Annual Report for 2022

Západoslovenská distribučná, a.s.

ZÁPADOSLOVENSKÁ
DISTRIBUČNÁ

Content

01 | 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

In the context of the geopolitical situation, the year 2022 was extremely challenging. Since 24 February we have been living in a completely different world. The Russian invasion of Ukraine denied all our illusions that such conflict can happen in the civilised and modern Europe in the 21st century. Two years after the pandemic we experience even bigger crisis which has far-reaching consequences in all areas, especially energy business.

The conflict complicated the post-pandemic situation on the markets even more. Prices of electricity and gas went significantly up, and price volatility was historic too. We had to make enormous effort to stabilise all our operations to calm down our employees and customers who equally felt great uncertainty resulting from imminent lack of electricity and gas.

Worries about shortage of commodities did not come. However, they led to significant interest in energy self-sufficiency, resulting in search for photovoltaics. We, in Západoslovenská distribučná, reported 10 times higher interest in connecting photovoltaics to the system. For example, monthly we processed more than 1,500 applications for the connection of small sources. There was also a great interest in connecting local sources. We therefore welcomed the step of the Ministry of Economy as to 1 November, deregulating limits for connecting local sources. It will enable to connect even more local sources on our distribution territory.

In 2022, we continued in digitising another customer processes. We want to make even more progress in this area and provide our customers with comfort of fast and transparent electronic communication.

Despite the difficult situation, we achieved good results in terms of investments. In 2022, we invested more than EUR 100 million in the development and upgrade of the distribution system. We concentrated on the completion of more investment projects. We successfully completed the comprehensive reconstruction of the Madunice power station which became an important node in the supply of the Trnava region. We managed to complete a technically and logistically very demanding investment, to strengthen the transformation capacity in the very centre of the capital city. We also completed an important reconstruction of the Veľký Ďur power station which represents an important node in terms of reliability of the power supply to the nuclear power plant in Mochovce.

The world of energy is changing, and it is the start of the new one that requires the modernisation and digitalisation of the distribution system and significant investments. One of the ways to accelerate these investments is to take advantage of the possibility of co-financing from the European Union´s funds. We are implementing two projects of common interest aimed at interconnecting European energy systems and achieving

the EU's energy and climate goals. The ACON Smart Grid and Danube InGrid projects are on the 5th official list of PCI projects and we submitted applications for their re-inclusion on the forthcoming 6th list of projects of common interest of the European Union at the end of 2022.For example, we have already invested more than EUR 32 million within the ACON project, successfully built almost 260 km of fibre optic routes, modernised 27 transformer stations by deploying monitoring and communication technologies, and built and commissioned a new 110/22 kV power station near Borský Svätý Jur, which will significantly contribute to the reliability and stability of electricity distribution in the region. Last but not least, hardware and software solutions were designed and implemented as part of the deployment of the smart grid IT platform. The deployment of smart grids will help modernise the electricity grid, increasing the security of supply and the flexibility needed to integrate renewables and develop the European energy market.

Even in difficult conditions, our technicians managed to troubleshoot without significant delays. Smooth course distribution is confirmed by the SAIDI and SAIFI quality indicators, which we managed to bring to an all-time low in the past year. It means that even in difficult conditions we have ensured high standard of services.

Also, I would like to mention a project, the so-called green management of corridors. Together with nature conservation experts, we have begun to search for a way how to carry out vegetation cutting as part of the maintenance of power lines so that, on the one hand, we do not jeopardise safe and reliable distribution, but, on the other hand, we sensitively create bio-corridors beneath the lines. Developing corridors and promoting biodiversity brings a new approach for our company, within which we will strive for maintenance that preserves the natural character of the area as much as possible.

Due to the nature of work in a distribution company, our mission and first priority is safety and health of our employees, business partners and contractors. We have a long-standing commitment to systematic employee training in the area of occupational health and safety. In addition to the training sessions, we also promoted the topic through several internal campaigns and webinars.

I think it is very important that we invested in the training of employees, both current and future, over the last year. We completed a large training polygon in Nitra, which is used for practical training in live working for our colleagues from the operation. At the same time, given the demographic development and the ever narrower choice of applicants on the labour market, we must look for effective ways to educate future employees already among high school students. We are doing so by investing in dual education, and in some schools we directly built training polygons for students. Cooperation in dual education is good for all partners: the distribution company gets well-prepared young electricians, the schools get quality equipment for vocational training and the pupils are sure that they will not get lost in life, they will be able to find a job in any sphere.

Our ambition is to be a professional and reliable partner for our customers, to support the growth of the Slovak economy and society through the development of important energy infrastructure, and to continue to improve in the years to come. I would like to thank all my colleagues for fulfilling this goal, regardless of the difficult conditions we have been facing in recent years.

Tomáš Turek,
Chairman of the Board of Directors

Company's Bodies

The structure of statutory and supervisory bodies of Západoslovenská distribučná, a.s. in 2022 was as follows:

Statutory Body	
As at 31 December 2022	
Chairman	Ing. Tomáš Turek, PhD. (start of office on 21 September 2019)
Vice-chairwoman	Ing. Jana Somorovská (start of office on 1 September 2020)
Members	Ing. Marian Kapec (start of office on 21 March 2020)
	Mgr. Kristián Takáč (start of office on 1 September 2020)
	Ing. Miroslav Otočka (start of office on 16 May 2018 and end of office on 16 May 2022; start of office on 16 May 2022)

Supervisory Body	
As at 31 December 2022	
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; end of office as member and chairman on 25 July 2022)
	Ing. Bc. Robert Tánczos (start of office as a Member of the Supervisory Board on 20 November 2020, as the Chairman of the Supervisory Board on 27. September 2022)
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; end of office on 4 October 2022)
	Robert Polakovič (start of office on 5 October 2022)
	Bc. Milan Černek (start of office on 20 June 2019; end of office on 4 October 2022)
	Bc. Milan Černek (start of office on 5 October 2022)
	Ing. Juraj Nyulassy (start of office on 20 June 2019; end of office on 4 October 2022)
	Ing. Juraj Nyulassy (start of office on 5 October 2022)
	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; as a Chariman of the Supervisory Board from 27 September 2022)
	Ing. Ivan Májsky (start of office on 25 July 2022)

The shareholders' structure in Západoslovenská distribučná, a.s. as at 31 December 2022 was as follows:

Shareholders' structure			
As at 31 December 2022	**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 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 2022.

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 2022 requiring disclosure in the Annual report

Company is not aware of any other significant facts occurring after 31 December 2022, which would have an impact on the financial statements.

Compliance

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.

The Code of Conduct is amended with supplementary binding internal regulations providing a deeper insight into the areas of compliance (e.g. AML, conflict of interests, criminal liability of legal persons, whistleblowing).

In order to increase ethical awareness of employees, the ZSE Group companies organise many educational activities, scope of which was defined depending on the tasks and responsibilities of individual participants.

In 2022, ZSE Group companies continued to offer new e-learning courses to employees within the Group. As of 2020, all employees must go through the Code of Conduct e-learning module at regular yearly intervals. In 2022, the training focused on ethical dilemmas and possibilities of reporting forbidden activities identified by employees during their work.

This educational activity of the ZSE Group was one way of our continued support of the so-called speak-up culture aiming to encourage the employees to openly deal with and escalate their concerns related to compliance with the rules. The training module used hypothetical situations to clearly depict circumstances which require the employees to take responsibility and contact the Compliance Manager.

Employees in units with no internet access participated in the training offline.

New employees went through the e-learning or in-person training about the Code of Conduct, where they were informed of the ZSE Group's compliance rules and whom to contact for consultation or reporting.

Moreover, all current and new ZSE Group leaders went through the "Leaders and integrity" e-learning, highlighting their indispensable role as paragons in the ZSE Group's culture of compliance with rules.

Compliance and notifications

The ZSE Group has established reporting channel through which employees may report 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. For the sake of completeness, as per the internal rules of the ZSE Group, third parties may also file a claim, which will also be subject to investigation in line with the internal rules of the ZSE Group.

Number of compliance-related claims in the ZSE Group in 2022

For the sake of transparency and clarity, we divide the claims to following categories

Number of compliance-related claims in the ZSE Group in 2022	
Claims regarding business integrity, potential illegal activity, violation of legal regulations, corruption, antitrust rules, compliance with KYC rules and integrity of business partners, insider trading (GRI 205-3)	**0**
Frauds against ZSE Group companies, such as theft, embezzlement, other fraudulent behaviour	**8**
HR-related concerns claims, such conflict of interests, mobbing, bossing, sexual harassment, discrimination, etc.	**4**
Any other topics related to the Code of Conduct	**3**
TOTAL	**15**

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.

  The topic of anti-corruption behaviour, giving and accepting gifts or refreshments is regularly communicated through internal communication channels. The area of gifts and refreshments is also a topic of regular trainings, of both the new employees and as part of regular annual compliance and Code of Conduct trainings.

- **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.

- **Competition and anti-competitive practices**
  We, in the ZSE Group, are convinced that we can win and retain customers and build stable relationships with the stakeholders only if we act responsibly and fairly.

  The ZSE Group is governed by the Rules on Competition and by no means tolerates prohibited agreements restricting competition (cartel agreements) or abuse of the dominant status. All employees of the ZSE Group Companies are under an obligation to act in compliance with the Competition Protection Rules, further detailed in the Code of Conduct.

  Under internal rules of the ZSE Group, special attention is paid to observing the competition protection rules in contact with competitors. In contact with competitors, employees must ensure that they would not receive or provide any information which would lead to conclusions on the current or future behaviour of the ZSE Group or its competitors on the market.

  Observance of national and internal laws is also immensely important for the ZSE Group. ZSE Group companies require the same from their business partners.

- **Know your counterpart control (KYC)**
  Skupina ZSE si vyberá svojich obchodných partnerov 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.

Customer ombudsman

The customer ombudsman is very important for ZSE, given that he acts as an important line of communication between the company and its customers, and builds their trust. The energy market is very regulated and customers may have concerns regarding service level, invoicing or other areas they aren't very familiar with. The customer ombudsman serves as a contact point for customers, listens to their concerns and handles their requests. His role is essential in resolution of disputes, seeking satisfactory solutions in an adequate and unbiased manner.

The customer ombudsman deals with complaints in cooperation with ZSE Group colleagues and seeks the best solution for both parties. The ombudsman also helps the company observe regulation and industry standards.

Last year, the ZSE customer ombudsman handled 948 customer cases, which is in line with the long-term average. Only a small part of cases (108) are official claims received by email. Cases can be primarily divided into two categories. The first includes basic help for a group of customers where it can be assumed that they need assistance. These can be e.g. hearing or vision impaired, physically handicapped or seniors of advanced age. Another group are customers who are not satisfied with the handling of their claim at an existing contact centre, or their case is more complex. Approximately 1/6 of claims were classified as requests. These concern mostly help with filling out a form, submitting a request or completing documents. 1/3 of claims were classified as complaints. In such cases, the ombudsman enters the process if there was a misunderstanding and the standard process came to a halt. Most often there are complaints regarding the contract on connection or electricity meter failure. Recently, with the launch of photovoltaic panel installations and longer waiting times, the ombudsman has been receiving complaints related to this. The biggest part of the ombudsman's contacts with the customers – up to 1/2 – concerns consultations and/or advisory. The main reason is that the customers naturally don't know the process and often it is easier for them to come and have it explained to them in simple terms.

Moreover, the ombudsman helps identify and address systemic issues within the company and thus improve the overall customer experience. It is thanks to the customer ombudsman that ZSE manages to build better relations with the customers and gain their trust, which in the long term leads to improved loyalty and retention of the customer base.

Cyber-security

In the current digital world, technology and its use became part of the daily standard not only at work but also in private. With the increased use of internet and connected devices, the potential of cyber-security threats or data leaks increases. The energy sector and its infrastructure are an indispensable part of the economy. Digitisation of processes and smartification of devices creates pressure to implement robust cyber-security solutions. The stability of supply in the energy sector is closely connected with cyber-security. An attack on the infrastructure could interrupt electricity supply and even cause blackouts and have serious consequences for both individuals and companies.

To ensure the stability of electricity supply, proper protection of our systems and network is important. The company cooperates with government agencies and other major partners in sharing information on potential threats, and we monitor the best practices in security.

During the last year, we detected and averted more than 1,400 attacks on our server environment. In the most intense month, electronic mail monitoring systems identified and blocked up to 20,000 phishing emails. We use advanced SIEM (Security Information and Event Management) analytics to detect security events of highest complexity, arising from identification of non-standard behaviour and event correlations of known attacks. During the year, SIEM registered almost 10,000 security events.

In 2022, we implemented a network security solution which learns the patterns of normal network operation behaviour thanks to machine learning, and distinguishes standard and suspicious behaviour. The cyber security unit also segregated the critical part of the network where monitoring of data transfers takes place, as well as active use of firewall down to application level. The set rules thus enable communication with network elements exclusively from the authorised dispatch centre stations.

With a correct strategy and technology, the company can resist cybernetic attacks, eliminate adverse impacts of incidents and ensure uninterrupted electricity supply to our customers.

02 | Economy

Economy

In 2022, Západoslovenská distribučná, a.s., generated comprehensive income of EUR 64,492 thousand, with sales totalling EUR 465,659 thousand and expenses totalling EUR 406,633 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		
In EUR thousand	**2022**	**2021**
Non-current assets	1,233,600	1,208,523
Current assets	125,121	61,527
Total assets	**1,358,721**	**1,270,050**
Equity	219,723	208,503
Non-current liabilities	595,842	895,979
Current liabilities	543,156	165,568
Total equity and liabilities	**1,358,721**	**1,270,050**
Sales	465,659	376,111
EBIT (profit from operating activities)	**104,024**	**99,171**
EBITDA	184,683	177,109
Revenue	491,910	400,883
Expenses	406,633	320,451
Profit before tax	85,277	80,432
Net profit	**63,624**	**60,663**
Other comprehensive income	868	3,140
Total comprehensive income	**64,492**	**63,803**
Cash outflows for investment activities	**85,208**	**99,918**
Full-time equivalent of employees (FTE)	**1,518**	**1,505**

Information on sales in monetary terms from electricity distribution:

Ukazovatele		
As at 31 December	**2022**	**2021**
Volume of electricity distributed (GWh)	9,636	9,891
Sales from electricity distribution (EUR thousand)	448,983	374,582
Number of supply points	1,208,656	1,195,500

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

Investments in 2022	
In EUR thousand	**2022**
Connection	30,344
Development and improvement of networksHV, LV, TS, EZ	23,189
Development and improvement of networks VHV (RZ, EZ, KZL)	22,107
Special projects (automatisation, ecology)	995
Purchase of energy devices	651
Land and easements	4,708
Transformers, inductors, resistors	1,150
Electrometers	6,381
Low-value assets	603
Contracts for the purchase of leased assets	524
Interest expense capitalised	1,769
IT projects	3,871
Telco	,1,602
Facility Management	904
Other	4,607
Total	**103,404**

Major Constructions of Západoslovenská distribučná, a.s. in Terms of Volume	
In EUR thousand	**2022**
VVN_Rekonštrukcia ES Madunice	5,254
VVN_ES Borský Sv.Jur - výstavba	4,467
VVN_Rekonštrukcia vedenia Trnava Centrum – Trnava Zavar	3,420
VVN_Rekonštrukcia ES Čulenova	3,290
VVN_Rekonštrukcia ES Veľký Ďur	2,322

Major Constructions of Západoslovenská distribučná, a.s. in Terms of Volume	
In EUR thousand	**2023**
VVN_ ES Mierovo - výstavby	5,500
VVN_Rekonštrukcia ES Senica	4,000
VVN_Rekonštrukcia vedenia VE Kostolná - Bošáca	3,600
VVN_Rekonštrukcia ES Trnava Zavar	3,500
VVN_Rekonštrukcia vedenia Križovany - J. Bohunice	2,400

Distribution of Profit for 2022

At its meeting on 29 March 2023 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 2022.

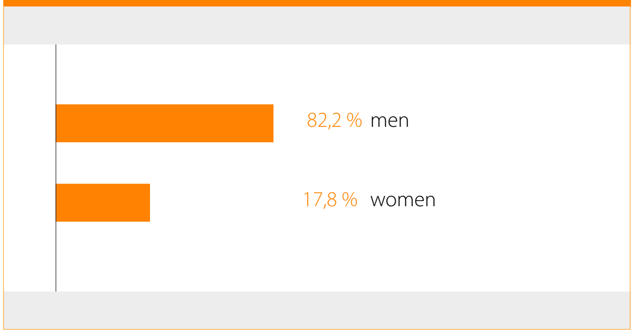
Proposal for 2022 profit distribution	
In EUR thousand	**2022**
Net Profit for the financial period	**63,624**
A/ contribution to reserve fund (10%)	6,362
B/ contribution to social fund	1,180
C/ dividends	56,082

03 | Human Resources

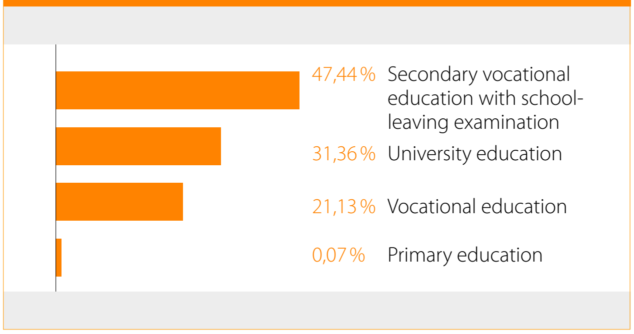
Human Resources

In 2022, ZSD had 1,517.57 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 46.4 years.

Share of women/men



Education



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. From 1 July 2022, basic wage increased by EUR 30.

For the period from 1 January 2022 to 30 June 2022, employees received a one-time payment of EUR 180. Basic wage was re-evaluated from 1 July 2022 differentially by 1.14%. Employees were remunerated based on their performance which directly affected the sum of the variable part of the wage and extraordinary bonuses.

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 2022 as well. Every employee was entitled to 5 days of holidays beyond the Labour Code.

Training and development of employees

Talent management:
In 2022, two new talent programmes were launched – Grow Hub – development of managerial potential, and Expert Lab – development of expert and innovation potential.

Other strategic programmes in 2022 were the Team Leader Academy (successor academy), ZSD Coordinator Management Skills Development Academy ("Working with people and leading them"), preparation of managers for the transition to new normal (hybrid working), senior management development in the VUCA worlds ("Our Future is now").

If needed, employees can take part in coaching lessons to develop their soft and hard skills.

As part of human resources, diversity and inclusion topics, the company keeps in mind the necessity of lifelong education not only in the area of hard skills but also with focus on attentiveness, positive thinking or body balance. (GRI 103-1/2/3).

Mental health/wellbeing support

In 2022, the company became part of the Coalition of Companies for Mental Health. As part of this cooperation, all employees could participate every month in an online professional discussion regarding mental health and wellbeing support.

Cooperation with schools and students

The ZSE Group offers lots of programmes to form a diverse and inclusive society. We have cooperated with technical middle schools through Dual education programmes for several years now. In 2022, 30 students joined the dual education programmes. Students from technical middle schools have the option to become young employees thanks to the Power programme where ZSE experts impart their valuable experience and technical skills to the future generations of ZSE colleagues. In 2022, 20 electrical engineering school graduates were accepted to the Power programme, which enables continuous development of the graduates and their further career advancement to permanent positions.

ZSD is a partner of the Duke of Edinburgh's International Award – we cooperate to develop talents and the participants mentor the students. The programme is designed so that our colleagues teaching energy subjects have the possibility to expand their mentoring skills.

04 | Occupational Health and Safety

Occupational Health and Safety

The company continuously monitors and evaluates the work-related risks and adopts measures to mitigate and prevent them. Considering the nature of works in energy business, observance of OHS rules is the top priority.

Newly hired employees received initial instruction as a distance training via MS Teams, as well as in person. In 2022, 23 instruction trainings took place for 150 employees in total. In 2022, OHS and HR pilot workshops were organised for the company managers. Instruction of suppliers and employees' representatives for safety took place using MS Teams. The company organised campaigns focused on OHS supported by internal communication. To increase the employees' OHS awareness, various articles and quizzes were published on the intranet. In the area of employee health protection, we organised webinars focused on wellbeing, mental health protection, carpal tunnel prevention workshops. Rehabilitation stays were offered to employees doing hazardous work. The company also ensures preventive medical checks for selected employees beyond the legal framework
In 2022, the total of 1,032,179 EUR 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 ZSE Group monitors TRIF comb., LTIF comb. and NMFR indicators of employees. In 2022, the TRIF comb. reached a value of 1.8, LTIF comb. was 1.0 and NMFR was 142.05. Four registered work accidents were reported in 2022, of which 2 were fatal accidents of our contractors. In 2022, employees of contractors worked 630,012 hours at the sites or facilities of the ZSE Group.

Within the recertification audit in 2022, 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.

05 | Environmental Protection

Environmental Protection

Environment

In 2022, the ZSE Group continued with the long-term and sustainable care for the environment, bird protection, as well as protection of water, soil and air. At the end of October 2022, 3EC certification company carried out a recertification audit of the system of integrated management (SIM) in all three companies. The audit found no discrepancies and all three companies, i.e. ZSE, ZSD and ZSEE once again retained the Environmental Management System certification (ISO 14001) and OHS Management System (ISO 45001). ZSEE retained also the Quality Management System certification (ISO 9001). Many strengths and improvements were identified, as well as opportunities for improvement. The certification company came to the conclusion that SIM is efficiently processed and improved and recommends continuing with the certification. Within the ZSE Group, external auditors highlighted for example these strengths:

- management leadership,
- preventive and proactive approach to OHS and protection of the environment,
- exemplarily managed processes of the audited worksites,
- improved efficiency of the contractor management process,
- effectively maintained system of integrated management,
- digitisation,
- carbon footprint reduction and others.

We have been minimising negative impacts of electricity distribution on bird populations for over 30 years. In 2022, ZSD continued the international cooperation in LIFE Eurokite and LIFE Danube Free Sky projects. The main goal of LIFE Eurokite is to identify spatial use of biotopes of selected species using telemetric technology and quantity the key reasons for raptor deaths in the EU. Since the beginning of the project, protective elements were installed on 480 support poles in the special protection area of Záhorské Pomoravie to prevent electrocution on power line poles. As part of LIFE Danube Free Sky, protective elements have been installed on 409 support poles so far in the special protection area of Lehnice.

Even outside the international LIFE projects, bird protection is one of the company's main areas of environmental focus. As a company, we methodically focus particularly on special protection areas with lots of nesting biotopes, and main migration corridors. In 2022, the company continued installing nesting plates for kestrels on medium voltage power lines. Since the project launch, 100 nesting booths have been installed, with 380 fledglings successfully flying out of them. In 2022, 20 nesting booths were installed on 110 kV power lines for the rare saker falcon. Creating nesting opportunities for raptors is one of compensation measures contributing to increasing biological diversity in the country. Bird flight deflectors were installed in the areas where bird deaths were discovered due to collisions with power lines. Such collisions occur mostly in winter months when swans and other waterfowls stay in numerous flocks near bodies of water. In 2022, 3.7 km of power lines were equipped with warning elements. The company installed electric protections on over 1,000 support poles in 2022. ZSD has focused on stork nest relocations for many years. In 2022, we found suitable locations for stork nests in 5 municipalities. As part of nest relocations, the original nesting base on the power line is secured with barriers. For the first time, in cooperation with ornithologists, we ringed young storks in the nests on our support poles.
In 2022, a pilot project was launched with innovative maintenance under overhead lines in a manner that's more considerate towards nature, which will increase biodiversity, nesting and feeding opportunities, as well as resilience of original populations. Bio-corridor creation will restore natural character of areas under power lines and improve conditions for the return and reproduction of fauna and flora of European importance. One example is the protected area of Pečniansky les where this change will restore meadow and shrub dwelling populations beneficial for the growth of endangered species of Orchidaceae included in the list of species of European importance. The change of approach will eliminate invasive flora and the corridor will regain natural character, creating new migration opportunities and improving water regime to serve as water retention and biotope for amphibians.

In addition to bird protection, special attention is paid to monitoring and management of environmental aspects in order to ensure effective risk management and incident prevention.

Here are 2022 data:

- Waste monitoring: strongly dependant on reconstructions and repair types, whereas we try to recover as much waste as possible. The total volume of operational waste is 23,230 tonnes. Materials handled in a special way:
  - PCB for which we ensure ecological liquidation,
  - asbestos – liquidation through an authorised company. The authorised company stabilises dismantled asbestos and puts it in a landfill.
- Water monitoring: quality of water discharged to watercourses, quality of water taken from own wells and from water surface in relation to Malženice power plant's cooling system, quality of drinking water in administrative buildings, emergency tanks tightness tests and camera monitoring of sewage system in order to verify tightness and prevent a leak of hazardous substances to ground water

- Water consumption in the ZSE Group (m^3): drinking water: 9,196
  - Discharged water in the ZSE Group (m^3): wastewater: 10,043
  - Collected rainwater in the ZSE Group (m^3): 2,811
  - Water taken from own wells (m^3): 501
  - Water taken from the river for the operation of Malženice (m^3) – water for cooling: 375,598
- Relocating overhead lines underground including ACON and INGRID projects 36 km
- Mitigating negative impacts on the environment: Reconstruction of 2 substations with replacement of old technology ensured mitigation of negative impacts on the environment in line with the 2022 Environmental Management System Plan. New electric station facilities are built considering all legal and internal regulation requirements in order to minimise negative impacts on the environment. In Podunajské Biskupice, Piešťany, Dubnica, Ostredky, Bošáca, PP Levice and Topoľčany substations, devices containing hazardous substances were replaces with new ones in order to ensure better water protection. In Sládkovičovo substation, technical and operational measures were taken to decrease noise level. Replacement of power transformers is standardly done with low-noise ones in order to decrease noise level around our facilities in line with the limits.
- Invasive woody plants monitoring: in all facilities, regular monitoring of the appearance of invasive woody plants took place, as well as their follow-up elimination. Additionally, documents related to pruning and logging of trees interfering with power lines were published on the company website for landowners, as well as arborist standard of caring for trees near public technical infrastructure.
- SF6 monitoring: We monitor all devices containing SF6.
  - Total SF6 volume = 16,683.72 kg (380,388.77 CO_2 tonnes under IPCC AR, 4,392,067.37 CO_2 tonnes under IPCC AR5)
  - Leaks represented 9.15 kg (208.62 CO_2 tonnes under IPCC AR4, 215.03 CO_2 tonnes under IPCC AR5).
  - Fluorinated greenhouse gases: air conditioning and fixed fire suppression systems (R410A, R407C, R22, HFC227)
  - Total volume represented 4,441.93 CO_2 tonnes; reported leak from air conditioning was 40.8 t CO_2 equivalent.
  - Education and training of employees and increasing awareness: trainings for 133 suppliers and 1 workshop about environmental conditions for performing activities in ZSE Group facilities and 12 trainings for groups of newly hired employees
- Ambient noise measurement in 5 electric station facilities.
- Costs for constructions, repairs, ecological operation including waste disposal in the ZSE Group in 2022 were EUR 3,640 thousand.

Sustainability

Climate change is one of the most pressing issues facing the world today. According to the United Nations Climate Change,„the global average temperature has already risen by about 1.1 degrees Celsius (2 degrees Fahrenheit) since the preindustrial era, with temperatures continuing to rise at an alarming rate." This warming trend is causing several consequences, including more frequent and severe heatwaves, storms, and natural disasters, as well as rising sea levels that threaten coastal communities and ecosystems. These changes are also having a significant impact on animals and people, as many species struggle to adapt to their changing environments and extreme weather events can displace or harm communities.

The latest Intergovernmental Panel on Climate Change Report highlights the urgent need for action to reduce greenhouse gas emissions and mitigate the worst impacts of climate change. Companies play a key role in this effort through the implementation of Environmental, Social, and Governance (ESG) strategies that prioritize sustainability and reduce their carbon footprint.

ZSE ESG strategy

Západoslovenská energetika, a.s. has committed to achieving climate neutrality by 2050. To achieve this goal, the company has set ambitious targets for reducing its greenhouse gas (GHG) emissions. Specifically, the company aims to reduce its Scope 1 and Scope 2 GHG emissions by 75% by 2030 and 100% by 2040. In addition, the company aims to reduce its Scope 3 GHG emissions by 50% by 2030 and 100% by 2050. These targets align with the European Green Deal and the Paris Agreement. By meeting these targets, Západoslovenská energetika, a.s. is demonstrating its commitment to sustainability and its willingness to take action to protect the environment. Additionally, the company has published its ESG strategy in December 2022 on the public website, where more details can be found regarding the roadmap of this journey. ESG strategy is a part of the 14 ESG policies package which can be found on the website. In Q2 2022 the company also received its first ESG risk rating from the ESG rating agency Sustainalytics with the result medium risk, scoring as the 52nd best out of 297 companies within the Electric Utilities subindustry. The report is published on ZSE website. In 2023, the company will undergo its second ESG risk rating. Based on the first rating, ZSE has run a series of workshops with the relevant business units across the ZSE group to fill in the identified gaps. This exercise resulted in the above mentioned detailed ESG strategy. The business units will continue in ESG coordinated work as part of ESG steering with dedicated budget and implementation plans.

06 | Projects of European Interest

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.

07 | Development of Online services

Development of Online services

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

Online services development continued also in 2022. The relevant teams worked on the website's update, distribution portal, electronic requests and online communication with customers.

Electronic requests: Web apps are an eco-friendly and practical alternative to traditional "paper" form of submitting requests and they allow you to track the progress of your request online. They are integrated in the requests hub called e-Requests. In 2022, we expanded the hub with other request types: Request for assessment of connection possibility and Request for relocation.

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

The most popular functionality is Self-meter-reading, thanks to which customers can take meter reading at their supply point themselves without the need for visit by our employee.

zsdis.sk website: The website of Západoslovenská distribučná, a.s. was fully re-designed in 2016 and 2017. In the following years including 2022, it was further developed, and new content and functionalities were added. In 2022, new online service was implemented – Failure reporting chatbot.

Distribution portal: 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 statement on the existence of networks, provision of data in the DGN or PDF 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. outside 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 also contains an app – integrated search of planned outages and reported failures.

High and low tariffs switching times (ripple control): This web application offers times of low and high tariffs for customers two-tariff electricity measurement. The relevant ripple control (HDO) code must be entered, and a clear graph is displayed.

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

08 | Corporate Social Responsibility

Corporate Social Responsibility

In the area of corporate responsibility, the aim of ZSE Group is to support education, community life and environmental protection.

Education

Elektrárňa Piešťany, former municipality power plant, is a renovated industrial site which started its operation in 1906 and is listed on the list if national cultural buildings. Since autumn 2016, this power plant building has been offering its premises to the project "Elektrárňa Piešťany - Centre of Creative Energy and Art" aimed at creating a unique centre for experience education in the area of science, technology and art. In a funny ways, students and visitors have an opportunity to get more information about electrical, magnetic, solar and hydro power interactive installations. Education for schools is offered by interactive expositions focusing on support of education and getting new knowledge in physics, environmental protection, sustainable development and natural sciences. In beginning of 2022, the realisation of the activities was still affected by restrictions related to the coronavirus pandemic. The team of Elektrárňa Piešťany used this time and developed interactive educational programmes available at www.elektrarnapriestany.sk. In 2022, the premises which have been unavailable for a long-time were renovated too. On the occasion of the 100th anniversary of ZSE, water tower and lightning conductor tower were reconstructed. These premises serve as a museum of the power plant and electrician job. Thanks to modern technologies, visitors can benefit from a walk through a generator hall or interactive elements to the educational programmes, such as rope-walking simulating work of electricians at height. ZSE Group improves education quality in Slovakia through the Exceptional Schools grant scheme. In 2022, the ZSE Foundation announced the fourth year of the programme. Again, the aim was to support teachers of elementary and high schools across the entire Slovakia. Those who have not lost, despite obstacles, courage to teach differently and inspire their pupils and students and colleagues, and who wish to actively contribute to the change to classes. A total sum of EUR 100,000 was distributed within the programme in 2022 to support 50 projects, on the occasion of the 100th anniversary of ZSE.

Furthermore, ZSE continued to develop the www.vynimocneskoly.sk website which offers educational material anytime during the academic year to explain or complement the missing curriculum. In the academic year 2022/2023, teachers wishing to develop their digital skills could again engage in the Learning Together Online project. The sum of EUR 24,180 was distributed, supporting 10 candidates and future creators of the content.

In 2022, the ZSE Foundation continued in the partnership with Indícia, not-for-profit organisation which has been focusing on education and inspiring teachers and managers at schools for 10 years. After long months, teachers from across the entire Slovakia were welcomed to the Elektrárňa Piešťany at the inspiring Schooling Restart conference. Experts in tuition and inspiring teachers supported by the Exceptional Schools scheme presented themselves at the conference.

Environmental protection

Environmental responsibility has been among the priorities of the ZSE Group in the long-run. For more than 20 years environmentalists and we 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. Our cooperation with this organisation can be seen in many activities. The organisation focuses on research and protection of wild birds of prey and owls all over Slovakia. This organisation has systematically been dealing with the impact of overhead lines on avifauna for many years. In 2022, our cooperation continued within the 3DodZSE project, focusing on the protection and monitoring of raptors and owls. One of the activities is the installation of booths on middle voltage lines´ towers. As a part of the project, we also communicate with officers and foresters and cooperate with the public. Our partnership includes urgent actions in emergent situations which require treating of dangerous nesting which could result in tragic consequences.

Switching to Green is a new grant programme, aiming to contribute to mitigation of negative impact of the energy industry on climate change. Whereas a few years ago, together with our partner we taught children at schools how to separate waste, today we must address more difficult topics. The scheme support projects focusing on environmental education, renewables, protection of landscape features and ecotypes. The support was opened to educational programmes focusing on awareness about responsible approach to environment and way to apply it in a daily life, environmental projects interconnecting communities or projects supporting self-sufficiency. Instead of original sum of EUR 50,000, the ZSE Foundation supported 43 projects in the total amount of EUR 65,000.

The urgent climate crisis accompanied by the energy crisis was motivation to further actions. The commitment to environmental protection is developed by a new programme Solar Roofs. The programme was designed for schools and educational facilities, facilities offering social services, protected workshops and registered social enterprises which could apply for a free-of-charge installation of photovoltaic panels. In 2022, the first phase of the programme took place, as a part of which photovoltaic panels were installed in eight entities in West Slovakia. The ZSE Foundation announced the first open year of the programme, offering free-of-charge installation to selected entities in the total amount of EUR 70,000 and more.

Community development

Community-building topics and projects have long been in the centre of attention of the ZSE Group's employees. Engagement of many of them is one of the pillars of our corporate social responsibility activities. Effort and initiative of our colleagues make our surroundings and our society a better place. Through the Employees´ grant programme the ZSE Group supports volunteering activities of those employees who, besides their daily work and duties, are willing to be engaged in their community. In 2022, it was already the 6th year of the programme. Symbolically, on the occasion of the 100th anniversary of ZSE, the total sum distributed among 141 projects were increased to EUR 100,000.

The Making Regions Move grant scheme is a key programme to support innovative and inspiring people who bring change to the imminent environment. 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. The 6th year of the programme enabled to get support for projects that help converge different cultures, strengthen intercultural dialogue and contribute to mutual understanding. The exceptional jubilee of ZSE was not omitted and the sum of EUR 200,000 was distributed among 144 projects.

Mutual aid connects us

The ZSE Foundation in cooperation with the Disabled Aid Association APPA has been supporting charity events already five years, bringing benefits to handicapped people in West Slovakia. Natural persons, informal groups of citizens and non-governmental organisations could apply for support in 2022 within the Energy for You scheme, with the aim of organising their own charity sport or cultural events or public collection in West Slovakia. The programme supported 10 charity events, enabling to collect more than EUR 23,000. This sum will be used for of physical rehabilitations, purchase of medical aids and drugs for selected members of the APPA club.

The sum of EUR 50,000 was earmarked for refugees from war-torn Ukraine. This sum was distributed among People in Need and Mareena organisations.

The civil organisation Mareena participated in activities carried out in the humanitarian centre in Gabčíkovo, with the aim of supporting protection and education of approximately 350 children who, mainly with their mothers, fled the war and found shelter in Slovakia.

Non-for-profit organisation "People in Need Slovak Republic" has been active in more than 25 countries across the world including Slovakia over its 20-year long existence. In addition to urgent interventions in crisis situations, it carries out development cooperation, watches human rights and contributes to global education. The organisation has been active in Ukraine since 2014.

Annex | Financial Statements for the year ended 31 December 2022 and Independent Auditor's Report

Contents

Statement of Financial Position

Statement of Financial Position			
In thousands of EUR	**Note**	**31 December 2022**	**31 December 2021**
ASSETS			
Non-current assets			
Property, plant and equipment	6	1,152,195	1,120,826
Intangible assets	7	15,600	15,596
Right-of-use assets	8	65,805	72,101
Total non-current assets		**1,233,600**	**1,208,523**
Current assets			
Inventories	10	3,717	1,172
Trade and other receivables	11	120,420	52,354
Current income tax refund receivable		208	1,167
Cash and cash equivalents	13	776	355
Receivables from cash pooling	12	-	6,479
Total current assets		**125,121**	**61,527**
TOTAL ASSETS		**1,358,721**	**1,270,050**
EQUITY			
Share capital	14	33,227	33,227
Legal reserve fund	15	98,705	92,638
Retained earnings		87,791	82,638
TOTAL EQUITY		**219,723**	**208,503**
LIABILITIES			
Non-current liabilities			
Borrowings	9	315,000	630,000
Lease liabilities	8	59,598	66,115
Trade and other payables	21	16,570	6,617
Deferred income tax liabilities	16	85,924	84,730
Post-employment defined benefit obligations	17	6,406	7,531
Other long-term employee benefits	18	1,522	1,767
Contract liabilities from connection fees and customer contributions	20	110,822	99,219
Total non-current liabilities		**595,842**	**895,979**
Current liabilities			
Borrowings	9	323,534	8,534
Lease liabilities	8	7,638	7,418
Trade and other payables	21	97,809	100,013
CoContract liabilities from connection fees and customer contributions	20	7,060	6,553
Provisions for liabilities and charges	19	44,496	43,050
Liabilities from cash pooling		62,619	-
Total current liabilities		**543,156**	**165,568**
TOTAL LIABILITIES		**1,138,998**	**1,061,547**
TOTAL LIABILITIES AND EQUITY		**1,358,721**	**1,270,050**

These financial statements have been approved for issue by the Board of Directors on 29 March 2023.

Ing. Miroslav Otočka
Member of the Board of Directors

Ing. Marian Kapec
Member of the Board of Directors

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

Statement of Profit or Loss and Other Comprehensive Income

Statement of Profit or Loss and Other Comprehensive Income			
In thousands of EUR	**Note**	**2022**	**2021**
Revenue from contracts with customers	22	**402,433**	**376,111**
Revenue from compensation of network losses deficit		63,226	-
Transmission fees payable to network operator		(60,238)	(56,655)
Purchases of electricity for losses, charges for electricity produced from renewable sources and other purchases		(135,185)	(60,166)
Employee benefits	23	(64,372)	(59,543)
Depreciation of property, plant and equipment	6	(69,141)	(67,175)
Amortisation of intangible assets	7	(4,495)	(3,457)
Depreciation of right-of-use assets	8	(7,023)	(7,306)
Other operating expenses	24	(47,432)	(47,410)
Other operating income	25	5,859	4,999
Capitalized own costs		20,392	19,773
Profit from operations		**104,024**	**99,171**
Finance income / (costs)			
Interest income		-	-
Interest and similar expense	26	(18,747)	(18,739)
Finance costs, net		**(18,747)**	**(18,739)**
Profit before tax		**85,277**	**80,432**
Income tax expense	16	(21,653)	(19,769)
Profit for the year		**63,624**	**60,663**
Ostatné súhrnné zisky / (straty)			
Items that will not be subsequently reclassified to profit or loss			
Actuarial remeasurements of post-employment defined benefit obligations	17	1,099	3,445
Deferred tax on actuarial remeasurements of post-employment defined benefit obligations	16	(231)	(305)
Total other comprehensive loss for the year		**868**	**3,140**
Total comprehensive income for the year		**64,492**	**63,803**

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 2021	**33,227**	**85,515**	**88,735**	**207,477**
Profit for the year	-	-	60,663	**60,663**
Other comprehensive 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**
Profit for the year	-	-	63,624	**63,624**
Other comprehensive income / (loss) for the year	-	-	868	**868**
Total comprehensive income for 2022	**-**	**-**	**64,492**	**64,492**
Dividends declared and paid (Note 14)	-	-	(53,272)	**(53,272)**
Contribution to legal reserve fund	-	6,066	(6,066)	**-**
Other	-	1	(1)	-
Balance as at 31 December 2022	**33,227**	**98,705**	**87,791**	**219,723**

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**	**2022**	**2021**
Cash flows from operating activities			
Profit before tax		85,277	80,432
Adjustments for non-cash items:			
- Depreciation of property, plant and equipment	6	69,141	67,218
- Loss on disposal of property, plant and equipment	6	(496)	(52)
- Amortisation of intangible assets	7	4,495	3,457
- Depreciation of right-of-use assets	8	7,023	7,306
- Impairment of property, plant and equipment	6	(43)	(43)
- Amortization of govermment grant deferred income		(434)	(377)
- Interest and similar expense	26	18,747	18,739
- Other non-cash items		401	93
Cash generated from operations before changes in working capital		184,111	176,773
Changes in working capital:			
- Inventories		(2,545)	30
- Contract liabilities		7,132	(7,198)
- Trade and other receivables		(68,066)	(11,582)
- Trade and other payables		(3,931)	30,784
- Provisions for liabilities and charges		1,106	13,491
Cash generated from operations before interest and taxes		**117,807**	**202,298**
Interest income received		-	-
Interest costs paid, except interest capitalised to property, plant and equipment and intangible assets		(18,679)	(18,676)
Income tax paid	34	(19,731)	(30,035)
Net cash from operating activities		**79,397**	**153,587**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(94,707)	(100,751)
Interest expense paid and capitalised		(1,769)	(2,111)
Cash received as a result of government grant		10,744	2,838
Receivables from cash-pooling*	2	-	13,722
Proceeds from sale of property, plant and equipment and intangible assets	6	524	106
Net cash used in investing activities		**(85,208)**	**(86,196)**
CCash flows from financing activities			
Dividends paid	14	(53,272)	(62,777)
Repayment of principal element of lease liabilities	30	(9,594)	(9,056)
Liabilities from cash-pooling*	2	69,098	-
Net cash used in financing activities		**6,232**	**(71,833)**
Net change in cash and cash equivalents		**421**	**(4,442)**
Cash and cash equivalents at the beginning of the year		355	4,797
Cash and cash equivalents at the end of the year	**13**	**776**	**355**

* In 2022, the Company's management decided to change the presentation of cash from cash pooling, refer to Note 2.

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

Notes to the Financial Statements – 31 December 2022

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 2022 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 1,518 staff on average during 2022, of which 25 were management (2021: 1,505 employees on average, of which 23 were management). Number of employees as at 31 December 2022 was 1,524 (31 December 2021: 1,524).

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.

In previous accounting periods, changes in cash from cash pooling were presented in the Separate Statement of Cash Flows in the section Cash generated from operatios before interest and taxes. In 2022, the Company's management decided to change the presentation of cash from cash pooling, since, according to the Company's management, the following presentation reflects more appropriately the nature of the transactions:

– the annual net change in the cash pooling account, which has a positive balance (receivable) in the section Cash flows from investing activities within the Statement of Cash Flows and
– the annual net change in the cash pooling account, which has a negative balance (liability) in the section Cash flows from financing activities within the Statement of Cash Flows.

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 2021
Increase in item "Contract liabilities from connection fees and customer contributions"	11,225
Total increase in item "Contract liabilities from connection fees and customer contributions"	**11,225**
Decrease in item "Trade and other payables"	(11,225)
Total decrease in item "Trade and other payables"	**(11,225)**
Total increase/(decrease) in item "Liabilities "	-

3 Adoption of New or Revised Standards and Interpretations

The following amended standards became effective for the Group from 1 January 2022, but did not have any material impact:

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 authorized for issue on 31 March 2021).

Amendment to IAS 37, Provisions, Contingent Liabilities and Contingent Assets – Onerous contracts – Cost of fulfilling a Contract. (Effective for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted).

Amendment to IAS 16, Property, plant, and equipment – Proceeds before intended use. (Effective for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted).

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 2023, and which the Group has not early adopted:

a) New or amended Standards and Interpretations, as endorsed by the EU as at 10 November 2022, that are effective for annual periods beginning after 1 January 2022

IFRS IFRS 17 Insurance Contracts (Effective for annual reporting periods beginning on or after 1 January 2023. Early application is permitted. Endorsed for use in the EU, albeit with an optional exemption from applying the annual cohort requirement). IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2023.

Amendments to IFRS 17 (Effective for annual reporting periods beginning on or after 1 January 2023. Early application is permitted). Amends IFRS 17 to address concerns and implementation challenges that were identified after IFRS 17 Insurance Contracts was published in 2017. The main changes are:

- Deferral of the date of initial application of IFRS 17 by two years to annual periods beginning on or after 1 January 2023
- Additional scope exclusion for credit card contracts and similar contracts that provide insurance coverage as well as optional scope exclusion for loan contracts that transfer significant insurance risk
- Recognition of insurance acquisition cash flows relating to expected contract renewals, including transition provisions and guidance for insurance acquisition cash flows recognised in a business acquired in a business combination
- Clarification of the application of IFRS 17 in interim financial statements allowing an accounting policy choice at a reporting entity level
- Clarification of the application of contractual service margin (CSM) attributable to investment-return service and investment-related service and changes to the corresponding disclosure requirements
- Extension of the risk mitigation option to include reinsurance contracts held and non-financial derivatives
- Amendments to require an entity that at initial recognition recognises losses on onerous insurance contracts issued to also recognise a gain on reinsurance contracts held
- Simplified presentation of insurance contracts in the statement of financial position so that entities would present insurance contract assets and liabilities in the statement of financial position determined using portfolios of insurance contracts rather than groups of insurance contracts
- Additional transition relief for business combinations and additional transition relief for the date of application of the risk mitigation option and the use of the fair value transition approach

The Company has not identified contracts within the scope of IFRS 17, except for Fixed-fee service contracts where the company recognizes revenues in accordance with the requirements of IFRS 15. The Company is performing further assessment of the impact of IFRS 17 and its amendments on its financial statements however does not expect to be material.

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.

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 decomissioning liabilities. For leases and decomissioning 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 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 2022, not yet endorsed by the EU as at 10 November 2022

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).

The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:

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

The Company 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 2024. On 31 October 2022 the IASB has issued an amendment deferring the effective date to 1 January 2024. 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 plans to apply the amendments from 1 January 2024.

Amendments to IAS 1 Presentation of Financial Statements Non-Current Liabilities with Covenants (Effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively. Early application is permitted. Specific transition requirements apply for companies that have early-adopted the previously issued but not yet effective 2020 amendments). Under existing IAS 1 requirements, companies classify a liability as current when they do not have an unconditional right to defer settlement for at least 12 months after the reporting date. The amendments, as issued in 2020, has removed the requirement for a right to be unconditional and instead requires that a right to defer settlement must exist at the reporting date and have substance (the classification of liabilities is unaffected by management's intentions or expectations about whether the company will exercise its right to defer settlement or will choose to settle early). The amendments, as issued in 2022, further clarify that when the right to defer settlement is subject to a company complying with conditions (covenants) specified in a loan arrangement, only covenants with which the company must comply on or before the reporting date affect the classification of a liability as current or non-current. Covenants with which the company must comply after the reporting date do not affect a liability's classification at that date. However, the amendments require companies to disclose information about these future covenants to help users understand the risk that those liabilities could become repayable within 12 months after the reporting date. The amendments also clarify how a company classifies a liability that can be settled in its own shares (e.g. convertible debt).

The Company plans to apply the amendments from 1 January 2024.

Amendments to IFRS 16 Leases Lease Liability in a Sale and Leaseback (Effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively. Early application is permitted). Amendments to IFRS 16 Leases impact how a seller-lessee accounts for variable lease payments in a sale-and-leaseback transaction. The amendments introduce a new accounting model for variable payments and will require seller-lessees to reassess and potentially restate sale-and-leaseback transactions entered into since 2019.

The amendments confirm the following:
- on initial recognition, the seller-lessee includes variable lease payments when it measures a lease liability arising from a sale-and-leaseback transaction;
- after initial recognition, the seller-lessee applies the general requirements for subsequent accounting of the lease liability such that it recognises no gain or loss relating to the right of use it retains.

A seller-lessee may adopt different approaches that satisfy the new requirements on subsequent measurement. These amendments do not change the accounting for leases other than those arising in a sale and leaseback transaction.

The Company does not expect that the amendments, when initially applied, could have a material impact on its financial statements because it neither did recognize any sale-and-leaseback transactions in a past (since 2019) nor recognizes them at present. When this kind of lease transaction will occure in a future, the Company will account for it according to these amendments of IFRS 16.

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.

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 2022 amounted to EUR 45,561 thousand (as at 31 December 2021 it was EUR 41,064 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 2022	31 December 2021
Accrued receivables from distribution and delivery of electricity as part of item „Trade and other receivables“	4 456	**4 761**

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 (2021: 10 GWh), with other parameters unchanged, the revenue from the distribution services would increase by EUR 3,242 thousand (2021: EUR 1,563 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 2022, the Company would have recognised an additional depreciation of network assets of EUR 6,958 thousand (2021: EUR 6,749 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.

6 Property, Plant and Equipment

Movements in the carrying amount of property, plant and equipment were as follows during 2022:

Movements in the carrying amount of property, plant and equipment during 2022								
In thousands of EUR	**Land**	**Network buildings**	**Power lines**	**Optical lines and other leased to third parties**	**Switching stations and network equip-ment**	**Other assets***	**Capital work in progress**	**Total**
Cost as at 1 January 2022	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 1 January 2022	**29,054**	**97,408**	**648,460**	**1,919**	**222,786**	**15,356**	**105,843**	**1,120,826**
Additions	-	-	-	-	-	-	96,125	**96,125**
Capitalised borrowing costs**	-	-	-	-	-	-	1,769	**1,769**
Transfers	2,954	12,060	58,341	114	31,736	4,683	(109,888)	**-**
Depreciation charge	-	(4,388)	(36,337)	(233)	(24,089)	(4,094)	-	**(69,141)**
Disposals	(13)	-	-	-	(16)	-	(28)	**(57)**
Termination of leases	-	102	2,468	-	103	-	-	**2,673**
Cost as at 31 December 2022	**31,995**	**170,522**	**1,235,371**	**3,087**	**495,246**	**60,712**	**93,821**	**2,090,754**
Accumulated depreciation and impairment losses	**-**	**(65,340)**	**(562,439)**	**(1,287)**	**(264,726)**	**(44,767)**	**-**	**(938,559)**
Carrying amount as at 31 December 2022	**31,995**	**105,182**	**672,932**	**1,800**	**230,520**	**15,945**	**93,821**	**1,152,195**

* 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 2022 approximately 3.07% p.a.

In management's judgement the electricity distribution network does not fall in the scope of IFRIC 12, *Service Concession Arrangement*s, 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	**2022**	**2021**
Net book value of disposals	57	116
Gain / (loss) on disposal of property, plant and equipment	496	52
Other	(29)	(62)
Proceeds from disposals	**524**	**106**

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 equip-ment	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.

The Company holds insurance against damages caused by natural disasters up to EUR 379,174 thousand for buildings and up to amount of EUR 702,784 thousand for machinery, equipment, fixtures, fittings and other assets (2021: EUR 368,899 thousand and 685,446 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	**2022**	**2021**
Due:		
- within 1 year	500	405
- between 1 and 10 years	4,500	3,645
Total future rental payments to be received	**5,000**	**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	**Software and similar assets**	**Assets not yet available for use**	**Total**
Cost as at 1 January 2021	31,832	6,113	37,945
Accumulated depreciation and impairment losses	(24,303)	-	(24,303)
Carrying amount at 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 and 1 January 2022	**11,371**	**4,225**	**15,596**
Additions	-	4,499	4,499
Transfers	4,269	(4,269)	-
Amortisation charge	(4,495)	-	(4,495)
Cost as at 31 December 2022	43,086	4,455	47,541
Accumulated depreciation and impairment losses	(31,941)	-	(31,941)
Carrying amount as at 31 December 2022	**11,145**	**4,455**	**(15,600)**

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.

Right-of-use Assets					
In thousands of EUR	**Land**	**Office Buildings**	**Equipment (power)**	**Vehicles**	**Total**
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 1 January 2022	**52**	**55,045**	**12,251**	**4,753**	**72,101**
Additions	-	676	2,420	1,652	4,748
Disposals	-	(362)	-	(26)	(388)
Depreciation charge	(2)	(4,683)	(655)	(1,683)	(7,023)
Reduction in value	-	(721)	(163)	(76)	(960)
Termination of leases (Note 6)	-	-	(2.673)	-	(2.673)
Carrying value as at 31 December 2022	**50**	**49,955**	**11,180**	**4,620**	**65,805**

The Company recognised lease liabilities as follows

Lease Liabilities		
In thousands of EUR	**31 December 2022**	**31 December 2021**
Short-term lease liabilities	7,638	7,418
Long-term lease liabilities	59,598	66,115
Total lease liabilities	**67,236**	**73,533**

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	**2022**	**2021**
Expense relating to short-term leases	235	221
Expense relating to leases of low-value assets that are not shown above as short-term leases	1,137	1,431

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	**2022**	**2021**
Short-term lease payments	235	221
Payments for leases of low-value assets other than short-term leases	1,137	1,431
Repayment of principal of lease liabilities	9,594	9,056
Interest costs on lease liabilities paid	749	1,424
Total cash outflows for leases in total	**11,715**	**12,132**

9 Borrowings

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

Borrowings received		
In thousands of EUR	**2022**	**2021**
Non-current borrowings from Západoslovenská energetika, a.s.	315,000	630,000
Accrued interest payable within one year	323,534	8,534
Total borrowings	**638,534**	**638,534**

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

More details about received borrowings			
In thousands of EUR	**Istina**	**Nominálna úroková miera**	**Dátum splatnosti**
Borrowing 1	315,000	2.00% p.a.	2. 3. 2028
Borrowing 2	315,000	4.14% p.a.	1. 10. 2023
Total	**630,000**		

10 Inventories

Inventories		
In thousands of EUR	**2022**	**2021**
Raw materials and minor spare parts	2,358	1,172
Land held for sale	1,359	-
Total inventories	**3,717**	**1,172**

The inventory items are shown net of provision for slow-moving materials and spare parts of EUR 0 (2021: EUR 0 thousand).

11 Trade and Other Receivables

Trade and Other Receivables		
In thousands of EUR	**2022**	**2021**
Trade receivables	124,052	55,781
Less impairment provision for trade receivables	(4,468)	(4,149)
Trade receivables, net	**119,584**	**51,632**
Prepayments	836	722
Total trade and other receivables	**120,420**	**52,354**

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	**2022**	**2021**
Provision for impairment as at 1 January	**4,149**	**4,618**
Impairment loss expense (Note 24)	1,005	442
Amounts written off during the year as uncollectible	(686)	(911)
Provision for impairment as at 31 December	**4,468**	**4,149**

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 2022				**31 December 2021**			
In thousands of EUR	**Loss rate**	**Gross carrying amount**	**ECL**	**Net carrying amount**	**Loss ratey**	**Gross carrying amount**	**ECL**	**Net carrying amount**
Due	0.00 %	119,305	-	119,305	0.00%	51,476	-	51,476
Overdue:								
- 1 to 30 days	16.22 %	148	24	124	71.72%	145	104	41
- 31 to 60 days	27.08 %	96	26	70	76.56%	128	98	30
- 61 to 90 days	25.00 %	28	7	21	15.38%	13	2	11
- 91 to 120 days	35.71 %	14	5	9	14.29%	7	1	6
- 121 to 180 days	18.18 %	11	2	9	43.48%	23	10	13
- 181 to 181 days	40.26 %	77	31	46	45.00%	100	45	55
- Over 360 days	100.00 %	4,373	4,373	0	100.00%	3,889	3,889	0
Trade receivables		**124,052**	**4,468**	**119,584**		**55,781**	**4,149**	**51,632**

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

In thousands of EUR	At 31 December 2022 Carrying amount	At 31 December 2022 Insured amount	At 31 December 2021 Carrying amount	At 31 December 2021 Insured amount
Trade receivables covered by insurance	14,761	14,761	7,311	7,311
Unsecured trade receivables	104,823	-	44,321	-

12 Receivables from Cash Pooling

Receivables from Cash Pooling		
In thousands of EUR	**2022**	**2021**
Receivables from cash pooling (interest rate 0.4% p.a. (2021: 0.4% p.a.))	-	6,479
Total receivables from cash pooling	**-**	**6,479**
Commitments from cash pooling (interest rate 0.4% p.a. (2021: 0.4% p.a.))	62,619	-
Total commitments from cash pooling	**62,619**	**-**

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	**2022**	**2021**
Current bank accounts	776	355
Total cash and cash equivalents in the statement of financial position	776	355

The Company has a concentration of credit risk in cash and cash equivalents balances towards two banks (2021: two banks).

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

The credit quality of cash and cash equivalents		
In thousands of EUR	**2022**	**2021**
Neither past due nor impaired		
Credit rating A2 by Moody's	776	355
Total cash and cash equivalents	**776**	**355**

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 2022 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 53,272 thousand (2021: dividends of EUR 62,777 thousand). Slovak legislation identifies distributable reserves as retained earnings reported in these separate financial statements of the Company.

Dividend per share represents EUR 533 (2021: EUR 628) per share with the nominal value of EUR 3,320 and EUR 53,267 thousand (2021: EUR 62,771 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	**2022**	**2021**
Current tax at standard rate of 21% (2021: 21%)	17,288	18,562
Special levy on profits from regulated activities	3,402	3,385
Deferred tax	963	(2,178)
Income tax expense/(credit) for the year	**21,653**	**19,769**

In 2022, the applicable standard income tax rate was 21% (2021: 21%). The amount of the special levy of the regulated entity was calculated and paid in accordance with the applicable law in 2022, 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 2022 the Company applied a coefficient of 0.92 (2021: 0.94). The amount of the monthly levy is calculated as the sum of the levy rate and the base of the levy. For 2022, the monthly levy rate was 0.00363 (2021: 0.00363). The special levy is a deductible expense for the purpose of applying income tax due.

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

Income tax rate applicable to regulated activities		
In thousands of EUR	**2022**	**2021**
Standard income tax rate for the year	21,000 %	21.000%
Special levy rate	4.356%	4.356%
Effect of deductibility of special levy from standard rate*	(1.058)%	(1.058)%
Tax rate applicable on profits generated by regulated industry operations	**24.298%**	**24.298%**

* 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% (2021: 21%) or at the 24,298% (2021: 24.298%) rate applicable to regulated industry operations. The applicable tax rate of 24,034% (2021: 24.100%) 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:

In thousands of EUR	**2022**	**2021**
Profit before tax	**85,277**	**80,432**
Theoretical tax charge at applicable tax rate 24,034% (2021: 24.100%)	20,495	19,384
Non-deductible expenses /(non-taxable income) for which deferred tax was not recognised:		
- expenses not deductible for standard tax but deductible for special levy purposes	584	219
Other	574	166
Income tax expense for the period	**21,653**	**19,769**

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 2022, that will become current tax in 2023, will be settled in 2024 upon filing the 2023 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	**2022**	**2021**
Differences between tax base and carrying value of property, plant and equipment	99,580	98,558
Post-employment defined benefit obligation and other long-term employee benefits	(2,855)	(3,632)
Other liabilities	(9,990)	(9,537)
Provision for impairment of trade receivables	(249)	(58)
Other	(562)	(602)
Total net deferred tax liability, net	**85,924**	**84,730**

The movements in deferred taxes for temporary differences were recognised in profit or loss except for EUR (231) thousand (2021: EUR (305) 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:

Movements in the present value of defined benefit obligation		
In thousands of EUR	**2022**	**2021**
Present value of unfunded post-employment defined benefit obligations at the beginning of the year	**7,531**	**10,622**
Current service cost	525	634
Interest cost	68	63
Total expense (Note 23)	593	697
Actuarial remeasurements:		
- attributable to changes in financial assumptions	(984)	(130)
- attributable to changes in demographic assumptions	(79)	-
- attributable to experience adjustments	(36)	(3,315)
Total actuarial remeasurements recognised in other comprehensive income	(1,099)	(3,445)
Benefits paid during the year	(619)	(343)
Present value of unfunded post-employment defined benefit obligations at the end of the year	**6,406**	**7,531**

The principal actuarial assumptions were as follows:

Principal actuarial assumptions		
	2022	**2021**
Number of employees as at 31 December	1,524	1,524
Staff turnover	4.57% p.a.	4.58% p.a.
Expected salary increases short-term	5.14% p.a.	2.00% p.a.
Expected salary increases long-term	4.00% p.a.	4.00% p.a.
Discount rate	3.40% p.a.	0.90% 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 314 thousand lower or by EUR 324 thousend higher (2021: EUR 77 thousand lower or EUR 452 thousand higher).

18 Other Long-Term Employee Benefits

The Company makes EUR 1,400 (2021: EUR 1,400) payment to each employee at the age of 50, subject to 5 years service vesting condition (2021: 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 (2021: 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	**2022**	**2021**
Provisions for litigation as at 1 January	43,050	29,739
Additions recognized in profit or loss	6,771	13,968
Reversal of provision	(5,325)	(657)
Total litigation provisions as at 31 December	**44,496**	**43,050**

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.

The Company in accordance with the precautionary principle and on the basis of an internal assessment of the risk arising from disputes over tariffs over access to the distribution system for electricity producers, it shall periodically review the amount of the reserve for possible litigation.

In the course of 2022, the company dissolved the litigation reserve in the amount of EUR 5,326 thousand due to the finality of decisions in favor of the Company or the withdrawal of actions by plaintiffs. In the course of 2021, the company created an additional litigation reserve for the non-time-barred part of the payments made for 2017 and 2018 in the amount of EUR 10,089 thousand, which until then had not been covered by the reserve.

Of the above-mentioned provisions for legal proceedings as at 31 December 2022, the amount of EUR 5,326 thousand (2021: EUR 9,432 thousand) was recognised as an increase (2021: decrease) of revenue.

20 Contract Liabilities from Deferred Connection Fees and Customer Contribution

Customer contributions are paid primarily for capital expenditures made on behalf of customers and include access network assets transferred to the Company by its customers free of charge. The contributions are non-refundable and are recognised as other operating income over the useful lives of the related assets. Connection fees are paid by customers to connect them to the electricity network. The fees are recognised as deferred income and are released to 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 2022**	**31 December 2021**
Non-current		
Contract liabilities - customer contributions	19,573	19,011
Contract liabilities - connection fees	91,249	80,208
Total non-current contract liabilities	**110,822**	**99,219**
Current		
Contract liabilities - customer contributions	615	581
Contract liabilities - connection fees	6,445	5,972
Total current contract liabilities	**7,060**	**6,553**

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

Movements in the contract liabilities to customers from connection fees and customer contributions						
	Non-current			Current		
In thousands of EUR	**Customer contributions**	**Connection fees**	**Total**	**Customer contributions**	**Connection fees**	**Total**
As at 1. January 2021	**17,487**	**76,397**	**93,884**	**555**	**5,621**	**6,176**
Additions	2,105	9,783	**11,888**	-	-	**-**
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**	**80,208**	**99,219**	**581**	**5,972**	**6,553**
Additions	1,177	17,486	**18,663**	-	-	**-**
Transfers	(615)	(6,445)	**(7,060)**	615	6,445	**7,060**
Recognised in revenue	-	-	**-**	(581)	(5,972)	**(6,553)**
As at 31 December 2022	**19,573**	**91,249**	**110,822**	**615**	**6,445**	**7,060**

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

The maturity analysis of contract liabilities to customers						
	31 December 2022			31 December 2021		
In thousands of EUR	**Customer contributions**	**Connection fees**	**Total**	**Customer contributions**	**Connection fees**	**Total**
As at 31 December and due as follows						
Short-term:						
within 12 months	615	6,445	**7,060**	581	5,972	**6,553**
Non-current:						
from 12 months to 5 years	2,508	29,162	**31,670**	2,389	26,446	**28,835**
After 5 years	17,065	62,087	**79,152**	16,622	53,762	**70,384**
Total non-current	19,573	91,249	**110,822**	19,011	80,208	**99,219**
Total as at 31 December	**20,188**	**97,694**	**117,882**	**19,592**	**86,180**	**105,772**

21 Trade and Other Payables

Trade and Other Payables		
In thousands of EUR	**2022**	**2021**
Grants	16,570	6,617
Total non-current trade and other payables	**16,570**	**6,617**

Trade and Other Payables		
In thousands of EUR	**2022**	**2021**
Trade payables	40,940	51,177
Other accrued liabilities	17,467	24,623
Other financial liabilities	2,289	2,633
Total financial instruments within current trade and other payables	**60,696**	**78,433**
Employee benefits payable	2,628	2,270
Social security on employee benefits	3,026	2,020
Accrued staff costs	6,506	6,561
Advance payments	1,586	359
Value added tax payable	15,720	4,109
Other payables	6,954	5,925
Grants	693	336
Total current trade and other payables	**97,809**	**100,013**

The maximum of a potential grant by the European Commission on the ACON and Danube InGrid project to support smart grid interconnection is approximately EUR 84 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 304 thousand (2021: EUR 363 thousand). None of the payables are overdue more than 30 days as at 31 December 2022 and 2021.

22 Revenue from Contracts with Customers

Revenue from contracts with customers comprises the following:

Revenue from contracts with customers		
In thousands of EUR	**2022**	**2021**
Distribution fees for the distribution of electricity to industrial and other commercial customers	247,778	233,642
Distribution fees for the distribution of electricity to residential customers	126,223	115,481
Tariff for system operation and system services – OKTE, a.s. a related party controlled by Slovak government	7,315	16,022
Revenue from compensation of network losses deficit	63,226	-
Revenue for reserved capacity from electricity producers	4,441	9,437
Accrued decrease in revenue from customer returns	5,325	(9,432)
Total distribution fees	**454,308**	**365,150**
Revenue for connection work and testing fees	6,863	6,378
Other revenue	4,488	4,583
Total revenue from contracts with customers	**465,659**	**376,111**

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 suplier 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	**2022**	**2021**
At a point in time	6,863	6,378
Over time	458,796	369,733
Total revenue from contracts with customers	**465,659**	**376,111**

23 Employee Benefits

Employee Benefits		
In thousands of EUR	**2022**	**2021**
Wages and salaries	43,065	39,223
Defined contribution pension costs	8,161	7,073
Post-employment defined benefit plan expense (Note 17)	593	697
Other long-term employee benefit plans – current service and interest cost	181	135
Actuarial remeasurements of other long-term employee benefit plans	(371)	29
Other social levies and costs	12,743	12,386
Total employee benefits expense	**64,372**	**59,543**

24 Other Operating Expenses

Other Operating Expenses		
In thousands of EUR	**2022**	**2021**
Repairs and maintenance of energy equipment	3,050	3,864
Other repairs and maintenance	5,184	7,047
Administration of distribution equipment	9,808	9,032
Repairs of machinery and devices	1,924	1,857
IT services	6,641	7,108
Measuring of electricity consumption	1,012	952
Facility management	1,141	1,397
Finance services	3,320	4,000
Advisory services	576	421
Other services	11,505	8,173
Call centre	785	804
Credit loss allowance for receivables (Note 11)	1,005	442
Statutory audit	109	81
Expenses relating to leases of low-value assets and for short-term leases	1,372	1,652
COVID-19 employee testing	-	580
Total other operating expenses	**47,432**	**47,410**

25 Other Operating Income

Other Operating Income		
In thousands of EUR	**2022**	**2021**
Operating lease income	546	451
Income from amortisation of contract liability from deferred customer contributions	689	581
Income from contractual penalties	110	92
Income from unauthorized consumption of electricity	710	376
Income from IT services	2,360	2,632
Grants	434	378
Other	1,010	489
Total other operating income	**5,859**	**4,999**

26 Interest and Similar Expense

Interest and Similar Expense		
In thousands of EUR	**2022**	**2021**
Interest expense on borrowings from the Parent company	19,699	19,363
Interest expense on leasing	749	1,424
Other interest expense	68	63
Less capitalised borrowings costs (Note 6)	(1,769)	(2,111)
Total interest and similar expense	**18,747**	**18,739**

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.

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 2022:

Maturity analysis as at 31 December 2022						
In thousands of EUR	**On 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	25,200	6,300	**50,841**
Trade payables (Note 21)	30,028	9,898	711	303	-	**40,940**
Other accrued liabilities (Note 21)	2,234	122	15,111	-	-	**17,467**
Other financial liabilities (Note 21)	2,289	-	-	-	-	**2,289**
Lease liabilities (including future interest payments)	646	1,292	6,495	34,271	32,469	**75,200**
Total future payments, including future principal and interest payments	**35,197**	**17,612**	**350,358**	**59,774**	**353,796**	**816,737**

The maturity analysis is as follows as at 31 December 2021:

Maturity analysis as at 31 December 2021						
In thousands of EUR	**On 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**

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 219,723 thousand as at 31 December 2022 (2021: EUR 208 503 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

As at 31 December 2022, there are no financial instruments that would be subject to offsetting, enforceable master netting and similar arrangements.

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

	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**

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

Nasledujúca tabuľka analyzuje pohyby finančných záväzkov za každé z prezentovaných období.

Reconciliation of Movements in Liabilities from Financing Activities			
In thousands of EUR	**Borrowings**	**Lease liabilities**	**Total liabilities from financing activities**
As at 1 January 2021	**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 form financing activities	(19,363)	(1,424)	(20,787)
Principal repaid (Note 8)	-	(9,056)	(9,056)
As at 31 December 2021	**638,534**	**73,533**	**712,067**
Non-cash changes:			
Additions to leases (Note 8)	-	4,748	4,748
Termination of leases and other changes	-	(1,451)	(1,451)
Interest expense (Note 26)	19,699	-	-
Payments			
Interest paid on liabilities form financing activities	(19,699)	(749)	(20,448)
Principal repaid (Note 8)	-	(9,594)	(9,594)
At 31 December 2022	**638,534**	**67,236**	**705,770**

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

Reálna hodnota analyzovaná podľa hierarchie reálnych hodnôt a účtovná hodnota aktív a záväzkov, ktoré nie sú ocenené reálnou hodnotou, sú nasledovné:

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 2022 Level 2 fair value	31 December 2022 Carrying value	31 December 2021 Level 2 fair value	31 December 2021 Carrying value
Assets				
Trade receivables, net (Note 11)	119,584	119,584	51,632	51,632
Cash and cash equivalents (Note 13)	776	776	355	355
Receivables from cash pooling (Note 12)	-	-	6,479	6,479
Total assets	**120,360**	**120,360**	**58,466**	**58,466**
Liabilities				
Borrowings (Note 9)	568,178	638,534	679,530	638,534
Trade payables (Note 21)	40,940	40,940	51,177	51,177
Other accrued liabilities (Note 21)	17,467	17,467	24,623	24,623
Other financial liabilities (Note 21)	2,289	2,289	2,633	2,633
Cash pooling liabilities (Note 12)	62,619	62,619	-	-
Total liabilities	**691,493**	**761,849**	**757,963**	**716,967**

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 2022 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 2022, the maximum additional exposure of the Company to the risk of these legal proceedings is EUR 0 thousand (2021: EUR 0 thousand) in excess of the provision already created.

Capital expenditure commitments. As at 31 December 2022, the Company had outstanding contractual commitments for purchases of property, plant and equipment of EUR 10,829 thousand (2021: EUR 12,833 thousand). Outstanding contractual commitments for purchases of intangible assets were EUR 3,934 thousand (2021: EUR 3,671 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 2022 and outstanding balances as at 31 December 2022 were as follows:

Related party transactions for 2022 and outstanding balances as at 31 December 2022

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
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.

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	2022	2021
Current income tax expense at standard rate of 21% (2021: 21%) – refer to Note 16	(17,288)	(18,562)
Special levy on profits from regulated activities (Note 16)	(3,402)	(3,385)
Current income tax (liabilities) / refund receivable at the beginning of the reporting period	1,167	(6,921)
Current income tax liabilities/ refund receivable at the end of the reporting period	(208)	(1,167)
Income tax paid	**(19,731)**	**(30,035)**

The related party transactions for 2021 and outstanding balances as at 31 December 2021 were as follows:

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
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 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 comprise

In thousands of EUR	2022	2021
Board of Directors and other key management personnel		
Salaries and other short-term employee benefits	617	576
Defined contribution pension costs	95	93
Total remuneration of Board of Directors and other key management personnel	**712**	**669**
Supervisory board		
Salaries and other short-term employee benefits	155	154
Defined contribution pension costs	26	26
Total remuneration of supervisory board	**182**	**180**

35 Events after the End of the Reporting Period

After 31 December 2022, no significant events have occurred that would require recognition or disclosure in these financial statements.

Management authorised these financial statements for issue 29 March 2023:

Ing. Miroslav Otočka
Member of the Board of Directors

Ing. Marian Kapec
Member of the Board of Directors

Kompletnú výročnú správu nájdete tu.