

Annual Report for 2021

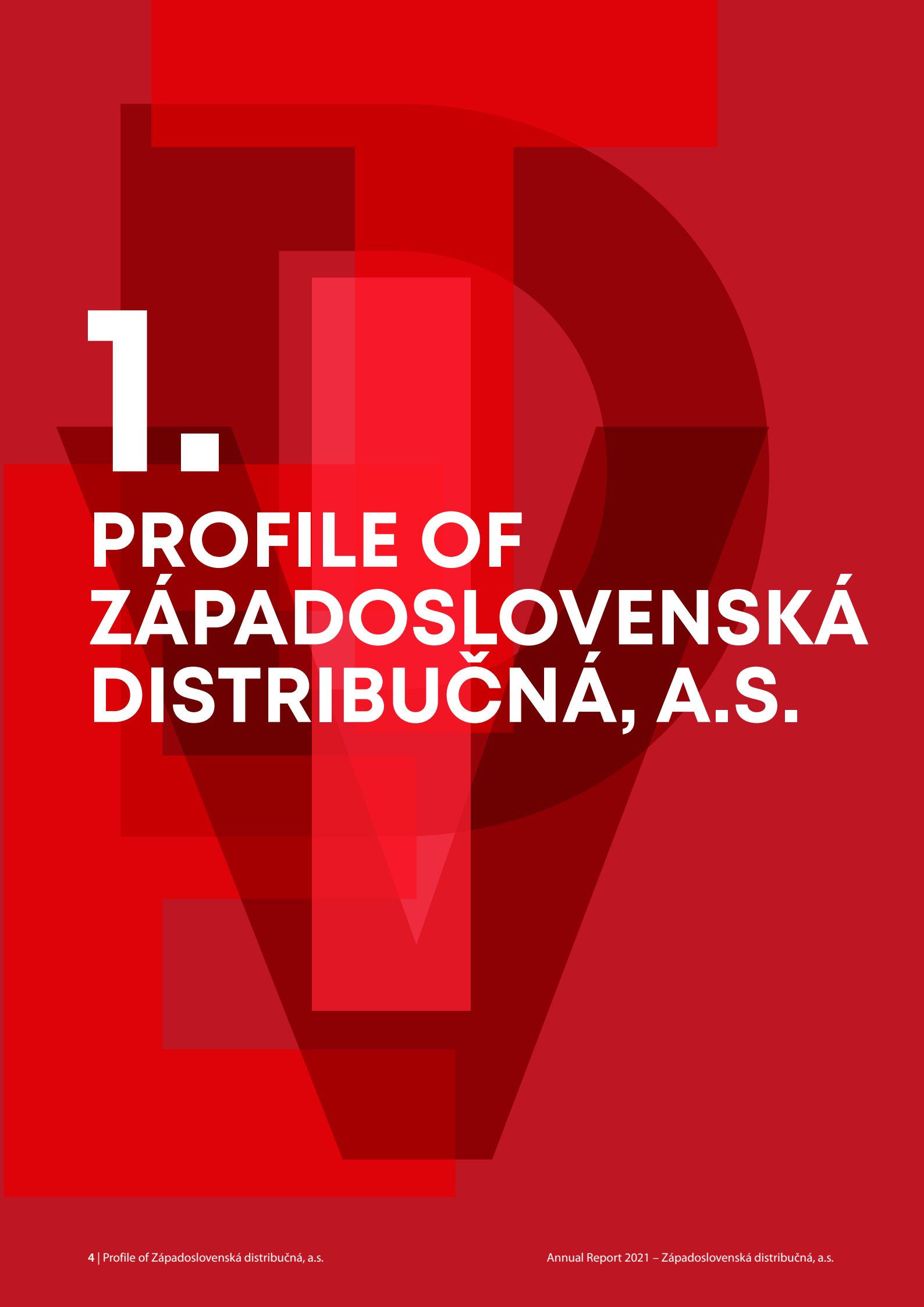
Západoslovenská distribučná, a.s.



**ZÁPADOSLOVENSKÁ
DISTRIBUČNÁ**

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1.

PROFILE OF ZÁPADOSLOVENSKÁ DISTRIBUČNÁ, A.S.



Ing. Tomáš Turek, Ph.D.,
Chairman of the Board of Directors

Foreword by the Chairman of the Board of Directors

2021 can be characterised as the most turbulent year in the modern history of energy business. It was affected by the pandemic and the prices of the entire commodity mix showed great dynamics on the exchange. Both these factors significantly influenced the functioning of our company and its economic results as well.

Since we are a critical infrastructure enterprise, we had to protect our employees against the virus as much as possible and ensure the continuity of business operations at the same time. We introduced the measures to ensure the operating regime and non-stop distribution of electricity in case the COVID-19 pandemic gets worse. Key employees worked under special conditions and had to be isolated from others as much as possible. All employees were given the opportunity to be COVID-19 tested in our own premises, they were distributed self-tests, and essential critical infrastructure workers had the opportunity to be vaccinated urgently and register for booster jabs in the end of the year, organised by our company. Thanks to the adopted measures and responsible approach, no labour shortage occurred, that could threaten the operation and smooth supply and distribution.

Despite problematic conditions, our technicians managed to remove failures without delays. Smooth supply is confirmed by SAIDI and SAIFI quality indicators which reached excellent results last year. It means that our customers received high standard of services, even in difficult conditions.

In terms of distributed electricity volume, the situation gets gradually

stabilised. Since the production decreased and some sites shut down, distributed electricity volume went down. Although we did not reach the pre-pandemic values, we gradually approach them.

However, it was unforeseeable regulatory framework and volatile development on the energy market that had more significant negative impact on the economics of our company. In line with the applicable regulatory rules, our company sources electricity on the spot market to cover losses. Since electricity price went significantly up, especially in the end of the year, the prices did not reflect such growth, thus generating higher loss. This loss was partially compensated by the payments received as a part of historic deficit which relates to the payment of support for renewable sources. These factors importantly impacted our economic results, which - considering the turbulent situation - can be still seen as very good.

I am glad that despite the mentioned factors, 2021 was successful in terms of the operation. We invested more than EUR 115 million into the development and upgrade of the distribution system. We launched several important investments which will improve the standard of electricity supply. We

undertake a comprehensive upgrade of the 110kV electrical station Madunice which is an important hub in the Trnava region. We completed an extensive upgrade and expansion of the Žabí Majer electrical station in the eastern part of Bratislava. This year, we started technically and logistically ambitious investment, improving the transformation capacity in the capital city. We will be replacing the existing transformers and add a new transformer in the electrical station at Čulenova street. Higher number of transformers and improved transformation capacity will contribute to better reliability of energy supply. As a result, we will be ready to face the increasing demand for energy supply in the expanding new centre of Bratislava. Furthermore, I consider the modernisation of the electrical station 110kV Veľký Ďur also significant, as it is an important hub in terms of reliability of nuclear power station supply in Mochovce and an important energy “crossroad” in the entire region it serves.

Last but not least, I must mention the commencement of the upgrade of the electrical station near Borský Svätý Jur, which will contribute to higher regional energy security and have great impact on the interconnection between the Slovak and Czech energy systems. New electrical station will solve the long-term problem with electricity supply in the Záhorie region and the problem concerning high losses on the 22kV lines, which are caused by distances between the existing stations. This strategic construction is designed as a transformation source with sufficient reserve, thus enabling further development of the region.

We continued in investing in smart metering systems. The installation of the smart metering system started within the pilot operation back in 2014 and was divided in three phases. In 2021, we completed the last phase. We met our obligations required by law. The intelligent metering system is fully automated and enables to collect, transfer and process metered data about generation and consumption of electricity from key customers. This system brings benefits not only to end consumer but to electricity suppliers and distribution systems’ operators too.

Customer orientation is one of the priorities of our company. We keep on developing our electronic customer interface, automate and make customer processes easier, get and appreciate feedbacks from our customers. Our aim is to be a professional and reliable partner and bring further improvements in this area.

We managed to cope with the difficult situation caused by the pandemic, and in my view, it is the biggest success of the last year. I believe that now we are stronger and more united. I would like to thank all colleagues for their responsible approach, since their performance is extremely important for fundamental functioning of the entire company. I am proud of all employees because they worked with great devotion and as a team, ensuring smooth electricity supply to our customers.

Company's Bodies

The structure of statutory and supervisory bodies of Západoslovenská distribučná, a.s. in 2021 was as follows:

Statutory Body

Statutory Body	
As at 31 December 2021	
Chairman	Ing. Tomáš Turek, PhD. (start of office on 21 September 2019)
Vice-chairwoman	Ing. Jana Somorovská (start of office on 1 September 2020)
	Ing. Marian Kapec (start of office on 21 March 2020)
Members	Mgr. Kristián Takáč (start of office on 1 September 2020)
	Ing. Miroslav Otočka (start of office on 16 May 2018)

Supervisory Body

Supervisory Body	
As at 31 December 2021	
Chairman	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 of the Supervisory Board on 1 February 2020, elected as the Vice-Chairman on 7 April 2020)
Members	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 2021 was as follows:

Shareholders' structure			
As at 31 December 2021	Absolute amount in EUR	Ownership interest in 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 registered address at Čulenova 6, 811 09 Bratislava, was established on 20 April 2006 and incorporated in the Commercial Register on 20 May 2006. The Company is registered in the Commercial Register of the District Court Bratislava I, 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. v likvidácii, ZSE Energy Solutions, s.r.o., ZSE MVE, s. r. o., ZSE Business Services, s. r. o. and ZSE Energetické služby, s.r.o.

The core business activity of the Company is electricity distribution.

The Company has no expenses on research and development.

The Company did not acquire any of its own shares, temporary certificates, any business shares or ownership interest, temporary certificates or business shares of the parent entity.

The Company does not have organisational unit 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 2021.

ZSD is also exposed 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 2021 requiring disclosure in the Annual report

The recent armed conflict between Russian Federation and Ukraine and related events has increased the perceived risks of doing business in the energy sector. The economic sanctions imposed on Russian natural and legal persons by the European Union, the United States of America, Japan, Canada, Australia and others has resulted in increased economic uncertainty on the markets and increased the volatility of energy prices. The long term effects of recently implemented sanctions, as well as the threat of additional future sanctions, are difficult to assess at this moment. As at the date these financial statements were authorised for issue, the war continues. The final resolution and the effects of the conflict are difficult to predict but may have negative effects on the Slovak economy. Potential escalation of the conflict and sanctions could negatively affect the Company results and financial position but currently it is not possible to determine if this risk will materialise and to what extent.

Company is not aware of any other significant facts occurring after 31 December 2021, 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 distribučná, 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 employees of the 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.

The ZSE Group has established the Line through which 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 representatives, 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** 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 organisational 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 Programme, 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 coronavirus pandemic affected the functioning of the ZSE Group as well in 2021. The ZSE Group observed the regulations of the Slovak Government and adopted the measures even ahead of time. Our first priority was to protect our employees from the virus as much as possible and ensure business continuity so that the uninterrupted and secure electricity distribution and supply and gas supply is not threatened. The measures were set over the entire year in a way so as to ensure, as an economic mobilisation entity, sustainable operating regime and non-stop electricity distribution in case the situation gets worse, and the crisis situation is declared.

The Dispatch Centre of Západoslovenská distribučná ran in a special regime, as it is necessary to ensure smooth operation. Redundant worksites were created, and a third dispatch centre was added to the existing two. Dispatch Centre operators were isolated from other employees to ensure their protection from the infection as much as possible. Similarly, ZSE Centres worked under a special regime, depending on the situation in the country. ZSE Centres belong to essential shops and any customer can enter. The following security measures are observed in the shops: the use of respirator, limited number of customers according to the rule: one customer per 25m². The customers can choose between the direct contact or online contact, as they wish.

The operation in other units within the Company varied depending on the national restrictions and overall situation

in the country. The employees whose job description allowed it, worked from home. During the months when the situation was better and national measures were lifted, the employees could return to their offices, however, always in a limited number and depending on the vaccination rate.

Employees who could not work from home worked either in the regime "OP", that is they were either vaccinated or overcome the infection (they worked according to the work regimes with respect to the valid anti-pandemic measures) or out of the "OP" regime (all unvaccinated and those have not overcome the infection had to undergo the test).

Throughout the year, employees could undergo the testing in the premises of the ZSE Group.

In total, there were 522 positive cases in the ZSE Group as at 31 December 2021. Thanks to the adopted measures and responsible approach, no labour shortage occurred that could threaten the operation and smooth supply and distribution.

The ZSE Group considers vaccination as a key instrument to fight the pandemic. Since the start of the pandemic, the employees are given latest information, and internal campaigns in support for vaccination are organised. ZSE prepared its own vaccination lottery and interviews with experts as a part of which the employees could ask their questions. In the end of the year, 70% of employees were fully vaccinated.

2.

ECONOMY

Economy

In 2021, Západoslovenská distribučná, a.s., generated comprehensive income of EUR 63,803 thousand, with sales totalling EUR 376,111 thousand and expenses totalling EUR 320,451 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 EUR thousand	2021	2020
Non-current assets	1,208,523	1,166,077
Current assets	61,527	66,972
Total assets	1,270,050	1,233,049
Equity	208,503	207,477
Non-current liabilities	884,754	889,872
Current liabilities	176,793	135,700
Total equity and liabilities	1,270,050	1,233,049
Sales	376,111	352,658
EBIT (profit from operating activities)	99,171	114,821
EBITDA	177,109	196,397
Revenue	400,883	396,227
Expenses	320,451	300,493
Profit before tax	80,432	95,734
Net profit	60,663	71,236
Other comprehensive income	3,140	-1,014
Total comprehensive income	63,803	70,222
Cash outflows for investment activities	99,918	90,622
Full-time equivalent of employees (FTE)	1,505	1,506

Information on sales in monetary terms from electricity distribution

Indicators		
As at 31 December	2021	2020
Volume of electricity distributed (GWh)	9,891	9,432
Sales from electricity distribution (EUR thousand)	374,582	350,392
Number of supply points	1,195,500	1,180,159

Loans

Západoslovenská distribučná, a.s. did not draw bank loans in 2021, but it had an intercompany loan amounting to EUR 630,000 thousand in 2014.

Investments in 2021	
in EUR thousand	2021
Connection	27,670
Development and improvement of networks HV, LV, TS, EZ	33,194
Development and improvement of networks VHV (RZ, EZ, KZL)	29,743
Special projects (automatisation, ecology)	1,135
Purchase of energy devices	636
Land and easements	1,288
Transformers, inductors, resistors	915
Electrometers	4,739
Low-value assets	538
Contracts for the purchase of leased assets	773
Interest expense capitalised	2,111
IT projects	5,530
Telco	1,242
Facility Management	793
Other	2,862
Total	113,170

Major Constructions of Západoslovenská distribučná, a.s. in Terms of Volume	
in EUR thousand	2021
VN_Rekonštrukcia ES Madunice	6,923
VN_ES Borský Sv.Jur - výstavba	5,541
VN_Rekonštrukcia ES Veľký Ďur	3,567
VN_Rekonštrukcia ES Čulenova	2,345
VN_Rekonštrukcia vedenia Trenčín - Kostolná	2,055

Major Constructions of Západoslovenská distribučná, a.s. in Terms of Volume	
in EUR thousand	2022
VN_Rekonštrukcia ES Madunice	5,400
VN_ES Borský Sv.Jur - výstavba	5,400
VN_Rekonštrukcia vedenia Trnava Centrum – Trnava Zavar	2,800
VN_Rekonštrukcia ES Čulenova	2,300
VN_Rekonštrukcia ES Veľký Ďur	2,200

Distribution of Profit for 2021

At its meeting on 29 March 2022 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 2021.

Proposal for 2021 profit distribution	
in EUR thousand	2021
Net Profit for the financial period	60,663
A/ contribution to reserve fund (10%)	6,066
B/ contribution to social fund	1,325
C/ dividends	53,272



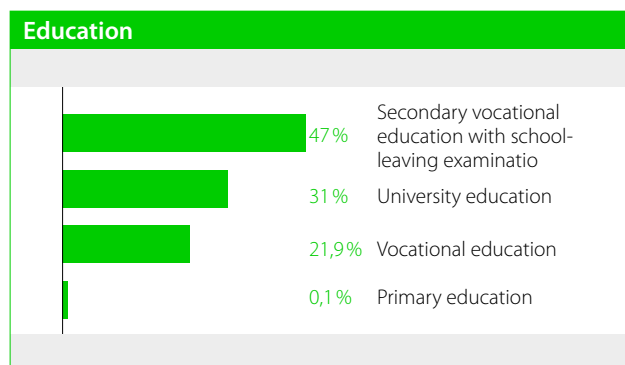
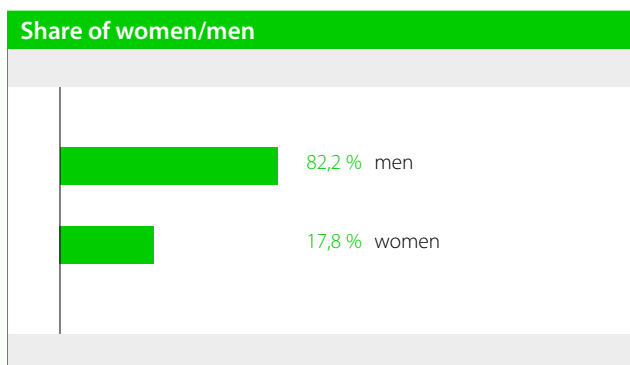


3.

HUMAN RESOURCES

Human Resources

In 2021, ZSD had 1 505.01 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 46.3 years. In 2021, the share of employees with university education went up by 0.3% 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 2% on average. At the same time, as part of the employee's total income, part of the variable wage component was transferred to the basic wage.

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.

The employer continued in contributing to the supplementary pension savings scheme of employees in 2021 as well. Every employee was entitled to 5 days of holidays beyond the Labour Code.

Education 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.

Development of soft skills was affected by the unstable pandemic situation. In general, trainings were held online. In 2021, we provided trainings in the areas such as talent management, managerial skills, soft skills from the catalogue and softs skills according to the needs defined in the development plan of employees.

Throughout the entire year, employees were offered the "Without Stress" programme, comprising monthly lectures focusing on both physical and mental well-being. In October, on the occasion of the International Day of Mental Health, the

Mental Health Week took place, including supporting seminary for employees and managers.

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 "Power" is a key programme for practical training of young generation. It is designed for graduates of secondary and higher schools of electrical engineering, 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. In 2021, the Company organised "ZSE Online Excursions" for students of secondary vocational schools located in western Slovakia, in the Bratislava and Nitra regions, to present them work of our technical colleagues and possibility of dual learning. 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 second time online.

Primary schools across all Slovakia could participate in a traditional competition "Finding Energy" which was organised despite closed schools during the pandemic.



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 corona-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 certain other obligations under the Act on Safety and Health at Work were adjusted. Initial training for new employees was carried out in the form of distance learning through the Teams application. We also provided distance familiarisation for our suppliers, employee representatives for safety and simple work at heights. The OHS campaigns were also supported by internal communication.

In 2021, the total of EUR 806,397 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 2021, the TRIF comb. reached a value of 1.8. Five registered work accidents were reported in 2021, of which 1 fatal accident of our contractors. In 2021,

employees of contractors worked 433,413 hours at the sites or facilities of the ZSE Group.

Within the supervisory audit in 2021, 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 concluded that SIM is in line with the requirements of 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.

5.

ENVIRONMENTAL PROTECTION



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. The construction of the ACON project makes a significant contribution to environmental protection. Environmental aspects of all activities including relating legal requirements are analysed and assessed on a regular basis.

In 2021, the companies of the ZSE Group invested EUR 2,716 thousand in environmental constructions and repairs. A sum of EUR 418 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 Západoslovenská distribučná 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 Protection of Slovakia

organisation, to set specific measures. In 2021, the Company continued in the international cooperation for the protection of raptors. 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 in Záhorie region. 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 1,000 km of older lines have been treated. New lines are treated automatically. In total, more than EUR 1 million was invested in the environmental improvement of the lines. As part of the ACON project, we replaced more than 58 km of lines with underground cables.



6.

**BIGGEST
INVESTMENTS
IN 2021**

Biggest investments in 2021

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 its services, every year it invests in the development of the modern distribution system and new products which are environment-friendly and use mainly renewable sources.

In 2021, Západoslovenská distribučná invested more than EUR 111 million mainly to the development and upgrade of the distribution system, to be able to ensure high standard of electricity supply to all customers. The following projects were completed:

- **Upgrade of the 110kV electrical station Madunice** which is an important hub in the Trnava region. All technology components at the 110kV line were upgraded, a modern control and information system was installed and entire technology complex was equipped with the latest digital technology. The overall value of the investment amounted to **EUR 12 million**.
- **Investment** in the capital city to boost the transformation output as a part of which the existing transformers were replaced and a new transformer was added to the **electrical station Čulenova 110/22kV**. Higher number of transformers and improved transformation output contributed to better reliability of energy supply. At the same time, the Company will be ready to face the increasing demand for energy supply in the expanding new centre of Bratislava. The total value of the investment was **EUR 5 million** and approximately **40,000 existing customers** were affected.

- **Modernisation of the electrical station 110kV Veľký Ďur** which is an important hub in terms of reliability of nuclear power station supply in Mochovce and an important energy “crossroad” in the entire region it serves including cities such as Levice and Nitra. The investment focused on the building of the new, environmentally efficient building, installation of modern control and information system and replacement of secondary technology by the modern ones. The total value of the investment was **EUR 5 million**.

In 2021, the following projects were completed:

- Comprehensive reconstruction of ES Nové Mesto nad Váhom, including the construction of a new control information system. The total value of the investment was **EUR 10 million**.
- Replacing transformers with ES Sharps. The total value of the investment was **EUR 2 million**.
- Replacing transformers to ES Myjava. The total value of the investment was **EUR 1.8 million**.

The Company spent more than **EUR 61 million** to **connect new customers** and upgrade the low and middle voltage networks. Several investments are made in this segment every year.

Projects of European Interest

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 modernisation 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 in 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 realised by **Západoslovenská distribučná, a.s.** (Slovak distribution system operator), **E.ON Észak-dunántúli Áramhálózati Zrt.** (Hungarian distribution system operator) and **Slovenská 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, with the total value of the project 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.





7.

DEVELOPMENT OF ONLINE SERVICES

Development of Online services

Online services: Západoslovenská distribučná, a.s. has been strengthening 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.

Online services were further developed in 2021 which was affected by the pandemic. The relevant teams worked on the website's update, distribution portal, e-applications and online communications with customers.

Online applications: These are environmental and practical alternatives to traditional "paper" applications. Furthermore, they enable to track the status of the application online. In 2021, online Application for connection and Application for connection of a small source to the distribution system were added an Application for opinion on the project documentation for joint/construction procedure. At the same time, the new web e-Application was launched, integrating all ZSD's online applications in a new design.

ZSD mobile application: Free-of-charge application enables the customers to have their electricity distributor at hand anytime: ZSD services, consumption, meter-reading, failures and outages, contact etc.

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.

Zsdis.sk website: The website of Západoslovenská distribučná, a.s., was fully re-designed in 2016 and 2017. In the following years including 2021, it was further developed, and new content and functionalities were added. In 2021, the following functionalities were added: Planned outages and current failures, Map

of outages and failures and Chatbot for reporting failures.

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 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 knows 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 of planned outages and reported failures. Times for switching high and low tariffs (ripple control): This web application offers 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 proven electrician in the given district who will help the customer get the supply point ready for the connection to the distribution system.



8.

CORPORATE SOCIAL RESPONSIBILITY

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 to create room for both informal and formal education and direct contact with science for broad 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, environment, sustainable development and natural science.

The ZSE Group contributed to better quality of education in Slovakia

through the grant scheme Exceptional School. In 2021, the ZSE Foundation announced its third 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. In 2021, a total sum of EUR 50,000 was distributed within the Exceptional Schools programme, supporting 23 projects.

The webpage www.vynimocneskoly.sk was further developed and added interesting content, which makes the learning process easier for all - teachers, pupils and parents. New curricula were prepared by teachers chosen within the Exceptional Schools. The database of inspiring materials from various subjects gradually expanded over the year.

The coronavirus pandemic significantly complicated the access to education to socially disadvantaged children, but not only to them. In 2021, the ZSE Foundation therefore opened the Exceptional Extra Lessons grant programme in support for activities that help equalise chances and opportunities in education. The amount of EUR 70,000 was redistributed among 39 projects.

Protection of environment

Environmental responsibility has been among the priorities of the ZSE Group in the long-run. For more than 20 years environmentalists and us have been jointly working on the harmony between the landscape and industry on this territory which is also a part of the distribution area of ZSE. In 2021, we continued to complete long-term environmental projects. 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. Last year, the drones were tested as to whether it would be possible to use them in order to install deflectors on the lines that cross over the Danube river. More than a EUR million has been spent so far to make the lines more environmentally friendly. In cooperation with the ornithologists, we continued to install booths on the high voltage poles on the selected lines.

In cooperation with the State Nature Conservancy of the Slovak Republic, we relocate stork nesting pads to reduce the risk of death of storks on our poles. In 2021, we placed 7 new nesting pads on the electrical poles and upon request of the Protected Landscape Area "White Carpathians" we made a new nest on a separate pole out of our line.

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 to 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. The amount of EUR 80,000 was redistributed among 119 projects of active employees.

After a year break caused by the pandemic and absence of cultural, community or sport events, the ZSE Foundation opened its 5th year of the Making Region Move grant programme, supporting 143 projects by the amount of EUR 120,000. The programme supports, in particular, original, projects of the communities or those that make the exceptionality of a specific region or its traditional customers or sights more visible.

Mutual aid connects us

In 2021, the ZSE Foundation further developed the cooperation with the Disabled Aid Association through the We Remove Barriers programme. 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 collections in Western Slovakia. Like many other events, charity events in 2021 were significantly affected by the coronavirus pandemic. Nevertheless, organisers of the supported projects managed to collect almost EUR 23,000. The contribution of the ZSE Foundation was EUR 15,000 in total.

ANNEX

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 AND INDEPENDENT AUDITOR'S' REPORT

March 2022

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Statement of Financial Position

Statement of Financial Position			
In thousands of EUR	Note	31 December 2021	31 December 2020
ASSETS			
Non-current assets			
Property, plant and equipment	6	1,120,826	1,074,655
Intangible assets	7	15,596	13,642
Right-of-use assets	8	72,101	77,780
Total non-current assets		1,208,523	1,166,077
Current assets			
Inventories	10	1,172	1,202
Trade and other receivables	11	52,354	40,772
Current income tax refund receivable		1,167	-
Cash and cash equivalents	13	355	4,797
Receivables from cash pooling	12	6,479	20,201
Total current assets		61,527	66,972
TOTAL ASSETS		1,270,050	1,233,049
EQUITY			
Share capital	14	33,227	33,227
Legal reserve fund	15	92,638	85,515
Retained earnings		82,638	88,735
TOTAL EQUITY		208,503	207,477
LIABILITIES			
Non-current liabilities			
Borrowings	9	630,000	630,000
Lease liabilities	8	66,115	70,666
Trade and other payables	21	6,617	4,196
Deferred income tax liabilities	16	84,730	86,603
Post-employment defined benefit obligations	17	7,531	10,622
Other long-term employee benefits	18	1,767	1,878
Contract liabilities from connection fees and customer contributions	20	87,994	85,907
Total non-current liabilities		884,754	889,872
Current liabilities			
Borrowings	9	8,534	8,534
Lease liabilities	8	7,418	7,906
Trade and other payables	21	111,238	76,424
CoContract liabilities from connection fees and customer contributions	20	6,553	6,176
Provisions for liabilities and charges	19	43,050	29,739
Current income tax payable		-	6,921
Total current liabilities		176,793	135,700
TOTAL LIABILITIES		1,061,547	1,025,572
TOTAL LIABILITIES AND EQUITY		1,270,050	1,233,049

These financial statements have been approved for issue by the Board of Directors on 29 March 2022

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

Ing. Maria Kapet
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	2021	2020
Revenue from contracts with customers	22	376,111	352,658
Transmission fees payable to network operator		(56,655)	(58,161)
Purchases of electricity for losses, charges for electricity produced from renewable sources and other purchases		(60,166)	(41,256)
Employee benefits	23	(59,543)	(56,926)
Depreciation of property, plant and equipment	6	(67,175)	(69,424)
Amortisation of intangible assets	7	(3,457)	(4,478)
Depreciation of right-of-use assets	8	(7,306)	(7,674)
Other operating expenses	24	(47,410)	(43,481)
Government grant for renewable energy purchases	34	-	20,478
Other operating income	25	4,999	5,449
Capitalized own costs		19,773	17,636
Profit from operations		99,171	114,821
Finance income / (costs)			
Interest income		-	6
Interest and similar expense	26	(18,739)	(19,093)
Finance costs, net		(18,739)	(19,087)
Profit before tax		80,432	95,734
Income tax expense	16	(19,769)	(24,498)
Profit for the year		60,663	71,236
Other comprehensive income			
<i>Items that will not be subsequently reclassified to profit or loss</i>			
Actuarial remeasurements of post-employment defined benefit obligations	17	3,445	(1,283)
Deferred tax on actuarial remeasurements of post-employment defined benefit obligations	16	(305)	269
Total other comprehensive loss for the year		3,140	(1,014)
Total comprehensive income for the year		63,803	70,222

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 as at 1 January 2020	33,227	77,558	95,556	206,341
Profit for the year	-	-	71,236	71,236
Other comprehensive 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 as at 31 December 2020	33,227	85,515	88,735	207,477
Profit for the year	-	-	60,663	60,663
Other comprehensive income / (loss) for the year	-	-	3,140	3,140
Total comprehensive income for 2021	-	-	63,803	63,803
Dividends declared and paid (Note 14)	-	-	(62,777)	(62,777)
Contribution to legal reserve fund	-	7,123	(7,123)	-
Balance as at 31 December 2021	33,227	92,638	82,638	208,503

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	2021	2020
Cash flows from operating activities			
Profit before tax		80,432	95,734
Adjustments for non-cash items:			
- Depreciation of property, plant and equipment	6	67,218	69,424
- Loss on disposal of property, plant and equipment	6	(52)	210
- Amortisation of intangible assets	7	3,457	4,478
- Depreciation of right-of-use assets	8	7,306	7,674
- Impairment of property, plant and equipment	6	(43)	1,171
- Interest income		(377)	-
- Interest and similar expense		-	(6)
- Other non-cash items	26	18,739	19,093
		93	1,888
Cash generated from operations before changes in working capital		176,773	199,666
Changes in working capital:			
- Inventories			
- Contract liabilities		30	(584)
- Trade and other receivables		(7,198)	(2,808)
- Trade and other payables		(11,582)	5,383
- Provisions for liabilities and charges		30,784	(20,510)
- Other		13,491	8,072
- Receivables from cash-pooling		13,722	20,345
Cash generated from operations before interest and taxes		216,020	209,256
Interest income received		-	6
Interest costs paid, except interest capitalised to property, plant and equipment and intangible assets		(18,676)	(19,029)
Income tax paid	34	(30,035)	(20,715)
Net cash from operating activities		167,309	169,826
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(100,751)	(89,084)
Interest expense paid and capitalised		(2,111)	(1,817)
Cash received as a result of government grant		2,838	3
Proceeds from sale of property, plant and equipment and intangible assets	6	106	276
Net cash used in investing activities		(99,918)	(90,622)
Cash flows from financing activities			
Dividends paid	14	(62,777)	(70,304)
Repayment of principal element of lease liabilities	30	(9,056)	(8,916)
Net cash used in financing activities		(71,833)	(79,220)
Net change in cash and cash equivalents		(4,442)	(16)
Cash and cash equivalents at the beginning of the year		4,797	4,813
Cash and cash equivalents at the end of the year	13	355	4,797

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

Notes to the Financial Statements

– 31 December 2021

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 2021 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") with its registered office at Čulenova 6, 811 09 Bratislava and should be assessed in connection with consolidated financial statements in order to obtain a comprehensive picture of the Company's results and financial position. These consolidated financial statements can be obtained from the Company at the address of its registered office.

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 1,505 staff on average during 2021, of which 23 were management (2020: 1,506 employees on average, of which 23 were management). Number of employees as at 31 December 2021 was 1,524 (31 December 2020: 1,512).

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

The Board of Directors may propose to the Company's shareholders to amend the financial statements until their approval by the general shareholders meeting. However, Article 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 is 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, revenue 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. The basis for the special levy is calculated as profit before tax * (revenue from regulated activities / total revenue). The special levy was 6.54% p.a. for years 2019 – 2020 and a rate of 4.356% applies 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.

Revenue from contracts with customers. Standard IFRS 15 Revenue from Contracts with Customers provides a single, principles based five-step model to be applied to all contracts with customers:

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

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.

Changes in the presentation of the financial statements.

The following prior reporting period data were amended to reflect the presentation in the current accounting period. These changes in presentation of comparatives had no impact on profit or loss nor on equity for the prior reporting period.

The impact of changes on the financial statements of the Company for the prior reporting period was as follows:

In thousands of EUR		31 December 2020
Grants		4,196
Total increase in item "Total non-current trade and other payables"		4,196
Grants		(4,196)
Total decrease in item "Total current trade and other payables"		(4,196)
Total increase/(decrease) in item "Trade and other payables"		-

3 Adoption of New or Revised Standards and Interpretations

a) *New or amended Standards and Interpretations, that are effective for annual periods beginning after 1 January 2021*

Amendments to IFRS 16 Leases COVID-19-Related Rent Concessions beyond 30 June 2021 (Effective for annual periods beginning on or after 1 April 2021. Earlier application is permitted, including in financial statements not authorised for issue on 31 March 2021). The amendments extend by one year the application period of the optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. The original expedient was issued in May 2020. The Company did use neither the original nor the extended practical expedient as there were no COVID-19 consequences on the rental expenses incurred during 2021.

Amendment to IAS 16 Property, Plant and Equipment Property, Plant and Equipment – Proceeds before Intended Use (Effective for annual periods beginning on or after 1 January 2022. Early application is permitted). The amendments to IAS 16 require that the proceeds from selling items produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended must be recognised, together with the cost of those items, in profit or loss and that the entity must measure the cost of those items applying the measurement requirements of IAS 2. The Company is currently assessing the impact of the amendments on its financial statements.

Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets Onerous Contracts – Cost of Fulfilling a Contract (Effective for annual periods beginning on or after 1 January 2022. Early application is permitted). In determining costs of fulfilling a contract, the amendments require an entity to include all costs that relate directly to a contract. Paragraph 68A clarifies that the cost of fulfilling a contract comprises both: the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. The Company is currently assessing the impact of the amendments on its financial statements.

Annual Improvements to IFRS Standards 2018-2020 (Effective for annual periods beginning on or after 1 January 2022. Early application is permitted).

Amendment to IFRS 9 Financial Instruments

The improvements clarify that, when assessing whether an exchange of debt instruments between an existing borrower and lender are on terms that are substantially different, the fees to include together with the discounted present value of the cash flows under the new terms include only fees paid or received between the borrower

and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

Amendment to Illustrative Examples accompanying IFRS 16 Leases

The improvements remove from illustrative Example 13 accompanying IFRS 16 reference to a reimbursement by the lessor to the lessee for leasehold improvements as well as an explanation of a lessee's accounting for such reimbursement.

Amendment to IAS 41 Agriculture

The improvements remove the requirement to use pre-tax cash flows to measure fair value of agriculture assets. Previously, IAS 41 had required an entity to use pre-tax cash flows when measuring fair value but did not require the use of a pre-tax discount rate to discount those cash flows.

The Company is currently assessing the impact of the amendments on its financial statements however does not expect any material impact on the financial statements.

b) *New or amended Standards and Interpretations that are effective for annual periods beginning after 1 January 2021*

Amendments to IAS 12 Income Taxes Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Effective for annual periods beginning on or after 1 January 2023. Early application is permitted). The amendments narrow the scope of the initial recognition exemption (IRE) to exclude transactions that give rise to equal and offsetting temporary differences – e.g. leases and decommissioning liabilities. For leases and decommissioning liabilities, the associated deferred tax assets and liabilities will need to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented. The Company is currently assessing the impact of the amendments on its financial statements.

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

(Effective date deferred indefinitely. Available for optional adoption in full IFRS financial statements). The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:

- a full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while

- a partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The European Commission decided to defer the endorsement indefinitely, it is unlikely that it will be endorsed by the EU in the foreseeable future. The Company is currently assessing the impact of the amendments on its financial statements.

Amendments to IAS 1 Presentation of Financial Statements Classification of Liabilities as Current or Non-current (Effective for annual periods beginning on or after 1 January 2023. Early application is permitted). The amendments clarify that the classification of liabilities as current or non-current shall be based solely on the Company's right to defer settlement at the end of the reporting period. The Company's right to defer settlement for at least 12 months from the reporting date need not be unconditional but must have substance. The classification is not affected by management's intentions or expectations about whether and when the Company will exercise its right. The amendments also clarify the situations that are considered settlement of a liability. The Company is currently assessing the impact of the amendments on its financial statements.

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgments (Effective for annual periods beginning on or after 1 January 2023. Early application is permitted). The amendments to IAS 1 require companies to disclose their material accounting policy information rather than significant accounting policies. The Company plans to apply the amendments from 1 January 2023.

Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Effective for annual periods beginning on or after 1 January 2023 Early application is permitted). The amendments introduced a definition of 'accounting estimates' and included other amendments to IAS 8 clarifying how to distinguish changes in accounting policies from changes in estimates. The distinction is important as changes in accounting policies are generally applied retrospectively while changes in estimates are accounted for in the period in which the change occurs. The Company plans to apply the amendments from 1 January 2023.

The Company is currently assessing the impact of above stated and other IFRSs and IFRIC interpretations on its financial statements, however, does not expect any material impact on the Company.

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 at 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 Group 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 have a material impact:

- Amendment to IAS 16 Property, Plant and Equipment – Property, Plant and Equipment – Proceeds before Intended Use (Effective for annual periods beginning on or after 1 January 2022).
- Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets Onerous Contracts – Cost of Fulfilling a Contract (Effective for annual periods beginning on or after 1 January 2022).
- Amendment to IFRS 9 Financial Instruments. The improvements clarify that, when assessing whether an exchange of debt instruments between an existing borrower and lender are on terms that are substantially

different, the fees to include together with the discounted present value of the cash flows under the new terms include only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. (Effective for annual periods beginning on or after 1 January 2022).

- Amendment to Illustrative Examples accompanying IFRS 16 Leases. The improvements remove from illustrative Example 13 accompanying IFRS 16 reference to a reimbursement by the lessor to the lessee for leasehold improvements as well as an explanation of a lessee's accounting for such reimbursement. (Effective for annual periods beginning on or after 1 January 2022).
- Amendment to IAS 41 Agriculture. The improvements remove the requirement to use pre-tax cash flows to measure fair value of agriculture assets. Previously, IAS 41 had required an entity to use pre-tax cash flows when measuring fair value but did not require the use of a pre-tax discount rate to discount those cash flows. (Effective for annual periods beginning on or after 1 January 2022).
- Amendments to IAS 12 Income Taxes Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Effective for annual periods beginning on or after 1 January 2023).
- Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture. (Effective date deferred indefinitely. Available for optional adoption in full IFRS financial statements. The European Commission decided to defer the endorsement indefinitely, it is unlikely that it will be endorsed by the EU in the foreseeable future).
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgments (Effective for annual periods beginning on or after 1 January 2023).
- Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. (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 represents 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 as at 31 December 2021 amounted to EUR 41,064 thousand (as at 31 December 2020 it was EUR 51,350 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 revenue for distribution and supply of electricity:

In thousands of EUR	31 December 2021	31 December 2020
Accrued receivables from distribution and delivery of electricity as part of item „Trade and other receivables“	4,761	5,920
Accrued liabilities from distribution and delivery of electricity as part of item „Trade and other payables“	-	-

The Company has an estimate of network losses according to the purchased electricity to cover losses from ZSE Energia,a.s.. Should the estimate of total network losses be lower by 0.1%, representing 10 GWh of electricity (2020: 10 GWh), with other parameters unchanged, the revenue from the distribution

services would increase by EUR 1,563 thousand (2020: EUR 1,038 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 as at 31 December 2021, the Company would have recognised an additional depreciation of network assets of EUR 6,749 thousand (2020: EUR 6,689 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 2021, potential future cash outflows of EUR 0 thousand (31 December 2020: 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 2021:

Movements in the carrying amount of property, plant and equipment during 2021								
In thousands of EUR	Land	Network buildings	Power lines	Optical lines and other leased to third parties	Switching stations and network equipment	Other assets*	Capital work in progress	Total
Cost as at 1 January 2021	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 as at 1 January 2021	28,797	92,921	624,410	1,764	211,147	14,131	101,485	1,074,655
Additions	-	-	-	-	-	-	109,757	109,757
Capitalised borrowing costs**	-	-	-	-	-	-	2,111	2,111
Transfers	260	8,650	58,369	263	35,081	4,829	(107,452)	-
Depreciation charge	-	(4,262)	(35,673)	(108)	(23,528)	(3,604)	-	(67,175)
Disposals	(3)	(2)	-	-	(53)	-	(58)	(116)
Termination of leases	-	101	1,354	-	139	-	-	1,594
Cost as at 31 December 2021	29,054	158,675	1,178,584	3,043	469,589	56,455	105,843	2,001,243
Accumulated depreciation and impairment losses	-	(61,267)	(530,124)	(1,124)	(246,803)	(41,099)	-	(880,417)
Carrying amount as at 31 December 2021	29,054	97,408	648,460	1,919	222,786	15,356	105,843	1,120,826

* 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 2021 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	2021	2020
Net book value of disposals	116	1,279
Gain / (loss) on disposal of property, plant and equipment	52	(210)
Other	(62)	(793)
Proceeds from disposals	106	276

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 equipment	Other assets*	Capital work in progress	Total
Cost as 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)	(968)	(205,313)	(53,097)	-	(778,397)
Carrying amount as at 1 January 2020	28,082	90,707	625,413	1,855	203,263	14,593	78,499	1,042,412
Initial adoption of IFRS 16	-	-	-	-	1,218	-	98,044	99,262
Additions								
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 as 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 as 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.

The Company holds insurance against damages caused by natural disasters up to EUR 368,899 thousand for buildings and up to amount of EUR 685,446 thousand for machinery, equipment, fixtures, fittings and other assets (2020: EUR 356,475 thousand and 638,443 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 25. Future rental income from non-cancellable leases is due as follows:

Future rental income from non-cancellable leases		
In thousands of EUR	2021	2020
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 as at 1 January 2020	-	29,167	5,550	34,717
Accumulated depreciation and impairment losses	-	(21,849)	-	(21,849)
Carrying amount at 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 as at 31 December 2020	-	31,832	6,113	37,945
Accumulated depreciation and impairment losses	-	(24,303)	-	(24,303)
Carrying amount as at 31 December 2020 and 1 January 2021	-	7,529	6,113	13,642
Additions	-	-	5,411	5,411
Transfers	-	7,299	(7,299)	-
Amortisation charge	-	(3,457)	-	(3,457)
Cost as at 31 December 2021	-	38,838	4,225	43,063
Accumulated depreciation and impairment losses	-	(27,467)	-	(27,467)
Carrying amount as at 31 December 2021	-	11,371	4,225	15,596

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 as 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)
Reduction in value	-	(803)	(472)	-	(1,275)
Termination of leases (Note 6)	-	-	(1,867)	-	(1,867)
Carrying value as at 1 January 2021	54	57,477	16,431	3,818	77,780
Additions	-	5,828	3,240	2,479	11,547
Disposals	-	(2,754)	(4,589)	(47)	(7,390)
Depreciation charge	(2)	(4,570)	(1,237)	(1,497)	(7,306)
Reduction in value	-	(936)	-	-	(936)
Termination of leases (Note 6)	-	-	(1,594)	-	(1,594)
Carrying value as at 31 December 2021	52	55,045	12,251	4,753	72,101

The Company recognised lease liabilities as follows:

Lease liabilities		
In thousands of EUR	31 December 2021	31 December 2020
Short-term lease liabilities	7,418	7,906
Long-term lease liabilities	66,115	70,666
Total lease liabilities	73,533	78,572

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	2021	2020
Expense relating to short-term leases	221	201
Expense relating to leases of low-value assets that are not shown above as short-term leases	1,431	1,304

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	2021	2020
Short-term lease payments	221	201
Payments for leases of low-value assets other than short-term leases	1,431	1,304
Repayment of principal of lease liabilities	9,056	8,916
Interest costs on lease liabilities paid	1,424	1,506
Total cash outflows for leases in total	12,132	11,927

9 Borrowings

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

Borrowings		
In thousands of EUR	2021	2020
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	Principal	Nominal interest rate	Maturity date
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	2021	2020
Raw materials and minor spare parts	1,172	1,202
Total inventories	1,172	1,202

The inventory items are shown net of provision for slow-moving materials and spare parts of EUR 0 (2020: EUR 21 thousand).

11 Trade and Other Receivables

Trade and Other Receivables		
In thousands of EUR	2021	2020
Trade receivables	55,781	39,340
Less impairment provision for trade receivables	(4,149)	(4,618)
Trade receivables, net	51,632	34,722
Prepayments	722	6,050
Total trade and other receivables	52,354	40,772

Movements in the impairment provision for current trade receivables are as follows:

Movements in the impairment provision for current trade receivables		
In thousands of EUR	2021	2020
Provision for impairment as at 1 January	4,618	6,108
Impairment loss expense (Note 24)	442	(212)
Amounts written off during the year as uncollectible	(911)	(1,278)
Provision for impairment as at 31 December	4,149	4,618

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								
31 December 2021					31 December 2020			
In thousands of EUR	Loss rate	Gross carrying amount	ECL	Net carrying amount	Loss rate	Gross carrying amount	ECL	Net carrying amount
Due	0.00%	51,476	-	51,476	0,01%	34,229	1	34,228
Overdue:								
- 1 to 30 days	71.72%	145	104	41	1.60%	376	6	370
- 31 to 60 days	76.56%	128	98	30	8.82%	34	3	31
- 61 to 90 days	15.38%	13	2	11	16.67%	24	4	20
- 91 to 120 days	14.29%	7	1	6	33.33%	15	5	10
- 121 to 180 days	43.48%	23	10	13	19.51%	41	8	33
- 181 to 181 days	45.00%	100	45	55	40.00%	50	20	30
- Over 360 days	100.00%	3,889	3,889	0	100.00%	4,571	4,571	-
Trade receivables		55,781	4,149	51,632		39,340	4,618	34,722

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

Trade receivables are subject to the following credit enhancements at 31 December				
	31 December 2021		31 December 2020	
In thousands of EUR	Carrying value	Insured amount	Carrying value	Insured amount
Trade receivables covered by insurance	7,311	7,311	16,544	16,544
Unsecured trade receivables	44,321	-	18,178	-

12 Receivables from Cash Pooling

Receivables from Cash Pooling		
In thousands of EUR	2021	2020
Receivables from cash pooling (interest rate 0.4% p.a. (2020: 0.4% p.a.))	6,479	20,201
Total receivables from cash pooling	6,479	20,201

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	2021	2020
Current bank accounts	355	4,797
Total cash and cash equivalents in the statement of financial position	355	4,797

The Company has a concentration of credit risk in cash and cash equivalents balances towards two banks (2020: two banks).

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

Credit quality of cash and cash equivalents		
In thousands of EUR	2021	2020
<i>Neither past due nor impaired</i>		
Credit rating A3 by Moody's	-	4,786
Credit rating A2 by Moody's	355	11
Total cash and cash equivalents	355	4,797

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 2021 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 62,777 thousand (2020: dividends of EUR 70,304 thousand). Slovak legislation identifies distributable reserves as retained earnings reported in these separate financial statements of the Company.

Dividend per share represents EUR 628 (2020: EUR 703) per share with the nominal value of EUR 3,332 and EUR 62,771 thousand (2020: EUR 70,297 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		
In thousands of EUR	2021	2020
Current tax at standard rate of 21% (2020: 21%)	18,562	22,314
Special levy on profits from regulated activities	3,385	5,135
Deferred tax	(2,178)	(2,951)
Income tax expense/(credit) for the year	19,769	24,498

In 2021, the applicable standard income tax rate was 21% (2020: 21%). The amount of the special levy of the regulated entity was calculated and paid in accordance with the applicable law in 2021, 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 revenue. For 2021 the Company applied a coefficient of 0.94 (2020: 0.88). The amount of the monthly levy is calculated as the sum of the levy rate and the base of the levy. For 2021, the monthly levy rate was 0.00363 (2020: 0.00545). 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:

Income tax rate		
In thousands of EUR	2021	2020
Standard income tax rate for the year	21.000%	21.000%
Special levy rate	4.356%	6.540%
Effect of deductibility of special levy from standard rate*	-1.058%	(1.691)%
Tax rate applicable on profits generated by regulated industry operations	24.298%	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% (2020: 21%) or at the 24.298%(2020: 25.849%) rate applicable to regulated industry operations. The applicable tax rate of 24.100% (2020: 25.268%) 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:

Deferred taxes		
In thousands of EUR	2021	2020
Profit before tax	80,432	95,734
Theoretical tax charge at applicable tax rate 24.100% (2020: 25.268%)	19,384	24,190
<i>Non-deductible expenses/(non-taxable income) for which deferred tax was not recognised:</i>		
- expenses not deductible for standard tax but deductible for special levy purposes	219	113
Other	166	195
Income tax expense for the period	19,769	24,498

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 as at 31 December 2021, that will become current tax in 2022, will be settled in 2023 upon filing the 2022 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:

Deferred taxes		
In thousands of EUR	2021	2020
Differences between tax base and carrying value of property, plant and equipment	98,558	97,689
Post-employment defined benefit obligation and other long-term employee benefits	(3,632)	(3,638)
Other liabilities	(9,537)	(6,711)
Provision for impairment of trade receivables	(58)	25
Other	(602)	(762)
Total net deferred tax liability, net	84,730	86,603

The movements in deferred taxes for temporary differences were recognised in profit or loss except for EUR (305) thousand (2020: EUR 269 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	2021	2020
Present value of unfunded post-employment defined benefit obligations at the beginning of the year	10,622	9,265
Current service cost	634	517
Interest cost	63	64
Past service costs due to changes in the defined benefit plan rules	-	-
Total expense (Note 23)	697	581
Actuarial remeasurements:		
- attributable to changes in financial assumptions	(130)	983
- attributable to changes in demographic assumptions	-	247
- attributable to experience adjustments	(3,315)	53
Total actuarial remeasurements recognised in other comprehensive income	(3,445)	1,283
Benefits paid during the year	(343)	(507)
Other changes	-	-
Present value of unfunded post-employment defined benefit obligations at the end of the year	7,531	10,622

The principal actuarial assumptions were as follows:

The principal actuarial assumptions		
	2021	2020
Number of employees as at 31 December	1,524	1,512
Staff turnover	4.58% p.a.	4.58% p.a.
Expected salary increases short-term	2.00% p.a.	2.00% p.a.
Expected salary increases long-term	4.00% p.a.	4.00% p.a.
Discount rate	0.90% p.a.	0.60% p.a.

If the actual discount rate differed by 0.5% from the estimated discount rate, the value of the liability due to pension benefits would be by EUR 77 thousand lower or by EUR 452 thousand higher (2020: EUR 539 thousand lower or EUR 586 thousand higher).

Contrary to 2020, the actuaries considered new International Accounting Standards Board interpretation of standard (Attributing Benefit to Periods of Service IAS 19 Employee Benefits as described in IFRIC update December 2020 and IAS staff paper from May 2021 meeting agenda) referring to the periods of service to which an entity attributes benefit for a particular type of defined benefit plan. The amount of the retirement benefit to which an employee is entitled depends on the length of service before the retirement. In 2020 the length of services was not limited. The effect of this change is considered as immaterial therefore is recognised in other comprehensive income.

18 Other Long-Term Employee Benefits

The Company makes EUR 1,400 (2020: EUR 1,400) payment to each employee at the age of 50, subject to 5 years service vesting condition (2020: 5 years). In addition, the Company pays regular long-term work anniversary bonuses in general every 10 years in the amounts between EUR 400 to EUR 1,250 (2020: 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	2021	2020
Provisions for litigation as at 1 January	29,739	21,666
Additions recognized in profit or loss	13,968	8,795
Reversal of provision	(657)	(722)
Total litigation provisions as at 31 December	43,050	29,739

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 2021, as a matter of prudence and based on internal assessment of the risk arising from disputes over tariff for electricity producers' access to the distribution system, the Company created an additional provision for legal proceedings for the non-expired portion of payments for the years 2017 and 2018 amounted to 10,089 ths EUR (2020: 8,795 ths EUR), which have not yet been covered by the provision.

Of the above-mentioned provisions for legal proceedings as at 31 December 2021, the amount of EUR 9,432 thousand (2020: EUR 8,073 thousand) was recognized as decrease of revenue.

20 Contract Liabilities from Deferred Connection Fees and Customer

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 revenue 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 December 2021	31 December 2020
Non-current		
Contract liabilities - customer contributions	19,011	17,487
Contract liabilities - connection fees	68,983	68,420
Total non-current contract liabilities	87,994	85,907
Current		
Contract liabilities - customer contributions	581	555
Contract liabilities - connection fees	5,972	5,621
Total current contract liabilities	6,553	6,176

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						
In thousands of EUR	Non-current			Current		
	Customer contributions	Connection fees	Total	Customer contributions	Connection fees	Total
As at 1. January 2020	16,388	67,387	83,775	501	5,292	5,793
Additions	1,654	6,654	8,308	-	-	-
Transfers	(555)	(5,621)	(6,176)	555	5,621	6,176
Recognised in revenue	-	-	-	(501)	(5,292)	(5,793)
As at 31 December 2020	17,487	68,420	85,907	555	5,621	6,176
Additions	2,105	6,535	8,640	-	-	-
Transfers	(581)	(5,972)	(6,553)	581	5,972	6,553
Recognised in revenue	-	-	-	(555)	(5,621)	(6,176)
As at 31 December 2021	19,011	68,983	87,994	581	5,972	6,553

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

The maturity analysis of contract liabilities to customers						
In thousands of EUR	31 December 2021			31 December 2020		
	Customer contributions	Connection fees	Total	Customer contributions	Connection fees	Total
As at 31 December and due as follows						
<i>Short-term:</i>						
within 12 months	581	5,972	6,553	555	5,621	6,176
<i>Non-current:</i>						
from 12 months to 5 years	2,389	24,201	26,590	2,161	23,195	25,356
After 5 years	16,622	44,782	61,404	15,326	45,225	60,551
Total non-current	19,011	68,983	87,994	17,487	68,420	85,907
Total as at 31 December	19,592	74,955	94,547	18,042	74,041	92,083

21 Trade and Other Payables

Trade and Other Payables		
In thousands of EUR	2021	2020
Grants	6,617	4,196
Total non-current trade and other payables	6,617	4,196

Trade and Other Payables		
In thousands of EUR	2021	2020
Trade payables	51,177	46,479
Other accrued liabilities	24,623	3,159
Other financial liabilities	2,633	2,259
Total financial instruments within current trade and other payables	78,433	51,897
Employee benefits payable	2,270	2,324
Social security on employee benefits	2,020	1,980
Accrued staff costs	6,561	6,089
Advance payments	11,584	8,330
Value added tax payable	4,109	160
Other payables	5,925	5,354
Grants	336	296
Total current trade and other payables	111,238	76,424

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 363 thousand (2020: EUR 96 thousand). None of the payables are overdue more than 30 days as at 31 December 2021 and 2020.

22 Revenue from Contracts with Customers

Revenue from contracts with customers comprises the following:

Revenue from contracts with customers		
In thousands of EUR	2021	2020
Distribution fees for electricity to industrial and other commercial customers	233,642	231,435
Distribution fees for electricity to residential customers	115,481	106,485
Tariff for system operation and system services – OKTE, a.s. a related party controlled by Slovak government	16,022	3,351
Revenue for reserved capacity	9,437	9,121
Accrued decrease in revenue from customer returns	(9,432)	(8,073)
Total distribution fees	365,150	342,319
Revenue for connection work and testing fees	6,378	5,989
Other revenue	4,583	4,350
Total revenue from contracts with customers	376,111	352,658

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

Slovakia has implemented the European Union electricity market directive, which resulted in a complete liberalisation of the market to all customers, including households, from 1 July 2007, i.e. all customers have the option to change electricity supplier after 1 July 2007. However, price regulation for electricity supplies applies to certain protected groups of customers, whereby price regulation of infrastructure, including access to the distribution network and distribution of electricity as a natural monopoly, is applied regardless of the liberalization of the electricity supply market.

Timing of revenue from contracts with customers recognition is as follows:

Timing of revenue from contracts with customers recognition		
In thousands of EUR	2021	2020
At a point in time	6,378	5,989
Over time	369,733	346,669
Total revenue from contracts with customers	376,111	352,658

23 Employee Benefits

Employee Benefits		
In thousands of EUR	2021	2020
Wages and salaries	39,223	37,160
Defined contribution pension costs	7,073	6,796
Post-employment defined benefit plan expense (Note 17)	697	581
Other long-term employee benefit plans – current service and interest cost	135	132
Actuarial remeasurements of other long-term employee benefit plans	29	88
Other social levies and costs	12,386	12,169
Total employee benefits expense	59,543	56,926

24 Other Operating Expenses

Other Operating Expenses		
In thousands of EUR	2021	2020
Repairs and maintenance of energy equipment	3,864	3,199
Other repairs and maintenance	7,047	7,289
Administration of distribution equipment	9,032	8,362
Repairs of machinery and devices	1,857	1,231
IT services	7,108	7,898
Measuring of electricity consumption	952	950
Facility management	1,397	1,386
Finance services	4,000	3,973
Advisory services	421	615
Other services	8,173	6,155
Call centre	804	783
Credit loss allowance for receivables (Note 11)	442	(212)
Statutory audit	81	122
Expenses relating to leases of low-value assets and for short-term leases	1,652	1,730
COVID-19 employee testing	580	-
Total other operating expenses	47,410	43,481

25 Other Operating Income

Other Operating Income		
In thousands of EUR	2021	2020
Operating lease income	451	449
Income from amortisation of contract liability from deferred customer contributions	581	571
Income from contractual penalties	92	46
Income from unauthorized consumption of electricity	376	286
Income from IT services	2,632	2,490
Grants	378	101
Other	489	1,506
Total other operating income	4,999	5,449

26 Interest and Similar Expense

Interest and Similar Expense		
In thousands of EUR	2021	2020
Interest expense on borrowings from the Parent company	19,363	19,341
Interest expense on leasing	1,424	1,506
Other interest expense	63	64
Less capitalised borrowings costs (Note 6)	(2,111)	(1,818)
Total interest and similar expense	18,739	19,093

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 at 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 at 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 12 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 as at 31 December 2021:

The maturity analysis as at 31 December 2021						
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	38,241	12,600	70,182
Trade payables (Note 21)	21,454	28,776	584	363	-	51,177
Other accrued liabilities (Note 21)	3,217	133	21 273	-	-	24 623
Other financial liabilities (Note 21)	2,633	-	-	-	-	2,633
Lease liabilities (including future interest payments)	668	1,336	6,309	36,351	37,633	82,297
Total future payments, including future principal and interest payments	27,972	36,545	41,207	389,955	365,233	860,912

The maturity analysis is as follows as at 31 December 2020:

The maturity analysis as 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

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 208 503 thousand as at 31 December 2021 (2020: EUR 207,477 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 as at 31 December 2021:

Offsetting Financial Assets and Financial Liabilities as at 31 December 2021						
	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure
				Financial instruments	Cash collateral received	
In thousands of EUR	(a)	(b)	(c) = (a) - (b)	(d)	(e)	(c) - (d) - (e)
Assets						
Cash pooling	6,479	-	6,479	6,479	-	-
Total assets subject to offsetting, master netting and similar arrangement	6,479	-	6,479	6,479	-	-
Liabilities						
Borrowings	638,534	-	638,534	6,479	-	632,055
Total liabilities subject to possible offsetting, master netting and similar arrangement	638,534	-	638,534	6,479	-	632,055

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

Offsetting Financial Assets and Financial Liabilities as at 31 December 2020						
	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure
				Financial instruments	Cash collateral received	
In thousands of EUR	(a)	(b)	(c) = (a) - (b)	(d)	(e)	(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

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
As at 1 January 2020	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 from financing activities	(19,341)	(1,506)	(20,847)
Principal repaid (Note 8)	-	(8,916)	(8,916)
As at 31 December 2020	638,534	78,572	717,106
Non-cash changes:			
Additions to leases (Note 8)	-	11,547	11,547
Termination of leases and other changes	-	(7,530)	(7,530)
Interest expense (Note 26)	19,363	1,424	20,787
Payments			
Interest paid on liabilities from financing activities	(19,363)	(1,424)	(20,787)
Principal repaid (Note 8)	-	(9,056)	(9,056)
At 31 December 2021	638,534	73,533	712,067

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				
In thousands of EUR	31 December 2021		31 December 2020	
	Level 2 fair value	Carrying value	Level 2 fair value	Carrying value
Assets				
Trade receivables, net (Note 11)	51,632	51,632	34,722	34,722
Cash and cash equivalents (Note 13)	355	355	4,797	4,797
Receivables from cash pooling (Note 12)	6,479	6,479	20,201	20,201
Total assets	58,466	58,466	59,720	59,720
Liabilities				
Borrowings (Note 9)	679,530	638,534	696,512	638,534
Trade payables (Note 21)	51,177	51,177	46,479	46,479
Other accrued liabilities (Note 21)	24,623	24,623	3,159	3,159
Other financial liabilities (Note 21)	2,633	2,633	2,259	2,259
Total liabilities	757,963	716,967	748,409	690,431

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 2017 to 2021 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 0 thousand (2020: EUR 23,192 thousand) in excess of the provision already created.

Capital expenditure commitments. As at 31 December 2021, the Company had outstanding contractual commitments for purchases of property, plant and equipment of EUR 12,833 thousand (2020: EUR 4,922 thousand). Outstanding contractual commitments for purchases of intangible assets were EUR 3,671 thousand (2020: EUR 177 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 2021 and outstanding balances as at 31 December 2021 were as follows:

The related party transactions for 2021 and outstanding balances as at 31 December 2021				
In thousands of EUR	Parent company	E.ON Group**	Slovak government*	Entities under common control of the Parent company
Revenue	2,069	14,844	80,930	203,254
Government grant for renewable energy purchases	-	-	-	-
Purchases and expenses	42,327	1,572	57,661	54,093
Receivables other than taxes	7,342	725	18,480	26,382
Liabilities other than taxes	696,263	1,298	9,743	25,620
Dividends declared and paid	62,777	-	-	-

* 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. The 2019 deficit was partially paid during 2021 based on the decision of RONI and recognized within revenue (Note 22).

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:

Income tax paid		
In thousands of EUR	2021	2020
Current income tax expense at standard rate of 21 % (2020: 21%) – refer to Note 16)	(18,562)	(22,314)
Special levy on profits from regulated activities (Note 16)	(3,385)	(5,135)
Current income tax (liabilities) / refund receivable at the beginning of the reporting period	(6,921)	(187)
Current income tax liabilities at the end of the reporting period	(1,167)	6,921
Income tax paid	(30,035)	(20,715)

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

The related party transactions for 2020 and outstanding balances as 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 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 comprise (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		
In thousands of EUR	2021	2020
<i>Board of Directors and other key management personnel</i>		
Salaries and other short-term employee benefits	576	592
Defined contribution pension costs	93	51
Total remuneration of Board of Directors and other key management personnel	669	643
<i>Supervisory board</i>		
Salaries and other short-term employee benefits	154	150
Defined contribution pension costs	26	21
Total remuneration of supervisory board	180	171

35 Events after the End of the Reporting Period

The recent armed conflict between Russian Federation and Ukraine and related events has increased the perceived risks of doing business in the energy sector. The economic sanctions imposed on Russian individuals and legal entities by the European Union, the United States of America, Japan, Canada, Australia and others has resulted in increased economic uncertainty on the markets and increased the volatility of energy prices. The long term effects of recently implemented sanctions, as well as the threat of additional future sanctions, are difficult to assess at this moment. As at the date these financial statements were authorized for issue, the war continues. The final resolution and the effects of the conflict are difficult to predict but may have negative effects on the Slovak economy. Potential escalation of the conflict and sanctions could negatively affect the Company results and financial position but currently it is not possible to determine if this risk will materialise and to what extent.

After 31 December 2021, no other significant events have occurred that would require recognition or disclosure in these financial statements.

Management authorised these financial statements for issue 29 March 2022:



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



.....
Ing. Marian Kapec
Member of the Board of Directors

Complete annual report [here](#).

