Annual Report 2020

Západoslovenská energetika, a.s.

ZSE

Content

Introduction of the Západoslovenská energetika, a.s. Group

1.

Markus Kaune, Chairman of the Board of Directors and CEO

Foreword by the Chairman of the Board of Directors

The year 2020 was significantly affected by the pandemic caused by coronavirus. It had far-reaching consequences on life of each of us and affected all areas of the economy. In fact, managements of the companies had to suddenly deal with the situation they have never faced before - how to ensure smooth operation and not to danger health or even lives of their employees.

Our organisation - as a company of strategic importance - adopted strict measures very quickly and directly, with the aim of ensuring non-stop supply of electricity and gas and electricity distribution.

In line with the regulation of the Slovak Government on minimising the movement of citizens at the beginning of the pandemic, all employees, whose job nature allow them to do so, started working from home. In case of ZSE, it was more than a half of employees. It caused big pressure on internal IT processes and equipment of employees with required technology. At the same time, the working regime had to be changed and internal functioning had to be reset.

In terms of smooth distribution of electricity, it was necessary to isolate and protect as much as possible key employees who oversee the control of management distribution. Redundant workplaces were created, and the dispatch centres worked in special regime. Those our colleagues who worked on the spot and were in contact with customers were equipped with protective equipment, respecting strict safety rules. Despite these worsened conditions our technicians managed to remove failures with no significant delay.

Big changes must have been done in the commodity business too. When the situation required so, we closed our ZSE Centres, in order to minimise the contact with the customers and protect our employees. Without any major problems we moved the communication to the online environment and managed to significantly increase the number of customers who use e-invoice. The number of online zone customers went up too.

The crisis team regularly monitored the situation and adapted the extent and intensity of measures. Thanks to the adopted measures and responsible approach, there was no such loss of employees, which would endager the operation of the Company and smooth supply and distribution of electricity to customers.

From the perspective of the pandemic and adaption to the situation, I consider the year 2020 successful. We marked positive development in other areas and activities too, either speaking about the customer portfolio, market share, distribution or customer services. We managed to make progress on the project of the upgrade and digitisation of the distribution system (ACON) which is a flagship of our investment expenditures, but also on other investment projects of ZSD such as electrical stations Žabí Majer or Veľký Meder. As first in the country we introduced our new "green" product called "Green Electricity". We managed to do all this despite the difficulties caused by the pandemic.

The year 2020 was very difficult. I am truly thankful to colleagues who fully worked in changed conditions. It is a big challenge to get used to the new working regime, respect strict safety instructions and deliver good results at the same time. I thank to them as we remained a reliable and trusted partner to our customers even in this difficult time.

Profile and Structure of the Západoslovenská energetika, a.s. Group

The Západoslovenská energetika, a.s. Group (hereinafter the "ZSE Group") is a leading electricity group in Slovakia whose parent company is Západoslovenská energetika, a.s.

The ZSE Group comprises the parent company Západoslovenská energetika, a.s. and its subsidiaries: Západoslovenská distribučná, a.s., ZSE Energia, a.s., ZSE Elektrárne, s.r.o, ZSE Development, s.r.o., ZSE Energy Solutions, s.r.o., ZSE MVE, s. r. o. and ZSE Business Services, s. r. o. and ZSE Energetické služby, s.r.o.. ZSE Energia CZ, s.r.o. also belongs to the ZSE Group. ZSE Energia CZ, s.r.o. is the 100% subsidiary of ZSE Energia, a.s., which entered into liquidation on 01.03.2020.

Západoslovenská energetika, a.s. is also the sole founder of Nadácia ZSE (ZSE Foundation). ZSE Foundation is the only partner in Elektrárňa Piešťany, s.r.o., which entered into liquidation on 18.02.2020 and it ceased to exist by deletion from Commercial Register of the Slovak Republic on 15 October 2020. ZSE Energia, a.s. has organizational unit in Czech Republic.

ZSE Group through ZSE Energetické služby, s.r.o. also acquired a 58% business share in EKOTERM, s.r.o. in December 2020. The parent company Západoslovenská energetika, a.s., Company ID: 35 823 551, with its seat at Čulenova 6, 816 47 Bratislava (hereinafter the "Company" or "ZSE"), was established on 15 October 2001 and incorporated in the Commercial Register on 1 November 2001. The Company is registered with the Commercial Register of the Bratislava I District Court, Section: Sa, File No.: 2852/B.

The mission of the ZSE Group is to carry out electricity and gas supplies and electricity distribution and to provide comprehensive energy-related services to all categories of customers – households, SMEs and strategic enterprises in the Slovak economy. Services are provided in the long-term and reliably, at affordable prices, in an environmentally-friendly manner and in accordance with the EU regulations. The ZSE Group provides services related to electricity distribution in the region of western Slovakia and electricity and gas supplies primarily in the region of western Slovakia.

In addition to two small hydropower plants, the ZSE Group also has a steam-gas power plant near Malženice in western Slovakia with an installed capacity of 430 MW. Západoslovenská energetika, a.s. is also active in the field of electromobility.

Certain aspects of the relationship between the ZSE Group and its customers with respect to electricity distribution, and electricity and gas supplies, including the pricing of services provided to certain groups of customers, are regulated by the Regulatory Office for Network Industries (ÚRSO). Electricity distribution is subject to regulation, price or factual, to the largest extent.

Company Bodies

The structure of statutory and supervisory bodies of the Company during the year 2020 was as follows:

Statutory Body

Predstavenstvo

Board of Directors	
Chairman	Markus Kaune (start of office on 1 September 2020)
	Jochen Kley (start of office on 16 March 2020 and end of office 31 August 2020)
	Jochen Kley (start of office 1 June 2016 and end of office 16 March 2020)
Vice-Chairman	Ing. Ľuboš Majdán (start of office on 1 September 2020)
	Ing. Peter Adamec, PhD. (start of office 16 November 2016 and end of office 31 August 2020)
Members	Ing. Pavol Viskupič (start of office on 1 September 2020)
	Ing. Pavol Viskupič (start of office on 16 November 2016 and end of office on 31 August 2020)
	Marian Rusko (start of office on 16 March 2020)
	Marian Rusko (start of office on 1 July 2017 and end of office on 16 March 2020)
	Mgr. Juraj Krajcár (start of office on 5 December 2017)

Supervisory Body

Supervisory Board	
As at 31 December 2020	
Chairman	Mgr. Tomáš Galbavý (start of office as a Member on 20 November 2020 and as the Chairman on 14 December 2020);
	Ing. Eva Milučká (start of office as a Member on 12 December 2019 and end of office on 14 December 2020)
Vice-Chairman	Markus Kaune (start of office as a Member on 5 December 2019 and as the Vice-Chairman on 12 December 2019 and end of office on 31 May 2020)
	Johan Magnus Mörnstam (start of office on 1 June 2020 and as vice-chairman on 24 June 2020)
Members	Silvia Šmátralová (start of office on 19 December 2017)
	Ing. Martin Mislovič (start of office on 19 December 2017)
	Ing. Juraj Nyulassy (start of office on 19 December 2017)
	Ing. Eva Milučká (start of office on 5 December 2019)
	Mgr. Tomáš Popovič (start of office on 20 November 2020)
	Mgr. Lenka Jakubčová (start of office on 20 November 2020)
	Mgr. Daniel Kravec (start of office on 20 November 2020)
	Ing. Lucia Veselská (start of office on 5 December 2019; end of office on 19 November 2020)
	Ing. Erna Dohnáliková (start of office on 5 December 2019; end of office on 28 May 2020)
	Mgr. Jozef Dermek (start of office on 5 December 2019 and end of office on 19 November 2020)
	Mgr. Tomáš Galbavý (start of office on 5 December 2019 and end of office on 19 November 2020)

Audit Committee

The Audit Committee was established by a decision of the Company's General Meeting dated 12 December 2014. The Audit Committee has three members elected and dismissed by the Company's General Meeting.

In year 2020, the Audit Committee of the Company had the following structure:

Audit Committee 2020
Ing. Ján Rusnák
Ing. Mgr. Juraj Bayer, PhD.
JUDr. Peter Hajduček

Shareholders' Structure

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

Shareholders' Structure			
As at 31 December 2020	**Absolute amount in € thousand**	**Equity share in the share capital in %**	**Voting rights**
Slovak Republic represented by the Ministry of Economy of the Slovak Republic	100,454	51%	51%
E.ON Slovensko, a.s.	76,818	39%	39%
E.ON Beteiligungen GmbH	19,697	10%	10%

Corporate Governance Declaration

The methods and principles of corporate governance are comprised in the Articles of Association of the Company. The Articles of Association are available in the Collection of Documents of the relevant court – District Court Bratislava I and on the website of the Company www.skupinazse.sk, section Investors – Regulated information.

The Organizational Manual of the Company sets out the principles of the Company´s organisation and internal management of the Company and is the basic and supreme organisational and managing document on the top level in the Company except for the Articles of Association of the Company.

The corporate governance model of the Company includes also internal managing documents which contains orders of the Board of Directors, orders of a member of the Board of Directors, orders of the Chief Executive Officer, orders of a director of a division, directives, manuals and procedures.

Description of Key Internal Control and Risk Management Systems in relation to the Financial Statements

The Company has internal control and risk management system in place, relating to the financial statements. This system consists of various instruments, processes and activities which have been used in accounting and preparing the separate and consolidated financial statements (hereinafter jointly "financial statements") of the Company.

The activities within accounting and preparing financial statements are divided in individual functional steps. Automatic and manual controls are a part of every of these steps. The defined procedures ensure that all accounting transactions and preparation of the Company´s financial statements are recorded and processed in line with the accrual principle and documented in a complete, timely and precise manner.

The Company has introduced and has been using internal managing documentation which includes several directives and procedures. These documents focus mainly on the way of accounting in the Company, accounting procedures, signature rules, chart of accounts, account classification, inventory of assets and liabilities, activation and disposal of assets, impairment provisions, creation and use of reserves, preparation of financial statements, consolidation and calculation of direct and indirect taxes. Internal managing documentation is a binding document for all employees and represents the application of main accounting principles and accounting methods applied by the Company. In practice the Company follows the amendments to laws, new and amended accounting standards and other relevant documents that have impact on the accounting and financial statements and, if needed, updates internal managing documentation in a relevant way.

The Company has been using an accounting information system which contains pre-set automatic control mechanisms. Efficiency of these automatic controls within the accounting information system and other key applications is strengthened by other manual checks. Access rights and their extent are limited depending on the need and only for a specified group of employees.

The preparation of the Company´s financial statements requires for further qualitative and quantitative indicators and other information. Furthermore, in order to assess the correctness of this information, procedures for the relevant organisational units to assess completeness of this information on a regular basis.

The elementary elements of the internal control and risk management system in relation to the financial statements are: approving, review procedures, segregation of duties, four-eye principle, master data and access rights management, and specific requirements for risk management in many key areas and processes such as accounting, financial reporting, communication, planning and controlling and risk management.

Internal controls are an integral part of the Company´s accounting procedures. Internal managing documentation defines uniform requirements for reporting and accounting procedures for the entire ZSE Group. Adhering to these rules give sufficient certainty to prevent errors or fraud which may cause material misstatement in the Company´s financial statements.

The Company´s organisational unit in charge of accounting and taxes carries out, among other things, implementation,

administration and setting of accounting information systems and ensures compliance of accounting, financial statements and tax calculations with the Slovak and European laws. Within this unit, individual accounting transactions and financial statements of the Company are subject to review by managers.

The Company´s organisation structure includes Controlling Unit. Controlling processes create a part of internal control mechanism and risk management of the Company. Controlling ensures continuous control of accounting and financial statements.

The role and competences of Internal Audit, Audit Committee, Board of Directors, Supervisory Board and General Meeting of the Company in relation to internal control environment and risk management and to financial statements are presented below.

The organisational structure of the Company also includes the position of Compliance Manager and Department of Internal Audit whose roles are:

- assessment of adequacy and effectiveness of the system of internal supervision, financial, operational and information systems, corporate governance processes and the quality of tasks assigned and performed;
- identification and assessment of operational risks of the Company by using the adequate methodology;
- responsibility for planning and conducting audit of IT systems, their functionalities and equipment including diverse and global environment of information technologies, operation systems and applications;
- performance of audit of information systems and IT infrastructure safety;
- assessment of risk of fraud and the conducting of investigations based on risk assessment;
- investigation of crucial suspicions of embezzlement and fraud within companies of the Group;
- responsibility for making and updating of the documentation relating to the Compliance Programme; as well as for monitoring and supervising compliance with it,
- updating of the Company's Code of Conduct;
- performance of the activities relating to verification of the breach of the Company's Code of Conduct;
- Implementation of methodological and training activities in the field of Compliance.

Results of their activities have been regularly assessed and proposals for improvements applied to individual areas of the governance of the Company. Efficiency of internal control and risk management systems in the Company have been also monitored by the Audit Committee of the Company.

Governance Methods and Bodies of the Company

The shareholders exercise their rights by means of the General Meeting in accordance with the regulation contained in the Commercial Code and the Articles of Association of the Company as follows:

General Meeting

1. The General Meeting is the supreme body of the Company. It shall take decisions on the issues relating to the activities of the Company which the Articles of Association, Commercial Code or a specific act place within its authority.
2. A shareholder may exercise its rights in the General Meeting in person or in representation under the written power of attorney.
3. The General Meeting shall be convened by the Board of Directors unless the Articles of Association or Commercial Code provide otherwise. The Board of Directors shall be obliged to convene an ordinary General Meeting within 2 months of the tax return submission. The Board of Directors shall be obliged to convene an extraordinary General Meeting especially due to reasons under Article XIII(3) of the Articles of Association. The Supervisory Board shall convene an extraordinary General Meeting due to reasons under Article XX(2) of the Articles of Association.
4. The Board of Directors shall convene the General Meeting by an invitation to the General Meeting that must be delivered to all shareholders in the form of a registered mail directly to the address specified in the list of shareholders at least 30 days prior the General Meeting. The invitation to the General Meeting must contain all formalities laid down by applicable laws including information that documents which will be discussed at the General Meeting will be available to shareholders for viewing in the seat of the Company no later than 3 calendar days prior to the meeting of the General Meeting. The invitation to the General Meeting with documents which will be discussed at the meeting shall be sent by the Board of Directors no later than 30 days prior to the General Meeting also to every member of the Supervisory Board to the address specified by him/her, or to the address specified as permanent residence in the Extract

from the Commercial Register of the Company.

5. The General Meeting is usually held in the Company´s seat, however, it may be organised in a different place too. The General Meeting is attended by the members of the Board of Directors, the Supervisory Board and/or other persons.
6. The number of votes of a shareholder is determined by the nominal value of their shares. One vote is attributed to every EUR 33.19.
7. The General Meeting shall take decisions with the two-thirds majority of votes of all the shareholders. Any decision made by the General Meeting on any alterations of the rights associated with a certain type of the shares shall require the approval of two-thirds votes of shareholders. For this reason, the shareholders, being the owners of such shares, simultaneously, at first, shall vote for changes in the rights and then it is the General Meeting of all the shareholders.
8. The General Meeting shall make decisions on the following corporate affairs
   a) Change of the Articles of Association;
   b) Decisions concerning any increase and decrease in the share capital, empowering the Board of Directors to raise the capital stock in accordance with the Commercial Code and the issuance of bonds;
   c) Decisions concerning the revocation of the business entity by splitting, merging or transformation to a different form of business partnership or cooperative;
   d) Decisions concerning the revocation of the business entity by liquidation, appointment of the liquidator, setting the remuneration for the liquidator;
   e) Election and removal of members of the Supervisory Board, except for the members of the Supervisory Board elected and removed by employees;
   f) Election and removal of the members of the Board of Directors and designation of the Board Chairman and Vice-Chairman;
   g) Approval of ordinary, extraordinary or consolidated financial statements, decisions concerning profit distribution or loss coverage, including the fixing of directors' fees;
   h) Approval of the Annual Report;
   i) Approval of the rules of procedures of the Supervisory Board of the Company;
   j) Approval of the agreement on performance of responsibilities of board members and their rewarding based upon proposals made by the Board of Directors and the Supervisory Board;
   k) Decisions concerning the changes in rights attributed to the different types of shares;
   l) Decisions concerning the approval of the Company Transfer Agreement or the Partial Company Transfer Agreement;
   m) Decisions concerning the changes in the form of shares;
   n) Decisions concerning the approval of transfer of the Company assets, the market value of which exceeds 20% of the Company turnover in the immediate prior accounting period or the sale of which refers to 20% of Company employees;
   o) Decisions concerning the beginning or termination of trading with the Company stock at the stock exchange;
   p) Decisions concerning the emission of shares, options or other securities or financial instruments that provide the rights for shares or other equity stake in the Company, or right for their underwriting, or decisions allowing the Company to equity stakes in the Company;
   q) Approval of the share transfer in accordance with the Articles of Association;
   r) Appointment and removal of a decision-making person; i.e. auditor, managerial advisor;
   s) Approval of proposals rejected by the Supervisory Board in accordance with the Articles of Association;
   t) Decision concerning other matters that are subject to the performance of the General Meeting as stated by law or the Articles of Association;
   u) Pre- approval of the matters relating to Západoslovenská distribučná, a.s. and ZSE Energia, a.s. specified in more detail in the Articles of Association;
   v) Pre- approval with any changes/amendments/ supplements in the Novation Agreement, whose full wording was approved by the General Meeting on 30 May 2014;
   w) Election and removal of members of the Audit Committee of the Company, approval of the agreement on performance of individual functions by Audit Committee members and their remuneration and approval of the negotiation order for the Audit Committee of the Company.

Rights and Duties of Shareholders

1. A Company shareholder may be Slovak or foreign legal or natural person.
2. By making the entry of the Company or of an increase in the share capital in the Commercial Register a share underwriter shall obtain the rights of a shareholder as a partner of the joint stock company corresponding to the shares underwritten.
3. Fundamental rights of a shareholder shall include the right to participate in Company´s management activities, in profit sharing and liquidation balance following the dissolution of the Company with liquidation. The right to participate in corporate governance shall be exercised by shareholders through their participation and voting at the General Meeting.
4. The rights and obligations of the shareholders are defined in detail in the Articles of Association and the Commercial Code.

The Board of Directors

1. The Board of Directors is a statutory body of the Company. It shall act on behalf of the Company in relation to the third persons. The Board shall control the corporate activities and take decisions in all the matters associated with the Company unless applicable laws or the Articles of Association place them within the authority of other bodies of the Company.
2. The Board of the Company consists of five (5) members. The members of the Board of Directors are elected and removed by the General Meeting, with Chairman and Vice-Chairman of the Board of Directors being appointed. The term of office of the members of the Board of Directors shall be four (4) years; the term of office is renewable. Any member of the Board of Directors shall have the right to give up his/her position; however, he/she shall be obliged to report such act to the Board of Directors and Supervisory Board in writing. A member of the Board of Directors of the Company mustn´t be a member of the Board of Directors of the subsidiary Západoslovenská distribučná, a.s. The performance of the office of the member of the Board of Directors may not be delegated.
3. If the number of members of the Board of Directors is not less than half, the Board of Directors shall have the right to appoint alternates until the time of the nearest General Meeting of the Company. The Board of Directors has a quorum if the absolute majority of its members are present at the meeting. The Board of Directors shall adopt resolutions by absolute majority of votes of the members present at the meeting. Neither Chairman nor Vice-Chairman shall have the casting vote in case of a tie. The members of the Supervisory Board may vote by this form of communication or by a written declaration if they are not present in person at a venue where the majority of members are gathered, whereas such venue shall be considered as a venue of the meeting. The resolutions of the Board of Directors may be adopted, in addition to meetings of the Board of Directors, by members of the Board of Directors, out of the meeting of the Board of Directors ("per rollam resolution").
4. E.ON, a shareholder of the Company, shall be obliged to exercise all its rights in order to make sure that the Board of Directors of the Company will not adopt any resolution if not a single member nominated by the Ministry of Economy of the Slovak Republic (only the "Ministry") as a shareholder of the Company is present at the relevant meeting. If a member nominated by the Ministry is absent from two consecutive, regularly convened meetings of the Board of Directors, the above stated shall not apply to the second of these meetings.

Structure and activities of the Board of Directors

In 2020 the Board of Directors of the Company had the following structure:

In 2020 the Board of Directors of the Company had the following structure

Chairman of the BoD:	Jochen Kley (up to 31 August 2020)
	Markus Kaune (from 1 September 2020)
Vice-chairman of the BoD:	Ing. Peter Adamec, PhD. (up to 31 August 2020)
	Ing. Luboš Majdán (from 1 September 2020)
Members of the BoD:	Ing. Pavol Viskupič
	Mgr. Juraj Krajcár
	Marian Rusko

The activities of the Board of Directors were performed in line with the Articles of Association and Commercial Code; in 2020 the Board of Directors held meetings regularly and in line with Articles of Association, and in line with Article XVIII(7) of the Articles of Association the Board of Directors adopted several resolutions, due to the situation associated with the disease COVID-19, out of the meeting of the Board of Directors ("per rollam resolutions") in 2020.

Supervisory Board

1. The Supervisory Board is the supervisory body of the Company which oversees the activities of the Board of Directors and business activities of the Company. Resolutions and duties charged with the Board of Directors by the Supervisory Board were performed, and regularly reviewed and assessed at the meetings of the Supervisory Board. The activities of the Supervisory Board are explained in detail in Article XX of the Articles of Association.

2. The Supervisory Board of the Company has nine (9) members. Two thirds of members of the Supervisory Board shall be elected and removed by the General Meeting of the Company and one third by the Company's employees. The term of office of the members of the Supervisory Board shall be three (3) years. The term of office is renewable. The Chairman and Vice-chairman of the Supervisory Board of the Company shall be elected and removed by the members of the Supervisory Board; the persons concerned shall also vote. The office of the Chairman and Vice-chairman of the Supervisory Board shall commence on the day of their election and end upon their removal by the Supervisory Board. Neither Chairman nor Vice-Chairman shall have the casting vote in case of a tie. Performance of the office of the member of the Supervisory Board of the Company may not be delegated.

3. The meeting of the Supervisory Board of the Company shall be convened by a written invitation sent to every member of the Supervisory Board to the address specified by him/her or to the address of the seat of the Company no later than 15 days prior to every meeting. The invitation must include date, time, venue and the agenda of the meeting.

4. The Supervisory Board has a quorum if the absolute majority of its members are present at the meeting. The Supervisory Board shall adopt resolutions by absolute majority of votes of all members of the Supervisory Board. The members of the Supervisory Board may participate in the meetings of the Supervisory Board in any form of communication during which all participants hear one another. The members of the Supervisory Board may vote by this form of communication or by a written declaration if they are not present in person at a venue where the majority of members are gathered, whereas such venue shall be considered as a venue of the meeting. The resolutions of the Supervisory Board may be adopted, in addition to meetings of the Supervisory Board, by members of the Supervisory Board out of the meeting of the Supervisory Board ("per rollam resolution").

5. The Slovak Republic, a shareholder of the Company, shall be obliged to exercise all its rights in order to make sure that the Supervisory Board of the Company will not adopt any resolution if not a single member nominated by E.ON is present at the relevant meeting. If a member of the Supervisory Board of the Company nominated by E.ON Slovensko, a.s. is absent from two consecutive, regularly convened meetings of the Supervisory Board, the above stated shall not apply to the second of these meetings.

In 2020 the Supervisory Board of the Company held regular meetings in line with the Articles of Association.
The Supervisory Board of the Company in accordance with Article XXII. Point 8 of the Articles of Association, adopted in 2020 due to the situation associated with the disease COVID-19 several decisions out of the meeting ("per rollam decision").

Audit Committee

1. Without prejudice to responsibilities of the members of the Board of Directors and the Supervisory Board of the Company, the Audit Committee is a body of the Company in charge of the following activities:
   a) monitors the drawing-up of the financial statements (separate and consolidated) and compliance with special regulations;
   b) monitors the efficiency of internal audits and risk management systems in the Company;
   c) monitors the audit of the separate and consolidated financial statements;
   d) verifies and oversees the independence of the auditor, in particular services provided by the auditor under the special regulation;
   e) recommends the auditor for the Company;
   f) sets him/her deadlines for presenting a declaration on honour on his/her independence.

The Audit Committee has three (3) members elected and removed by the General Meeting on a proposal from the Board of Directors or shareholders of the Company.

Information pursuant to Section 20(7) of the Act No 431/2002 Z. z. on Accounting as amended:

a) The share capital of the Company of EUR 196,969,174.86 is composed of 5,934,594 pieces of booked ordinary shares of the nominal value of EUR 33.19 per share. Shares are not publicly traded. The whole amount of share capital of the Company was issued and paid in full. The Company has no subscribed share capital which would not be listed in the Companies Register. The transferability of the Company's shares is limited to pre-emptive rights of shareholders in cases that do not fall under the permitted transfers.
b) The Company´s bonds are freely transferrable.
c) The following companies own qualified share in the share capital: (at least 10 % share):
   - Slovak Republic represented by the Ministry of Economy of the Slovak Republic - 51% share in the share capital of the Company;
   - E.ON Slovensko, a.s. - 39% share in the share capital of the Company;
   - E.ON Beteiligungen GmbH - 10% share in the share capital of the Company.
d) There are no persons exercising special control rights among the owners of the bonds.
e) The Articles of Association do not contain any provisions on restrictions of voting rights.
f) The Company is not familiar with any agreements among the owners of the bonds of the Company that might lead to any restrictions regarding the transferability of the bonds or restriction of voting rights.
g) The rules governing the appointment and removal of the members of the Board of Directors as a statutory body of the Company and changes to the Articles of Association:

Členov predstavenstva ako štatutárneho orgánu Spoločnosti volí a odvoláva valné zhromaždenie Spoločnosti. Valné zhromaždenie je oprávnené kedykoľvek odvolať člena predstavenstva Spoločnosti. Valné zhromaždenie tiež určí predsedu alebo podpredsedu predstavenstva Spoločnosti. Funkčné obdobie členov predstavenstva Spoločnosti je štyri (4) roky.

Members of the Board of Directors as a statutory body of the Company shall be elected and removed by the General Meeting of the Company. The General Meeting may anytime remove any member of the Board of Directors of the Company. The General Meeting shall also appoint the Chairman or Vice-Chairman of the Board of Directors of the Company. The term of office of the members of the Board of Directors of the Company shall be four (4) years.

The General Meeting shall make decisions concerning the amendment of the Articles of Association by two thirds majority of votes of all shareholders. The full wording of the proposed amendments of the Articles of Association shall be available to shareholders for viewing at the Company´s seat within a period of time required for the convocation of the General Meeting, as stated in the Articles of Association. A Notarial Deed must be established about the resolution of the General Meeting to amend the Articles of Association. If the General Meeting adopts a resolution the consequence of which will be the amendment of the Articles of Association such resolution shall be considered the amendment of the Articles of Association provided that it was adopted in a manner which is by law or the Articles of Association required for the adoption of the resolution about the amendment of the Articles of Association. Following such amendment the Board of Directors shall be obliged to make without undue delay the full wording of the Articles of Association for the completeness and correctness shall be fully responsible.
h) Powers of the statutory body – the Board of Directors – are presented in the Commercial Code and the Articles of Association.

The Company´s Board of Directors shall exercise the right to act on behalf of the Company, represent the Company in relation to the third persons. The Board shall govern the activities performed by the Company and take decisions in all the relevant matters unless applicable laws or Articles of Association place them within the authority of other bodies of the Company.

The Company´s Board of Directors is mainly in charge of the following
(i) Performing the business management of the Company and ensuring all its operational and organisational matters;
(ii) Exercising the employment rights and duties;
(iii) Convening the General Meeting;
(iv) Outlining the Strategy Plan of the Company and submitting the plan for approval to the Supervisory Board of the Company;
(v) Implementing the resolutions of the General Meeting;
(vi) Ensuring the prescribed accounting and other records, accounting books and other documents relevant for the Company;
(vii) Submitting for approval of the General Meeting:

- Proposals for amendments of the Articles of Association;
- Proposals for increasing and decreasing the share capital and issue of bonds;
- Ordinary, extraordinary and consolidated financial statements, proposal for profit distribution, including the setting of the size and manner of the paying out of the bonuses, in case of the loss recognized, proposal for its settlement;
- Proposal for dissolving the Company or alteration of its legal form;
- Proposal of the remuneration for performing the function of a board member;
- proposals related to the decisions concerning the matters of Západoslovenská distribučná, a.s. and ZSE Energia, a.s. where the relevant decision taken by the General Meeting of Západoslovenská distribučná, a.s. or the General Meeting of ZSE Energia, a.s. shall require the prior approval of the General Meeting of the Company to be made in accordance with relevant provisions of the applicable Articles of Association of the Company.

The Company´s Board shall have no right to make decision on the issue of shares or share re-acquisition.

i) The Company has no agreements concluded that are binding to amend its conditions in relation to a potential offer for takeover.
j) There are no agreements on reimbursement concluded between the Company and the body members, once their service term comes to an end. Reimbursement to Company´s employees whose employment contract is terminated is subject to the Labour Code, collective agreement and in-house employment directives.

The Company does not apply special diversity policy in relation to the members of bodies of the Company because their diversity is ensured indirectly through diversity in the structure of shareholders of the Company (state shareholder and non-state shareholders) who propose candidates for the positions of the members of the Board of Directors and Supervisory Board of the Company elected by the General Meeting (candidates for the positions of the members elected by employees are proposed by employees and diversity is ensured indirectly through diversity in the composition of employees who propose candidates and elect such members of the Supervisory Board). No discrimination is allowed in the Company. In proposing candidates for the members of the Board of Directors and Supervisory Board and selecting broader management of the Company, mainly education, competence, experience skills are taken into account.

"Compliance Programme"

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

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

Code of Conduct

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

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

Zero Tolerance for Corruption

In line with ten principles of the Global Compact under which the companies and firms seek to prevent corruption in all its forms, the ZSE Group engages in the fight of corruption and this commitment is expressed in the Zero Tolerance Plan for Corruption.

This Plan is a part of the Code of Conduct and was developed based on the analysis of activities which are exposed to risks of corruption and unfair practices the most. The obligation is also reflected between the ZSE Group and its suppliers, as this is incorporated into the ZSE Group's Code of Conduct for Suppliers.

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

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

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

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

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

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

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

2. **Internal audit** is a set of independent, objective, assurance and consulting activities aimed at improving management and control processes, taking into account the internationally accepted auditing standards "International Standards for Professional Practice in Internal Auditing". The ZSE Group has established Internal Audit unit which permanently controls the system of implemented control mechanisms, identifies shortcomings and proposes action plans to improve internal control system and make them more efficient. The Chief Audit Officer is responsible for developing and implementing the Internal Audit Plan, which is based on a risk assessment, taking into account the Company's risk management framework as well as the level of risk management response to the various activities.

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

2. Pandemic-related measures

Pandemic-related measures

The ZSE Group started adopting measures significantly in advance as compared to many other companies and before the Slovak Government introduced the measures. The main objective was to protect its employees against the virus as much as possible and, at the same time, ensure continuity of its activities in order not to threaten smooth and safe supply of gas and electricity and electricity distribution. The measures had to be set in a way so as the ZSE Group, as the economic mobilisation entity, is able to safeguard sustainable operating regime and continuous distribution of electricity in case the situation worsens and the emergency situation is declared. The Group´s central crisis team decided that as from 10 March all employees whose job allow them to do so work from home. It concerned approximately 1,000 employees.

When the situation got better in summer, the employees started gradually going back to their workplaces. When the second wave arrived, the same decision was adopted in October.

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

ZSE Energia, a.s. closed all customer centres. Customers´ requests were handled via customer line and online at the kontakt@zse.sk. Customers were recommended to open their personal online account. All business activities on the spot were suspended. In order to overcome the crisis situation, conditions for business entities concerning the change of advance payments or postponement of maturity were modified.

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

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

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

COVID-19 antigen testing

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

In December the Company conducted its own testing. It concerned mainly the employees of the strategic infrastructure. The testing of all employees who did not work from home was conducted in January too, when the employees came back from Christmas leave. The Employer intended to eliminate the virus outbreak in the Company.

In total, 144 positive cases were reported in the ZSE Group to 31 December 2020. Thanks to the adopted measures and responsible approach, the operation of the Company and smooth supply of electricity to customers was secured.

3. Market Developments

Market Developments

The European Context of Energy and Our Strategy

After three years of continuous rise of forward prices, the year 2020 brought the first slump of energy prices. The previous years have been reflecting the biggest economic boom since the financial crisis 2008 - 2012 which peaked in 2019.

Therefore, very rapid economic growth slowed down in 2020 as compared to 2019. In the energy sector, the price change was intensified primarily as a consequence of falling prices of gas, after two relatively (globally) warn winter seasons and massive inflow of liquified gas to Europe, which, on spot markets, pressed the prices below the level they were traded on the forward markets before.

Obviously, the global pandemic of coronacrisis has significant impact. At the turn of the first and second quarter it caused massive sales - as a result of sharp fall of electricity and gas consumption, which was caused by hard lockdown in several European countries. Slump in prices at the time of supply affected the prices of long-term products of gas and electricity and prices of emission permits, which is, along with gas price, the second price-setting factor of electricity. In spring, the price of permits fell down to EUR 15/t CO_2.

The remaining part of the year was affected by uneasy attempts to forecast the economy development, energy consumption and commodities prices in the context of several possible waves of coronavirus. The crisis caused by coronavirus did not head towards weaker environmental policy of the European Community, rather opposite. Governments and central banks launched massive programme to recover economies. However, massive investments in the future are conditioned by environmental upgrade of economies, which, finally caused that in the end of 2020 emission permits surmounted the historical maximum since the trade scheme in 2005 in the amount of EUR 31/t CO_2.

In the 4th quarter of 2021, nuclear power plants are to be completely shut down in Germany. In the context of impact of COVID-19 pandemic, this decision has not been reviewed with respect to CO2. It is a strong fundamental signal for the rise of energy commodities prices, even without consideration of other circumstances, which start from low levels now. In case of the expected rising price of emission permits, the rise of prices will be even more intensive, especially as from 2022, where the effect of nuclear production termination will be fully seen and will be gradually accompanied by diversion from generation of electricity from coal. This will speak in favour of gas power plants. The Malženice power plant should therefore become sustainably economically operating.

Expectations in 2021

In 2021, we expect that the implementation of the energy package of the Energy Union will continue. ZSE considers the Directive on Common Rules for the Internal Market for Electricity as a key document. This directive defines new market players such as active customer, aggregator or citizen energy community, since their introduction will have crucial impact on the functioning of the energy market.

Strategy of the ZSE Group reflects these trends and the ZSE Group will flexibly respond on less foreseeable changes in geopolitical or macroeconomic development, so that it is a reliable partner for energy solutions to its customers.

Risks and Uncertainties

ZSE Group will continue to be in charge of developing new projects and innovative solutions that will reflect the strategic direction of the ZSE Group facing the challenges resulting from the macro-economic and market changes.

ZSE Energia, a.s.:

The core business activity of ZSE Energia, a.s. is electricity and gas supply to end consumers. In relation to energy supply business, ZSE Energia, a.s. is exposed to several risks – especially credit and price commodity risk.

Credit risk is related to the liquidity risk of the company's business partners, in particular the electricity and gas consumers. The company has an internal credit risk assessment process, which involves assigning an individual credit rating to its customers based on a combination of independent financial information and their payment discipline. ZSE Energia, a.s. actively uses insurance of receivables, as an additional risk management tool.

Market risk is caused by changes of market variables as a result of commodity market supply and demand development. It takes a form of energy price fluctuations and economic environment dynamics. Price fluctuations can have impact on the closing price of the open position of the company. The company applies a conservative approach to managing commodity business by maintaining a limited open position and through back-to-back commodity buying (at the moment of the sales volume contracting).

Západoslovenská distribučná, a.s.:

The core business activity of Západoslovenská distribučná, a.s. 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, various claims against the Company Západoslovenská distribučná, a.s. may be received. Certain customers or their representatives contest fairness and appropriateness of decisions of the network industry regulator. These circumstances was taken into account in its Financial Statements as at 31 December 2020.

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

Significant Events that Occurred after the End of 2020 and Require Disclosure in the Annual Report

The Company is currently unable to assess the impact of further developments of COVID-19 virus on its future financial position and results of operations, however, depending on strength and developments of future waves of the virus infections and spreading, this impact may be negative and significant.

After 31 December 2020, no other significant events have occurred that would require recognition or disclosure in this Annual Report.

4.

Economy

Economy

Selected Data from the Separate Financial Statements

In 2020, the parent Company Západoslovenská energetika, a.s. generated a profit of EUR 89,816 thousand and incurred costs totaling EUR 43,529 thousand from continuing and discontinued operations.

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

Key Figures as at 31 December

€ thousand	2020	2019
Non-current assets	972,572	972,682
Current assets	129,791	117,687
Total assets	**1,102,363**	**1,090,369**
Equity	371,293	355,385
Non-current liabilities	634,296	634,641
Current liabilities	96,774	100,343
Total equity and liabilities	**1,102,363**	**1,090,369**
Continuing operations:		
Revenues	15,484	16,033
EBIT (profit from operations)	**89,895**	**74,676**
EBITDA	93,921	78,256
Total income	133,345	116,835
Total expenses	42,968	41,625
Profit before tax	90,377	75,210
Profit for the year from continuing operations	**89,816**	**74,358**
Profit for the year from discontinued operations	-	-
Profit for the year	**89,816**	**74,358**
Total other comprehensive income for the year	(164)	(148)
Total comprehensive income for the year	**89,652**	**74,210**
Total comprehensive income for the year from continuing operations	89,652	74,210
Capital expenditures	4,961	4,790
Average number of employees	169	166

Distribution of the 2019 Profit

The General Meeting of Západoslovenská energetika, a.s. held on 28 May 2020 approved the proposal for the distribution of the 2019 profit of EUR 74,358 thousand. In August 2020 the Company's shareholders were paid dividends from the 2019 profit in the total amount of EUR 74,135 thousand. Also, the amount of EUR 223 thousand from the 2019 profit was designated as a contribution to the social fund from profit. In 2020, the dividend per share amounted to EUR 12.49 (2019: EUR 10.76 per share).

Decision on the 2020 Profit Distribution

At its meeting on 25 March 2021 the Board of Directors of Západoslovenská energetika, a.s., acknowledged and recommended to the Supervisory Board of Západoslovenská energetika, a.s. to discuss the following proposal for the distribution of the Company's profit for 2020:

Proposal for Distribution of ZSE's 2020 Profit	
Submitted to the Board of Directors of ZSE on 25 March 2021	**€ thousand**
Result for the year	**89,816**
Contribution to the social fund	214
Dividends	89,602
Total distribution of profit	**89,816**

Selected Data from the Consolidated Financial Statements

In 2020, the ZSE Group generated a profit of EUR 135,571 thousand and incurred costs totaling EUR 1,122,605 thousand.

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

Key figures about the ZSE Group as at 31 December		
€ thousand	**2020**	**2019**
Non-current assets	1,080,173	995,966
Current assets	255,408	253,564
Total assets	**1,335,581**	**1,249,530**
Equity	217,408	155,480
Non-current liabilities	810,109	807,488
Current liabilities	308,064	286,562
Total equity and liabilities	**1,335,581**	**1,249,530**
Revenues from sales	1,210,843	1,283,193
EBIT (profit from operations)	**176,757**	**177,171**
EBITDA	239,796	234,252
Total income	1,258,176	1,311,265
Total expenses	1,099,004	1,151,690
Profit before tax	159,172	159,575
Profit for the year	**135,571**	**119,851**
Other comprehensive income for the year	(1,334)	(1,831)
Total comprehensive income for the year	**134,237**	**118,020**
Average number of employees	**1,983**	**1,941**

Structure of Electricity Sources and Use of Electricity

Structure of Electricity Distribution				
In GWh	**As at 31 December 2020**	**Share (%)**	**As at 31 December 2019**	**Share (%)**
Wholesale	5,531	59	5,847	60
Retail – businesses	1,322	14	1,427	15
Retail – households	2,579	27	2,498	25

Structure of Electricity Supplies				
In GWh	**As at 31 December 2020**	**Share (%)**	**As at 31 December 2019**	**Share (%)**
Volume of electricity supplied including losses (GWh)	6,722	100	6,374	100
Of which: supplies to households (GWh)	2,053	31	1,999	31
Of which: supplies excluding households (GWh)	4,669	69	4,375	69

Useful Electricity Supply (GWh)	
Year	**Total**
2020	6,722
2019	6,374

Distributed Electricity (GWh)			
Year	**Total**	**Of which: wholesale**	**Of which: retail**
2020	9,432	5,531	3,901
2019	9,772	5,847	3,925

Information on sales in monetary and GWh terms from electricity distribution:

Indicators of Západoslovenská distribučná, a.s.		
As at 31 December	**2020**	**2019**
Volume of electricity distributed (GWh)	9,432	9,772
Revenues from electricity distribution (thousand)	350,392	479,863
Number of supply points	1,180,159	1,165,554

Information on sales in monetary and GWh terms from electricity supply to customers:

Indicators of ZSE Energia, a.s		
As at 31 December	**2020**	**2019**
Volume of electricity sold (GWh)	6,722	6,374
Revenues from the sale of electricity (thousand)*	968,924	911,968
Volume of electricity purchased (GWh)	6,722	6,374
Number of supply points	935,326	931,836

Information on sales in monetary terms for the ZSE Group:

Indicators of the ZSE Group		
As at 31 December	**2020**	**2019**
Volume of electricity sold (GWh)	6,722	6,374
Volume of electricity distributed (GWh)	9,432	9,772
Revenues from the sale and distribution of electricity (thousand)*	1,075,211	1,160,651
Volume of electricity purchased (GWh)	4,935	4,993
Volume of electricity generated (GWh)	1,787	1,381

Information on sales in monetary terms from gas supply to customers:

Indicators of ZSE Energia, a.s		
As at 31 December	**2020**	**2019**
Revenues from the sale of gas (thousand)*	125,451	104,995
Volume of gas supplied (GWh)	2,960	2,756
Number of supply points	78,493	72,379

*Sales include distribution charges from distribution system operators outside the ZSE Group

5.

Human Resources

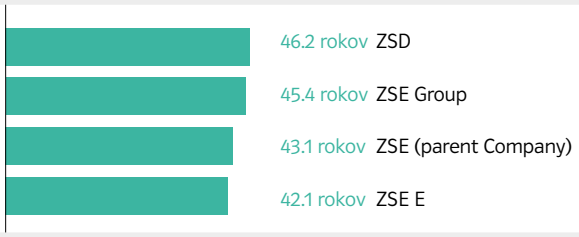
Human Resources

In 2020, the ZSE Group employed 1,982.6 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 number of employees in individual companies was as follows:

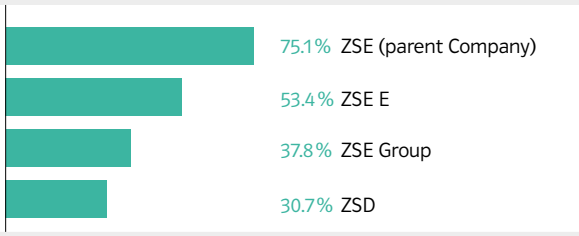
Number of employees in individual companies

	Number of employees
ZSE	**168.9**
ZSEE	**271.5**
ZSD	**1 499.9**
ZSE MVE	**6**
ZSE BS	**1.5**
ZSE Elektrárne	**29.8**
EKOTERM, s.r.o.	**5**

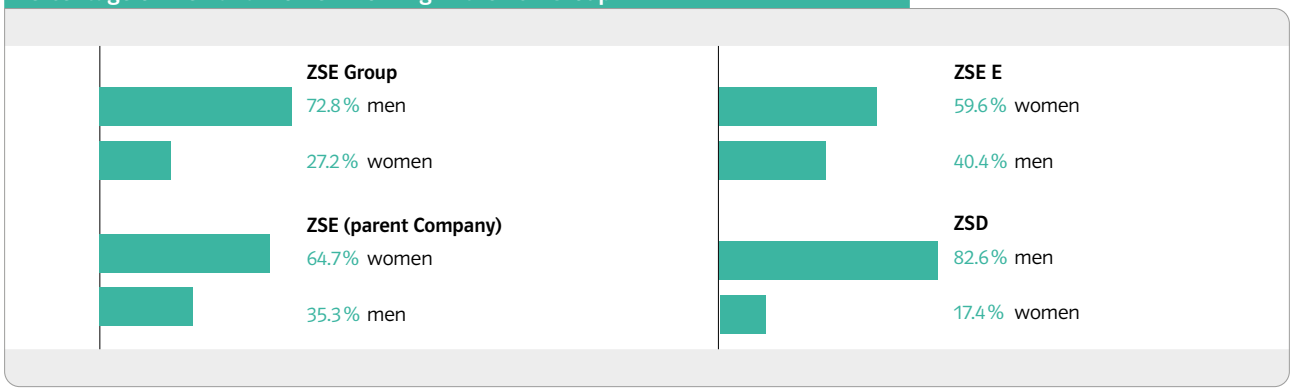
Average age of employees



University education



Percentage of men and women working in the ZSE Group



Remuneration and employee benefits

In line with the commitments resulting from the Collective Agreement, the companies of the ZSE Group raised the wage, consisting of the basic and variable part, by 4% on average. At the same time, as part of the employee's total income, part of the variable wage component was transferred to the basic wage.

All employees of the ZSE Group received the contribution from the Social Fund for recovery of labour force. Above standard preventive medical check-ups were also provided to employees. Also in 2020, the employer continued in contributing to the supplementary pension savings scheme of employees. Every employee was entitled to 5 days of holidays beyond the Labour Code.

Development of employees and cooperation with schools

In ZSE, education focuses mainly on development of skills. The biggest part of these educational and training activities concerned courses required by law.

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

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

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

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

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

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

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

6. Occupational Health and Safety

Occupational Health and Safety

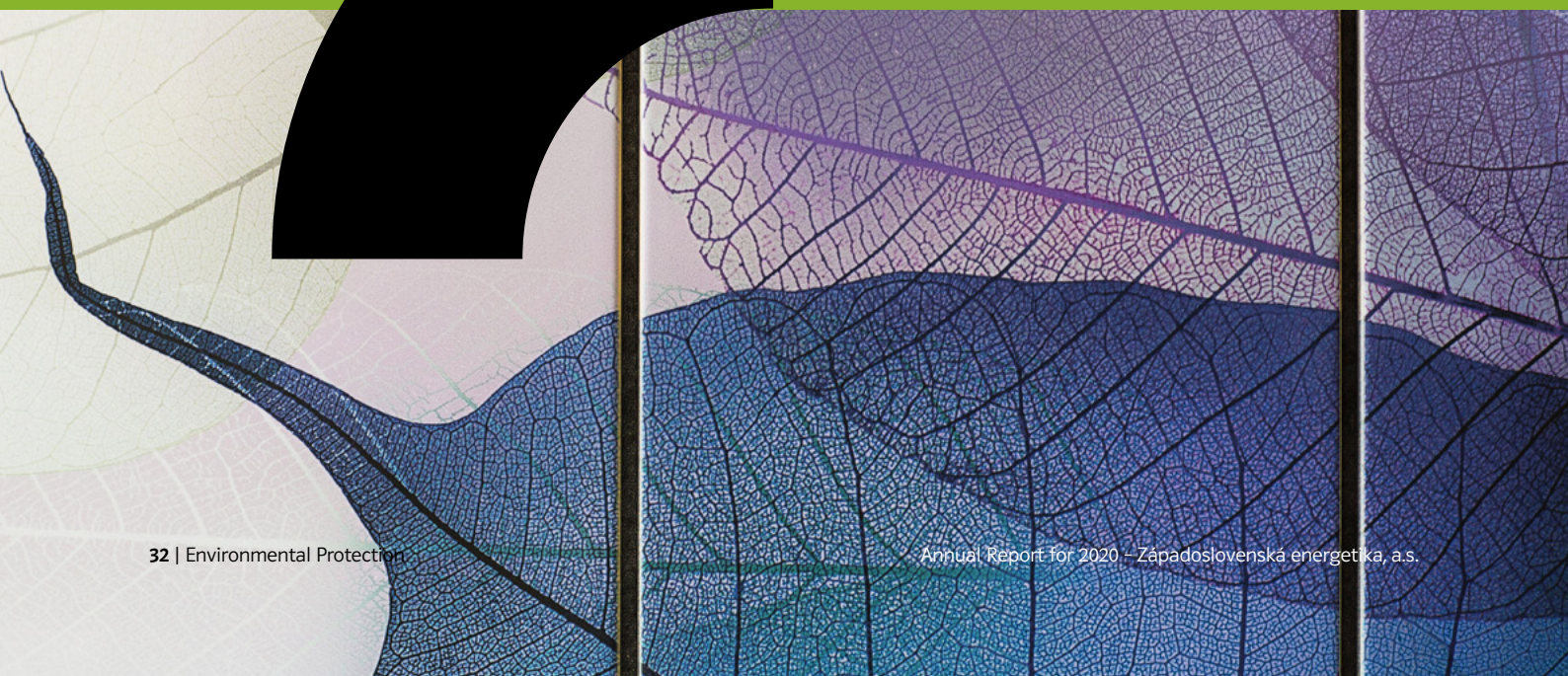
ZSE Group has been focusing on systematic development and training of employees in occupational health and safety in the long-run. Considering the nature of works in energy business, observance of OHS rules is the top priority. At the time of corona-crisis, the issue related to the Act on occupational health and safety was dealt with, modifying the conditions for the fulfilment of obligations and deadlines related to the informing of employees, wellness stays, mandatory medical examinations, vocational trainings and certain other obligations under the Act on occupational health and safety.

We performed introductory training for new employees in the form of distance learning through the Teams application. We also provided distance learning for our suppliers, employee representatives for safety and simple work at heights. In addition to the standard training resulting from the legislation, trauma exercises and training for the use of defibrillators continued in 2020 (coronacrisis discontinued this training). In the ZSE Group, compaigns focused on OHS were implemented, which were also supported by internal communication. A sum of EUR 1,310,904 was invested for all ZSE Group companies into personal and protective work equipment and tools, obligatory training courses on occupational health and safety, and preventive medical check-ups.

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

Within the supervisory audit in 2020, the ZSE Group showed improvement of the established System of Integrated Management (SIM) and managed to keep international certificates ISO 9001, ISO 14001 and ISO 45 001. The re-certification agency identified SIM strengths and improvements and came to the conclusion that SIM is in line with the requirements of ISO 9001, ISO 14001 and ISO 45001 standards, applicable laws and achieves continuous improvement. The audit led to recommendations of the certification agency to continue with the certification. The audit was carried out in a remote from through information technology.

7. Environmental Protection



Environmental Protection

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

In 2020, the companies of the ZSE Group invested EUR 362,2 thousand in environmental constructions and repairs. As part of this, greening of power lines, reconstruction of the boiler room and other environmentally friendly buildings and technologies were carried out. A sum of approx. EUR 267,9 thousand was dedicated to the environmental operation and maintenance of the facilities and repairs of the objects, including waste disposal. The operation of the facilities and services of the facilities was carried out in order to reduce the risk of groundwater, soil and air pollution and to reduce water consumption.

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

Západoslovenská distribučná, a.s. has been focusing on environmental care of its lines in the long-run. It cooperates with experts from the Raptor Protection of Slovakia association, to set specific measures. In 2020, the Company continues in the Countryside project. In an effort to create a safer bird corridor along the Danube River, Západoslovenská distribučná, a.s. is a partner of the LIFE DANUBE FREE SKY project. Also as a partner of the project LIFE EUROKITE supports the protection of the red kite. As a part of the these projects, it will treat power lines in critical areas with elements that eliminate bird death. We pay the same attention to lines that are located outside the project areas, but are led in high-risk areas due to the occurrence of protected bird species. So far, more than 1,000km of older lines have been treated. New lines are treated automatically. In total, more than EUR 1 million was invested in the environmental improvement of the lines.

ZSE Energia, a.s. offers its customers services supporting solutions, to save natural sources and use renewable energy sources. Also, in selling products, the Company meets its obligation of the importer of specified products concerning waste management.

8.

Corporate Social Responsibility

Corporate Social Responsibility

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

Education

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

The ZSE Group contributed to better quality of education in Slovakia through the grant scheme Exceptional School. In 2020, the ZSE Foundation announced its second year. The aim of the programme is to support teachers at elementary and secondary schools across Slovakia who, despite obstacles, did not lose encouragement to teach differently and be inspiration for their students and colleagues. A total sum of EUR 73,770 was distributed within this programme, supporting 32 projects. In 2020, education in schools significantly moved to the online environment. Since March 2020 the Slovak schools have been using distance learning. Therefore, in spring 2020 the ZSE Foundation decided to set up www.vynimocneskoly.sk website with interesting content which facilitates education for teachers, students and parents too. As the year progressed, the database of inspirational materials in various subjects was extended.

Protection of Environment

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

Community Development

Engagement of the ZSE Group employees has been one of our pillars of our activities within social responsibility. Effort and engagement of our colleagues help contribute to better environment we live in and in which our Company operates. For 15 years our volunteers have been involved in the projects with the aim of bringing positive and visible change. Through the Employees´ grant programme the ZSE Group supports volunteering activities of those employees who, besides their daily work and duties, are willing to be engaged in their community. In 2020, the amount of EUR 66,500 was distributed among 133 projects of active employees.

Mutual Aid Connects Us

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

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

The ZSE Foundation has been cooperating with Disabled Aid Association (APPA) for a long time. In 2020, this cooperation continued only through the implementation of projects supported in the third year of the charity grant programme We Remove Barriers, which received financial support in 2019 and their implementation exceeded 2020. Through this program, the ZSE Foundation strengthens its activities in the field of community development in order to activate local communities to help people with disabilities who live among us. Natural persons, informal groups of citizens and non-governmental organisations could apply for support, with the aim of organising their own charity sport or cultural events or public collection in West Slovakia. Financial support from the program is for organizational and technical support charity event. The collection from these charity events are intended to optimize the lives of people with health handicap. The contribution can be used for rehabilitation, medication reimbursement, compensation and medical devices, to pay for barrier-free solution to residential areas and other things necessary to improve their quality of life.

Considering the global coronavirus pandemic that it threatens people with chronic diseases significantly, the fourth year of the program was not announced in 2020. In the end of 2020, the ZSE Group decided to make nicer Christmas for people who are in need for various reasons. Christmas contribution to our teams´ meetings was provided, in cooperation with the Slovak Catholic Charity, to families in need, medically handicapped, single parents, mistreated women, homeless people and lonely seniors across Slovakia. Within the campaign "Don´t let hope die" the sum of almost EUR 40,000 was used to cope with the consequences of pandemic.

Annex: Separate Financial Statements

as at 31 December 2020

Content

Separate Statement of Financial Position

Separate Statement of Financial Position

In thousands of EUR	Note	31 December 2020	31 December 2019
ASSETS			
Non-current assets			
Property, plant and equipment	6	30,952	34,368
Intangible assets	7	1,018	1,006
Investment properties	8	19,306	15,412
Right-of-use assets	9	3,044	3,490
Investments in subsidiaries and joint venture	10	293,228	293,228
Finance lease receivables	11	1,551	1,809
Loans provided to subsidiary	12	623,473	623,369
Total non-current assets		**972,572**	**972,682**
Current assets			
Inventories	13	783	335
Accrued interest on loans provided to subsidiary	12	8,534	8,534
Trade and other receivables	14	4,079	4,310
Current income tax refund receivable	19	49	-
Finance lease receivables	11	253	182
Receivables from cash pooling	23	41,353	34,029
Cash and cash equivalents	15	74,740	70,297
Total current assets		**129,791**	**117,687**
TOTAL ASSETS		**1,102,363**	**1,090,369**
EQUITY			
Share capital	16	196,969	196,969
Legal reserve fund	17	39,421	39,421
Retained earnings		134,903	118,995
TOTAL EQUITY		**371,293**	**355,385**
LIABILITIES			
Non-current liabilities			
Issued bonds	18	627,815	627,363
Lease liabilities	9	5,009	6,123
Deferred income tax liabilities	19	236	170
Post-employment defined benefit obligations	20	1,049	815
Other long term employee benefits	21	187	170
Total non-current liabilities		**634,296**	**634,641**
Current liabilities			
Issued bonds and accrued interest on issued bonds	18	6,881	6,881
Lease liabilities	9	1,170	1,051
Trade and other payables	22	9,301	7,702
Current income tax liability	19	-	98
Liabilities from cash pooling	23	79,422	84,611
Total current liabilities		**96,774**	**100,343**
TOTAL LIABILITIES		**731,070**	**734,984**
TOTAL LIABILITIES AND EQUITY		**1,102,363**	**1,090,369**

These separate financial statements have been approved for issue by the Board of Directors on 25 March 2021.

Markus Kaune
Chairman of the Board of Directors and CEO

Marian Rusko
Member of the Board of Directors

The accompanying notes 1 to 41 are an integral part of these separate financial statements.

Separate Statement of Profit or Loss and Other Comprehensive Income

Separate Statement of Profit or Loss and Other Comprehensive Income

In thousands of EUR	Note	2020	2019
Revenues from contracts with customers	**24**	**15,484**	**16,033**
Raw material, energy and other consumption	25	(1,630)	(1,583)
Employee benefits	26	(9,107)	(8,870)
Depreciation of property, plant and equipment and investment properties	6, 8	(3,444)	(3,045)
Amortisation of intangible assets	7	(134)	(102)
Depreciation of right-of-use assets	9	(448)	(433)
Other operating expenses	27	(9,164)	(8,617)
Other operating income	29	8,794	8,624
Dividend income	28	89,103	72,056
Income from subleases		177	188
Own work capitalised		264	425
Operating profit		**89,895**	**74,676**
Finance income / (costs)			
Interest income calculated using the effective interest method	31	19,523	19,509
Interest costs and similar expense	30	(19,041)	(18,975)
Finance income, net		**482**	**534**
Profit before tax		**90,377**	**75,210**
Income tax expense	19	(561)	(852)
Profit for the year		**89,816**	**74,358**
Other comprehensive loss			
Items that will not be subsequently reclassified to profit or loss			
Actuarial remeasurements of post-employment defined benefit obligations	20	(207)	(187)
Deferred tax on actuarial remeasurements of post-employment defined benefit obligations	19	43	39
Total other comprehensive loss for the year		**(164)**	**(148)**
Total comprehensive income for the year		**89,652**	**74,210**

The accompanying notes 1 to 41 are an integral part of these separate financial statements.

Separate Statement of Changes in Equity

Separate Statement of Changes in Equity

In thousands of EUR	Share capital	Legal reserve fund	Retained earnings	Total equity
Balance at 1 January 2019	**196,969**	**39,421**	**108,614**	**345,004**
Profit for the year	-	-	74,358	**74,358**
Other comprehensive loss for the year	-	-	(148)	**(148)**
Total comprehensive income for 2019	**-**	**-**	**74,210**	**74,210**
Dividends declared and paid (Note 16)	-	-	(63,829)	**(63,829)**
Balance at 31 December 2019	**196,969**	**39,421**	**118,995**	**355,385**
Profit for the year	-	-	89,816	**89,816**
Other comprehensive loss for the year	-	-	(164)	**(164)**
Total comprehensive income for 2020	**-**	**-**	**89,652**	**89,652**
Dividends declared and paid (Note 16)	-	-	(74,135)	**(74,135)**
Other movements in equity	-	-	391	**391**
Balance at 31 December 2020	**196,969**	**39,421**	**134,903**	**371,293**

The accompanying notes 1 to 41 are an integral part of these separate financial statements.

Separate Statement of Cash Flows

Separate Statement of Cash Flows

In thousands of EUR	Note	2020	2019
Cash flows from operating activities			
Profit before tax		90,377	75,210
Adjustments for non-cash items:			
- Depreciation of property, plant and equipment and investment properties	6, 8	3,444	3,045
- Loss / (gain) on disposal of property, plant and equipment	6	(71)	(26)
- Amortisation of intangible assets	7	134	102
- Depreciation of right-of-use assets	9	448	433
- Amortization of govermment grant deferred income		243	(789)
- Interest income		(19,523)	(19,509)
- Interest and similar expense		18,712	18,758
- Dividend income	28	(89,103)	(72,056)
- ECL allowance for loan provided to subsidiary		131	(846)
- Other non-cash items		444	132
Cash generated from operations before changes in working capital		5,236	4,454
Changes in working capital:			
- Inventories		(448)	(73)
- Trade and other receivables		(242)	1,460
- Receivables and liabilities from cash pooling	23	(12,748)	26,822
- Trade and other payables		914	(1,024)
- Other		(144)	(188)
- Provisions for liabilities and charges		38	28
Cash (used in)/generated from operations before interest and taxes		**(7,394)**	**31,479**
Interest income received		19,523	15,850
Interest expense paid		(18,254)	(18,298)
Income tax refund/ (paid)	40	(599)	244
Net cash (used in)/from operating activities		**(6,724)**	**29,275**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(4,961)	(4,790)
Dividend income received	28	89,103	72,056
Receipts from finance lease receivables		397	370
Cash received as a result of government grant		1,786	933
Proceeds from sale of property, plant and equipment and intangible assets	6	98	93
Capital contribution paid to a new established subsidiary	10	-	(5)
Net cash from investing activities		**86,423**	**68,657**
Cash flows from financing activities			
Dividends paid	16	(74,135)	(63,829)
Repayment of principal of lease liabilities	35	(1,121)	(1,051)
Net cash used in financing activities		**(75,256)**	**(64,880)**
Net change in cash and cash equivalents		**4,443**	**33,052**
Cash and cash equivalents at the beginning of the year		70,297	37,245
Cash and cash equivalents at the end of the year	**15**	**74,740**	**70,297**

The accompanying notes 1 to 41 are an integral part of these separate financial statements.

Notes to the Separate Financial Statements – 31 December 2020

1 Introduction

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

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 15 October 2001. The Company was incorporated in the Commercial Register of the District Court Bratislava I on 1 November 2001.

Principal activity. The Company provides supporting services for its subsidiaries and other related parties as accounting, controlling and general administration services, as well as in area of finance services, planning and HR services.

The Company's principal subsidiaries are as follows: Západoslovenská distribučná, a.s. which operates electricity distribution network in Western Slovakia, ZSE Energia, a.s. which supplies electricity and gas to its retail and wholesale customers, ZSE Energy Solutions, s.r.o. which is in engineering business, ZSE MVE, s. r. o. which operates two small hydroelectric power plants, ZSE Business Services, s. r. o. which is a trading company, ZSE Development, s.r.o. and ZSE Energetiské služby, s.r.o. which are companies providing services, ZSE Elektrárne, s.r.o., which operates gas fired steam turbine power plant. All of the subsidiaries are incorporated in the Slovak Republic and are wholly owned by the Company.

On 30 July 2020, E.ON and the Slovak Republic represented by the Ministry of Economy of the Slovak Republic, as the shareholders of the Group, signed a Memorandum of Understanding (the "Memorandum"). Under this arrangement, E.ON is committed to sell 100% of the shares in ZSE Elektrárne, s.r.o. from 24 August 2020 for a period of the following 3 years, should the Slovak Republic decide to purchase them. Transfer of the shares in ZSE Elektrárne, s.r.o., if any, would be executed, under this Memorandum, for a fair market value and under usual market conditions.

Registered address and place of business. The Company's registered address is Čulenova 6, Bratislava 816 47, Slovak Republic. Its identification number (IČO) is: 35 823 551 and its tax identification number (IČ DPH) is: SK2020285256.

Presentation currency. These separate financial statements are presented in Euro ("EUR"), rounded to thousands, unless otherwise stated. Negative amounts are presented in brackets.

Ownership structure. Ministry of Economy of the Slovak Republic owns 51% of the Company's shares, E.ON Slovensko, a.s. owns 39% and E.ON Beteiligungen GmbH owns 10% of the Company's shares at 31 December 2020 and 31 December 2019. The Company is jointly controlled by E.ON and the Slovak government as a result of a shareholders agreement, which requires the parties to act jointly together to direct the activities that significantly affect the returns of the reporting entity. Refer to Note 16.

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 169 staff on average during 2020, of which 10 were management (2019: 166 employees on average, of which 9 were management). Number of employees at 31 December 2020 was 173 (31 December 2019: 164).

2 Significant Accounting Policies

Basis of preparation. These separate 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 separate financial statements are set out below. These policies have been consistently applied to all the periods presented.

The Board of Directors may propose to the Company's shareholders to amend the separate financial statements until their approval by the general shareholders meeting. However, § 16, points 9 to 11 of the Accounting Act No 431/2002 prohibit reopening an entity's accounting records after the financial statements
are approved by the general shareholders' meeting. If, after the financial statements are approved, management identifies that comparative information would not be consistent with the current period information, the Accounting Act allows entities to restate comparative information in the reporting period in which the relevant facts are identified.

These separate financial statements have been prepared in addition to the consolidated financial statements of the Západoslovenská energetika, a.s. Group. The separate financial statements should be read in conjunction with the consolidated financial statements to obtain a complete understanding of the Company's results of operations and financial position. These consolidated financial statements can be obtained from the Company at its registered address.

Subsidiaries and joint ventures. Subsidiaries are those investees, including structured entities, that the Company controls because the Company (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive voting rights, including substantive potential voting rights, are considered when assessing whether the Company has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Company may have power over an investee even when it holds less than the majority of the voting power in an investee. In such a case, the Company assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of the investee's activities or apply only in exceptional circumstances, do not prevent the Company from controlling an investee.

Joint ventures are those entities in which the Company shares control of the operations with its joint venture partners and where it has rights to a share of their net assets.

Investments in subsidiaries and joint ventures are carried at cost in these separate financial statements. The cost is represented by the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire the subsidiaries and joint ventures at the time of their acquisition. Impairment losses are recognized using an allowance account. Allowances are recognized to write down the investment to present value of estimated expected future cash flows.

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

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

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

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

Investment property. Investment property represents the building premises (and related part of the land on which the building stands), which is leased out to subsidiaries. Investment property is carried at cost less accumulated depreciation, calculated using straight line method to depreciate the asset to its residual value, based on estimated useful life of 30 to 50 years, similar to buildings held for own use.

Right-of-use assets. The Company leases, energy buildings and equipment and 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 where the Company is a lessee, Company 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

	years
Office buildings	4 – 10 years
Energy buildings and equipment	10 years
Vehicles	2 – 5 years

Non-current assets classified as held for sale. Non-current assets and disposal groups, which may include both non-current and current assets, are classified in the statement of financial position as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction, including loss of control of a subsidiary holding the assets, within twelve months after the end of the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Company's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets or disposal groups classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

A disposal group is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit to which goodwill has been allocated on acquisition. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the end of the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale premises and equipment are not depreciated or amortised.

Discontinued operations. A discontinued operation is a component of the Company that either has been disposed of, or that is classified as held for sale, and: (a) represents a separate major line of business or geographical area of operations; (b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or (c) is a subsidiary acquired exclusively with a view to resale. Revenues, expenses and cash flows of discontinued operations, if any, are disclosed separately from continuing operations with comparatives being re-presented.

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

	yars
Office buildings and halls	30 – 50 years
Building sites	40 years
Machinery	4 – 20 years
Fixtures, fittings and equipment	4 – 30 years
Vehicles	4 – 15 years
Other non-current tangible assets	4 – 30 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.

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 amortisation 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.

Loans provided. Loans provided are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

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 cost of completion and 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 the 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".

Finance lease receivables. Where the Company is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable at amount equal to the net investment in the lease. At the commencement date, the measurement of net investment in the lease includes the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives payable,
- 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 receivable by the Company under residual value guarantees,
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Finance lease receivables are initially recognised at commencement of lease term, using a discount rate implicit in the lease to measure net investment in the lease.

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term.

Credit loss allowance is recognised using a simplified approach at lifetime ECL. The ECL is determined in the same way as for trade receivables. The ECL is recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

Operating lease income. Where the Company is a lessor in a lease which does not transfer substantially all the risks and rewards incidental to ownership to the lessee (operating lease), the operating lease payments are recognised on a straight line basis as other operating income.

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

- 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 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 contract 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 period 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.

To optimise lease costs during the contract period, the Company sometimes provides residual value guarantees in relation to equipment leases. The Company initially estimates and recognises amounts expected to be payable under residual value guarantees as part of the lease liability. Typically the expected residual value at lease commencement date is equal to or higher than the guaranteed amount, and so the Company does not expect to pay anything under the guarantees. At the end of each reporting period, the expected residual values are reviewed, and adjusted if appropriate, to reflect actual residual values achieved on comparable assets and expectations about future prices.

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.

Receivables from cash pooling. These receivables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

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 separate 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 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 cost ("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 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, loans provided to subsidiary, cash and cash equivalents and receivables from cash pooling. The contractual cash flows of these assets represent principal and interest payments that reflect the time value of money and therefore the Company measures them at amortised cost. In addition, the Company applies expected loss model to credit risk from contract assets and finance lease receivables.

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 – allowance for expected credit losses ("ECL"). The Company assesses, on a forward-looking basis, the ECL for debt instruments measured at AC, contract assets, finance lease receivables and issued financial guarantees. The Company measures ECL and recognises ECL allowances for losses on financial assets, contract assets and finance lease receivables and ECL provisions for issued financial guarantees 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, contract assets and finance lease receivables 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 a matrix approach for the calculation of lifetime expected loss on trade receivables that takes into

account the ageing of the receivables, loss rate for each ageing category of the receivables and the amount of receivables written off. Given that almost all receivables are due from group companies, the Company has considered the expected payment discipline for the next 12 months. On the basis of these indicators, it was decided that the creation of provisions for trade receivables based on historical data is sufficient, as the development of forward looking indicators corresponds to the development in previous periods. Receivables from third parties are insignificant.

The amount of the loss allowance is 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 receivables 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.

Dividends. Dividends are recorded in equity in the period in which they are declared. The separate 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, up to 20% of the share capital. Such funds are not distributable and may only be used to increase share capital or to cover losses.

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

Liabilities from cash pooling. These liabilities are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Income taxes. Income taxes have been provided for in the separate 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 separate financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within other operating expenses.

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.

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

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.

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 separate 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.

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 as liabilities in the separate financial statements. They are disclosed in the notes to the separate 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.

The Company provides supporting services to its subsidiaries Západoslovenská distribučná, a.s. and ZSE Energia, a.s. such as accounting, controlling and general administration services. These services are provided also to the other subsidiaries ZSE Energy Solutions, s.r.o., ZSE Development, s.r.o., ZSE Business Services, s. r. o., ZSE Elektrárne, s.r.o. and ZSE MVE, s. r. o. and to the shareholder E.ON Slovensko, a.s.

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.

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

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

Financial guarantees. Financial guarantees require the Company to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantees are initially recognised as a liability at fair value and a corresponding receivable for the future fees due from the debtor with excess, if any, increasing the cost of investment (as a contribution in kind in substance) in the subsidiary whose obligations are guaranteed. This liability is then amortised to other operating income on a straight line basis over the life of the guarantee. At the end of each reporting period, the liabilities for the issued guarantees are measured at the higher of (i) the amount of the loss allowance for the guaranteed exposure determined based on the expected credit loss model and (ii) the remaining unamortised balance of the amount of the liability recognised at initial recognition. In addition, an ECL loss allowance is recognised in profit or loss for fees receivable that are recognised in the statement of financial position as an asset.

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

Segment information. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors that makes strategic decisions.

Segment result is measured in accordance with accounting policies that are consistent with those applied by the Company in preparing its separate statement of profit or loss and other comprehensive income.

3 Adoption of New or Revised Standards and Interpretations

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

- Amendments References to the Conceptual Framework for Financial Reporting (effective for annual periods beginning on or after 1 January 2020).
- Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).
- Interest rate benchmark reform – phase 1 amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020).
- Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).
- Covid-19-Related Rent Concessions – Amendments to IFRS 16 (issued on 28 May 2020 and effective for annual periods beginning on or after 1 January 2020).

4 New Accounting Pronouncements

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

Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2023). These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period.

Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument. The original amendment to IAS 1 on classification of liabilities as current or non-current was issued in January 2020 with an original effective date 1 January 2022. However, in response to the Covid-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement classification changes resulting from the amended guidance. The Company is currently assessing the impact of the amendments on its financial statements.

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

The reason for the amendment is to remove any potential confusion about the treatment of lease incentives. IFRS 1 allows an exemption if a subsidiary adopts IFRS at a later date than its parent. The subsidiary can measure its assets and liabilities at the carrying amounts that would be included in its parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. IFRS 1 was amended to allow entities that have taken this IFRS 1 exemption to also measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. The amendment to IFRS 1 extends the above exemption to cumulative translation differences, in order to reduce costs for first-time adopters. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.

The requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41 was removed. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis. The Company is currently assessing the impact of the amendments on its financial statements.

The following other new standards or their amendments were issued and will not to have a material impact:

- IFRS 14, Regulatory Deferral Accounts (issued on 30 January 2014 and effective for annual periods beginning on or after 1

January 2016, that was not endorsed by the EU).

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- IFRS 17 „Insurance Contracts"(issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2023)
- Amendments to IFRS 17 and an amendment to IFRS 4 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023).
- Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (issued on 27 August 2020 and effective for annual periods beginning on or after 1 January 2021).
- Amendments to IAS 1, Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023).
- Amendments to IAS 8, Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023).

5 Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

Expected credit losses ("ECL"). IFRS 9, Financial Instruments, requires recognition of a loss allowance to reflect probability of a possible default of receivables and loans. The allowance thus does not represent single most likely estimate of future developments but considers possible alternative development scenarios.

Trade receivables. The Company applies a simplified approach to trade receivables under IFRS 9, ie it 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.

Loans provided to the subsidiary. The Company recognized a credit risk allowance for loans provided to its subsidiary (Note 12). All loans are in stage 1 as there was no increase of credit risk as these are not past due. These loans do not exhibit signs of any significant increase in credit risk since their origination and thus belong to stage 1 according to IFRS 9. When recognizing the twelve months credit risk allowance, the Company considers that the borrower's business are regulated electricity distribution services, while the regulated prices are regularly revised with an objective to provide adequate capital return. The credit loss allowance is based on market level interest rate derived from market yield on traded bonds that the Company issued with the objective to finance these loans and on an assumption that substantially all credit margin above interbank interest rates is attributable to credit risk.

ECL allowance for receivables from cash pooling due from the subsidiary ZSE Elektrárne, s.r.o. and related issued guarantees. The company also recognised an allowance for receivables from cash pooling due from the subsidiary ZSE Elektrárne, s.r.o. (Note 23). The Company calculates ECL based on internal rating model of subsidiaries that is derived from risk rating of Západoslovenská energetika, a.s. and after considering various qualitative criteria the ECL for particular entity is adjusted. The estimate of this allowance is based on cost of debt of 3.59% p.a., that is part of the market data derived weighted average cost of capital („WACC") that was used by ZSE Elektrárne, s.r.o. to assess need for impairment provisions for its investment in a gas fired steam turbine power plant, that this company operates.

The Company also estimated the amount of the provision for guarantees of ZSE Elektrárne's liabilities to its suppliers (Note 40) based on the difference between this cost of debt and the Company's market interest rate as a guarantor, which should reflect the value of credit risk enhancement from the guarantee holder's perspective.

Lease extension and termination options. 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 lease is reasonably certain to be extended (or not terminated).

For leases of offices, equipment and vehicles, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the Company is typically reasonably certain to extend (or not terminate) the lease.
- 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.

The Company considers also other factors including historical lease term and the costs and business disruption required to replace the leased asset. The majority of extension and termination options held are exercisable only by the Company and not by the respective lessor.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Company becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee. The estimated lease term was not revised during the current reporting period.

The Company estimated that residual value guarantees of the leased assets are not significant.

Control over ZSE Elektrárne, s.r.o.. On 30 July 2020, E.ON and the Slovak Republic represented by the Ministry of Economy of the Slovak Republic, as the shareholders of the Group, signed a Memorandum of Understanding (the "Memorandum"). Under this arrangement, E.ON is committed to sell 100% of the shares in ZSE Elektrárne, s.r.o. from 24 August 2020 for a period of the following 3 years, should the Slovak Republic decide to purchase them. Transfer of the shares in ZSE Elektrárne, s.r.o., if any, would be executed, under this Memorandum, for a fair market value and under usual market conditions.

The Company's management considered that the Company still has control over ZSE Elektrárne, s.r.o., because its view is that the Memorandum is non-binding, it was signed by E.ON and not by Západoslovenská energetika, a.s. and it is therefore not directly enforceable against the Company and its governing bodies. In view of the three-year commitment to sell, management considers that the sale of the investment in ZSE Elektrárne, s.r.o. is not highly probable within one year and this investment was therefore not reclassified to current assets as held for sale in accordance with IFRS 5, Non-current Assets Held for Sale and Discontinued Operations.

Management also did not have to recognise any deferred tax on this investment as the carrying amount of the investment would also be a tax deductible expense against any proceeds from disposal in the event of a sale and there is therefore no temporary difference for which deferred tax would have to be recognised.

6 Property, Plant and Equipment

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

Movements in the carrying amount of property, plant and equipment

In thousands of EUR	Land	Buildings	Equipment, vehicles and other assets	Equipment, vehicles and other assets leased to third parties	Capital work in progress	Total
Cost at 1 January 2019	4,138	24,74	6,27	27,619	3,922	66,689
Accumulated depreciation and impairment losses	-	(8,481)	(4,104)	(21,692)	-	(34,277)
Carrying amount at 1 January 2019	**4,138**	**16,259**	**2,166**	**5,927**	**3,922**	**32,412**
Transfer to investment property	-	(201)	-	-	-	(201)
Additions	-	-	-	-	4,287	4,287
Transfers	100	2,061	1,001	335	(3,497)	-
Depreciation charge	-	(648)	(463)	(952)	-	(2,063)
Disposals	(6)	(1)	(1)	-	(59)	(67)
Cost at 31 December 2019	4,232	26,494	7,263	27,954	4,653	70,596
Accumulated depreciation and impairment losses	-	(9,024)	(4,560)	(22,644)	-	(36,228)
Carrying amount at 31 December 2019	**4,232**	**17,470**	**2,703**	**5,310**	**4,653**	**34,368**
Transfer to investment property	(2,750)	(2,122)	-	-	-	(4,872)
Additions	-	-	391	-	3,405	3,796
Transfers	-	72	3,375	-	(3,447)	-
Depreciation charge	-	(557)	(880)	(823)	-	(2,260)
Disposals	(6)	(19)	(18)	-	(37)	(80)
Cost at 31 December 2020	1,476	22,688	14,067	21,265	4,574	64,070
Accumulated depreciation and impairment losses	-	(7,844)	(8,496)	(16,778)	-	(33,118)
Carrying amount at 31 December 2020	**1,476**	**14,844**	**5,571**	**4,487**	**4,574**	**30,952**

The Company holds insurance against damages caused by natural disasters up to EUR 268,829 thousand for buildings and up to amount of EUR 46,173 thousand for equipment, fixtures, fittings and other assets (2019: EUR 253,360 thousand and EUR 41,418 thousand).

Rental income is presented in Note 29. Future rental income from non-cancellable operating leases are payable as follows:

Future rental income from non-cancellable operating leases		
In thousands of EUR	**2020**	**2019**
Due within:		
- 1 year	980	980
- 2 year	-	980
Total operating lease payments receivable under non-cancellable leases	**980**	**1 960**

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

The proceeds from disposal of property, plant and equipment		
In thousands of EUR	**2020**	**2019**
Net book value of assets disposed of	80	67
(Loss) / gain on disposal of property, plant and equipment	71	26
Other	(53)	-
Proceeds from disposals	**98**	**93**

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 at 1 January 2019	27,181	464	27,645
Accumulated amortisation and impairment losses	(27,008)	-	(27,008)
Carrying amount at 1 January 2019	**173**	**464**	**637**
Additions	-	471	471
Transfers	211	(211)	-
Amortisation charge	(102)	-	(102)
Cost at 31 December 2019	27,392	724	28,116
Accumulated amortisation and impairment losses	(27,110)	-	(27,110)
Carrying amount at 31 December 2019	**282**	**724**	**1,006**

Movements in the carrying amount of intangible assets			
In thousands of EUR	**Software and similar assets**	**Assets not yet available for use**	**Total**
Cost at 1 January 2020	27,392	724	28,116
Accumulated amortisation and impairment losses	(27,110)	-	(27,110)
Carrying amount at 1 January 2020	**282**	**724**	**1,006**
Additions	-	146	146
Transfers	221	(221)	-
Amortisation charge	(134)	-	(134)
Cost at 31 December 2020	27,113	649	27,762
Accumulated amortisation and impairment losses	(26,744)	-	(26,744)
Carrying amount at 31 December 2020	**369**	**649**	**1,018**

8 Investment Properties

The Company leases out part of its administrative and operational buildings as well as subleases office premises primarily to its subsidiaries. Movements in the carrying amount of the investment properties, including properties held under lease agreements were as follows:

Movements in the carrying amount of the investment properties

In thousands of EUR	2020			2019		
	Investment properties owned by Company	Right-of-use property that was subleased	Total	Investment properties owned by Company	Right-of-use property that was subleased	Total
Cost at 1 January	20,821	2,135	22,956	20,137	-	20,137
Accumulated depreciation and impairment losses	(7,102)	(442)	(7,544)	(6,456)	-	(6,456)
Carrying amount at 1 January	**13,719**	**1,693**	**15,412**	**13,681**	**-**	**13,681**
Initial application of IFRS 16, Leases	-	-	-	-	1,833	1,833
Transfer from property, plant and equipment to investment property	4,872	-	4,872	201	-	201
Additions	148	58	206	383	302	685
Depreciation charge	(715)	(469)	(1,184)	(546)	(436)	(982)
Impairment	-	-	-	-	(6)	(6)
Cost at 31 December	27,414	2,225	29,639	20,821	2,135	22,956
Accumulated depreciation and impairment losses	(9,390)	(943)	(10,333)	(7,102)	(442)	(7,544)
Carrying amount at 31 December	**18,024**	**1,282**	**19,306**	**13,719**	**1,693**	**15,412**

The Company's management estimates that fair value of the investment properties at the balance sheet date is not materially different from their carrying amount.

The Company has verbally agreed with its lessees Západoslovenská distribučná, a.s. and ZSE Energia, a.s., that it will allow them to annually renew the office leases at the then prevailing market level rent for up to 15 years. These leases were classified as operating leases.

Rental income of investment properties is presented in Note 29. Direct operating expenses of investment properties were EUR 3,250 thousand (2019: EUR 3,245 thousand) and these are recharged to the lessees in the lease.

The future rental income from investment properties for the lease term with consideration of the above verbal agreement is receivable as follows:

The future rental income from investment properties for the lease term

In thousands of EUR	2020	2019
Due during:		
- year 1	6,201	6,387
- year 2	5,814	6,194
- year 3	5,790	5,790
- year 4	5,645	5,814
- year 5	5,637	5,644
- periods after year 5	44,992	50,622
Total future investment properties operating lease payments receivable	**74,079**	**80,451**

9 Right-of-use Assets and Lease Liabilities

The Company leases energy buildings and equipment and vehicles. Rental contracts are typically made for fixed periods of 6 months to 10 years but may have extension options as described below.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability from the date when the leased asset becomes available for use by the Company. Movements in right-of-use assets:

Movements in right-of-use assets

In thousands of EUR	Energy buildings and equipment	Vehicles	Total
Carrying amount at 1 January 2019	**3,696**	**290**	**3,986**
Additions	-	10	**10**
Disposals	-	(5)	**(5)**
Depreciation charge	(342)	(91)	**(433)**
Impairment	(62)	(6)	**(68)**
Carrying amount at 31 December 2019	**3,292**	**198**	**3,490**
Additions	-	-	**-**
Disposals	-	-	**-**
Depreciation charge	(371)	(77)	(448)
Impairment	2	-	2
Carrying amount at 31 December 2020	**2,923**	**121**	**3,044**

The Company recognised lease liabilities as follows:

Lease liabilities

In thousands of EUR	2020	2019
Short-term lease liabilities	1,170	1,051
Long-term lease liabilities	5,009	6,123
Total lease liabilities	**6,179**	**7,174**

Interest expense on lease liabilities is presented in Note 30.

Expenses relating to short-term leases and to leases of low-value assets other than short-term leases:

Expenses relating to short-term leases and to leases of low-value assets

In thousands of EUR	2020	2019
Expense relating to short-term leases	2	57
Expense relating to leases of low-value assets that are not as short-term leases	53	49

Total cash outflows for leases were as follows:

Total cash outflows for leases		
In thousands of EUR	**2020**	**2019**
Short-term lease payments	2	57
Payments for leases of low-value assets other than short-term leases	53	49
Repayment of principal of lease liabilities	1,121	1,051
Interest from leasing paid	134	134
Total cash outflows for leases	**1,310**	**1,291**

The lease agreements do not provide for any collateral other than legal title to the leased assets held by the lessor. Leased assets may not be used as collateral for other borrowings.

As at 31 December 2020, potential future cash outflows of EUR 0 thousand (2019: EUR 0 thousand) (undiscounted) have not been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated).

10 Investments in Subsidiaries and Joint Venture

Investments in Subsidiaries and Joint Venture		
In thousands of EUR	**2020**	**2019**
Total investments at 1 January	**293,228**	**293,222**
Additions	-	5
Disposals	-	-
Other	-	1
Total investments at 31 December	**293,228**	**293,228**

The additions during the year 2019 represent subsidiary ZSE Energetické služby, s.r.o. that was established by its Founding Charter dated 19 November 2019, with the Company becoming its sole shareholder. This subsidiary was incorporated in the Commercial Register on 3 December 2019.

Investments in Subsidiaries and Joint Venture				
In thousands of EUR	**% ***	**Activities**	**2020**	**2019**
Západoslovenská distribučná, a.s.	100	Distribution of electricity	276,684	276,684
ZSE Energia, a.s.	100	Trade in electricity / gas	6,725	6,725
ZSE Energy Solutions, s.r.o.	100	Engineering	200	200
ZSE MVE, s. r. o.	11.3**	Electricity production	1	1
ZSE Development, s.r.o.	100	Services	564	564
ZSE Business Services, s. r. o.	100	Trading activities	5	5
ZSE Elektrárne, s.r.o.	100	Electricity production	8,486	8,486
ZSE Energetické služby, s.r.o.	100	Services	5	5
Total investments in subsidiaries			**292,670**	**292,670**
Energotel, a.s.	20	Telecommunication services	525	525
Total investments in joint ventures			**525**	**525**
Other investments			33	33
Total investments in subsidiaries and joint venture			**293,228**	**293,228**

* Ownership interest and voting rights held.

** The Company directly owns only 11.3% in ZSE MVE, s. r. o. but owns in total 100% of this company because its subsidiary ZSE Energia, a.s. holds the remaining 88.7% in ZSE MVE, s. r. o. Therefore, ZSE MVE, s. r. o. was classified as subsidiary in these separate financial statements.

11 Finance Lease Receivables

The maturity analysis of the finance lease receivable is as follows:

The maturity analysis of the finance lease receivable

In thousands of EUR	2020	2019
Due during		
- the 1st year	276	209
- the 2nd year	276	209
- the 3rd year	276	209
- the 4th year	276	209
- the 5th year	276	209
Later than 5 years	604	1,143
Total undiscounted finance lease payments receivable	**1,984**	**2,188**
Unearned finance income	(180)	(197)
Finance lease receivable	**1,804**	**1,991**

The finance lease receivables are not collateralised by the leased assets in case of the counterparty's default. The receivables are from subsidiaries and since the ECL allowance for the risk of possible default is insignificant, it was not accounted for.

12 Loans Provided to Subsidiary

An overview of loans provided to subsidiary is as follows:

Loans provided to subsidiary

In thousands of EUR	2020	2019
Loan 1 provided to Západoslovenská distribučná, a.s. - principal	315,000	315,000
Loan 2 provided to Západoslovenská distribučná, a.s. - principal	315,000	315,000
Allowance for possible impairment of the long term loan (ECL)	(6,527)	(6,631)
Total loans provided to subsidiary – non-current	**623,473**	**623,369**
Accrued interest on loans provided to subsidiary due within one year	8,534	8,534
Total loans provided to subsidiary – current	**8,534**	**8,534**
Total loans provided to subsidiary	**632,007**	**631,903**

The movements in ECL allowance for loans provided to the subsidiary and in the gross amount of loans were as follows:

The movements in ECL allowance for loans provided to the subsidiary

In thousands of EUR	Credit loss allowance	Gross carrying amount
At 1 January 2019	**8,719**	**630,000**
Reassessment of ECL during the reporting period	(2,088)	-
At 31 December 2019	**6,631**	**630,000**
Reassessment of ECL during the reporting period	(104)	-
At 31 December 2020	**6,527**	**630,000**

Refer to Note 5 for methods assumptions used in estimating the ECL allowance.

Loan 1 has maturity on 2 March 2028 and carries interest rate of 2.00% p.a. Loan 2 is due on 1 October 2023 and carries interest rate of 4.14 % p.a. As the loans are due from a related party without any significant increase in risk of default since their origination, the loans expected loss allowance was calculated on a 12-month basis.

13 Inventories

The inventory items included material, spare parts and goods and are shown net of provision for slow-moving materials and spare parts of EUR 0 thousand (2019: EUR 0 thousand). The cost of inventories recognized as expense and included in 'Raw materials, energy and other consumption' is disclosed in Note 25.

14 Trade and Other Receivables

Trade and Other Receivables

In thousands of EUR	2020	2019
Trade receivables	3,554	3,724
Less allowance for possible impairment of trade receivables	(92)	(90)
Trade receivables, net	**3,462**	**3,634**
Prepayments	617	676
Total trade and other receivables	**4,079**	**4,310**

Movements in the impairment allowance for trade receivables are as follows:

Movements in the impairment allowance for trade receivables

In thousands of EUR	2020	2019
Allowance for impairment at 1 January	**90**	**109**
Impairment loss expense	5	(14)
Amounts written off during the year as uncollectible	(3)	(5)
Allowance for impairment at 31 December	**92**	**90**

Impairment allowance for receivables is calculated based on ageing analysis of individual receivables.

The Company has a concentration of credit risk towards its subsidiaries and other related parties. Refer to Note 40.
The percentage of expected losses for each category of receivables was determined in the model on the basis of the expected settlement, which is based on the ageing analysis for the previous periods, taking into account the probability of repayment in subsequent periods.

The credit loss allowance for trade and other receivables is presented below:

The credit loss allowance for trade and other receivables

In thousands of EUR	31 December 2020				31 December 2019			
	Loss rate	Gross carrying amount	Lifetime ECL	Net carrying value	Loss rate	Gross carrying amount	Lifetime ECL	Net carrying value
Current	0.00%	3,422	-	3,422	0.01%	3,554	-	3,554
Past due:								
- less than 30 days overdue	8.82%	34	3	31	4.55%	44	2	42
- 31 to 60 days overdue	33.33%	3	1	2	20.00%	40	8	32
- 61 to 90 days overdue	50.00%	2	1	1	50.00%	2	1	1
- 91 to 120 days overdue	50.00%	4	2	2	66.67%	3	2	1
- 121 to 180 days overdue	66.67%	3	2	1	50.00%	4	2	2
- 181 to 360 days overdue	66.67%	9	6	3	66.67%	6	4	2
- over 360 days overdue	100.00%	77	77	-	100.00%	71	71	-
Total trade receivables		**3,554**	**92**	**3,462**		**3,724**	**90**	**3,634**

15 Cash and Cash Equivalents

Cash and Cash Equivalents

In thousands of EUR	2020	2019
Current accounts with banks	24,740	35,297
Short term bank deposits	50,000	35,000
Total cash and cash equivalents in the statement of financial position	**74,740**	**70,297**

The Company has a concentration of cash and cash equivalents balances towards 4 banks (2019: 4 banks).

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

The credit quality of cash and cash equivalents

In thousands of EUR	2020	2019
Items without significant increase in credit risk (stage 1)		
Credit rating Aa3 by Moody's	17	10
Credit rating A2 by Moody's	59,434	45,241
Credit rating A3 by Moody's	15,289	25,046
Total cash and cash equivalents	**74,740**	**70,297**

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.

As at 31 December 2020, the Company has agreements with banks about revolving credit facilities amounting to EUR 75,000 thousand (2019: EUR 75,000 thousand) and overdraft credit facilities amounting EUR 100,000 thousand (2019: EUR 0 thousand). As at 31 December 2020 the Company has drawn EUR 0 thousand from these facilities (2019: EUR 0 thousand).

16 Share Capital

The Company issued and has outstanding 5,934,594 ordinary shares (2019: 5,934,594 shares) with a par value of EUR 33.19 each. All issued shares are fully paid in.

The Company is jointly controlled by E.ON and the Slovak government 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 reporting entity. The entity's governance structure dictates that the entity's strategic plan be approved by representatives of both E.ON and the Slovak government. 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 contractual restrictions exist for transfer of shares to parties not under control of existing shareholders.

The general meeting of the Company's shareholders approved the Company's prior year separate financial statements and declared dividends of EUR 74,135 thousand or EUR 12.49 per share (2019: dividends of EUR 63,829 thousand or EUR 10.76 per share). Slovak legislation identifies distributable reserves as retained earnings reported in these separate financial statements of the Company.

17 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 exists to cover future losses.

18 Issued Bonds

The issued bonds (ISIN: XS0979598462) of EUR 315,000 thousand are due on 14 October 2023 and carry a coupon of 4.00% p.a. The series two of issued bonds (ISIN: XS1782806357) of EUR 315,000 thousand are due on 2 March 2028 and carry a coupon of 1.75% p.a. The bonds are traded on the Irish Stock Exchange, Dublin.

Amortised cost carrying value of the bonds is as follows:

Amortised cost carrying value of the bonds

In thousands of EUR	2020	2019
Issued bonds – non-current	627,815	627,363
Accrued interest payable on issued bonds within one year and deferred transaction costs of the bonds	6,881	6,881
Total carrying value of the bonds	**634,696**	**634,244**

19 Income Taxes

Income tax expense comprises the following:

Income tax expense comprises

In thousands of EUR	2020	2019
Current tax at standard rate of 21% (2019: 21%)	352	476
Current tax for the previous period	100	-
Deferred tax	109	376
Total income tax expense	**561**	**852**

In 2020, the applicable standard income tax rate was 21% (2019: 21%). A reconciliation between the reported income tax charge and the theoretical amount that would arise using the applicable tax rates is as follows:

A reconciliation between the reported income tax charge and the theoretical amount that would arise using the applicable tax rates		
In thousands of EUR	**2020**	**2019**
Profit before tax	**90,377**	**75,210**
Theoretical tax charge at applicable tax rate of 21% (2019: 21%)	18,979	15,794
Non-deductible expenses / (non-taxable income) for which deferred tax was not recognised		
- dividend income not subject to tax	(18,712)	(15,132)
- expenses not deductible for tax purposes	124	227
Impact of income tax for the previous period	100	-
Other	70	(37)
Income tax expense for the period	**561**	**852**

The deferred taxes are expected to be recovered or settled after more than twelve months after the end of the reporting period because income tax returns are due annually, that is, the deferred tax outstanding at 31 December 2020, that will become current tax in 2021, will be settled in 2022 upon filing the 2021 tax return. The corporate tax advance payments are calculated based on prior year taxes and are thus unrelated to deferred tax balances or the current tax expense expected for subsequent years.
Deferred income 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	**2020**	**2019**
Differences between tax base and carrying value of property, plant and equipment	2,598	2,533
Post-employment defined benefit obligation and other long term and short term employee benefits	(474)	(402)
Other liabilities	(140)	(158)
Provision for impairment of trade receivables and loans	(1,686)	(1,656)
Other	(62)	(147)
Total net deferred tax assets / liability, net	**236**	**170**

The movements in deferred taxes for temporary differences were recognised in profit or loss except for EUR (43) thousand (2019: EUR (39) thousand) for actuarial remeasurements of post-employment defined benefit obligation, which was recognised in other comprehensive income.
The Company has not recorded a deferred tax liability in respect of investments in subsidiaries because (a) the tax is applicable to future profits and thus temporary differences, if any, may only arise in the future, and (b) the tax is not applicable to dividends from Slovak subsidiaries, associates and joint ventures.

In addition, the Company is able to control the timing of the reversal of such temporary differences in respect of subsidiaries and does not intend to reverse them in the foreseeable future, e.g. through sale or taxable dividend income from subsidiaries.

20 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 numbers of years worked for the Company. The movements in the present value of defined benefit obligation are:

The movements in the present value of defined benefit obligation		
In thousands of EUR	**2020**	**2019**
Present value of unfunded post-employment defined benefit obligations at the beginning of the year	**815**	**604**
Current service cost	78	54
Interest cost	6	9
Total expense (Note 26)	**84**	**63**
Actuarial remeasurements:		
- attributable to changes in financial assumptions	126	143
- attributable to changes in demographic assumptions	29	44
- attributable to experience adjustments	51	-
Total actuarial remeasurements recognised in other comprehensive income	**206**	**187**
Benefits paid during the year	(56)	(39)
Present value of unfunded post-employment defined benefit obligations at the end of the year	**1,049**	**815**

The principal actuarial assumptions were as follows:

The principal actuarial assumptions		
	2018	**2017**
Number of employees at 31 December	173	164
Staff turnover	4.58%	4.87%
Expected salary increases short-term	4.00%	4.00%
Expected salary increases long-term	2.00%	2.00%
Discount rate	0.60%	0.70%

21 Other Long Term Employee Benefits

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

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

22 Trade and Other Payables

Trade and Other Payables		
In thousands of EUR	**2020**	**2019**
Trade payables	2,868	3,472
Other accrued liabilities	901	1,183
Other financial liabilities	9	208
Total financial instruments within trade and other payables	**3,778**	**4,863**
Employee benefits payable	360	316
Social security on employee benefits	275	234
Accrued staff costs	1,273	1,202
Advance payments	13	17
Value added tax payable	466	621
Liabilities of issued guarantees	1,051	-
Other payables	2,085	449
Total trade and other payables	**9,301**	**7,702**

The Company had overdue trade payables of EUR 117 thousand (2019: EUR 137 thousand).

23 Receivables and Liabilities from Cash Pooling

Receivables and Liabilities from Cash Pooling		
In thousands of EUR	**2020**	**2019**
Receivables from subsidiaries		
ZSE MVE, s. r. o.	1,087	1,096
ZSE Business Services, s. r. o.	301	242
ZSE Elektrárne, s.r.o.	41,175	33,933
ZSE Energetické služby, s.r.o.	267	-
Total receivables from cash pooling gross	42,830	35,271
ECL allowance for possible impairment of receivables from cash pooling	(1,477)	(1,242)
Total receivables from cash pooling	**41,353**	**34,029**
Liabilities to subsidiaries		
ZSE Energia, a.s.	58,572	43,392
ZSE Energy Solutions, s.r.o.	87	97
ZSE Development, s.r.o.	562	576
Západoslovenská distribučná, a.s.	20,201	40,546
Total liabilities from cash pooling	**79,422**	**84,611**

The Company has concluded with its subsidiaries a cash pooling agreement. Based on this agreement the available cash is managed by the Company. In case of additional financing needs the cash from the cash pool of the Company is made available to subsidiaries. The interest rate on receivables from cash pooling was 0.4% p.a. (2019: 0.4% p.a.). The interest rate on liabilities from cash pooling was 0.04% p.a. in the case of Tatra banka and 0.00% p.a. in the case of VUB bank from 1 January 2020, while from 1 May 2020 it changed to 0.00% p.a. for both banks (2019: 0.05% p.a.).

The Company recognised ECL allowance for receivable from cash pooling due from the subsidiary ZSE Elektrárne, s.r.o. of EUR 1,477 thousand (31 December 2019: EUR 1,242 thousand). The Company

assessed other cash pooling receivables as due on demand; the counterparties are subsidiaries with sufficient assets. ECL on other receivables on cashpool is not material. Subsidiaries do not have an external credit rating and the Company does

not consider the receivables due from the subsidiaries to have significant increase in credit risk since origination (stage 1). Refer also to Note 5.

Movements in the credit loss allowance for receivables from cash pooling and in the gross carrying value was follows:

Movements in the credit loss allowance for receivables from cash pooling

In thousands of EUR	Credit loss allowance	Gross carrying amount
At 1 January 2019	**-**	**29,649**
New receivables from cash pooling	198	5,622
Reassessment of ECL allowance amount	1,044	-
At 31 December 2019	**1,242**	**35,271**
New receivables from cash pooling	260	7,559
Reassessment of ECL allowance amount	(25)	-
At 31 December 2020	**1,477**	**42,830**

24 Revenues

Revenues comprise the following:

Revenues

In thousands of EUR	2020	2019
Services provided to subsidiaries, joint venture and to the shareholder	14,114	14,742
Other revenues	1,370	1,291
Total revenues*	**15,484**	**16,033**

* The revenues shown in the table above are included in segment other in the segment reporting (Note 0)

Revenue recognition pattern is as follows:

Revenue recognition pattern

In thousands of EUR	2020	2019
At a point in time	140	99
Over time	15,344	15,934
Total revenue	**15,484**	**16,033**

25 Raw Materials, Energy and Other Consumption

The following amounts have been charged to consumption of material, energy and other consumption:

Consumption of material, energy and other consumption

In thousands of EUR	2020	2019
Energy consumption	1,063	1,105
Purchases of electricity for resale	360	204
Consumption of other materials and spare parts	207	274
Total raw materials, energy and other consumption	**1,630**	**1,583**

26 Employee Benefits

Employee Benefits		
In thousands of EUR	**2020**	**2019**
Wages and salaries	5,997	5,624
Defined contribution pension costs	925	949
Post-employment defined benefit plan expense (Note 20)	84	63
Other long-term employee benefit plans - current service and interest cost	20	19
Actuarial remeasurements of other long-term employee benefit plans	13	8
Other social costs	2,068	2,207
Total employee benefits expense	**9,107**	**8,870**

27 Other Operating Expenses

Other Operating Expenses		
In thousands of EUR	**2020**	**2019**
Information technology and software maintenance costs	750	750
Repairs and maintenance costs	596	680
Postal and telecommunication services	14	20
Security services	1,356	1,352
Advertising services	435	468
Facility management expenses	732	732
Project management expenses	659	851
Travel expenses	41	123
Gifts	335	379
Insurance	119	108
Advisory services	1,006	553
Statutory audit	188	132
Non-audit services provided by the audit firm	52	22
Central services	438	399
Communication services	277	256
Other operating expenses	257	175
Property and motor vehicle tax	198	147
Impairment loss expenses on loans provided and receivable from cash pooling	136	(846)
Expenses relating to short-term leases	2	49
Expenses relating to leases of low-value assets	53	57
Other purchased services	1,520	2,210
Total other operating expenses	**9,164**	**8,617**

PwC network provided to the Company non-audit services in the amount of EUR 57 thousand (2019: EUR 52 thousand). These services were part of non-audit services provided to the Group, comprising the Company and its subsidiaries, totalling EUR 77 thousand (2019: EUR 94 thousand). The services represented services in area of HR benchmarking, training, internal audit benchmarking, assessment of backoffice efficiency, accounting advisory services and green energy deficit agreed upon procedures. The services were approved by the Audit Committee of the Company.

28 Dividend Income

Dividend Income		
In thousands of EUR	**2020**	**2019**
Západoslovenská distribučná, a.s.	70,304	57,257
ZSE Energia, a.s.	18,304	14,517
Energotel, a.s.	495	282
Total dividend income	**89,103**	**72,056**

29 Other Operating Income

Other Operating Income		
In thousands of EUR	**2020**	**2019**
Operating lease income from investment properties (Note 8)	2,422	1,202
Operating lease income – related services	3,611	3,606
Operating lease income from other assets (Note 6)	1,752	1,916
(Loss) / gain on disposal of property, plant and equipment	71	26
Income from fees for guarantees issued for subsidiaries	719	-
Grants	-243	789
Other	462	1,085
Total other operating income	**8,794**	**8,624**

30 Interest and Similar Expenses

Interest and Similar Expenses		
In thousands of EUR	**2020**	**2019**
Interest expense on bonds	18,113	18,113
Amortisation of bonds transaction costs and similar expenses	590	586
Interest expense on lease liability	134	134
Other interest expense	13	50
Other finance costs	191	92
Total interest and similar expenses	**19,041**	**18,975**

31 Interest Income Calculated Using the Effective Interest Method

Interest Income Calculated Using the Effective Interest Method		
In thousands of EUR	**2020**	**2019**
Interests income from loans due from Západoslovenská distribučná, a.s.	19,341	19,341
Other interest income	182	168
Total interest revenue calculated using the effective interest method	**19,523**	**19,509**

32 Segment Reporting

The operating segments are those used by the Board of Directors to manage the business of the Company and its subsidiaries (together the "Group"), allocate resources and make strategic decisions. The segments are therefore reported for the Group as a whole; management does not review component financial information of the Company standing alone. The Group identifies its segments according to the nature of products and services provided by each segment. The Group's operating segments are (i) electricity distribution, (ii) electricity and gas supply and (iii) other activities as described below. The Group's activities are concentrated in Slovakia.

The main indicators used by the Board of Directors in their decision making are earnings before interest and taxes (EBIT) and capital expenditures. The Board of Directors separately monitor the operating results of the segments to take decisions on how to allocate the resources, to evaluate the effects of the allocation and to evaluate performance. Segment income and costs are measured in a manner consistent with that in the consolidated statement of profit or loss and other comprehensive income. The Group does not analyse assets and liabilities by operating segments. The types of products and services from which each reportable operating segment derives its operating results are:

Electricity distribution. Distribution of electricity using the distribution networks in Western Slovakia. The distribution business is regulated and the Group is required to provide access to its network to third parties on terms approved by Regulatory Office for Network Industries "RONI".

Electricity and gas supply. Supply of electricity and gas to wholesale and retail customers in Slovakia and supply of electricity to wholesale customers in abroad. This business is open to competition by other suppliers. Pricing for certain classes of customers of the segment is regulated by RONI.

As a result of regulation of the distribution business and partial regulation of the supply business approximately 92% (2019: 91%) of the Group's EBITDA and 90% of the Group's EBIT (2019: 90%) were generated from sales to customers who are subject to the price regulation.

Electricity production. Electricity production in gas fired steam turbine power plant.

Other. Segment 'Other' includes activities provided by the Company together with its subsidiaries ZSE Energy Solutions, s.r.o., ZSE MVE, s. r. o. , ZSE Business Services, s. r. o., ZSE Energetické služby, s.r.o. and EKOTERM, s.r.o. (58% of share is owned by the company ZSE Energetické služby, s.r.o. since 19 December 2020). Board of Directors does not assess activities and results of the Company separately but within segment Other. Segment Other provides mainly headquarter type functions, as central services, accounting, controlling, HR and other services, to both supply and distribution businesses.

The segment realizes also electricity production in two small hydroelectric plants, trading activities and generates also some external revenues from projecting and engineering activities in investment construction and in heat management for third parties. Reportable segment information for 2020 is as follows:

Reportable segment information for 2020

In thousands of EUR	Distribution	Supply	Production	Other	Eliminations / consolidation adjustments	Total Group
Revenue from external customers	157,253	1,051,047	1,723	820	-	**1,210,843**
Inter-segment revenues	195,405	43,328	106,289	17,061	(362,083)	**-**
Total segment revenues	352,658	1,094,375	108,012	17,881	(362,083)	**1,210,843**
Purchases of electricity, natural gas for electricity production and related fees	(99,417)	(920,260)	(94,374)	(3,698)	345,180	**(772,569)**
Purchases of natural gas for sale	-	(113,684)	-	-	49	**(113,635)**
Employee benefits expense	(56,926)	(11,961)	(1,314)	(9,351)	2	**(79,550)**
Other operating expenses	(43,481)	(15,529)	(3,686)	(9,303)	19,384	**(52,615)**
Share of profit of equity method investees	-	-	-	89,103	(88,608)	**495**
Government grant for renewable energy purchases	20,478	-	-	-	-	**20,478**
Other operating income	5,449	2,349	12	8,794	(8,757)	**7,847**
Income from subleases	-	-	-	177	(177)	**-**
Own work capitalized	17,636	-	-	264	602	**18,502**
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**196,397**	**35,290**	**8,650**	**93,867**	**(94,408)**	**239,796**
Depreciation of property, plant and equipment and investment properties	(69,424)	(21)	2,214	(3,511)	17,356	**(53,386)**
Amortisation of intangible assets	(4,478)	(1,841)	(5)	(134)	80	**(6,378)**
Depreciation of right-of-use assets	(7,674)	(856)	-	(448)	5,703	**(3,275)**
Earnings before interest and taxes (EBIT)	**114,821**	**32,572**	**10,859**	**89,774**	**(71,269)**	**176,757**
Capital expenditures	**100,609**	**1,393**	**2,837**	**3,699**	**1,439**	**109,977**

Reportable segment information for 2019 is as follows:

Reportable segment information for 2019

In thousands of EUR	Distribution	Supply	Production	Other	Eliminations / consolidation adjustments	Total Group
Revenue from external customers	298,677	981,721	1,840	955	-	**1,283,193**
Inter-segment revenues	191,397	35,242	102,869	17,929	(347,437)	-
Total segment revenues	490,074	1,016,963	104,709	18,884	(347,437)	1,283,193
Purchases of electricity, natural gas for electricity production and related fees	(213,555)	(864,118)	(96,601)	(3,977)	330,164	**(848,087)**
Purchases of natural gas for sale	-	(101,054)	-	-	27	**(101,027)**
Employee benefits expense	(54,096)	(11,270)	(1,174)	(9,188)	2	**(75,726)**
Other operating expenses	(44,420)	(15,252)	(2,602)	(8,990)	19,130	**(52,134)**
Share of profit of equity method investees	-	-	-	72,056	(71,774)	**282**
Other operating income	4,791	2,050	193	8,888	(7,528)	**8,394**
Income from subleases	-	-	-	188	(188)	**-**
Own work capitalized	18,420	-	-	425	512	**19,357**
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**201,214**	**27,319**	**4,525**	**78,286**	**(77,092)**	**234,252**
Depreciation of property, plant and equipment and investment properties	(66,210)	(20)	(1,736)	(3,113)	21,697	**(49,382)**
Amortisation of intangible assets	(2,879)	(1,721)	(5)	(102)	69	**(4,638)**
Depreciation of right-of-use assets	(6,890)	(866)	-	(433)	5,128	**(3,061)**
Earnings before interest and taxes (EBIT)	**125,235**	**24,712**	**2,784**	**74,638**	**(50,198)**	**177,171**
Capital expenditures	**96,494**	**1,284**	**5,354**	**5,141**	**601**	**108,874**

The total segment items are measured using the entity's accounting policies for its external reporting and hence, the only reconciling item from segment information to the Company's amounts under IFRS as adopted by the EU are eliminations of effects of consolidating subsidiaries.

Reconciliation of EBIT for all segments to the Company's profit before tax is as follows:

Reconciliation of EBIT for all segments to the Company's profit before tax

In thousands of EUR	2020	2019
Total EBIT for all operating segments	**176,757**	**177,171**
Interest income of the Group	11	39
Interest and similar expense of the Group	(17,596)	(17,635)
Elimination of impact of consolidation of subsidiaries	(68,795)	(84,365)
Profit before tax of the Company	**90,377**	**75,210**

The other income and expense line items for the 'Total Group' reported above would reconcile to the Company's statement of profit or loss and other comprehensive income items after elimination of impact of consolidating the Company's subsidiaries and equity accounting for its joint venture.

Reconciliation of capital expenditures for all operating segments to Company's payments for purchases of property, plant and equipment and intangible assets is as follows:

Reconciliation of capital expenditures for all operating segments to Company's payments for purchases of property, plant and equipment and intangible assets

In thousands of EUR	2020	2019
Total capital expenditures for all operating segments	**109,977**	**108,874**
Carbon dioxide emissions quota purchases	27,973	24,337
Assets acquired but not paid for	(32,205)	(28,527)
Payments for assets acquired in prior periods	21,071	22,576
Elimination of impact of consolidation of subsidiaries	(121,855)	(122,470)
Payments for purchases of property, plant and equipment and intangible assets	**4,961**	**4,790**

Entity wide information. Revenue is analysed in Note 24. Substantially all of the Company's revenues are from customers in the Slovak Republic and all of the Company's property, plant and equipment and intangible assets are located in the Slovak Republic.

33 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, loans provided to subsidiary, receivables and payables from cash pooling, and short-term bank deposits.

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

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

Interest rate risk. The Company does not have any significant interest rate risk exposure because all of its financial assets and liabilities, including issued bonds carry fixed interest rates. A reasonably possible change in market interest rates, such as Euribor, as of the end of the reporting period, would not have any impact on the Company's profit or loss for the year. Commodity price risk. The Company is not exposed to significant commodity price risk because it does not have material commodity contracts.

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 services on credit terms and other transactions with counterparties giving rise to financial assets. From 1 July 2007 after legal unbundling, the subsidiaries Západoslovenská distribučná, a.s. and ZSE Energia, a.s. are the main customers of the Company. The Company's maximum exposure to credit risk at the end of the reporting period is represented by the carrying value of cash and cash equivalents (Note 15), receivables from cash pooling (Note 23), loans provided to subsidiary (Note 12), finance lease receivables (Note 11) and the amount guaranteed of subsidiaries' liabilities (Note 40).

As for the banks and financial institutions, the Company has relationships only with those that have a high independent rating assessment.

The credit quality of outstanding balances with banks is presented in Note 15 and credit quality information about trade receivables is included in Note 14. Refer to Note 5 for information about ECL estimate and thus also credit quality of loans to subsidiary and issued financial guarantees.

As of 31 December 2020 and 2019, there is a significant concentration of credit risk with respect of receivables of the Company towards Západoslovenská distribučná, a.s. and ZSE Energia, a.s. The Company manages this exposure through cash-pooling agreements. 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. The COVID-19 crisis impacts the Company only to a limited extent. As the Company provides supporting services for its subsidiaries and other related parties; currently there is no significant impact from increased overdue receivables.

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. In addition, the Company relies on liquidity of financial markets and its ability to refinance its outstanding bonds in the medium term.

The Company regularly monitors its liquidity position and uses cash pooling with subsidiaries to optimize the use of cash balances within the Company. The Company also uses the advantages of commercial terms between the Company and its suppliers to secure sufficient financing funds to cover its needs. The maturity of supplier's invoices is 60 days, on average. Expected cash flows forecast is prepared weekly as follows: (a) expected future cash inflows from main operation of the Company, and (b) expected future cash outflows securing operation of the Company and leading to settlement of all liabilities of the Company, including tax payables. The cash flow forecast identifies the immediate need for cash and, if funds are available, it enables the Company to make short-term bank deposits.

The table below analyses the Company's undiscounted amount of financial liabilities into relevant maturity groupings based on the remaining period to the contractual maturity date. The maturity analysis is as follows at 31 December 2020:

The maturity analysis at 31 December 2020

In thousands of EUR	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
Issued bonds – principal due	-	-	-	315,000	315,000	**630,000**
Issued bonds – future interest payments	-	5,513	12,600	47,250	16,537	**81,900**
Lease liabilities (including future interest payments)	105	210	945	5,020	445	**6,725**
Trade payables (Note 22)	1,983	885	-	-	-	**2,868**
Other accrued liabilities (Note 22)	613	190	98	-	-	**901**
Other financial liabilities (Note 22)	9	-	-	-	-	**9**
Liabilities from cash pooling (Note 23)	79,422	-	-	-	-	**79,422**
Issued guarantees (Note 40)	219,000	-	-	-	-	**219,000**
Total future payments, including future principal and interest payments	**301,132**	**6,798**	**13,643**	**367,270**	**331,982**	**1,020,825**

The maturity analysis is as follows at 31 December 2019:

The maturity analysis at 31 December 2019

In thousands of EUR	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
Issued bonds – principal due	-	-	-	315,000	315,000	**630,000**
Issued bonds – future interest payments	-	5,513	12,600	59,850	22,050	**100,013**
Lease liabilities (including future interest payments)	88	176	787	4,204	1,919	**7,174**
Trade payables (Note 22)	2,664	808	-	-	-	**3,472**
Other accrued liabilities (Note 22)	878	280	25	-	-	**1,183**
Other financial liabilities (Note 22)	208	-	-	-	-	**208**
Liabilities from cash pooling (Note 23)	84,611	-	-	-	-	**84,611**
Issued guarantees (Note 40)	112,100	-	-	-	-	**112,100**
Total future payments, including future principal and interest payments	**200,549**	**6,777**	**13,412**	**379,054**	**338,969**	**938,761**

34 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 adopted by the EU as equity amounting to EUR 371,293 thousand at 31 December 2020 (2019: EUR 355,385 thousand). In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders or return capital to shareholders.

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.

35 Reconciliation of Movements in Liabilities from Financing Activities

The table below presents an analysis of debt and the movements in the debt for each of the periods presented:

Debt and the movements in the debt

In thousands of EUR	Issued bonds	Lease liabilities	Total
At 1 January 2019	**633,793**	**-**	**633,793**
Non-cash movements			
Recognition of lease liabilities upon initial application of IFRS 16 at 1 January 2019	-	8,019	8,019
New leases	-	312	312
Interest expense	18,113	134	18,247
Amortisation of bonds transaction costs	452	-	452
Other	(1)	(106)	(107)
Cash payments			
Interest expense paid	(18,113)	(134)	(18,247)
Lease principal repayments	-	(1,051)	(1,051)
At 31 December 2019	**634,244**	**7,174**	**641,418**

Debt and the movements in the debt

In thousands of EUR	Issued bonds	Lease liabilities	Total
At 1 January 2020	**634,244**	**7,174**	**641,418**
Non-cash movements			
New leases	-	181	181
Interest expense	18,113	134	18,247
Amortisation of bonds transaction costs	452	-	452
Other	-	(55)	(55)
Cash payments			
Interest expense paid	(18,113)	(134)	(18,247)
Lease principal repayments	-	(1,121)	(1,121)
At 31 December 2020	**634,696**	**6,179**	**640,875**

36 Offsetting Financial Assets and Financial Liabilities

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

Offsetting, enforceable master netting and similar arrangements

	Gross amounts before offsetting in the state-ment of financial position	Gross amounts set off in the state-ment of financial position	Net amount after offsetting in the state-ment of financial position	Amounts not set off in the statement of financial position		Net amount of exposure
In thousands of EUR	**(a)**	**(b)**	**(c) = (a) - (b)**	**Financial instruments (d)**	**Cash collateral received (e)**	**(c) - (d) - (e)**
ASSETS						
Loans provided to subsidiary	632,007	-	632,007	20,201	-	611,806
Receivables from cash pooling	41,353	-	41,353	41,353	-	-
Total assets subject to possible offsetting and similar arrangement	**673,360**	**-**	**673,360**	**61,554**	**-**	**611,806**
Liabilities						
Liabilities from cash pooling	79,422	-	79,422	61,554	-	17,868
Total liabilities subject to possible offsetting, and similar arrangement	**79,422**	**-**	**79,422**	**61,554**	**-**	**17,868**

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

Offsetting, enforceable master netting and similar arrangements

In thousands of EUR	Gross amounts before offsetting in the state-ment of financial position	Gross amounts set off in the state-ment of financial position	Net amount after offsetting in the state-ment of financial position	Amounts not set off in the statement of financial position		Net amount of exposure
	(a)	(b)	(c) = (a) - (b)	Financial instruments (d)	Cash collateral received (e)	(c) - (d) - (e)
Assets						
Loans provided to subsidiary	631,903	-	631,903	40,546	-	591,357
Receivables from cash pooling	34,029	-	34,029	34,029	-	-
Total assets subject to possible offsetting and similar arrangement	**665,932**	**-**	**665,932**	**74,575**	**-**	**591,357**
Liabilities						
Liabilities from cash pooling	84,611	-	84,611	74,575	-	10,036
Total liabilities subject to possible offsetting, and similar arrangement	**84,611**	**-**	**84,611**	**74,575**	**-**	**10,036**

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.

37 Fair Value Disclosures

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

Assets and liabilities not measured at fair value but for which fair value is disclosed
Fair values analysed by level in the fair value hierarchy and the carrying value of assets and liabilities not measured at fair value are as follows:

Fair values

In thousands of EUR	31 December 2020			31 December 2019		
	Level 1 fair value	Level 2 fair value	Carrying value	Level 1 fair value	Level 2 fair value	Carrying value
Assets						
Loans provided to subsidiary including accrued interest (Note 12)	-	696,512	632,007	-	702,762	631,903
Trade receivables, net (Note 14)	-	3,462	3,462	-	3,634	3,634
Finance lease receivable (Note 11)	-	1,804	1,804	-	1,880	1,880
Receivables from cash pooling (Note 23)	-	41,353	41,353	-	34,029	34,029
Cash and cash equivalents (Note 15)	-	74,740	74,740	-	70,297	70,297
Total assets	**-**	**817,871**	**753,366**	**-**	**812,602**	**741,743**
Liabilities						
Issued bonds (Note 18)	696,512	-	634,696	702,762	-	634,244
Trade payables (Note 22)	-	2,868	2,868	-	3,472	3,472
Other accrued liabilities (Note 22)	-	901	901	-	1,183	1,183
Other financial liabilities (Note 22)	-	9	9	-	208	208
Issued financial guarantees (Note 40)	-	470	1,051	-	-	-
Liabilities from cash pooling (Note 23)	-	79,422	79,422	-	84,611	84,611
Total liabilities	**696,512**	**83,670**	**718,947**	**702,762**	**89,474**	**723,718**

The fair value of lease liabilities is not disclosed in accordance with paragraph 29 of IFRS 7.

The fair value of loans provided to subsidiary (Note 12) was estimated based on the price of the related issued bonds traded on the financial markets.

The fair value of issued bonds was determined at the quoted market price of the bonds (Note 18).

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

38 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 (d) 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 financial assets and liabilities of the Company are measured at amortized cost ("AC"). Lease liabilities were measured and disclosed according to IFRS 16, *Leases.*

39 Contingencies and Commitments

Tax contingencies. Slovak tax law contains certain provisions that allow for more than one interpretation. Management's interpretation of the Company's business activities may not coincide with the interpretation of these activities by the tax authorities, but the extent of this risk cannot be reasonably quantified. The fiscal years from 2016 to 2020 remain open to tax inspection, however, for transfer pricing issues of cross-border transactions, earlier periods are also subject to tax inspection.

Capital expenditure commitments. At 31 December 2020, the Company had outstanding contractual commitments for purchases of property, plant and equipment of EUR 7,633 thousand (2019: EUR 4,783 thousand). Outstanding contractual commitments for purchases of intangible assets were EUR 250 thousand (2019: EUR 801 thousand).

40 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 16: (i) the Slovak Government and (ii) E.ON, as well as (b) key management personnel and (c) its subsidiaries and joint venture. 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, other purchases from an entity in which the Slovak government has a significant shareholding and other transactions presented below.

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

Related party transactions and outstanding balances

In thousands of EUR	Ministry of Economy of the Slovak Republic	E.ON Slovensko, a.s	E.ON Group**	Slovak government*	Subsidiaries (Note 10)	Joint venture (Note 10)
Revenue, finance and other operating income	-	140	52	25	42,127	1,009
Dividend income	-	-	-	-	88,608	495
Purchases and expenses	-	-	1,238	130	2,810	2
Receivables other than taxes	-	-	20	25	684,732	98
Liabilities other than taxes	-	-	239	18	83,589	-
Dividends declared and paid	37,809	28,912	7,414	-	-	-

* 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 19. Outstanding value added tax payable is presented in Note 22. Property and motor vehicle taxes are disclosed in Note 27.

Information on loans provided to the subsidiary is presented in Note 10. Information on receivables and liabilities from cash pooling is presented in Note 23.

The Company´s revenues related mainly to supporting services provided to subsidiaries. The services sold to the subsidiaries and to the shareholder are provided based on service level agreements concluded for indefinite time period with a termination notice of 3 months.

Rental income and future rent payments receivable presented in Note 8 are due from subsidiaries.

The income tax paid was as follows:

Income tax paid

In thousands of EUR	2020	2019
Current income tax expense at standard rate of 21% (2019: 21%) – refer to Note 19.	(452)	(476)
Current income tax refund (liability) / receivable at the beginning of the period	(98)	622
Curent income tax refund (receivable) / liability at the end of the reporting period	(49)	98
Income tax refund / (paid)	**(599)**	**244**

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

The related party transactions and outstanding balances for 2019

In thousands of EUR	Ministry of Economy of the Slovak Republic	E.ON Slovensko, a.s	E.ON Group**	Slovak government*	Subsidiaries (Note 10)	Joint venture (Note 10)
Revenue, finance and other operating income	-	267	58	21	41,453	1,007
Dividend income	-	-	-	-	71,774	282
Purchases and expenses	-	-	975	185	2,909	73
Receivables other than taxes	-	150	4	33	678,022	-
Liabilities other than taxes	-	-	32	19	89,280	17
Dividends declared and paid	32,553	24,893	6,383	-	-	-

* 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 Company issued financial guarantees of liabilities of subsidiaries arising from their purchases as follows:

Financial guarantees of liabilities of subsidiaries arising from their purchases

In thousands of EUR	31 December 2020			31 December 2019		
	Maximum guaranteed amount	Guaranteed liabilities at period end	Carrying value / provision*	Maximum guaranteed amount	Guaranteed liabilities at period end	Carrying value / provision*
ZSE Energia, a.s.	109,000	28,075	663	42,100	20,615	-
ZSE Elektrárne, s.r.o.	110,000	15,767	388	70,000	7,672	-
Spolu	**219 000**	**43,842**	**1,051**	**112,100**	**28,287**	**-**

* Included within 'Liabilities other than taxes' in the above tables presenting related party transactions and outstanding balances.

The guarantee exposures are reported in the order from lowest to highest credit risk in the above table. The fair value of issued financial guarantees was insignificant at the comparative balance sheet date.

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

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

Key management personnel remuneration comprised

In thousands of EUR	2020	2019
Board of directors and other key management personnel		
Salaries and other short-term employee benefits	667	635
Defined contribution pension costs	76	73
Total remuneration of board of directors and other key management personnel	**743**	**708**
Supervisory board		
Salaries and other short-term employee benefits	117	112
Defined contribution pension costs	19	19
Total remuneration of supervisory board	**136**	**131**

41 Events after the End of the Reporting Period

The Company is currently unable to assess the impact of further developments of COVID-19 virus on its future financial position and results of operations, however, depending on strength and developments of future waves of the virus infections and spreading, this impact may be negative and significant.

After 31 December 2020, no other significant events have occurred that would require recognition or disclosure in these separate financial statements.

Management authorised these financial statements for issue on 25 March 2021:

.....	.....
Markus Kaune	Marian Rusko
Chairman of the Board of Directors and CEO	Member of the Board of Directors

Annex: Consolidated Financial Statements

as at 31 December 2020

Content

Consolidated Statement of Financial Position

Consolidated Statement of Financial Position

In thousands of EUR	Note.	31 December 2020	31 December 2019
ASSETS			
Non-current assets			
Property, plant and equipment	6	973,183	918,260
Intangible assets	7	61,050	44,095
Right-of-use assets	8	24,230	25,908
Equity method investments	9	558	558
Deferred income tax assets	16	20,448	6,441
Other non-current assets		704	704
Total non-current assets		**1,080,173**	**995,966**
Current assets			
Inventories	10	7,090	13,892
Loans provided		202	202
Trade and other receivables	11	165,476	157,254
Cash and cash equivalents	12	82,640	82,216
Total current assets		**255,408**	**253,564**
TOTAL ASSETS		**1,335,581**	**1,249,530**
EQUITY			
Share capital	13	196,969	196,969
Legal reserve fund	14	39,421	39,421
Accumulated deficit		(19,199)	(80,910)
Total equity attributable to owners of the parent company		217,191	155,480
Non-controlling interests		217	-
TOTAL EQUITY		**217,408**	**155,480**
LIABILITIES			
Non-current liabilities			
Issued bonds	15	627,815	627,363
Lease liabilities	8	21,005	22,720
Deferred income tax liabilities	16	44,848	43,340
Post-employment defined benefit obligations	17	13,043	11,156
Other long-term employee benefits	18	2,342	2,307
Contract liabilities from connection fees and customer contributions	20	101,056	100,602
Total non-current liabilities		**810,109**	**807,488**
Current liabilities			
Issued bonds and accrued interest on issued bonds	15	6,881	6,881
Lease liabilities	8	3,507	3,383
Trade and other payables	21	230,842	230,174
Current income tax liabilities		12,292	5,179
Provisions for liabilities and charges	19	46,688	33,474
Contract liabilities from connection fees and customer contributions	20	7,854	7,471
Total current liabilities		**308,064**	**286,562**
TOTAL LIABILITIES		**1,118,173**	**1,094,050**
TOTAL LIABILITIES AND EQUITY		**1,335,581**	**1,249,530**

These consolidated financial statements have been approved for issue by the Board of Directors on 25 March 2021.

Markus Kaune
Chairman of the Board of Directors and CEO

Marian Rusko
Member of the Board of Directors

The accompanying notes 1 to 36 are an integral part of these consolidated financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Consolidated Statement of Profit or Loss and Other Comprehensive Income			
In thousands of EUR	**Note**	**2020**	**2019**
Revenue from electricity and other related revenue	**22**	**1,085,441**	**1,178,225**
Revenue from natural gas	**22**	**125,402**	**104,968**
Purchases of electricity, natural gas for electricity production and related fees	23	(772,569)	(848,087)
Natural gas purchased for sale		(113,635)	(101,027)
Employee benefits	24	(79,550)	(75,726)
Depreciation of property, plant and equipment	6	(53,386)	(49,382)
Amortization of intangible assets	7	(6,378)	(4,638)
Depreciation of right-of-use assets	8	(3,275)	(3,061)
Other operating expenses	25	(52,615)	(52,134)
Share of profit of equity method investments	9	495	282
Government grant for renewable energy purchases	35	20,478	-
Other operating income	26	7,847	8,394
Own work capitalised		18,502	19,357
Profit from operations		**176,757**	**177,171**
Finance income / (costs)			
Interest income calculated using the effective interest method		11	39
Interest and similar expense	27	(17,596)	(17,635)
Finance costs, net		**(17,585)**	**(17,596)**
Profit before tax		**159,172**	**159,575**
Income tax expense	16	(23,601)	(39,724)
Profit for the year		**135,571**	**119,851**
Other comprehensive (loss) / income			
Items that will not be subsequently reclassified to profit or loss			
Actuarial remeasurements of post-employment defined benefit obligations	17	(1,687)	(2,318)
Deferred tax on actuarial remeasurements of post-employment defined benefit obligations	16	353	487
Total other comprehensive loss for the year		**(1,334)**	**(1,831)**
Total comprehensive income for the year		**134,237**	**118,020**
Profit for the year is attributable to:			
- owners of the parent company		135,571	119,851
- non-controlling interest		-	-
Total comprehensive income for the year is attributable to:			
- owners of the parent company		134,237	118,020
- non-controlling interest		-	-

The accompanying notes 1 to 36 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

Consolidated Statement of Changes in Equity

In thousands of EUR	Attributable to owners of the parent company				Non-controlling interests	Total equity
	Share capital	Legal reserve fund	Accumulated deficit	Total		
Balance at 1 January 2019	**196,969**	**39,421**	**(135,101)**	**101,289**	**-**	**101,289**
Profit for the year	-	-	119,851	**119,851**	**-**	**119,851**
Other comprehensive loss for the year	-	-	(1,831)	**(1,831)**	**-**	**(1,831)**
Total comprehensive income for 2019	**-**	**-**	**118,020**	**118,020**	**-**	**118,020**
Dividends declared and paid (Note 13)	-	-	(63,829)	**(63,829)**	**-**	**(63,829)**
Balance at 31 December 2019	**196,969**	**39,421**	**(80,910)**	**155,480**	**-**	**155,480**
Profit for the year	-	-	135,571	135,571	-	**135,571**
Other comprehensive loss for the year	-	-	(1,334)	(1,334)	-	**(1,334)**
Total comprehensive income for 2020	**-**	**-**	**134,237**	**134,237**	**-**	**134,237**
Dividends declared and paid (Note 13)	-	-	(74,135)	(74,135)	-	**(74,135)**
Acquisition of a subsidiary (Note 1)	-	-	-	-	217	**217**
Other	-	-	1,609	1,609	-	**1,609**
Balance at 31 December 2020	**196,969**	**39,421**	**(19,199)**	**217,191**	**217**	**217,408**

The accompanying notes 1 to 36 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

Consolidated Statement of Cash Flows

In thousands of EUR	Note	2020	2019
Cash flows from operating activities			
Profit before tax		159,172	159,575
Adjustments for non-cash items:			
- Depreciation of property, plant and equipment	6	53,386	49,382
- Depreciation of right-of-use assets	8	3,275	3,061
- (Gain) / loss on disposal of property, plant and equipment	6	117	(305)
- Charge for carbon dioxide emissions to be settled by quotas	19	16,951	11,810
- Amortisation of government grants deferred income		148	(881)
- Amortisation of intangible assets	7	6,378	4,638
- Interest income calculated using the effective interest method		(11)	(39)
- Interest and similar expense		17,266	17,814
- Contract assets – deferred sales commissions		(914)	(814)
- Share of profit of equity method investees		(495)	(282)
- Other non-cash items		2,427	124
Cash generated from operations before changes in working capital		257,700	244,083
Changes in working capital:			
- Inventories		7,033	(1,859)
- Trade and other receivables		(7,705)	(11,254)
- Trade and other payables		(11,423)	38,873
- Other		-	634
- Provisions and contract liabilities		3,744	(10,128)
Cash generated from operations before interest and taxes		**249,349**	**260,349**
Interest income received		11	39
Interest expense paid		(16,737)	(17,236)
Income tax paid	35	(28,626)	(16,543)
Net cash from operating activities		**203,997**	**226,609**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(98,843)	(102,923)
Purchase of emission quotas	7	(27,973)	(24,337)
Dividend income received from equity method investees		495	282
Proceeds from sale of property, plant and equipment and intangible assets	6	368	361
Grants received		1,789	5,609
Acquisition of a subsidiary, net of cash acquired	1	(247)	-
Net cash used in investing activities		**(124,411)**	**(121,008)**
Cash flows from financing activities			
Dividends paid	13	(74,135)	(63,829)
Repayment of principal of lease liabilities	8	(5,027)	(4,120)
Net cash used in financing activities		**(79,162)**	**(67,949)**
Net change in cash and cash equivalents		**424**	**37,652**
Cash and cash equivalents at the beginning of the year		82,216	44,564
Cash and cash equivalents at the end of the year	**12**	**82,640**	**82,216**

The accompanying notes 1 to 36 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements – 31 December 2020

1 Introduction

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

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 15 October 2001. The Company was incorporated in the Commercial Register of the District Court Bratislava I on 1 November 2001.

Principal activity. The Group provides electricity distribution and supply services primarily in the Western Slovakia region. At the end of 2011, the Group's supply business commenced offering gas to large industrial customers and since April 2012 to SMEs and households in addition to electricity. The Group also operates two small hydroelectric power plants and since year 2018 also the combined cycle gas turbine ("CCGT") power plant and is engaged in some ancillary activities such as small-scale electricity network construction and maintenance related projects and heat management services for third parties.

The Regulatory Office of Network Industries ("RONI") regulates certain aspects of the Group's relationships with its customers, including the pricing of electricity and gas and services provided to certain classes of the Group's customers.

The Group's principal subsidiaries are as follows: Západoslovenská distribučná, a.s. which operates electricity distribution network in Western Slovakia, ZSE Energia, a.s., which supplies electricity and gas to its retail and wholesale customers, ZSE Energy Solutions, s.r.o. which is in engineering business, ZSE MVE, s. r. o. which operates two small hydroelectric power plants, ZSE Business Services, s. r. o. which is a trading company, ZSE Development, s.r.o., ZSE Energetické služby, s. r. o. and EKOTERM, s.r.o. (58% of shares acquired by ZSE Energetické služby, s. r. o. on 19 December 2020, the remaining 42% of shares is owned by minority shareholder), which are companies providing services and ZSE Elektrárne, s.r.o. (Note 5 on page 19), which operates CCGT power plant. All the subsidiaries are incorporated in the Slovak Republic and except for EKOTERM, s.r.o. are wholly owned by the Company. EKOTERM, s.r.o. is consolidated based on provisional purchase price allocation and does not have any material impact on the financial position and results of the Group.

Registered address and place of business. The Company's registered address is Čulenova 6, Bratislava 816 47, Slovak Republic. Its identification number (IČO) is: 35 823 551 and its tax identification number (IČ DPH) is: SK2020285256.

Presentation currency. These consolidated financial statements are presented in Euro ("EUR"), rounded to thousands, unless otherwise stated. Negative amounts are presented in brackets.

Ownership structure. Ministry of Economy of the Slovak Republic owns 51% of the Company's shares, E.ON Slovensko, a.s. owns 39% and E.ON Beteiligungen GmbH owns 10% of the Company's shares at 31 December 2020 and 31 December 2019. The Company is jointly controlled by E.ON and the Slovak Government as a result of a shareholders agreement, which requires the parties to act jointly together to direct the activities that significantly affect the returns of the reporting entity. Refer to Note 13.

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 Group employed 1,983 staff on average during 2020, of which 45 were management (2019: 1,941 employees on average, of which 42 were management). Number of employees of the Group at 31 December 2020 was 2,013 (31 December 2019: 1,978 employees).

2 Significant Accounting Policies

Basis of preparation. These consolidated 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 consolidated financial statements are set out below. These accounting policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 3).

The Board of Directors may propose to the Company's shareholders to amend the consolidated financial statements until their approval by the general shareholders meeting. However, § 16, points 9 to 11 of the Accounting Act No 431/2002 prohibit reopening an entity's accounting records after the financial statements are approved by the general shareholders' meeting. If, after the financial statements are approved, management identifies that comparative information would not be consistent with the current period information, the Accounting Act allows entities to restate comparative information in the reporting period in which the relevant facts are identified.

Consolidated financial statements. Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct the relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of the investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have a practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than the majority of the voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of the investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated upon consolidation; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all its subsidiaries use uniform accounting policies consistent with the Group's policies.

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 Group and the cost of the item can be measured reliably. Costs of minor repairs and day-to-day maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.
At the end of each reporting period, management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

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

Non-current assets classified as held for sale. Non-current assets and disposal groups, which may include both non-current and current assets, are classified in the statement of financial position as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction, including loss of control of a subsidiary holding the assets, within twelve months after the end of the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn.

Non-current assets or disposal groups classified as held for sale in the current period's statement of financial position are

not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

A disposal group is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit to which goodwill has been allocated on acquisition. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the end of the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale premises and equipment are not depreciated.

Discontinued operations. A discontinued operation is a component of the Group that either has been disposed of, or that is classified as held for sale, and: (a) represents a separate major line of business or geographical area of operations; (b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or (c) is a subsidiary acquired exclusively with a view to resale. Revenues, expenses and cash flows of discontinued operations, if any, are disclosed separately from continuing operations with comparatives being re-presented.

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:

Estimated useful lives

	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 Group 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 Group 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 Group 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 Group's average funding cost (the weighted average interest rate 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 Group, 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 Group 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.

The Group releases carbon dioxide emissions into the air when it generates electricity. The related emission quotas are not obtained free of charge by the Group, but the Group purchases them from third parties at market prices. The Group initially recognizes the purchased emission quotas as intangible assets. Purchased emission quotas are measured upon their acquisition and also subsequently at cost. Emission quotas are not amortised. The disposal of emission quotas represents the transfer of the emission quotas to the National registry of emission quotas in an amount equal to the product of the verified volume of released emissions for the previous reporting period and the purchase price of the respective emission quotas, that Group designated to be transferred.

At the end of each reporting period, the Group recognises a provision for the released emissions equal to a product of known volume of the emissions released in the current reporting period and the cost of the respective emission quotas. If the Group does not have sufficient emission quotas as of the end of the reporting period that it will have to transfer, the Group uses an estimated amount required to purchase the absent emission quotas to measure the provision for the shortfall in emission quotas and measures it at the market price of emission quotas at the end of the reporting period.

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 Group leases land, office buildings, energy buildings and equipment and vehicles. Contracts may contain both lease and non-lease components. The Group 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 where the Group is a lessee, Group 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 on a straight-line basis over the shorter of the asset's useful life and the lease term. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying assets' useful lives. Depreciation of the right-of-use assets is calculated using the straight-line method over their estimated useful lives as follows:

Estimated useful lives	
	years
Land	9 – 87 years
Office buildings	2 – 20 years
Energy buildings and equipment	5 – 20 years
Vehicles	2 – 6 years

Loans provided. Loans provided are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method, net of allowance for ECL.

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 cost of completion and 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".

Operating lease income. Where the Group is a lessor in a lease which does not transfer substantially all the risks and rewards incidental to ownership to the lessee (operating lease), the operating lease payments are recognised on a straight line basis as other operating income.

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.

Commodity contracts at fair value through profit or loss ("FVTPL"). Commodity contracts at fair value through profit or loss represent commodity contracts concluded on foreign markets without intention to transport the commodity to Slovakia or in other way not being concluded for the entity's own use, sale or purchase requirements as well as those commodity contracts that the entity so designates in order to avoid significant accounting mismatch. These contracts have all three of the following characteristics: (a) the contract's value changes in response to the change in market price of commodity, which is not specific to a party to the contract; (b) it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and (c) it is settled at a future date. These are EFET contracts that require physical delivery of the commodity. Revenue or expense related to the sale or purchase of the commodity, respectively, is recognised at the market price of the commodity at the time of delivery of the commodity to or from the counterparty.

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 consolidated 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 Group 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") and investments in debt instruments measured at fair value through other comprehensive income ("FVOCI"), resulting in an immediate accounting loss.

Financial assets – classification and subsequent measurement – measurement categories. The Group classifies financial assets in the following measurement categories: FVTPL, FVOCI and AC. The classification and subsequent measurement of debt financial assets depends on: (i) the Group'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 Group manages the assets in order to generate cash flows – whether the Group'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 disclosed in statement of profit or loss and other comprehensive income 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 Group undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Group 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. Business model used by the Group is intended to hold financial assets until maturity and to collect contractual 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 Group 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 Group 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 Group performs the SPPI test for its financial assets.

The Group's financial assets represent only trade receivables and cash and cash equivalents. The nature of financial assets is short-term, and the contractual cash flows represent principal and interest payments that take into account the time value of money and therefore the Group recognizes these in amortized cost. In addition, the Group 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 Group 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 Group assesses, on a forward-looking basis, the ECL for receivables measured at AC and for contract assets. The Group 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 consolidated statement of financial position net of the allowance for ECL.

The Group applies a simplified approach to trade receivables under IFRS 9, i.e. measures ECL using lifetime expected loss. The Group uses for the calculation of lifetime expected loss for trade receivables a provision matrix that takes into account the ageing of the receivables, loss rate for each ageing category of the receivables and the amount of receivables written off.

The amount of the 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 Group exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery.

Financial assets – derecognition. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred to another party the rights to the cash flows from the financial assets as well as substantially all the related risks and rewards.

Financial liabilities – measurement categories. Financial liabilities are classified as subsequently measured at AC, except for 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 Group 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 Group 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 other comprehensive income. 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.

Offsetting. Financial assets and liabilities are offset and the net amount reported in the consolidated 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.

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.

Dividends. Dividends are recorded in equity in the period in which they are declared. The separate 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, up to 20% of the share capital. Such funds are not distributable and may only be used to increase share capital or to cover losses.

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

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, 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 Group under residual value guarantees,
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group 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 Group's operations. The majority of extension and termination options are exercisable only by the Group 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 Group, the Group's incremental borrowing rate is used, being the rate that the Group 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 contract terms and conditions and collateral.

To determine the incremental borrowing rate, the Group:

- 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 Group 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 period 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.

To optimise lease costs during the contract period, the Group sometimes provides residual value guarantees in relation to equipment leases. The Group initially estimates and recognises amounts expected to be payable under residual value guarantees as part of the lease liability. Typically, the expected residual value at lease commencement date is equal to or higher than the guaranteed amount, and so the Group does not expect to pay anything under the guarantees. At the end of each reporting period, the expected residual values are reviewed, and adjusted if appropriate, to reflect actual residual values achieved on comparable assets and expectations about future prices.

Income taxes. Income taxes have been provided for in the consolidated 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 consolidated financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within 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 * (revenues from regulated activities/total revenues). The special levy is 6.54% p.a. for years 2019 – 2020 and a rate of 4.356% will apply from 2021. The levy is a deductible expense for the purposes of applying the standard corporate income tax rate.

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

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

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

The Group offsets deferred tax assets and deferred tax liabilities where the Group 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 Group contributes to state and private defined contribution pension and social benefit plans under which the Group 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 Group 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 Group 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 Group 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 Group received fees or contributions for the construction of the electricity distribution network, in particular for the new municipal connections and networks. The Group's 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 connection fees and 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 Group 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 other operating income 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.

Provisions / contingent liabilities. Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are not recognised for future operating losses. Where 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 Group 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 as liabilities in the consolidated financial statements. They are disclosed in the notes to the consolidated 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 Group recognises revenue when it is probable that future economic benefits will flow to the Group, 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 Group's activities as described below.

Revenue from sale and distribution of electricity. Revenue from the sale and distribution of electricity is recognised when the electricity is delivered to the customer. Consumption of wholesale customers is metered and billed on a monthly basis. The consumption of retail customers in the segment of small businesses was metered during December 2020. The consumption of retail customers in the households' segment is metered and billed on an annual basis and the Group split its household customer base to twelve billing cycles. The billing of electricity supplied in 2020 for all twelve billing cycles will be completed in December 2021. The Group uses the Enersim demand profile data for estimating the delivered but unbilled accrued revenue. Network losses are included in the cost of purchased electricity.

Revenue from the sale of electricity on the spot market and the settlement of variations in consumption and cross - border profile recharges represent sales of electricity purchased on the short-term market for regular customers due to short-term deviations in their consumption diagrams and fees paid by the regular customers for deviating from the planned consumption curve. All these revenues realised on the spot market are recognised when the electricity is delivered, or the contract is fulfilled.

Revenue from sale of gas. Revenue from the sale of gas is recognised when the gas is delivered to the customer. Consumption to wholesale customers is metered and billed on a monthly basis. The consumption of retail customers in the households' segment is based on a twelve billing cycles using third party data.

Connection fees. The Group 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.

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

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 the Group and as such are relatively difficult to collect.

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

Segment information. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors that makes strategic decisions.

Segment result is measured in accordance with accounting policies that are consistent with those applied by the Group in preparing its consolidated statement of profit or loss and other comprehensive income.

3 Adoption of New or Revised Standards and Interpretations

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

- Amendments References to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).
- Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).
- Interest rate benchmark reform – phase 1 amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020).
- Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).
- Covid-19-Related Rent Concessions – Amendments to IFRS 16 (issued on 28 May 2020 and effective for annual periods beginning on or after 1 June 2020). The Group has early adopted this amendment to IFRS 16 from 1 January 2020.

4 New Accounting Pronouncements

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

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

Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022). The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, are now recognised in profit or loss. An entity will use IAS 2 to measure the cost of those items. Cost will not include depreciation of the asset being tested because it is not ready for its intended use. The amendment to IAS 16 also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. An asset might therefore be capable of operating as intended by management and subject to depreciation before it has achieved the level of operating performance expected by management. The amendment to IAS 37 clarifies the meaning of 'costs to fulfil a contract'. The amendment explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling that contract; and an allocation of other costs that relate directly to fulfilling. The amendment also clarifies that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.

IFRS 3 was amended to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what

constitutes an asset or a liability in a business combination. Prior to the amendment, IFRS 3 referred to the 2001 Conceptual Framework for Financial Reporting. In addition, a new exception in IFRS 3 was added for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 or IFRIC 21, rather than the 2018 Conceptual Framework. Without this new exception, an entity would have recognised some liabilities in a business combination that it would not recognise under IAS 37. Therefore, immediately after the acquisition, the entity would have had to derecognise such liabilities and recognise a gain that did not depict an economic gain. It was also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date. The amendment to IFRS 9 addresses which fees should be included in the 10% test for derecognition of financial liabilities. Costs or fees could be paid to either third parties or the lender. Under the amendment, costs or fees paid to third parties will not be included in the 10% test. Illustrative Example 13 that accompanies IFRS 16 was amended to remove the illustration of payments from the lessor relating to leasehold improvements. The reason for the amendment is to remove any potential confusion about the treatment of lease incentives. IFRS 1 allows an exemption if a subsidiary adopts IFRS at a later date than its parent. The subsidiary can measure its assets and liabilities at the carrying amounts that would be included in its parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. IFRS 1 was amended to allow entities that have taken this IFRS 1 exemption to also measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. The amendment to IFRS 1 extends the above exemption to cumulative translation differences, in order to reduce costs for first-time adopters. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption. The requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41 was removed. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis. The Group is currently assessing the impact of the amendments on its financial statements.

The following other new standards or their amendments were issued and will not to have a material impact:

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

5 Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Group 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.

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

The Group uses a software application Enersim to estimate the unbilled deliveries based on assumed customer demand profiles and which amounted to EUR 150,375 thousand at 31 December 2020 (2019: EUR 134,690 thousand). This accounting estimate is based on:

(a) the estimated volume delivered and 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 delivery and distribution.
The Group accrued the following balance sheet amounts of unbilled revenue from distribution and delivery of electricity:

Balance sheet amounts of unbilled revenue from distribution and delivery of electricity

In thousands of EUR	31 December 2020	31 December 2019
Accrued receivables from distribution and delivery of electricity as part of item „Trade and other receivables"	10,411	14,833
Accrued liabilities from distribution and delivery of electricity as part of item „Trade and other payables"	28,759	34,151

The Group also engaged an independent expert to estimate network losses. Should the estimate of total network losses be lower by 0.1%, representing approximately 10 GWh of electricity (2019: 10 GWh), with other parameters unchanged, the revenues for commodity and distribution services would increase by EUR 1,101 thousand (2019: EUR 999 thousand).

Unbilled gas. The unbilled revenue from delivery and distribution represent an accounting estimate based on estimated volume of delivered and distributed gas expressed in MWh and estimated unit price that will be billed in the future. This accounting estimate is based on:
(a) the estimated volume delivered and 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; and
(c) the unit price in EUR/MWh, that will be applied to billing the gas delivery and distribution.

The Group accrued the following balance sheet amounts of unbilled revenue from distribution and delivery of gas:

Balance sheet amounts of unbilled revenue from distribution and delivery of gas

In thousands of EUR	31 December 2020	31 December 2019
Accrued receivables from distribution and delivery of gas as part of item „Trade and other receivables"	7,317	4,327
Accrued liabilities from distribution and delivery of gas as part of item „Trade and other payables"	9,449	9,400

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 Group. The following primary factors are considered: (a) the expected usage of the assets; (b) the expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) the technical obsolescence, if any.

If the estimated useful life of network assets had been shorter by 10% than management's estimates at 31 December 2020, the Group would have recognised an additional depreciation of network assets of EUR 5,049 thousand (2019: EUR 4,666 thousand).

ECL measurement of receivables. The Group applies a simplified approach to trade receivables under IFRS 9, i.e. measures ECL using lifetime expected loss. The Group uses for the calculation of lifetime expected loss for trade receivables a provision matrix that takes into account the ageing of receivables, loss rate for each ageing category, and the amount of receivables written off. The Group 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.

Lease extension and termination options. 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 lease is reasonably certain to be extended (or not terminated).

For leases of land, buildings, energy equipment and vehicles, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the Group is typically reasonably certain to extend (or not terminate) the lease.
- If any leasehold improvements are expected to have a significant residual value, the Group is typically reasonably certain to extend (or not terminate) the lease.

The Group also considers other factors including historical lease term and the costs and business disruption required to replace the leased asset. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

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

The Group estimated that residual value guarantees of the leased assets are not significant.

Control over ZSE Elektrárne, s.r.o. On 30 July 2020, E.ON and the Slovak Republic represented by the Ministry of Economy of the Slovak Republic, as the shareholders of the Group, signed a Memorandum of Understanding (the "Memorandum"). Under this arrangement, E.ON is committed to sell 100% of the shares in ZSE Elektrárne, s.r.o. from 24 August 2020 for a period of the following 3 years, should the Slovak Republic decide to purchase them. Transfer of the shares in ZSE Elektrárne, s.r.o., if any, would be executed, under this Memorandum, for a fair market value and under usual market conditions.

The Group's management considered that the Group still has control over ZSE Elektrárne, s.r.o., because its view is that the Memorandum is non-binding, it was signed by E.ON and not by Západoslovenská energetika, a.s. and it is therefore not directly enforceable against the Group and its governing bodies. In view of the three-year commitment to sell, management considers that the sale of ZSE Elektrárne, s.r.o. is not highly probable within one year and thus the related assets and liabilities were not reclassified to current items as held for sale in accordance with IFRS 5, Non-current Assets Held for Sale and Discontinued Operations.

Management also did not recognise deferred tax on investments in ZSE Elektrárne, s.r.o.. The difference between the carrying amount of ZSE Elektrárne, s.r.o.'s net assets and the amount deductible against sales proceeds is EUR 22,065 thousand. In the opinion of management, the sale of ZSE Elektrárne, s.r.o. and thus the possible deferred tax will not be realized in the foreseeable future and, therefore, the deferred tax on this temporary difference cannot be recognized in accordance with the guidance in paragraph 39 of IAS 12, Income Taxes.

Deferred income tax asset recognition. Management applied judgement and recognised deferred tax asset of EUR 15,000 thousand (2019: EUR 0 thousand) in respect of deductible temporary differences between carrying value and tax base of CCGT power plant in Malženice, based on projections of future taxable profits over periods covered by forward market commodity prices. Commodity pricing forecasts and forecasting uncertainties related to later subsequent periods do not provide sufficient convincing evidence to support recognition of further potential deferred tax asset of up to EUR 57,995 thousand (2019: EUR 75,302 thousand) in respect of the remainder of the deductible temporary differences related to this power plant.

6 Property, Plant and Equipment

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

Movements in the carrying amount of property, plant and equipment

In thousands of EUR	Land	Network buildings	Power lines	Switching stations and network equipment	CCGT power plant	Other assets - for own use*	Other assets - leased to other parties	Capital work in progress	Total
Cost at 1 January 2020	22,963	122,148	748,946	414,296	32,359	114,969	30,777	86,323	**1,572,781**
Accumulated depreciation and impairment losses	-	(54,525)	(283,667)	(218,082)	(2,639)	(71,996)	(23,612)	-	**(654,521)**
Carrying amount at 1 January 2020	22,963	67,623	465,279	196,214	29,720	42,973	7,165	86,323	**918,260**
Additions	-	-	-	1,609	-	-	-	104,348	**105,957**
Capitalised borrowing costs**	-	-	-	-	-	-	-	1,818	**1,818**
Transfers	860	5,698	33,721	32,078	88	7,677	-	(80,122)	**-**
Depreciation charge	-	(3,572)	(18,632)	(23,491)	(1,864)	(4,928)	(899)	-	**(53,386)**
Disposals	(151)	(21)	-	(380)	-	(60)	-	(721)	**(1,333)**
Termination of the lease by the purchase of an asset	-	311	1,556	-	-	-	-	-	**1,867**
Cost at 31 December 2020	**23,672**	**139,040**	**783,067**	**444,704**	**32,446**	**104,058**	**24,088**	**111,646**	**1,662,721**
Accumulated depreciation and impairment losses	**-**	**(69,001)**	**(301,143)**	**(238,674)**	**(4,502)**	**(58,396)**	**(17,822)**	**-**	**(689,538)**
Carrying amount at 31 December 2020	**23,672**	**70,039**	**481,924**	**206,030**	**27,944**	**45,662**	**6,266**	**111,646**	**973,183**

* Other assets for own use comprise machinery, non-network and administrative buildings, vehicles and other assets.
** Capitalisation rate of borrowing costs was approximately 3.07% p.a. for 2020 (2019: 3.07% p.a.).

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

Movements in the carrying amount of property, plant and equipment

In thousands of EUR	Land	Network buildings	Power lines	Switching stations and network equip-ment	CCGT power plant	Other assets - for own use*	Other assets - leased to other parties	Capital work in progress	Total
Cost at 1 January 2019	22,571	115,823	705,271	393,775	32,359	119,182	30,258	68,014	**1,487,253**
Accumulated depreciation and impairment losses	-	(51,829)	(267,443)	(201,055)	(776)	(76,965)	(22,610)	-	**(620,678)**
Carrying amount at 1 January 2019	22,571	63,994	437,828	192,720	31,583	42,217	7,648	68,014	**866,575**
Initial adoption of IFRS 16	-	(133)	(2,333)	(340)	-	-	-	-	**(2,806)**
Additions	-	-	-	-	-	-	-	101,259	**101,259**
Capitalised borrowing costs**	-	-	-	-	-	-	-	1,691	**1,691**
Transfers	400	7,076	46,915	24,058	-	5,591	577	(84,617)	**-**
Depreciation charge	-	(3,366)	(17,944)	(20,336)	(1,863)	(4,813)	(1,060)	-	**(49,382)**
Disposals	(8)	(2)	-	(24)	-	(22)	-	(24)	**(80)**
Termination of the lease by the purchase of an asset	-	54	813	136	-	-	-	-	**1,003**
Cost at 31 December 2019	**22,963**	**122,148**	**748,946**	**414,296**	**32,359**	**114,969**	**30,777**	**86,323**	**1,572,781**
Accumulated depreciation and impairment losses	**-**	**(54,525)**	**(283,667)**	**(218,082)**	**(2,639)**	**(71,996)**	**(23,612)**	**-**	**(654,521)**
Carrying amount at 31 December 2019	**22,963**	**67,623**	**465,279**	**196,214**	**29,720**	**42,973**	**7,165**	**86,323**	**918,260**

* Other assets for own use comprise machinery, non-network and administrative buildings, vehicles and other assets.
** Capitalisation rate of borrowing costs was approximately 3.07% p.a. for 2019.

In management's judgement the electricity distribution network does not fall in the scope of IFRIC 12, Service Concession Arrangements, and it is thus not presented as an intangible asset because (a) the Group 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 Group 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 and intangible assets were as follows:

Proceeds from disposal of property, plant and equipment and intangible assets

In thousands of EUR	2020	2019
Net book value of disposals	1,333	80
Transfer of emission quotas to National registry of emission quotas	11,811	1,639
Usage of provision for CO_2 emissions	(11,811)	(1,639)
(Loss)/Gain on sale of property, plant and equipment (Note 26)	(117)	305
Other	(848)	(24)
Proceeds from disposals	**368**	**361**

The Group holds insurance against damages caused by natural disasters up to EUR 700,961 thousand for buildings and up to amount of EUR 972,139 thousand for machinery, equipment, fixtures, fittings and other assets (2019: EUR 661,742 thousand and 932,050 thousand, respectively).

Rental income from the property, plant and equipment leased to other parties, substantially represented by optical lines and related technology, is presented in Note 26. Future rental income from non-cancellable leases is due as follows:

Future rental income from non-cancellable leases

In thousands of EUR	2020	2019
Due:		
- within 1 year	980	980
- between 1 and 2 years	-	980
Total future rental payments to be received	**980**	**1,960**

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	Carbon dioxide emission quotas	Software and similar assets	Assets not yet available for use	Total
Cost at 1 January 2019	2,676	61,488	7,047	**71,211**
Accumulated amortisation and impairment losses	-	(52,766)	-	**(52,766)**
Carrying amount at 1 January 2019	**2,676**	**8,722**	**7,047**	**18,445**
Additions	24,337	-	7,590	**31,927**
Transfers	-	6,466	(6,466)	**-**
Amortisation charge	-	(4,638)	-	**(4,638)**
Disposals	(1,639)	-	-	**(1,639)**
Cost at 31 December 2019	25,374	66,657	8,171	**100,202**
Accumulated amortisation and impairment losses	-	(56,107)	-	**(56,107)**
Carrying amount at 31 December 2019	**25,374**	**10,550**	**8,171**	**44,095**
Additions	27,973	327	6,844	**35,144**
Transfers	-	6,154	(6,154)	**-**
Amortisation charge	-	(6,378)	-	**(6,378)**
Disposals	(11,811)	-	-	**(11,811)**
Cost at 31 December 2020	41,536	70,613	8,861	**121,010**
Accumulated amortisation and impairment losses	-	(59,960)	-	**(59,960)**
Carrying amount at 31 December 2020	**41,536**	**10,653**	**8,861**	**61,050**

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 Group leases various land, office buildings, energy buildings and equipment and vehicles. Rental contracts are usually made for fixed periods of 2 to 20 years (rental periods are presented in Note 2) but may have extension options. For assets, where the contract is concluded for indefinite period, the useful life was determined based on estimated lease term.

Since 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 Group. Movements of right-of-use assets are as follows:

Movements of right-of-use assets

In thousands of EUR	Land	Office buildings	Energy buildings and equipment	Vehicles	Total
Carrying value at 1 January 2019	**623**	**7,483**	**11,609**	**5,579**	**25,294**
Additions	-	1,608	1,847	1,598	**5,053**
Disposals	-	-	-	(79)	**(79)**
Depreciation charge	(17)	(818)	(543)	(1,683)	**(3,061)**
Impairment	(11)	(60)	-	(225)	**(296)**
Termination of the lease by the purchase of an asset (Note 6)	-	(54)	(949)	-	**(1,003)**
Carrying value at 31 December 2019	**595**	**8,159**	**11,964**	**5,190**	**25,908**
Additions	-	505	3,440	327	**4,272**
Disposals	-	-	-	(41)	**(41)**
Depreciation charge	(18)	(968)	(631)	(1,658)	**(3,275)**
Impairment	(208)	(354)	(205)	-	**(767)**
Termination of the lease by the purchase of an asset (Note 6)	-	-	(1,867)	-	**(1,867)**
Carrying value at 31 December 2020	**369**	**7,342**	**12,701**	**3,818**	**24,230**

The Group recognised lease liabilities as follows:

Lease liabilities

In thousands of EUR	31 December 2020	31 December 2019
Short-term lease liabilities	3,507	3,383
Long-term lease liabilities	21,005	22,720
Total lease liabilities	**24,512**	**26,103**

Interest expense on lease liabilities included in interest and similar expense for 2020 was EUR 443 thousand (2019: EUR 407 thousand).

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

Expenses relating to short-term leases and to leases of low-value

In thousands of EUR	2020	2019
Expense relating to short-term leases	211	378
Expense relating to leases of low-value assets that are not shown above as short-term leases	577	826

Total cash outflows for leases were as follows:

Total cash outflows for leases		
In thousands of EUR	**2020**	**2019**
Short-term lease payments	211	378
Payments for leases of low-value assets other than short-term leases	577	826
Repayment of principal of lease liabilities	5,027	4,120
Interest expense on lease liabilities paid	443	407
Total cash outflows for leases	**6,258**	**5,731**

The lease agreements do not impose any covenants. Ownership title to the leased assets is held by the lessors. Leased assets may not be used as collateral for the Group's other borrowings.

9 Equity Method Investments

Equity Method Investments		
In thousands of EUR	**2020**	**2019**
Energotel, a.s. - 20% investment in joint venture	525	525
SPX, s.r.o.	33	33
Total equity method investments	**558**	**558**

10 Inventories

Inventories		
In thousands of EUR	**2020**	**2019**
Natural gas	4,237	12,281
Materials and spare parts	2,690	1,084
Merchandise	163	527
Total inventories	**7,090**	**13,892**

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

Natural gas is held in an underground gas storage facility controlled by a related party under significant influence of the Slovak Government.

11 Trade and Other Receivables

Trade and Other Receivables		
In thousands of EUR	**2020**	**2019**
Trade receivables	170,040	177,145
Less impairment provision for trade receivables	(17,246)	(24,861)
Trade receivables, net	**152,794**	**152,284**
Commodity contracts at FVTPL	7,302	-
Contract assets - dealers commission costs	2,732	1,818
Prepayments	2,648	3,152
Total trade and other receivables	**165,476**	**157,254**

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

Movements in the impairment provision for trade receivables

In thousands of EUR	2020	2019
Provision for impairment at 1 January	**24,861**	**26,074**
Impairment loss expense (Note 25)	(1,236)	(195)
Amounts written off during the year as uncollectible	(6,379)	(1,018)
Provision for impairment at 31 December	**17 246**	**24 861**

The Group has a concentration of credit risk towards related parties of the Slovak Government. Refer to Note 35.

More details of ECL in relation to trade receivables at the balance sheet date:

More details of ECL in relation to trade receivables

	31 December 2020				31 December 2019			
In thousands of EUR	Loss rate	Gross carrying amount	ECL	Net carrying amount	Loss rate	Gross carrying amount	ECL	Net carrying amount
Not past due	1.42%	151,325	2,151	149,174	1.65%	150,076	2,471	147,605
Past due:								
- 1 to 30 days	6.18%	2,848	176	2,672	5.61%	4,366	245	4,121
- 31 to 60 days	12.40%	500	62	438	16.17%	402	65	337
- 61 to 90 days	12.93%	232	30	202	31.62%	117	37	80
- 91 to 120 days	61.50%	187	115	72	61.19%	67	41	26
- 121 to 180 days	58.15%	325	189	136	69.13%	149	103	46
- 181 to 360 days	84.69%	653	553	100	80.29%	350	281	69
- over 360 days	100.00%	13,970	13,970	-	100.00%	21,618	21,618	-
Total trade receivables		**170,040**	**17,246**	**152,794**		**177,145**	**24,861**	**152,284**

Movements in contract assets, which represents the deferred sales commissions, are as follows:

Movements in contract assets

In thousands of EUR	2020	2019
At 1 January	**1,818**	**1,004**
Additions	1,903	1,852
Amortization	(989)	(1,038)
Total contract assets at 31 December	**2,732**	**1,818**

Out of the carrying value of contract assets, EUR 1,009 thousand (2019: EUR 638 thousand) will be amortized over the next year and the rest has a remaining amortization period of up to 5 years. The impairment allowance calculated based on the expected loss rate for the above asset was immaterial.

Financial effect of collateral and other credit enhancements on trade receivables is presented as follows:

Financial effect of collateral and other credit enhancements on trade receivables

	31 December 2020		31 December 2019	
In thousands of EUR	Carrying value	Insured value	Carrying value	Insured value
Trade receivables under credit insurance	81,047	81,047	71,175	71,175
Trade receivables not secured	71,747	-	81,109	-
Trade receivables, net	**152,794**	**81,047**	**152,284**	**71,175**

12 Cash and Cash Equivalents

Cash and Cash Equivalents		
In thousands of EUR	**2020**	**2019**
Current accounts with banks	32,640	47,216
Short-term bank deposits	50,000	35,000
Total cash and cash equivalents in the statement of financial position	**82,640**	**82,216**
Less restricted cash balances	-	-
Total cash and cash equivalents in the statement of cash flows	**82,640**	**82,216**

The Group has a concentration of cash and cash equivalents balances towards five banks (2019: five banks).

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

Credit quality of cash and cash equivalents		
In thousands of EUR	**2020**	**2019**
Neither past due nor impaired		
Credit rating Aa3 by Moody's	17	342
Credit rating A1 by Moody's	-	-
Credit rating A2 by Moody's	59,972	49,582
Credit rating A3 by Moody's	21,790	31,014
Credit rating Baa1 by Moody's	861	1,278
Credit rating A- by Fitch	-	-
Total cash and cash equivalents	**82,640**	**82,216**

As at 31 December 2020, the Group has agreements with banks about revolving credit facilities amounting to EUR 75,000 thousand (2019: EUR 75,000 thousand) and overdraft credit facilities amounting to EUR 100,000 thousand (2019: EUR 0 thousand). As at 31 December 2020 the Group has drawn EUR 0 thousand from these facilities (2019: EUR 0 thousand).

The Group 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 Group's financial statements would be insignificant.

13 Share Capital

The Company issued and has outstanding 5,934,594 ordinary shares (2019: 5,934,594 shares) with a par value of EUR 33.19 each. All issued shares are fully paid in.

The Company is jointly controlled by E.ON and the Slovak Government 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 reporting entity. The entity's governance structure dictates that the entity's strategic plan be approved by representatives of both E.ON and the Slovak Government. 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 contractual restrictions exist for transfer of shares to parties not under control of existing shareholders.

The general meeting of the Company's shareholders approved the Company's prior year separate financial statements and declared dividends of EUR 74,135 thousand or EUR 12.49 per share (2019: dividends of EUR 63,829 thousand or EUR 10.76 per share). Slovak legislation identifies distributable reserves as retained earnings reported in the separate financial statements of the Company which amount to EUR 134,903 thousand (2019: EUR 118,995 thousand).

14 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 exists to cover future losses.

15 Issued Bonds

The issued bonds (ISIN: XS0979598462) of EUR 315,000 thousand are due on 14 October 2023 and carry a coupon of 4.00% p.a. The series two of issued bonds (ISIN: XS1782806357) of EUR 315,000 thousand are due on 2 March 2028 and carry a coupon of 1.75% p.a. The bonds are traded on the Irish Stock Exchange, Dublin.

Amortized cost carrying value of the bonds is as follows:

Amortized cost carrying value of the bonds

In thousands of EUR	2020	2019
Issued bonds – non-current	627,815	627,363
Accrued interest payable within one year and deferred transaction costs	6,881	6,881
Total carrying value of the bonds	**634,696**	**634,244**

16 Income Taxes

Income tax expense comprises the following:

Income tax expense

In thousands of EUR	2020	2019
Current tax at standard rate of 21% (2019: 21%)	29,040	22,638
Special levy on profits from regulated activities	6,707	5,525
Deferred tax	(12,146)	11,561
Income tax expense/(credit) for the year	**23,601**	**39,724**

In 2020, the applicable standard income tax rate was 21% (2019: 21%). From 2017 new methodology for calculating of the special levy applies, where the basis for the special levy is calculated as profit before tax per Slovak GAAP * (revenues from regulated activities/total revenues). The rate of special levy is 6.54% p.a. for the years 2019 - 2020 and 4.356% will apply from 2021. The levy is a deductible expense for the purposes of applying the standard corporate income tax rate.

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	2020	2019
Standard income tax rate for the year	21.000%	21.000%
Special levy rate	6.540%	6.540%
Effect of deductibility of special levy from standard rate*	(1.691%)	(1.691%)
Tax rate applicable on profits generated by regulated industry operations	**25.849%**	**25.849%**

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

The Group includes activities or subsidiaries taxed at the standard tax rate of 21% or at the 25.849% rate (2019: 25.849%) applicable to regulated industry operations. The applicable tax rate of 23.307% (2019: 23.118%) is used in the below effective tax reconciliation and represents a weighted average of the tax rates for regulated and unregulated industries. The applicable tax rate changed compared to prior year due to changes in the mix of profits from regulated and unregulated industry operations (2019: due to changes in the special levy rate and 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:

Reconciliation between the reported income tax charge and the theoretical amount

In thousands of EUR	2020	2019
Profit before tax	**159,172**	**159,575**
Theoretical tax charge at applicable tax rate of 23.307% (2019: 23.118%)	37,098	36,891
Non-deductible expenses /(non-taxable income) for which deferred tax was not recognised		
- income from equity method investees not subject to standard tax	(104)	(59)
- expenses not deductible for standard tax but deductible for special levy purposes	298	777
Impact of change in unrecognised deferred tax asset from deductible temporary differences (Note 5)	(15,000)	-
Other	1,309	2,115
Income tax expense for the reporting period	**23,601**	**39,724**

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

Deferred income tax assets and liabilities are not offset among different entities of the Group because the Group is not considered a single taxable entity for tax purposes.

Deferred taxes are attributable to the following temporary differences:

Deferred taxes

In thousands of EUR	2020	2019
Differences between tax base and carrying value of property, plant and equipment, including deferred tax arising from special levy	56,678	53,146
Post-employment defined benefit obligation and other long-term and short-term employee benefits	(4,111)	(3,527)
Other liabilities	(6,848)	(3,851)
Allowance for credit losses on trade receivables	21	(1,679)
Other	(892)	(749)
Total net deferred tax liability	**44,848**	**43,340**

In thousands of EUR	2020	2019
Differences between tax base and carrying value of property, plant and equipment, including deferred tax arising from special levy	17,766	3,869
Post-employment defined benefit obligation and other long-term and short-term employee benefits	677	567
Other liabilities	1,726	1,489
Allowance for credit losses on trade receivables	396	667
Other	(117)	(151)
Total net deferred tax asset	**20,448**	**6,441**

The movements in deferred taxes for temporary differences were recognised in profit or loss except for EUR 353 thousand (2019: EUR 487 thousand) for actuarial remeasurements of post-employment defined benefit obligation, which was recognised in other comprehensive income.

The Group has not recorded a deferred tax liability in respect of investments in subsidiaries because (a) the tax is applicable to future profits and thus temporary differences, if any, may only arise in the future, and (b) the tax is not applicable to dividends from Slovak subsidiaries, associates and joint ventures of the Group.

In addition, the Group is able to control the timing of the reversal of such temporary differences in respect of subsidiaries and does not intend to reverse them in the foreseeable future, e.g. through sale or taxable dividend income from subsidiaries.

17 Post-Employment Defined Benefit Obligations

As agreed with the trade unions, the Group 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 Group. The movements in the present value of defined benefit obligation are:

Movements in the present value of defined benefit obligation

	2020	2019
Present value of unfunded post-employment defined benefit obligations at the beginning of the year	**11,156**	**8,692**
Current service cost	708	502
Interest cost	77	127
Past service costs due to changes in the defined benefit plan rules	-	-
Total expense (Note 24)	785	629
Actuarial remeasurements:		
- attributable to changes in financial assumptions	1,278	1,613
- attributable to changes in demographic assumptions	315	385
- attributable to experience adjustments	94	320
Total actuarial remeasurements recognised in other comprehensive income	1,687	2,318
Benefits paid during the year	(585)	(483)
Present value of unfunded post-employment defined benefit obligations at the end of the year	**13,043**	**11,156**

The principal actuarial assumptions were as follows:

Principal actuarial assumptions

	2020	2019
Number of employees at 31 December	2,013	1,978
Staff turnover	4.58% p.a.	4.87% p.a.
Expected salary increases short-term	4.00% p.a.	4.00% p.a.
Expected salary increases long-term	2.00% p.a.	2.00% p.a.
Discount rate	0.60% p.a.	0.70% p.a.

18 Other Long Term Employee Benefits

The Group makes EUR 1,400 (2019: EUR 1,400) payment to each employee at the age of 50, subject to 5 year service vesting condition (2019: 5 year). In addition, the Group pays regular long term work anniversary bonuses in general every 10 years in amounts between EUR 400 to EUR 1,250 (2019: between EUR 400 to EUR 1,250). The liability for other long-term employee benefits was estimated using the Projected Unit Credit Method.

19 Provisions for Liabilities and Charges

Provisions for Liabilities and Charges		
In thousands of EUR	**2020**	**2019**
Provisions for legal proceedings	29,739	21,666
Provisions for released CO_2 emissions	16,949	11,808
Total current provisions for liabilities and charges	**46,688**	**33,474**

As of 31 December 2020 and 2019, the Group has recognized a current provision for known and quantifiable risks relating to disputes against the Group, 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 also to Note 34.

Movements in provisions for liabilities and charges are as follows:

Movements in provisions for liabilities and charges						
	2020			**2019**		
In thousands of EUR	**Provisions for legal proceedings**	**Provisions for CO_2 emissions**	**Total provisions**	**Provisions for legal proceedings**	**Provisions for CO_2 emissions**	**Total provisions**
At 1 January	21,666	11,808	**33,474**	19,972	1,637	**21,609**
Additions recognized in profit or loss	8,795	16,951	**25,746**	2,946	11,810	**14,756**
Usage of provision	-	(11,811)	**(11,811)**	-	(1,639)	**(1,639)**
Reversal of provision	(722)	-	**(722)**	(1,252)	-	**(1,252)**
Other	-	1	**1**	-	-	**-**
At 31 December	**29,739**	**16,949**	**46,688**	**21,666**	**11,808**	**33,474**

In 2019, the increase in the provisions for legal proceedings represents an increased risk of legal action by the business partner due to a short-term outage caused by substation work attributed by the business partner to the conduct of the Group, which the Group considers to be unfounded.

In 2020, as a matter of prudence, the Group increased provision for legal proceedings related to the tariff for producers' access to the distribution system due to additional claims and legal proceedings being filed in the current reporting period. Refer also to Note 34.

Of the above-mentioned provisions for legal proceedings at 31 December 2020, the amount of EUR 11,523 thousand (2019: EUR 3,450 thousand) was recognized as decrease of revenue.

20 Contract Liabilities from Connection Fees and Customer Contributions

The Group has the following liabilities arising from contract with customers:

Liabilities from contract with customers		
In thousands of EUR	**2020**	**2019**
Non-current		
Contract liabilities - customer contributions	32,636	33,215
Contract liabilities - connection fees	68,420	67,387
Total non-current contract liabilities	**101,056**	**100,602**

Liabilities from contract with customers		
In thousands of EUR	**2020**	**2019**
Current		
Contract liabilities - customer contributions	2,233	2,179
Contract liabilities - connection fees	5,621	5,292
Total current contract liabilities	**7,854**	**7,471**

Customer contributions are paid primarily for capital expenditures made on behalf of customers and include access network assets transferred to the Group 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 contract liabilities and are released to revenues over the useful lives of related assets of approximately 20 years.

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

Movements in contract liabilities to customers						
	Non-current			**Current**		
In thousands of EUR	**Customer contributions**	**Connection fees**	**Total**	**Customer contributions**	**Connection fees**	**Total**
At 1 January 2019	33,020	65,858	**98,878**	1,678	5,365	**7,043**
Additions	2,374	6,821	**9,195**	-	-	**-**
Transfers	(2,179)	(5,292)	**(7,471)**	2,179	5,292	**7,471**
Recognized in revenue	-	-	**-**	(1,678)	(5,365)	**(7,043)**
At 31 December 2019	**33,215**	**67,387**	**100,602**	**2,179**	**5,292**	**7,471**
Additions	1,654	6,654	**8,308**	-	-	**-**
Transfers	(2,233)	(5,621)	**(7,854)**	2,233	5,621	**7,854**
Recognized in revenue	-	-	**-**	(2,179)	(5,292)	**(7,471)**
At 31 December 2020	**32,636**	**68,420**	**101,056**	**2,233**	**5,621**	**7,854**

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

Maturity analysis of contract liabilities to customers						
	At 31 December 2020			**At 31 December 2019**		
In thousands of EUR	**Customer contributions**	**Connection fees**	**Total**	**Customer contributions**	**Connection fees**	**Total**
At 31 December due						
Current:						
Less than 12 months	2,233	5,621	**7,854**	2,179	5,292	**7,471**
Non-current:						
From 12 months to 5 years	8,873	23,194	**32,067**	8,121	21,845	**29,966**
Over 5 years	23,763	45,226	**68,989**	25,094	45,542	**70,636**
Total non-current	**32,636**	**68,420**	**101,056**	**33,215**	**67,387**	**100,602**
Total at 31 December	**34,869**	**74,041**	**108,910**	**35,394**	**72,679**	**108,073**

21 Trade and Other Payables

Trade and Other Payables		
In thousands of EUR	**2020**	**2019**
Trade payables	115,972	114,430
Other accrued liabilities	8,430	12,133
Commodity contracts at FVTPL	6,752	-
Other financial liabilities	3,700	4,349
Total financial instruments within trade and other payables	**134,854**	**130,912**
Contract liabilities – electricity and natural gas and related distribution fees	38,425	43,583
Employee benefits payable	3,176	2,820
Social security on employee benefits	2,683	2,319
Accrued staff costs	9,387	9,991
Advance payments	22,976	20,759
Value added tax payable	4,575	6,100
Other payables	8,055	8,509
Grants*	6,375	4,850
Excise duty payable	336	331
Total trade and other payables	**230,842**	**230,174**

* From the total balance of grants at 31 December 2020 the amount EUR 4,438 thousand is related to project ACON (2019: EUR 4,534 thousand). The maximum of a potential grant by the European Commission on the ACON project to support smart grid interconnection is EUR 46 million. The exact amount will only be known after preparation of technical documentation of all the project elements. The Group will recognise a government grant receivable against deferred income once it will have reasonable assurance that the grant will be received.

The Group had overdue trade payables of EUR 219 thousand (2019: EUR 232 thousand). None of the payables are overdue more than 30 days at 31 December 2020.

Movements in contract liabilities to customers for unbilled electricity, natural gas and related distribution fees are as follows:

Movements in contract liabilities to customers		
In thousands of EUR	**2020**	**2019**
At 1 January	43,583	26,962
Additions	38,425	43,583
Recognized in revenues	(43,583)	(26,962)
At 31 December 2020	**38,425**	**43,583**

The above presented contract liabilities to customers are due within one year.

22 Revenue from Electricity and Other Related Revenue and Revenue from Natural Gas

Revenue from electricity and other related revenue and revenue from natural gas for 2020:

Revenue from electricity and other related revenue and revenue from natural gas

In thousands of EUR	Distribution	Supply	Production	Other	Total
Electricity to industrial and commercial customers	125,437	629,061	267	-	**754,765**
Electricity to residential customers	22,506	288,819	-	-	**311,325**
Natural gas	-	125,402	-	-	**125,402**
Other revenue	2,467	7,584	1,456	820	**12,327**
Revenue for reserved capacity	9,121	-	-	-	**9,121**
Accrued decrease in revenue from customer returns	(8,073)	-	-	-	**(8,073)**
Revenues for connection work and testing fees	5,795	181	-	-	**5,976**
Total revenue from external customers	**157,253**	**1,051,047**	**1,723**	**820**	**1,210,843**

Revenue from electricity and other related revenue and revenue from natural gas for 2019:

Revenue from electricity and other related revenue and revenue from natural gas

In thousands of EUR	Distribution	Supply	Production	Other	Total
Electricity to industrial and commercial customers	223,578	611,930	324	-	**835,832**
Electricity to residential customers	57,462	257,856	-	-	**315,318**
Natural gas	-	104,968	-	-	**104,968**
Other revenue	2,609	6,779	1,516	955	**11,859**
Revenue for reserved capacity	9,501	-	-	-	**9,501**
Revenues for connection work and testing fees	5,527	188	-	-	**5,715**
Total revenue from external customers	**298,677**	**981,721**	**1,840**	**955**	**1,283,193**

The Group provides access to its electricity distribution network at regulated prices. Slovakia has implemented the European Union electricity market directive, which resulted in a complete liberalisation of the market whereby all customers, including households, became eligible to buy electricity in the open market from 1 July 2007. However, price regulation applies to certain protected groups of customers.

Timing of recognition for revenue from electricity and other related revenue and revenue from natural gas of the Group is as follows:

Timing of recognition for revenue from electricity and other related revenue and revenue from natural gas of the Group

In thousands of EUR	2020	2019
Revenue recognised at a point in time	10,253	11,183
Revenue recognised over time	1,200,590	1,272,010
Total revenue from electricity and other related revenue and revenue from natural gas	**1,210,843**	**1,283,193**

Revenue comprises the following:

Revenue comprises		
In thousands of EUR	**2020**	**2019**
Sales of electricity to industrial and other commercial customers	372,394	347,350
Sales of electricity to residential customers	142,043	113,228
Total sales of electricity	**514,437**	**460,578**
Distribution fees for electricity to industrial and other commercial customers	382,371	488,474
Distribution fees for electricity to residential customers	169,282	202,098
Revenue for reserved capacity	9,121	9,501
Accrued decrease in revenue from customer returns	(8,073)	-
Total distribution fees*	**552,701**	**700,073**
Revenue from natural gas	125,402	104,968
Revenues for connection work and testing fees	5,976	5,715
Other revenue	12,327	11,859
Total revenue from electricity and other related revenue and revenue from natural gas	**1,210,843**	**1,283,193**

* The reason for the decrease in revenues from distribution fees is that from 1 January 2020 there was a change in the invoicing of the tariff for operating the system and performing the activities of the renewable energy sources ("RES") support and high-efficiency cogeneration from the Group, as a distribution system operator, to OKTE, a.s., which is organizer of the short-term electricity market in the Slovak Republic. In this context, the related costs were also reduced (Note 23).

23 Purchases of Electricity, Natural Gas for Electricity Production and Related Fees

The following amounts have been charged to purchases of electricity, natural gas for electricity production and related fees:

Amounts charged to purchases of electricity, natural gas for electricity production and related fees		
In thousands of EUR	**2020**	**2019**
Purchase of electricity from: Slovenské elektrárne ("SE")	106,034	96,584
Purchase of electricity from other domestic producers and traders	248,909	200,393
Purchase of electricity on the spot market	47,693	49,760
Commodity contracts at FVTPL	2,988	2,837
Purchase of natural gas for electricity production	69,285	73,209
Emission quotas consumption	16,951	11,810
Total purchases of electricity and natural gas for electricity production	**491,860**	**434,593**
Electricity transmission fees, system access and ancillary service charges and tariff for system operation and system services	280,709	413,494
Total purchases of electricity, natural gas for electricity production and related fees	**772,569**	**848,087**

24 Employee Benefits

Employee Benefits		
In thousands of EUR	**2020**	**2019**
Wages and salaries	53,406	50,635
Defined contribution pension costs	9,255	9,041
Post-employment defined benefit plan expense (Note 17)	785	629
Other long-term employee benefit plans – current service and interest cost (Note 18)	183	181
Actuarial remeasurements of other long-term employee benefit plans (Note 18)	115	176
Other social costs	15,806	15,064
Total employee benefits expense	**79,550**	**75,726**

25 Other Operating Expenses

Other Operating Expenses		
In thousands of EUR	**2020**	**2019**
Information technology and software maintenance costs	8,729	12,389
Repairs and maintenance costs	8,918	9,247
Expenses relating leases of low-value assets and short-term leases	788	1,204
Postal and telecommunication services	3,028	2,852
Call centre services	2,610	2,575
Security services	1,942	1,911
Advertising services	1,728	1,710
Travel expenses	804	1,107
Statutory audit	323	289
Other services	7,316	7,699
External dealers commission	1,121	789
Project management	659	851
Advisory services	1,761	1,734
Marketing	832	717
Operation and maintenance of telecommunication network	606	606
Provisions for legal proceedings (Note 19)	-	1,693
Facility management expenses	1,144	1,283
Impairment loss on trade and other receivables (Note 11)	(1,236)	(195)
Bad debt write-offs	(49)	-
Property and motor vehicle tax	864	664
Gifts	559	557
Insurance	1,802	1,262
Other operating expenses	8,366	1,190
Total other operating expenses	**52,615**	**52,134**

The PwC network provided non-audit services to the Group in the amount of EUR 77 thousand (2019: EUR 94 thousand). These services included services in area of HR benchmarking, training, internal audit benchmarking, assessment of backoffice efficiency, accounting advisory services and green energy deficit agreed upon procedures. The services were approved by the Audit Committee of the Company.

26 Other Operating Income

Other Operating Income		
In thousands of EUR	**2020**	**2019**
Customer contributions to their connection costs	1,678	1,678
Operating lease income (Note 6)	1,453	1,393
(Loss)/Gain on disposal of fixed tangible assets (Note 6)	(117)	305
Grants	(142)	875
Income from contractual penalties	1,037	629
Income from unauthorized consumption of electricity	286	231
Fees for payment reminders	952	1,109
Income from insurance claims	1,279	126
Other	1,421	2,048
Total other operating income	**7,847**	**8,394**

27 Interest and Similar Expense

Interest and Similar Expense		
In thousands of EUR	**2020**	**2019**
Interest expense on bonds	18,113	18,113
Amortisation of bonds transaction costs and similar expense	590	586
Interest expense on lease liability	443	407
Other interest expense	268	220
Less capitalised borrowing costs (Note 6)	(1,818)	(1,691)
Total interest and similar expense	**17,596**	**17,635**

28 Segment Reporting

The Group's operating segments are those used by the Board of Directors to manage the Group's business, allocate resources and make strategic decisions. The Group identifies its segments according to the nature of products and services provided by each segment. The Group's operating segments are (i) electricity distribution, (ii) electricity and gas supply, (iii) electricity production and (iv) other activities as described below. The Group's activities are concentrated in Slovakia.

The main indicators used by the Board of Directors in their decision making are earnings before interest and taxes (EBIT) and capital expenditures. The Board of Directors separately monitor the operating results of the segments to take decisions on how to allocate the resources, to evaluate the effects of the allocation and to evaluate performance. Segment income and costs are measured in a manner consistent with that in the consolidated statement of profit or loss and other comprehensive income. The Group does not analyse assets and liabilities by operating segments.

The types of products and services from which each reportable operating segment derives its operating results are:

Electricity distribution. Distribution of electricity using the distribution networks in Western Slovakia. The distribution business is regulated and the Group is required to provide access to its network to third parties on terms approved by RONI.

Electricity and gas supply. Supply of electricity and gas to wholesale and retail customers in Slovakia and supply of electricity to wholesale customers in abroad. This business is open to competition by other suppliers. Pricing for certain classes of customers of the segment is regulated by RONI.

As a result of regulation of the distribution business and partial regulation of the supply business approximately 92% (2019: 91%) of the Group's EBITDA and 90% (2019: 90%) of the Group's EBIT were generated from sales to customers who are subject to the price regulation.

Electricity production. Electricity production in CCGT power plant.

Other. Segment Other includes activities provided by the Company together with its subsidiaries ZSE Energy Solutions, s.r.o., ZSE MVE, s. r. o., ZSE Business Services, s. r. o., ZSE Energetické služby, s. r. o. and EKOTERM, s.r.o. (58% of shares owned by ZSE Energetické služby, s. r. o. since 19 December 2020). Board of Directors does not assess activities and results of the Company separately but within segment Other. Segment Other provides mainly headquarter type functions, as central services, accounting, controlling, HR and other services, to both supply and distribution businesses. The segment realizes also electricity production in two small hydroelectric power plants, trading activities and generates also some external revenues from projecting and engineering activities in investment construction and in heat management services for third parties.

Reportable segments information for 2020 is as follows:

Reportable segments information for 2020

In thousands of EUR	Distribution	Supply	Production	Other	Eliminations and consolidation adjustments	Total
Revenue from external customers	157,253	1,051,047	1,723	820	-	**1,210,843**
Inter-segment revenues	195,405	43,328	106,289	17,061	(362,083)	-
Total segment revenues	352,658	1,094,375	108,012	17,881	(362,083)	**1,210,843**
Purchases of electricity, natural gas for electricity production and related fees	(99,417)	(920,260)	(94,374)	(3,698)	345,180	**(772,569)**
Purchases of natural gas for sale	-	(113,684)	-	-	49	**(113,635)**
Employee benefits expense	(56,926)	(11,961)	(1,314)	(9,351)	2	**(79,550)**
Other operating expenses	(43,481)	(15,529)	(3,686)	(9,303)	19,384	**(52,615)**
Share of profit of equity method investees	-	-	-	89,103	(88,608)	**495**
Government grant for renewable energy purchases	20,478	-	-	-	-	**20,478**
Other operating income	5,449	2,349	12	8,794	(8,757)	**7,847**
Income from subleases	-	-	-	177	(177)	**-**
Own work capitalized	17,636	-	-	264	602	**18,502**
Earnings before interest, taxes, depreciation and amortization (EBITDA)	**196,397**	**35,290**	**8,650**	**93,867**	**(94,408)**	**239,796**
Depreciation of property, plant and equipment	(69,424)	(21)	2,214	(3,511)	17,356	**(53,386)**
Amortization of intangible assets	(4,478)	(1,841)	(5)	(134)	80	**(6,378)**
Depreciation of right-of-use assets	(7,674)	(856)	-	(448)	5,703	**(3,275)**
Earnings before interest and taxes (EBIT)	**114,821**	**32,572**	**10,859**	**89,774**	**(71,269)**	**176,757**
Capital expenditures	**100,609**	**1,393**	**2,837**	**3,699**	**1,439**	**109,977**

Reconciliation of EBIT for all segments to profit before tax is as follows:

Reconciliation of EBIT for all segments to profit before tax

In thousands of EUR	2020	2019
Total EBIT for all operating segments	**176,757**	**177,171**
Interest income calculated using the effective interest method	11	39
Interest and similar expense	(17,596)	(17,635)
Profit before tax	**159,172**	**159,575**

Reportable segments information for 2019 is as follows:

Reportable segments information for 2019

In thousands of EUR	Distribution	Supply	Production	Other	Eliminations and consolidation adjustments	Total
Revenue from external customers	298,677	981,721	1,840	955	-	**1,283,193**
Inter-segment revenues	191,397	35,242	102,869	17,929	(347,437)	-
Total segment revenues	490,074	1,016,963	104,709	18,884	(347,437)	**1,283,193**
Purchases of electricity, natural gas for electricity production and related fees	(213,555)	(864,118)	(96,601)	(3,977)	330,164	**(848,087)**
Purchases of natural gas for sale	-	(101,054)	-	-	27	**(101,027)**
Employee benefits expense	(54,096)	(11,270)	(1,174)	(9,188)	2	**(75,726)**
Other operating expenses	(44,420)	(15,252)	(2,602)	(8,990)	19,130	**(52,134)**
Share of profit of equity method investees	-	-	-	72,056	(71,774)	**282**
Other operating income	4,791	2,050	193	8,888	(7,528)	**8,394**
Income from subleases	-	-	-	188	(188)	**-**
Own work capitalized	18,420	-	-	425	512	**19,357**
Earnings before interest, taxes, depreciation and amortization (EBITDA)	**201,214**	**27,319**	**4,525**	**78,286**	**(77,092)**	**234,252**
Depreciation of property, plant and equipment	(66,210)	(20)	(1,736)	(3,113)	21,697	**(49,382)**
Amortization of intangible assets	(2,879)	(1,721)	(5)	(102)	69	**(4,638)**
Depreciation of right-of-use assets	(6,890)	(866)	-	(433)	5,128	**(3,061)**
Earnings before interest and taxes (EBIT)	**125,235**	**24,712**	**2,784**	**74,638**	**(50,198)**	**177,171**
Capital expenditures	**96,494**	**1,284**	**5,354**	**5,141**	**601**	**108,874**

Reconciliation of capital expenditures to payments for purchases of property, plant and equipment and intangible assets is as follows:

Reconciliation of capital expenditures

In thousands of EUR	2020	2019
Total capital expenditures for all operating segments	**109,977**	**108,874**
Payments for emission quotas acquired	27,973	24,337
Assets acquired but not paid for	(32,205)	(28,527)
Payments for assets acquired in prior periods	21,071	22,576
Payments for purchases of property, plant and equipment and intangible assets	**126,816**	**127,260**

Entity wide information. Revenue is analysed by type of product or service in Note 22. Substantially all the Group's revenues are from customers in the Slovak Republic and all of the Group's property, plant and equipment and intangible assets are located in the Slovak Republic.

29 Financial Risk Management

The Group's activities are exposing it to certain financial risks: market risks (including foreign exchange risk, equity price risk, interest rate risk, commodity price risk), credit risk and liquidity risk. The Group'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 Group 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 Group's operations as it has only an immaterial volume of transactions in currency other than EUR. A reasonably possible change in spot exchange rate of EUR against foreign currencies as of the end of the reporting period, would not have any impact on the Group's profit or loss for the year.

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

Interest rate risk. The Group does not have any significant interest rate risk exposure because all of its financial assets and liabilities, including issued bonds carry fixed interest rates. A reasonably possible change in market interest rates, such as Euribor, as of the end of the reporting period, would not have any impact on the Group's profit or loss for the year.

Commodity price risk. The Group identified and recognised certain commodity contracts at FVTPL. In general, management aims to match electricity and gas demand with corresponding purchase contracts. In order to manage market risk, the Group has implemented a system of conservative volume and financial limits for open positions in commodities which protect the Group from unexpected changes in market commodity prices on wholesale markets. Should the commodity prices change by ±10%, profit and equity would change by EUR ±1,065 thousand (2019: EUR ±1,019 thousand).

Credit risk. The Group 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 Group'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, deposits with banks and financial institutions, as well as exposures to wholesale and retail customers, including outstanding receivables.

To determine the level of credit risk, the Group uses Expected credit loss ("ECL") measurement, which reflects the probability-weighted estimate of the present value of future expected credit losses. The Group applies a simplified approach to trade receivables under IFRS 9, i.e. measures ECL using lifetime expected loss. The Group uses for the calculation of lifetime expected loss for trade receivables a provision matrix that takes into account the ageing of receivables, loss rates for each ageing group 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.

The COVID-19 crisis impacts the Group mostly via decrease in volumes of electricity consumed by the customers, especially the large industrial customers. Detailed monitoring of the situation and adjusting of expected off-take is done on a regular basis. Also, due to the overall worsened situation in the economy there is a higher risk of problems with customers' payment discipline. Currently, no significant impact on the Group from increased overdue receivables is being observed.

As for the banks and financial institutions, the Group has relationships only with those that have a high independent rating assessment. Except as disclosed in Note 12, the Group does not have a significant concentration of credit risk mainly due to a large number of diverse customers.

The Group 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 Group beyond the provisions already recorded. To reduce the risk of selected wholesalers, the

Group 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 Group has implemented a system of conservative volume and financial credit limits that ensure diversification of credit risk across multiple wholesale partners.

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. Due to the dynamic nature of the activities, the Group aims to maintain flexibility in funding by keeping committed credit lines available. In addition, the Group relies on liquidity of financial markets and its ability to refinance its issued bonds. The Group's strategy is to secure the financing at least 6 months before the existing bonds become due.

The Group regularly monitors its liquidity position and uses overdrafts only in exceptional cases. The Group also uses the advantages of commercial terms between the Group and its suppliers to secure sufficient financing funds 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 Group and (b) expected future cash outflows securing operation of the Group and leading to settlement of all liabilities of the Group, including tax payables. The cash flow forecast identifies the immediate need for cash and, if funds are available, it enables the Group to make short-term bank deposits.

The table below analyses the Group's undiscounted amount of financial liabilities into relevant maturity groupings based on the remaining period to the contractual maturity date. The maturity analysis is as follows at 31 December 2020:

Maturity analysis at 31 December 2020

In thousands of EUR	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
Issued bonds – principal due	-	-	-	315,000	315,000	**630,000**
Issued bonds – future interest payments	-	5,513	12,600	47,250	16,537	**81,900**
Trade payables (Note 21)	76,634	38,367	387	584	-	**115,972**
Other accrued liabilities (Note 21)	7,570	835	25	-	-	**8,430**
Lease liabilities (including future interest payments)	291	582	2,906	18,009	5,990	**27,778**
Other financial liabilities (Note 21)	3,700	-	-	-	-	**3,700**
Commodity contracts at FVTPL:						
- payments*	4,703	6,661	23,107	15,178	-	**49,649**
- receipts**	(5,643)	(9,304)	(17,016)	(7,040)	-	**(39,003)**
Total future payments, including future principal and interest payments	**87,255**	**42,654**	**22,009**	**388,981**	**337,527**	**878,426**

* The notional amounts payable include the gross pay leg of commodity contracts at FVTPL regardless whether they have positive or negative fair value, i.e. whether they are assets or liabilities. The related non-cash commodity inflow is not included in the analysis.

** The notional amounts receivable represents the gross receivable leg of commodity contracts at FVTPL that have negative fair value, i.e. are a financial liability. The related non-cash commodity outflow is not included in the above liquidity analysis.

The maturity analysis is as follows at 31 December 2019:

Maturity analysis at 31 December 2019:						
In thousands of EUR	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Liabilities						
Issued bonds – principal due	-	-	-	315,000	315,000	**630,000**
Issued bonds – future interest payments	-	5,513	12,600	59,850	22,050	**100,013**
Trade payables (Note 21)	88,862	23,567	2,001	-	-	**114,430**
Other accrued liabilities (Note 21)	11,016	585	532	-	-	**12,133**
Lease liabilities (including future interest payments)	286	572	2,982	17,489	8,146	**29,475**
Other financial liabilities (Note 21)	4,349	-	-	-	-	**4,349**
Total future payments, including future principal and interest payments	**104,513**	**30,237**	**18,115**	**392,339**	**345,196**	**890,400**

30 Management of Capital

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders, and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. The Group manages capital reported under IFRS as equity amounting to EUR 217,408 thousand at 31 December 2020 (2019: EUR 155,480 thousand). In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders or return capital to shareholders.

The Group's management considers the most relevant indicator of capital management to be the return on average capital employed (ROACE). Management expects return on average capital employed to be higher than cost of capital. Indicator ROACE is calculated as follows: earnings before interest and taxes EBIT (in the consolidated statement of profit or loss and other comprehensive income of the Group presented as profit from operations) / average capital.

The Group is not subject to any externally imposed regulatory capital requirements.

31 Movements in Liabilities from Financial Activities

The table below sets out an analysis of movements of financial liabilities for each of the periods presented:

Analysis of movements of financial liabilities for each of the periods presented

In thousands of EUR	Issued bonds (Note 15)	Lease liabilities	Total
At 1 January 2019	**633,793**	**3,426**	**637,219**
Non-cash movements			
Recognition of lease liabilities upon initial application of IFRS 16 at 1 January 2019	-	22,488	**22,488**
Additions to leases (Note 8)	-	5,053	**5,053**
Interest expense (Note 27)	16,422	407	**16,829**
Capitalised interest costs (Note 6 and 27)	1,691	-	**1,691**
Amortisation of bonds transaction costs	452	-	**452**
Termination and modifications of leases	-	(389)	**(389)**
Other	(1)	(355)	**(356)**
Payments			
Interest expense paid	(18,113)	(407)	**(18,520)**
Lease liability principal repayments	-	(4,120)	**(4,120)**
At 31 December 2019	**634,244**	**26,103**	**660,347**
Non-cash movements			
Additions to leases (Note 8)	-	4,272	**4,272**
Interest expense (Note 27)	16,295	443	**16,738**
Termination and modifications of leases	-	(767)	**(767)**
Capitalised interest costs (Note 6 and 27)	1,818	-	**1,818**
Amortisation of bonds transaction costs	452	-	**452**
Other	-	(69)	**(69)**
Payments			
Interest expense paid	(18,113)	(443)	**(18,556)**
Lease liability principal repayments	-	(5,027)	**(5,027)**
At 31 December 2020	**634,696**	**24,512**	**659,208**

32 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.

a) Recurring fair value measurements
Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period:

Commodity contracts carried at fair value. Certain commodity contracts are carried in the statement of financial position at fair value. The fair value measurement belongs to level 2 in the fair value hierarchy and the key input is the spot and forward electricity or natural gas price per MWh.

b) Assets and liabilities not measured at fair value but for which fair value is disclosed
Fair values analysed by level in the fair value hierarchy and the carrying value of assets and liabilities not measured at fair value are as follows:

Fair values analysed by level in the fair value

In thousands of EUR	31 December 2020			31 December 2019		
	Level 1 fair value	Level 2 fair value	Carrying value	Level 1 fair value	Level 2 fair value	Carrying value
ASSETS						
Loans provided	-	202	202	-	202	202
Trade receivables, net (Note 11)	-	152,794	152,794	-	152,284	152,284
Cash and cash equivalents (Note 12)	-	82,640	82,640	-	82,216	82,216
TOTAL ASSETS	**-**	**235,636**	**235,636**	**-**	**234,702**	**234,702**
LIABILITIES						
Issued bonds (Note 15)	696,512	-	634,696	702,762	-	634,244
Trade payables (Note 21)	-	115,972	115,972	-	114,430	114,430
Other accrued liabilities (Note 21)	-	8,430	8,430	-	12,133	12,133
Other financial liabilities (Note 21)	-	3,700	3,700	-	4,349	4,349
TOTAL LIABILITIES	**696,512**	**128,102**	**762,798**	**702,762**	**130,912**	**765,156**

The fair value of lease liabilities is not disclosed in accordance with paragraph 29 of IFRS 7. The fair value of issued bonds was determined at the quoted market price of the bonds (Note 15). The fair values of other financial assets and liabilities approximate their carrying values.

33 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 (d) 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 financial assets and liabilities of the Group, except for commodity contracts at FVTPL, are measured at amortized cost ("AC"). Lease liabilities were measured and disclosed according to IFRS 16, *Leases*.

34 Contingencies and Commitments

Tax contingencies. Slovak tax law contains certain provisions that allow for more than one interpretation. Management's interpretation of the Group's business activities may not coincide with the interpretation of these activities by the tax authorities, but the extent of this risk cannot be reasonably quantified. The fiscal years from 2016 to 2020 remain open to tax inspection, however, for transfer pricing issues of cross-border transactions, earlier periods are also subject to tax inspection.

Legal proceedings. From time to time and in the normal course of business, claims against the Group may be received. Certain customers or their representatives contest fairness and appropriateness of decisions of the network industry regulator. These circumstances led the Group to create a provision for the potential impact of legal proceedings (Note 19).

At 31 December 2020, the maximum additional exposure of the Group to the risk of these legal proceedings is EUR 23,192 thousand (2019: EUR 31,817 thousand) in excess of the provision already created.

Capital expenditure commitments. At 31 December 2020, the Group had outstanding contractual commitments for purchases of property, plant and equipment of EUR 63,880 thousand (2019: EUR 69,510 thousand). Outstanding contractual commitments for purchases of intangible assets were EUR 897 thousand (2019: EUR 3,282 thousand).

35 Balances and Transactions with Related Parties

The primary related parties of the Group are (a) its shareholders which have joint control over the Group as explained in Notes 1 and 13: (i) the Slovak Government and (ii) E.ON, as well as (b) key management personnel. The Group 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 and outstanding balances were as follows for 2020:

Related party transactions and outstanding balances

In thousands of EUR	Ministry of Economy of the Slovak Republic	E.ON Slovensko, a.s	E.ON Group**	Slovak Government*	Joint venture (Note 9)
Revenue, other operating income and interest income	23	142	20,953	121,241	1,049
Government grant for renewable energy purchases	-	-	-	20,478	-
Dividend income	-	-	-	-	495
Purchases and expenses	52	-	16,586	530,259	2,054
Receivables other than taxes	1	-	1,497	14,969	98
Liabilities other than taxes	-	-	2,489	54,744	366
Dividends declared and paid	37,809	28,912	7,414	-	-

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

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

Income taxes are disclosed in the statement of financial position, statement of profit or loss and other comprehensive income, in the statement of cash flows and are also analysed in Note 16. Outstanding value added tax payable is presented in Note 21. Property and motor vehicle taxes are disclosed in Note 25

The income tax paid was as follows:

Income tax paid

In thousands of EUR	2020	2019
Current income tax expense at standard rate of 21% (2019: 21%) – refer to Note 16	(29,040)	(22,638)
Special levy on profits from regulated activities (Note 16)	(6,707)	(5,525)
Current income tax (liabilities) / refund receivable at the beginning of the reporting period	(5,179)	6,441
Current income tax liabilities at the end of the reporting period	12,292	5,179
Other	8	-
Income tax paid	**(28,626)**	**(16,543)**

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

The related party transactions and outstanding balances

In thousands of EUR	Ministry of Economy of the Slovak Republic	E.ON Slovensko, a.s	E.ON Group**	Slovak Government*	Joint venture (Note 9)
Revenue, other operating and interest income	34	269	326	231,348	1,048
Dividend income	-	-	-	-	282
Purchases and expenses	7	-	7,211	552,728	2,589
Receivables other than taxes	2	150	218	13,320	-
Liabilities other than taxes	-	-	3,261	51,291	1,221
Dividends declared and paid	32,553	24,893	6,383	-	-

* 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 to hospitals, schools, to the government ministries and many other government controlled or otherwise government related enterprises on normal commercial terms and conditions. Management did not identify other government related transactions that are collectively, but not individually, significant.

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

Key management personnel remuneration

In thousands of EUR	2020	2019
Board of directors and other key management personnel		
Salaries and other short-term employee benefits	1,977	2,106
Defined contribution pension costs	218	240
Total remuneration of board of directors and other key management personnel	**2,195**	**2,346**
Supervisory board		
Salaries and other short-term employee benefits	360	325
Defined contribution pension costs	55	48
Total remuneration of supervisory board	**415**	**373**

36 Events after the End of the Reporting Period

The Group is currently unable to assess the impact of further developments of COVID-19 virus on its future financial position and results of operations, however, depending on strength and developments of future waves of the virus infections and spreading, this impact may be negative and significant.

The company ZSE Energetické služby, s. r. o., which is part of the Group, entered into an agreement on 18 February 2021 to purchase 51% of the shares in BK, a.s. Completion of the transaction is subject to approval by the Antimonopoly Office of the Slovak Republic of the concentration represented by the transaction.

After 31 December 2020, no other significant events have occurred that would require recognition or disclosure in these consolidated financial statements.

Management authorised these financial statements for issue on 25 March 2021:

.....
Markus Kaune
Chairman of the Board of Directors and CEO

.....
Marian Rusko
Member of the Board of Directors

Complete annual report here.