 1 January 2016, that was not endorsed by the EU).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- IFRS 17 „Insurance Contracts"(issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2023)
- Amendments to IFRS 17 and an amendment to IFRS 4 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023).
- Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (issued on 27 August 2020 and effective for annual periods beginning on or after 1 January 2021).
- Amendments to IAS 1, Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023).
- Amendments to IAS 8, Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023).

5 Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

ECL measurement of receivables. The Company applies a simplified approach to trade receivables under IFRS 9, i.e. measures ECL using lifetime expected loss. The Company uses for the calculation of lifetime expected loss for trade receivables a matrix that takes into account the ageing of receivables, loss rate for each ageing category, and the amount of receivables written off. The Company has considered the expected payment discipline for the next 12 months. Based on these indicators, it was decided that the expected loss allowance for trade receivables based on historical data is sufficient, as the development of the forward looking indicators corresponds to the development of previous periods, including the period since March 2020 that was impacted by the coronavirus situation. Possible developments of macroeconomic indicators do not have significant impact on expected credit losses from trade receivables.

Unbilled electricity distribution. The unbilled revenue from distribution represent an accounting estimate based on estimated volume of delivered and distributed electricity expressed in MWh for low voltage network and estimated unit price that will be billed in the future.

The Company uses customer information system Enersim to estimate the unbilled deliveries based on assumed customer demand profiles, which at 31 December 2020 amounted to EUR 51,350 thousand (as at 31 December 2019 it was EUR 48,614 thousand). This accounting estimate is based on: (a) the estimated volume distributed to households in technical units (MWh) between the date of the last meter reading and the end of the reporting period; (b) the consumption estimate utilising the time patterns of consumption of various customer profiles observed on a sample basis; (c) the estimated losses in the distribution network; and (d) the unit price in EUR/MWh, that will be applied to billing the electricity distribution. Refer to Note 22.

The Company reported the following values of uninvoiced revenues for distribution and supply of electricity:

The Company reported the following values of uninvoiced revenues for distribution and supply of electricity		
In thousands of EUR	**31 December 2020**	**31 December 2019**
Accrued receivables from distribution and delivery of electricity as part of item „Trade and other receivables"	5,920	**6,427**
Accrued liabilities from distribution and delivery of electricity as part of item „Trade and other payables"	-	-

The Company also engaged an independent expert to estimate network losses. Should the estimate of total network losses be lower by 0.1%, representing 10 GWh of electricity (2019: 10 GWh), with other parameters unchanged, the revenues from the distribution services would increase by EUR 1,038 thousand (2019: EUR 949 thousand).

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

Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Company. The following primary factors are considered: (a) the expected usage of the assets; (b) the expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) the technical obsolescence, if any. If the estimated useful life of network assets had been shorter by 10% than management's estimates at 31 December 2020, the Company would have recognised an additional depreciation of network assets of EUR 6,689 thousand (2019: EUR 6,746 thousand).

Depreciation of right-of-use assets. In determining the lease terms, the Company takes into account also verbal agreements between the parties relating to the automatic annual extension of the leased buildings. The lessor verbally agreed with us that we will be able to renew leases of office premises each year for up to 15 years at market level rent at the time of each renewal. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lessee is reasonably certain that the lease will be extended (or not terminated).

For leases of offices, equipment and vehicles, the following factors are normally the most relevant: (i) if there are significant penalties to terminate (or not extend), the Company is typically reasonably certain to extend (or not terminate) the lease and (ii) if any leasehold improvements are expected to have a significant residual value, the Company is typically reasonably certain to extend (or not terminate) the lease. Otherwise, the Company considers other factors including historical lease term and the costs and business disruption required to replace the leased asset.

As at 31 December 2020, potential future cash outflows of EUR 0 thousand (31 December 2019: EUR 0 thousand) (undiscounted) have not been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated). The lease term is reassessed if an option is actually exercised (or not exercised) or the Company becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

6 Property, Plant and Equipment

Movements in the carrying amount of property, plant and equipment were as follows during 2020:

Movements in the carrying amount of property, plant and equipment during 2020

In thousands of EUR	Land	Network buildings	Power lines	Optical lines and other leased to third parties	Switching stations and network equip-ment	Other assets*	Capital work in progress	Total
Cost at 1 January 2020	28,082	144,758	1 090 381	2,823	408,576	67,690	78,499	**1,820,809**
Accumulated depreciation and impairment losses	-	(54,051)	(464 968)		(205,313)	(53,097)	-	**(778,397)**
				-968				
Carrying amount at 1 January 2020	**28,082**	**90,707**	**625,413**	**1,855**	**203,263**	**14,593**	**78,499**	**1,042,412**
Additions	-	-	-	-	1,218	-	98,044	**99,262**
Capitalised borrowing costs**	-	-	-	-	-	-	1,817	**1,817**
Transfers	860	7,249	32,588	-	32,128	3,361	(76,186)	**-**
Depreciation charge	-	(5,035)	(35,147)	(91)	(25,386)	(3,765)	-	**(69,424)**
Disposals	(145)	-	-	-	(387)	(58)	(689)	**(1,279)**
Termination of leases	-	-	(1,556)	-	311	-	-	**1,867**
Cost at 31 December 2020	**28,797**	**150,322**	**1,122,691**	**2,832**	**435,688**	**63,832**	**101,485**	**1,905,638**
Accumulated depreciation and impairment losses	**-**	**(57,401)**	**(498,281)**	**(1,059)**	**(224,541)**	**(49,701)**	**-**	**(830,983)**
Carrying amount at 31 December 2020	**28,797**	**92,921**	**624,410**	**1,764**	**211,147**	**14,131**	**101,485**	**1,074,655**

* Other assets comprise machinery, non-network and administrative buildings, vehicles and other assets.
** Capitalisation rate of borrowing costs was from 1 January to 31 December 2020 approximately 3.07 % p.a.

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

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

The proceeds from disposal of property, plant and equipment		
In thousands of EUR	**2020**	**2019**
Net book value of disposals	1,279	92
Gain / (loss) on disposal of property, plant and equipment	(210)	259
Other	(793)	(24)
Proceeds from disposals	**276**	**327**

Movements in the carrying amount of property, plant and equipment were as follows during 2019

Movements in the carrying amount of property, plant and equipment during 2019								
In thousands of EUR	**Land**	**Network buildings**	**Power lines**	**Optical lines and other leased to third parties**	**Swit-ching stations and network equip-ment**	**Other assets***	**Capital work in progress**	**Total**
Cost at 1 January 2019	27,785	139,378	1,049,593	2,639	388,031	73,438	66,841	**1,747,705**
Accumulated depreciation and impairment losses	-	(50,625)	(431,845)	(918)	(187,122)	(58,859)	-	**(729,369)**
Carrying amount at 1 January 2019	**27,785**	**88,753**	**617,748**	**1,172**	**200,909**	**14,579**	**66,841**	**1,018,336**
Initial adoption of IFRS 16	-	(133)	(2,333)	-	(340)	-	-	**(2,806)**
Additions	-	-	-	-	-	-	90,491	**90,491**
Capitalised borrowing costs**	-	-	-	-	-	-	1,690	**1,690**
Transfers	300	6,894	44,939	242	24,479	3,645	(80,499)	**-**
Depreciation charge	-	(4,861)	(35,754)	(108)	(21,886)	(3,601)	-	**(66,210)**
Disposals	(3)	-	-	-	(35)	(30)	(24)	**(92)**
Termination of leases	-	54	813	-	136	-	-	**1,003**
				-				
Cost at 31 December 2019	28,082	144,758	1,090,381	2,823	408,576	67,690	78,499	**1,820,809**
Accumulated depreciation and impairment losses	-	(54,051)	(464,968)	(968)	(205,313)	(53,097)	-	**(778,397)**
Carrying amount at 31 December 2019	**28,082**	**90,707**	**625,413**	**1,855**	**203,263**	**14,593**	**78,499**	**1,042,412**

* Other assets comprise machinery, non-network and administrative buildings, vehicles and other assets.
** Capitalisation rate of borrowing costs was from 1 January to 31 December 2019 approximately 3.07 % p.a.

The Company holds insurance against damages caused by natural disasters up to EUR 356,475 thousand for buildings and up to amount of EUR 638,443 thousand for machinery, equipment, fixtures, fittings and other assets (2019: EUR 332,777 thousand and 603,973 thousand, respectively).

Optical lines and other assets leased to third parties presented in the table above represent optical cables and related technology leased out under operating leases. Rental income is presented in Note 0. Future rental income from non-cancellable leases is due as follows:

Future rental income from non-cancellable lease		
In thousands of EUR	**2020**	**2019**
Due:		
- within 1 year	405	405
- between 1 and 10 years	3,645	3,645
Total future rental payments to be received	**4,050**	**4,050**

7 Intangible Assets

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

Movements in the carrying amount of intangible assets				
In thousands of EUR	**Goodwill**	**Software and similar assets**	**Assets not yet available for use**	**Total**
Cost at 1 January 2019	285	25,134	4,908	30,327
Accumulated depreciation and impairment losses	(285)	(20,274)	-	(20,559)
Carrying amount at 1 January 2019	**-**	**4,860**	**4,908**	**9,768**
Additions	-	-	5,979	5,979
Transfers	-	5,337	(5,337)	-
Amortisation charge	-	(2,879)	-	(2,879)
Cost at 31 December 2019	-	29,167	5,550	34,717
Accumulated depreciation and impairment losses	-	(21,849)	-	(21,849)
Carrying amount at 31 December 2019 and 1 January 2020	**-**	**7,318**	**5,550**	**12,868**
Additions	-	-	5,252	5,252
Transfers	-	4,689	(4,689)	-
Amortisation charge	-	(4,478)	-	(4,478)
Cost at 31 December 2020	-	31,832	6,113	37,945
Accumulated depreciation and impairment losses	-	(24,303)	-	(24,303)
Carrying amount at 31 December 2020	**-**	**7,529**	**6,113**	**13,642**

Assets not yet available for use primarily include software upgrades and improvement of functionality of the customer and the graphical information system.

8 Right-of-use Assets and Lease Liabilities

The Company leases land, administrative buildings, power equipment and motor vehicles. Rental contracts are typically made for fixed periods of 2 to 20 years (for more details on lease term refer to Note 2) but may have extension options as described below. For assets where the contract is concluded for indefinite period, the useful life was determined based on reasonably certain lease term.

Until 31 December 2018, leases of vehicles, administrative buildings, land and power equipment were classified as either finance leases or operating leases. From 1 January 2019, leases are recognised as a right-of-use assets and a corresponding lease liability from the date when the leased asset becomes available for use by the Company.

In thousands of EUR	Land	Office Buildings	Equipment (power)	Vehicles	Total
Carrying value at 1 January 2019	**58**	**60,195**	**17,232**	**5,579**	**83,064**
Additions	-	2	1,752	1,610	3,364
Disposals	-	8	-	(79)	(71)
Depreciation charge	(1)	(3,818)	(1,384)	(1,687)	(6,890)
Impairment of carrying value	(1)	(656)	-	(233)	(890)
Termination of leases (Note 6)	-	(54)	(949)	-	(1,003)
Carrying value at 1 January 2020	**56**	**55,677**	**16,651**	**5,190**	**77,574**
Additions	-	10,760	3,440	327	14,527
Disposals	-	(3,464)	-	(41)	(3,505)
Depreciation charge	(2)	(4,693)	(1,321)	(1,658)	(7,674)
Impairment of carrying value	-	(803)	(472)	-	(1,275)
Termination of leases (Note 6)	-	-	(1,867)	-	(1,867)
Carrying value at 31 December 2020	**54**	**57,477**	**16,431**	**3,818**	**77,780**

The Company recognised lease liabilities as follows:

Lease liabilities		
In thousands of EUR	**31 December 2020**	**31 December 2019**
Short-term lease liabilities	7,906	7,212
Long-term lease liabilities	70,666	70,557
Total lease liabilities	**78,572**	**77,769**

Interest expense on lease liabilities included in finance costs are presented in Note 26.

Expenses relating to short-term leases (included in operating expenses) and to leases of low-value assets that are not shown as short-term leases:

Short-term leases		
In thousands of EUR	**2020**	**2019**
Expense relating to short-term leases	201	307
Expense relating to leases of low-value assets that are not shown above as short-term leases	1,304	1,256

The lease agreements do not impose any covenants other than the security interests on the leased assets that are held by the lessor. Leased assets may not be used as collateral for borrowings.

Total cash outflows for leases were as follows:

Total cash outflows for leases		
In thousands of EUR	**2020**	**2019**
Short-term lease payments	201	307
Payments for leases of low-value assets other than short-term leases	1,304	1,256
Repayment of principal of lease liabilities	8,916	7,949
Interest costs on lease liabilities paid	1,506	1,368
Total cash outflows for leases in total	**11,927**	**10,880**

9 Borrowings

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

An overview of borrowings received		
In thousands of EUR	**2020**	**2019**
Non-current borrowings from Západoslovenská energetika, a.s.	630,000	630,000
Accrued interest payable within one year	8,534	8,534
Total borrowings	**638,534**	**638,534**

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

More details about received borrowings			
In thousands of EUR	**Istina**	**Nominálna úroková miera**	**Dátum splatnosti**
Borrowing 1	315,000	2,00% p.a.	2.3.2028
Borrowing 2	315,000	4,14% p.a.	1.10.2023
Total	**630,000**		

10 Inventories

Inventories		
In thousands of EUR	**2020**	**2019**
Raw materials and minor spare parts	1,202	618
Total inventories	**1,202**	**618**

The inventory items are shown net of provision for slow-moving materials and spare parts of EUR 21 thousand (2019: EUR 10 thousand).

11 Trade and Other Receivables

Trade and Other Receivables		
In thousands of EUR	**2020**	**2019**
Trade receivables	39,340	50,506
Less impairment provision for trade receivables	(4,618)	(6,108)
Trade receivables, net	**34,722**	**44,398**
Prepayments	6,050	1,757
Total trade and other receivables	**40,772**	**46,155**

Movements in the expected credit loss allowance for trade receivables are as follows:

Movements in the expected credit loss allowance for trade receivables		
In thousands of EUR	**2020**	**2019**
Provision for impairment at 1 January	**6,108**	**6,308**
Impairment loss expense (Note 24)	(212)	49
Amounts written off during the year as uncollectible	(1,278)	(249)
Provision for impairment at 31 December	**4,618**	**6,108**

Expected credit losses on trade receivables at the balance sheet date are analysed as follows:

Expected credit losses on trade receivables at the balance sheet date are analysed								
	31 December 2020				**31 December 2019**			
In thousands of EUR	**Loss rate**	**Gross carrying amount**	**ECL**	**Net carrying amount**	**Loss rate**	**Gross carrying amount**	**ECL**	**Net carrying amount**
Not past due	0,01%	34,229	1	34,228	0,00%	43,709	-	43,709
Past due:								
- 1 to 30 days	1.60%	376	6	370	1.07%	601	6	44,304
- 31 to 60 days	8.82%	34	3	31	27.40%	25	4	21
- 61 to 90 days	16.67%	24	4	20	62.69%	6	6	-
- 91 to 120 days	33.33%	15	5	10	42.28%	15	7	8
- 121 to 180 days	19.51%	41	8	33	19.05%	42	8	34
- 181 to 181 days	40.00%	50	20	30	71.03%	107	76	31
- Over 360 days	100.00%	4,571	4,571	-	100.00%	6,001	6,001	-
Trade receivables		**39,340**	**4,618**	**34,722**		**50,506**	**6,108**	**44,398**

The expected credit losses on current receivables were insignificant. Trade receivables are subject to the following credit enhancements at 31 December:

Trade receivables are subject to the following credit enhancements at 31 December				
	At 31 December 2020		At 31 December 2019	
In thousands of EUR	**Carrying value**	**Insured amount**	**Carrying value**	**Insured amount**
Trade receivables covered by insurance	16,544	16,544	16,548	16,548
Unsecured trade receivables	18,178		27,850	-

12 Receivables from Cash Pooling

Receivables from Cash Pooling		
In thousands of EUR	**2020**	**2019**
Receivables from cash pooling (interest rate 0,4% p.a. (2019: 0.4% p.a.))	20,201	40,546
Total receivables from cash pooling	**20,201**	**40,546**

The Company has concluded with its Parent company cash pooling agreement. Based on this agreement the available cash is managed by Parent company. If the case of additional financing needs the cash from the cash pool is made available to the Company. Receivables from cash pooling did not require any material credit loss allowance and management of the Company considers this related party as creditworthy without an increased credit risk. Credit rating of the Parent Company is A- by Standard and Poor's.

13 Cash and Cash Equivalents

Cash and Cash Equivalents		
In thousands of EUR	**2020**	**2019**
Current bank accounts	4,797	4,813
Total cash and cash equivalents in the statement of financial position	7,797	4,813

The Company has a concentration of credit risk in cash and cash equivalents balances towards two banks (2019: three banks).

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

The credit quality of cash and cash equivalents		
In thousands of EUR	**2020**	**2019**
Neither past due nor impaired		
Credit rating A3 by Moody's	4,786	4,797
Credit rating A2 by Moody's	11	16
Total cash and cash equivalents	**4,797**	**4,813**

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

14 Share Capital

The Company's registered share capital consists of 10 shares with a nominal value of EUR 3,320 each and 1 share with a nominal value of EUR 33,193,919. The share capital totals of EUR 33,227 thousand. As at 31 December 2020 all the shares are owned by Západoslovenská energetika, a.s. Each share carries voting right equal to share nominal value.

The general meeting of the Company's shareholders approved the Company's prior year financial statements and declared dividends of EUR 70,304 thousand (2019: dividends of EUR 57,257 thousand). Slovak legislation identifies distributable reserves as retained earnings reported in these separate financial statements of the Company.

Dividend per share represents 703 EUR (2019: EUR 572) per share with the nominal value of EUR 3,320 and EUR 70,297 thousand (2019: EUR 57,256 thousand) per share with the nominal value of EUR 33,193,919.

15 Legal Reserve Fund

The legal reserve fund represents appropriations of profits of the Company required by Slovak legislation.

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

16 Income Taxes

Income tax expense comprises the following:

Income tax expense comprise		
In thousands of EUR	**2020**	**2019**
Current tax at standard rate of 21 % (2019: 21%)	22,314	17,336
Special levy on profits from regulated activities	5,135	4,701
Deferred tax	(2,951)	4,527
Income tax expense/(credit) for the year	**24,498**	**26,564**

In 2020, the applicable standard income tax rate was 21% (2019: 21%). The amount of the special levy of the regulated entity was calculated and paid in accordance with the applicable law in 2020, as follows: the basis of the levy is the Company's profit reported in the Company's financial statements multiplied by a coefficient calculated as the share of the revenue from the regulated activities in the total revenues. For 2020 the Company applied a coefficient of 0.88 (2019: 0.72). The amount of the monthly levy is calculated as the sum of the levy rate and the base of the levy. For 2019 and 2020, the monthly levy rate was 0.00545. From 01.01.2021 the monthly rate will be 0.00363. The special levy is a deductible expense for the purpose of applying income tax due.

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

As a result, the income tax rate applicable to regulated activities		
In thousands of EUR	**2020**	**2019**
Standard income tax rate for the year	21.000%	21.000%
Special levy rate	6.540%	6.540%
Effect of deductibility of special levy from standard rate*	(1.691)%	(1.691)%
Tax rate applicable on profits generated by regulated industry operations	**25.849%**	**25.849%**

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

The Company includes activities taxed at the standard tax rate of 21% (2019: 21%) or at the 25.849% (2019: 25.849%) rate applicable to regulated industry operations. The applicable tax rate of 25,268% (2019: 24.492%) is used in the below effective tax reconciliation and represents a weighted average of the tax rates for regulated and unregulated activities. The applicable tax rate changed compared to prior year due to changes in the mix of profits from regulated and unregulated industry operations.

A reconciliation between the reported income tax charge and the theoretical amount that would arise using the applicable tax rates is as follows:

Odsúhlasenie medzi skutočným nákladom na daň z príjmov a teoretickou sumou		
In thousands of EUR	**2020**	**2019**
Profit before tax	**95,734**	**106,132**
Theoretical tax charge at applicable tax rate of 25.268% (2019: 24.492%)	24,190	25,994
Non-deductible expenses /(non-taxable income) for which deferred tax was not recognised:		
- expenses not deductible for standard tax but deductible for special levy purposes	113	454
Other	195	116
Income tax expense for the period	**24,498**	**26,564**

The deferred taxes are expected to be recovered or settled after more than twelve months after the end of the reporting period because income tax returns are due annually, that is, the deferred tax outstanding at 31 December 2020, that will become current tax in 2021, will be settled in 2022 upon filing the 2021 tax return. The corporate tax advance payments are calculated based on prior year taxes and are thus unrelated to deferred tax balances or the current tax expense expected for subsequent years.

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

Deferred taxes are attributable to the following temporary differences

Odložené dane sa vzťahujú na nasledovné dočasné rozdiely		
In thousands of EUR	**2020**	**2019**
Differences between tax base and carrying value of property, plant and equipment	97,689	97,266
Post-employment defined benefit obligation and other long-term employee benefits	(3,638)	(3,124)
Other liabilities	(6,711)	(3,693)
Provision for impairment of trade receivables	25	(24)
Other	(762)	(602)
Total net deferred tax liability, net	**86,603**	**89,823**

The movements in deferred taxes for temporary differences were recognised in profit or loss except for EUR 269 thousand (2019: EUR 389 thousand) for actuarial remeasurements of post-employment defined benefit obligation, which was recognised in other comprehensive income.

17 Post-Employment Defined Benefit Obligations

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

The movements in the present value of defined benefit obligation		
In thousands of EUR	**2020**	**2019**
Present value of unfunded post-employment defined benefit obligations at the beginning of the year	**9,265**	**7,352**
Current service cost	517	372
Interest cost	64	108
Past service costs due to changes in the defined benefit plan rules	-	-
Total expense (Note 23)	581	480
Actuarial remeasurements:		
- attributable to changes in financial assumptions	983	1,280
- attributable to changes in demographic assumptions	247	289
- attributable to experience adjustments	53	283
Total actuarial remeasurements recognised in other comprehensive income	1,283	1,852
Benefits paid during the year	(507)	(419)
Other changes	-	-
Present value of unfunded post-employment defined benefit obligations at the end of the year	**10,622**	**9,265**

The principal actuarial assumptions were as follows:

The principal actuarial assumption		
	2020	**2019**
Number of employees at 31 December	1,512	1,498
Staff turnover	4.58%	4.87%p.a.
Expected salary increases short-term	4.00%	4.00%p.a.
Expected salary increases long-term	2.00%	2.00%p.a.
Discount rate	0.60%	0.70%p.a.

18 Other Long-Term Employee Benefits

The Company makes EUR 1,400 (2019: EUR 1,400) payment to each employee at the age of 50, subject to 5 years service vesting condition (2019: 5 years). In addition, the Company pays regular long-term work anniversary bonuses in general every 10 years in amounts between EUR 400 to EUR 1,250 (2019: between EUR 400 to EUR 1,250).

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

19 Provisions for Liabilities and Charges

Provisions for Liabilities and Charges		
In thousands of EUR	**2020**	**2019**
Provisions for litigation at 1 January	21,666	19,972
Additions recognized in profit or loss	8,795	2,946
Reversal of provision	(722)	(1,252)
Total litigation provisions at 31 December	**29,739**	**21,666**

The Company recognized a provision for known and quantifiable risks relating to disputes with Company, that represent the best possible estimate of amounts that are more likely than not to be paid. Actual amounts to settle the provision, if any settlement will be required, depend on a number of different conditions and circumstances that may occur in the future and the outcome of which is uncertain and therefore the amount of the provision may change in the future. Refer to Note 33.

In 2020, as a matter of prudence, the Company increased provision for legal proceedings related to the tariff for producers' access to the distribution system due to additional claims and legal proceedings being filed in the current reporting period. Refer also to Note 33.

The increase in the provision for litigation in 2019 represents an increased risk of legal action by a business partner due to a short-term outage caused by substation work attributed by the business partner to the conduct of the Company, which the Company considers to be unfounded. Of the above-mentioned provisions for legal proceedings at 31 December 2020, the amount of EUR 11,523 thousand (2019: EUR 3,450 thousand) was recognized as decrease of revenue.

20 Contract Liabilities from Deferred Connection Fees and Customer Contribution

Customer contributions are paid primarily for capital expenditures made on behalf of customers and include access network assets transferred to the Company by its customers free of charge. The contributions are non-refundable and are recognised as other operating income over the useful lives of the related assets. Connection fees are paid by customers to connect them to the electricity network. The fees are recognised as deferred income and are released to revenues over the useful lives of related assets of approximately 20 years.

Contract liabilities to customers were as follows:

Contract liabilities to customers		
In thousands of EUR	**31. decembra 2020**	**31. decembra 2019**
Non-current		
Contract liabilities - customer contributions	17,487	16,388
Contract liabilities - connection fees	68,420	67,387
Total non-current contract liabilities	**85,907**	**83,775**
Current		
Contract liabilities - customer contributions	555	501
Contract liabilities - connection fees	5,621	5,292
Total current contract liabilities	**6,176**	**5,793**

Movements in the contract liabilities to customers from connection fees and customer contributions were as follows:

Movements in the contract liabilities to customers from connection fees and customer contributions						
	Non-current			Current		
In thousands of EUR	**Customer contributions**	**Connection fees**	**Total**	**Customer contributions**	**Connection fees**	**Total**
At 1. January 2019	**14,515**	**65,858**	**80,373**	**420**	**4,945**	**5,365**
Additions	2,374	6,821	**9,195**	-	-	**-**
Transfers	(501)	(5,292)	**(5,793)**	501	5,292	**5,793**
Recognised in revenues	-	-	**-**	(420)	(4,945)	**(5,365)**
At 31 December 2019	**16,388**	**67,387**	**83,775**	**501**	**5,292**	**5,793**
Additions	1,654	6,653	**8,307**	-	-	**-**
Transfers	(555)	(5,621)	**(6,176)**	555	5,621	**6,176**
Recognised in revenues	-	-	**-**	(501)	(5,292)	**(5,793)**
At 31 December 2020	**17,487**	**68,420**	**85,907**	**555**	**5,621**	**6,176**

The maturity analysis of contract liabilities to customers is as follows:

The maturity analysis of contract liabilities to customers						
	31 December 2020			31 December 2019		
In thousands of EUR	**Customer contributions**	**Connection fees**	**Total**	**Customer contributions**	**Connection fees**	**Total**
At 31 December and due as follows						
Short-term:						
within 12 months	555	5,621	**6,176**	501	5,292	**5,793**
Non-current:						
from 12 months to 5 years	2,161	23,195	**25,356**	1,409	21,845	**23,254**
After 5 years	15,326	45,225	**60,551**	14,979	45,542	**60,521**
Total non-current	17,487	68,420	**85,907**	16,388	67,387	**83,775**
Total at 31 December	**18,042**	**74,041**	**92,083**	**16,889**	**72,679**	**89,568**

21 Trade and Other Payables

Trade and Other Payables		
In thousands of EUR	**2020**	**2019**
Trade payables	46,479	53,399
Other accrued liabilities	3,159	3,143
Other financial liabilities	2,259	1,863
Total financial instruments within trade and other payables	**51,897**	**58,405**
Employee benefits payable	2,324	2,069
Social security on employee benefits	1,980	1,716
Accrued staff costs	6,089	6,891
Advance payments	8,330	7,477
Value added tax payable	160	3,538
Other payables	5,348	5,265
Grants	4,492	4,584
Total trade and other payables	**80,620**	**89,945**

The maximum of a potential grant by the European Commission on the ACON project to support smart grid interconnection is approximately EUR 46 million. The exact amount will only be known after preparation of technical documentation of all the project elements. The Company will recognise a government grant receivable against deferred income once it will have reasonable assurance that the grant will be received.

The Company had overdue trade payables of EUR 96 thousand (2019: EUR 147 thousand). None of the payables are overdue more than 30 days at 31 December 2020 and 2019.

22 Revenue

Revenue comprises the following:

Revenue		
In thousands of EUR	**2020**	**2019**
Distribution fees for electricity to industrial and other commercial customers	231,435	236,296
Distribution fees for electricity to residential customers	106,485	100,624
Tariff for system operation and system services – OKTE, a.s. a related party controlled by Slovak government	3,351	133,442
Revenues for reserved capacity	9,121	9,501
Accrued decrease in revenue from customer returns	(8,073)	-
Total distribution fees	**342,319**	**479,863**
Revenues for connection work and testing fees	5,989	5,724
Other revenue	4,350	4,487
Total revenue	**352,658**	**490,074**

The reason for the decrease in revenues from distribution fees is that from 1 January 2020 there was a change in the invoicing of the tariff for operating the system and performing the activities of the OZE support and high-efficiency cogeneration from the Company, as a distribution system operator, to OKTE, a.s., which is organizer of the short-term electricity market in the Slovak Republic. In this context, the related costs were also reduced.

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

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

Timing of revenue recognition is as follows:

Timing of revenue recognition		
In thousands of EUR	**2020**	**2019**
At a point in time	5,989	5,724
Over time	346,669	484,350
Total revenue	**352,658**	**490,074**

23 Employee Benefits

Employee Benefits		
In thousands of EUR	**2020**	**2019**
Wages and salaries	37,160	35,521
Defined contribution pension costs	6,796	6,587
Post-employment defined benefit plan expense (Note 17)	581	480
Other long-term employee benefit plans – current service and interest cost	132	134
Actuarial remeasurements of other long-term employee benefit plans	88	149
Other social levies and costs	12,169	11,225
Total employee benefits expense	**56,926**	**54,096**

24 Other Operating Expenses

Ostatné prevádzkové náklady		
In thousands of EUR	**2020**	**2019**
Repairs and maintenance of energy equipment	3,199	3,903
Other repairs and maintenance	7,289	6,742
Administration of distribution equipment	8,362	9,164
Repairs of machinery and devices	1,231	1,097
IT services	7,898	11,556
Measuring of electricity consumption	950	1,083
Facility management	1,386	1,362
Finance services	3,973	3,610
Advisory services	615	916
Other services	6,155	831
Call centre	783	757
Credit loss allowance for receivables (Note 11)	(212)	49
Statutory audit	122	92
Litigation costs	-	1,695
Expenses relating to leases of low-value assets and for short-term leases	1,730	1,563
Total other operating expenses	**43,481**	**44,420**

25 Other Operating Income

Other Operating Income		
In thousands of EUR	**2020**	**2019**
Operating lease income	449	400
Income from amortisation of contract liability from deferred customer contributions	571	596
Income from contractual penalties	46	115
Income from unauthorized consumption of electricity	286	231
Income from IT services	2,490	2,728
Grants	101	86
Other	1,506	635
Total other operating income	**5,449**	**4,791**

26 Interest and Similar Expense

Interest and Similar Expense		
In thousands of EUR	**2020**	**2019**
Interest expense on borrowings from the Parent company	19,341	19,341
Interest expense on leasing	1,506	1,368
Other interest expense	64	108
Less capitalised borrowings costs (Note 6)	(1,818)	(1,691)
Total interest and similar expense	**19,093**	**19,126**

27 Financial Risk Management

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

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

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

Interest rate risk. The Company does not have any significant interest rate risk exposure because all of its financial assets and liabilities, including borrowings received carry fixed interest rates. A reasonably possible change in market interest rates, such as Euribor, as of the end of the reporting period, would not have any impact on the Company's profit or loss for the year.
Credit risk. The Company takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

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

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

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

As for the banks and financial institutions, the Company has relationships only with those that have a high independent rating assessment. If wholesale customers are independently rated, these ratings are used. If no independent rating is available, Company assesses the credit quality of customer, taking into account its financial position, past experience and other factors. Except as disclosed in Notes 11, 12 and 13, the Company does not have a significant concentration of credit risk due to a large number of diverse customers.

The Company uses a system of reminders, which may culminate in a service disconnection, as the prevailing contract enforcement. The collection of receivables could be influenced by economic factors; management believes that there is no significant risk of loss to the Company beyond the provisions already recorded. To reduce the risk of selected wholesalers, the Company uses insurance products. The credit quality of outstanding balances with banks is presented in Note 13 and credit quality information about trade receivables is included in Note 11.

The COVID-19 crisis impacts the Company mostly via decrease in volumes of distributed electricity related especially to decrease of electricity consumed by large industrial customers. Detailed monitoring of the situation and adjusting of settings and capacity of the distribution system is done on a regular basis. Due to the overall worsened situation in the economy there is a higher risk of worsening customers' payment discipline. Currently, there is no significant observable impact on the Company from increased overdue receivables.

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

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

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

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

The maturity analysis is as follows at 31 December 2020:

The maturity analysis is as follows at 31 December 2020						
In thousands of EUR	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Liabilities						
Borrowings – principal due	-	-	-	315,000	315,000	**630,000**
Borrowings – future interest payments	-	6,300	13,041	51,282	18,900	**89,523**
Trade payables (Note 21)	18,010	27,403	386	680	-	**46,479**
Other accrued liabilities (Note 21)	2,887	265	7	-	-	**3,159**
Other financial liabilities (Note 21)	2,259	-	-	-	-	**2,259**
Lease liabilities (including future interest payments)	703	1,406	6,618	37,817	41,905	**88,449**
Total future payments, including future principal and interest payments	**23,859**	**35,374**	**20,052**	**404,779**	**375,805**	**859,869**

The maturity analysis is as follows at 31 December 2019:

The maturity analysis is as follows at 31 December 2019						
In thousands of EUR	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Liabilities						
Borrowings – principal due	-	-	-	315,000	315,000	**630,000**
Borrowings – future interest payments	-	6,300	13,041	64,323	25,200	**108,864**
Trade payables (Note 21)	32,493	20,746	13	147	-	**53,399**
Other accrued liabilities (Note 21)	2,540	264	339	-	-	**3,143**
Other financial liabilities (Note 21)	1,863	-	-	-	-	**1,863**
Lease liabilities (including future interest payments)	615	1,203	6,391	37,385	42,945	**88,539**
Total future payments, including future principal and interest payments	**37,511**	**28,513**	**19,784**	**416,855**	**383,145**	**885,808**

28 Management of Capital

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders, and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. The Company manages capital reported under IFRS as equity amounting to EUR 207,477 thousand at 31 December 2020 (2019: EUR 206,341 thousand).

In managing the capital, the Company's management focuses on maximizing return on invested capital.
The Company is not subject to any externally imposed regulatory capital requirements.

29 Offsetting Financial Assets and Financial Liabilities

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2020:

Financial instruments subject to offsetting, enforceable master netting and similar arrangements at 31 December 2020

In thousands of EUR	Gross amounts before offsetting in the statement of financial position (a)	Gross amounts set off in the statement of financial position (b)	Net amount after offsetting in the statement of financial position (c) = (a) - (b)	Amounts subject to master netting and similar arrangements not set off in the statement of financial position: Financial instruments (d)	Amounts subject to master netting and similar arrangements not set off in the statement of financial position: Cash collateral received (e)	Net amount of exposure (c) – (d) – (e)
Assets						
Cash pooling	20,201	-	20,201	20,201	-	-
Total assets subject to offsetting, master netting and similar arrangement	**20,201**	**-**	**20,201**	**20,201**	**-**	**-**
Liabilities						
Borrowings	638,534	-	638,534	20,201	-	618,333
Total liabilities subject to possible offsetting, master netting and similar arrangement	**638,534**	**-**	**638,534**	**20,201**	**-**	**618,333**

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2019:

Financial instruments subject to offsetting, enforceable master netting and similar arrangements at 31 December 2019

In thousands of EUR	Gross amounts before offsetting in the statement of financial position (a)	Gross amounts set off in the statement of financial position (b)	Net amount after offsetting in the statement of financial position (c) = (a) - (b)	Amounts subject to master netting and similar arrangements not set off in the statement of financial position: Financial instruments (d)	Amounts subject to master netting and similar arrangements not set off in the statement of financial position: Cash collateral received (e)	Net amount of exposure (c) – (d) – (e)
Assets						
Cash pooling	40,546	-	40,546	40,546	-	-
Total assets subject to offsetting, master netting and similar arrangement	**40,546**	**-**	**40,546**	**40,546**	**-**	**-**
Liabilities						
Borrowings	638,534	-	638,534	40,546	-	597,988
Total liabilities subject to possible offsetting, master netting and similar arrangement	**638,534**	**-**	**638,534**	**40,546**	**-**	**597,988**

The amount set off in the statement of financial position reported in column (b) is the lower of (i) the gross amount before offsetting reported in column (a) and (ii) the amount of the related instrument that is eligible for offsetting. Similarly, the amounts in columns (d) and (e) are limited to the exposure reported in column (c) for each individual instrument in order not to understate the ultimate net exposure.

The Company has master netting arrangements; applicable legislation allows an entity to unilaterally set off receivables and payables that are due for payment, denominated in the same currency and outstanding with the same counterparty.

30 Reconciliation of Movements in Liabilities from Financing Activities

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

Reconciliation of Movements in Liabilities from Financing Activities

In thousands of EUR	Borrowings	Lease liabilities	Total liabilities from financing activities
At 1 January 2019	**634, 875**	**3,404**	**638,279**
Non-cash changes:			
Initial application of IFRS 16, Leases (Note 3)	-	80,258	80,258
Additions to leases (Note 8)	-	3,364	3,364
Termination of leases and other changes	-	(1,308)	(1,308)
Interest expense (Note 26)	19,341	1,368	20,709
Payments			
Interest paid on liabilities form financing activities	(15,682)	(1,368)	(17,050)
Principal repaid (Note 8)	-	(7,949)	(7,949)
At 31 December 2019	**638,534**	**77,769**	**716,303**
Non-cash changes:			
Additions to leases (Note 8)	-	14,527	14,527
Termination of leases and other changes	-	(4,808)	(4,808)
Interest expense (Note 26)	19,341	1,506	20,847
Payments			
Interest paid on liabilities form financing activities	(19,341)	(1,506)	(20,847)
Principal repaid (Note 8)	-	(8,916)	(8,916)
At 31 December 2020	**638,534**	**78,572**	**717,106**

31 Fair Value Disclosures

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

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

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

Fair values analysed by level in the fair value hierarchy and the carrying value of assets and liabilities not measured at fair value				
	31 December 2020		31 December 2019	
In thousands of EUR	Level 2 fair value	Carrying value	Level 2 fair value	Carrying value
Assets				
Trade receivables, net (Note 11)	34,722	34,722	44,398	44,398
Cash and cash equivalents (Note 13)	4,797	4,797	4,813	4,813
Receivables from cash pooling (Note 12)	20,201	20,201	40,546	40,546
Total assets	**59,720**	**59,720**	**89,757**	**89,757**
Liabilities				
Borrowings (Note 9)	696,512	638,534	702,762	638,534
Trade payables (Note 21)	46,479	46,479	53,399	53,399
Other accrued liabilities (Note 21)	3,159	3,159	3,143	3,143
Other financial liabilities (Note 21)	2,259	2,259	1,863	1,863
Total liabilities	**748,409**	**690,431**	**761,167**	**696,939**

The fair value of lease liabilities is not disclosed in accordance with paragraph 29 of IFRS 7. The fair value of borrowings was determined according to the quoted market price of bonds issued by Západoslovenská energetika, a.s. in order to finance these loans.

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

32 Presentation of Financial Instruments by Measurement Category

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

All of the entity's financial liabilities are carried at amortised cost.

33 Contingencies and Commitments

Tax contingencies. Slovak tax law contains certain provisions that allow for more than one interpretation. Management's interpretation of the Company's business activities may not coincide with the interpretation of these activities by the tax authorities, but the extent of this risk cannot be reasonably quantified. The fiscal years from 2016 to 2019 remain open to tax inspection, but in certain cases the tax authorities may also challenge tax positions taken in earlier periods.

Legal proceedings. From time to time and in the normal course of business, claims against the Company may be received. Certain customers or their representatives contest fairness and appropriateness of decisions of the network industry regulator. These circumstances have led to the Company having created a provision for the impact of litigation (Note 19). At 31 December 2020, the maximum additional exposure of the Company to the risk of these legal proceedings is EUR 23,192 thousand (2019: EUR 31,817 thousand) in excess of the provision already created.

Capital expenditure commitments. At 31 December 2020, the Company had outstanding contractual commitments for purchases of property, plant and equipment of EUR 4,922 thousand (2019: EUR 16,127 thousand). Outstanding contractual commitments for purchases of intangible assets were EUR 177 thousand (2019: EUR 2,311 thousand).

34 Balances and Transactions with Related Parties

The primary related parties of the Company are (a) its shareholders which have joint control over the Company as explained in Notes 1 and 14: (i) the Slovak Government and (ii) E.ON, as well as (b) key management personnel. The Company applies the exemption from disclosing transactions with the Slovak government and entities over which it has control, joint control or significant influence. The exemption does not apply to individually significant transactions, such as taxes incurred and paid, purchases of electricity from an entity in which the Slovak government has a significant shareholding and other transactions presented below.

The related party transactions for 2020 and outstanding balances at 31 December 2020 were as follows:

The related party transactions for 2020 and outstanding balances at 31 December 2020

In thousands of EUR	Parent company	E.ON Group**	Slovak government*	Entities under common control of the Parent company
Revenue	1,727	15,108	59,360	196,795
Government grant for renewable energy purchases	-	-	20,478	-
Purchases and expenses	38,410	1,514	61,639	35,682
Receivables other than taxes	21,117	661	4,260	27,989
Liabilities other than taxes	696,630	672	12,662	5,540
Dividends declared and paid	70,304	-	-	-

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

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

The government grant for purchases of energy from renewable sources („ERS") was approved and paid in 2020 in order to cover the 2018 deficit between the amount included in the regulated price of distribution services and the actual support of ERS in the form of their state mandated purchase price.

Income taxes are disclosed in the statement of financial position, statement of profit or loss and other comprehensive income, in the statement of cash flows and are also analysed in Note 16. Outstanding value added tax payable is presented in Note 21.

The income tax paid was as follows:

The income tax paid

In thousands of EUR	2020	2019
Current income tax expense at standard rate of 21 % (2019: 21%) – refer to Note 16	(22 314)	(17,336)
Special levy on profits from regulated activities (Note 16)	(5,135)	(4 701)
Current income tax (liabilities) / refund receivable at the beginning of the reporting period	(187)	2,778
Current income tax liabilities at the end of the reporting period	6,921	187
Income tax paid	**(20,715)**	**(19,072)**

The related party transactions for 2019 and outstanding balances at 31 December 2019 were as follows:

The related party transactions for 2019 and outstanding balances at 31 December 2019				
In thousands of EUR	**Parent company**	**E.ON Group****	**Slovak government***	**Entities under common control of the Parent company**
Revenue	1,763	2	202,072	193,012
Purchases and expenses	38,155	5,848	72,056	24,410
Receivables other than taxes	41,465	-	7,456	30,208
Liabilities other than taxes	700,793	2,626	11,529	4,597
Dividends declared and paid	57,257	-	-	-

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

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

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

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

Key management personnel remuneration comprised		
In thousands of EUR	**2020**	**2019**
Board of directors and other key management personnel		
Salaries and other short-term employee benefits	592	855
Defined contribution pension costs	51	84
Total remuneration of board of directors and other key management personnel	**643**	**939**
Supervisory board		
Salaries and other short-term employee benefits	150	132
Defined contribution pension costs	21	19
Total remuneration of supervisory board	**171**	**151**

35 Events after the End of the Reporting Period

The Company is currently unable to assess the impact of further developments of COVID-19 virus on its future financial position and results of operations, however, depending on strength and developments of future waves of the virus infections and spreading, this impact may be negative and significant.
After 31 December 2020, no other significant events have occurred that would require recognition or disclosure in these financial statements.

Management authorised these financial statements for issue 24 March 2021:

T. Turek

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Ing. Tomáš Turek, PhD.
Chairman of the Board of Directors

Kapec

....

Ing. Marian Kapec
Member of the Board of Directors

Complete annual report <u>here</u>.