Annual Report 2021

Západoslovenská energetika, a.s.

ZSE

Content

1.

Introduction

of the Západoslovenská energetika, a.s. Group

Markus Kaune, Chairman of the Board of Directors and CEO

Foreword by the Chairman of the Board of Directors

As a Chief Executive Officer of the energy company, I see 2021 as extremely difficult. Throughout the entire history of energy business, it was definitely a year when the prices of commodities on exchanges hit records and unprecedented changes occurred on the energy market, significantly affecting our Group, that is distribution, sale and generation of energy, including customer solutions. Furthermore, the situation was complicated by the coronavirus pandemic.

Over the year, we saw its unpredictable development and relating restrictions in the country: from hard lockdown at the start of the year to the almost full lifting of covid restrictions, giving us hope for return to the normal life, to the significant worsening at the end of the year. We had to respond to all these changes flexibly and adapt the functioning of our company in a way so as to run all crucial operations with no negative impact on customers.

To be able to work under these unusual conditions, we had to, in particular, ensure the continuous operation of all companies within the ZSE Group. Considerable attention was paid to the protection of our employees against the virus. Our first priority was to protect our employees from the virus as much as possible and ensure business continuity so that the reliable and secure electricity and gas supply is not threatened. We did our best to be able, as an economic mobilisation entity, to ensure sustainable operating regime and non-stop electricity distribution in case the situation gets worse and crisis situation is declared.

In addition to the pandemic, our business was affected by sharp rise of whole-sale prices of energies on the exchange. Not only prices of electricity and gas went significantly up, but their volatility also beat the records. It was a result of several factors. The global economy recovery after the first wave of the pandemic caused the significant demand for electricity and particularly gas. Additionally, the prices went up due to lower generation from renewable sources and the increase of prices for CO2-certificates. The combination of these factors led to the unprecedented development on the energy market.

All these aspects substantially contributed to the energy market uncertainty. Unfortunately, customers themselves were impacted. Some of the alternative suppliers were not able to manage the difficult situation and decided to leave the market and to end their business. ZSE as a last resort supplier took over the customers in Western Slovakia. Besides heavy workload, it meant great responsibility to us. We had to ensure smooth shift of more than 74,000 customers so that no, not even short-term interruption of electricity supply occurs. Thanks to massive effort of our colleagues, we managed to stabilise the situation in a very short time.

I am very proud that despite all circumstances I mentioned I can consider the year 2021 successful. Positive development was reported

in many areas and activities: customer portfolio, market share, distribution or customer services. We managed to achieve the forecasted financial results while making investments under difficult conditions.

In 2021, we invested more than 111 million EUR into the development and upgrade of the distribution system. We continued in investing in smart metering systems. At the same time, we keep on increasing the level of automation of the system operation by enlarging the number of smart grid elements, including remote localisation of failures and control of the distribution system components. We started modernising the electrical station near Borský Svätý Jur, improving regional energy security and having great impact on the interconnection between the Slovak and Czech energy systems. With more than 11 million EUR in investments, this strategic construction is designed as a source with sufficient reserve, enabling its possible extension. In line with the EU´s strategy documents, the energy transition will require for significant investments in the distribution system. Our company is prepared to meet this commitment, however, it requires a foreseeable and reliable legislative and regulatory framework in Slovakia.

The customers were offered our "green solutions" that experience great popularity. More than 85,000 of our household customers use the Green Electricity by ZSE product, preventing almost 41,000 tonnes of CO_2. With our ZSE Drive brand, we continued in building the network of charging stations that also use green electricity produced from renewable sources. Our public charging network is the biggest in Slovakia. In Bratislava, we built the first charging hub with dynamic power consumption management and full offer of ultra-fast and slow charging.

As an energy company, we have potential which we can use for the transition to zero emission solutions, contribute to the goals of the Paris Agreement and European Green Deal, to develop or upgrade ecosystems and build inclusive society. We became the partners of the AHK Slowakei - #PartnerForSustainability initiative, aiming to help better harmonisation of economic competitiveness with environmental and corporate responsibility and actively participate in the development of sustainable future. We feel engaged to respond to the current environmental challenges and inform broad public of our activities. Last year, we published our first Sustainability Report. The document maps the activities of the ZSE Group in 2020 on the way to sustainable energy business.

Without exaggeration we can say that the year 2021 was the most turbulent year in the history of the electricity and gas market, and on top, like already 2020, it was remarkably affected by the pandemic and related restrictive measures. I would like to thank all colleagues and partners who have been working under extremely difficult conditions for almost two years. I am grateful that in spite of it, we show excellent results and continued to be a reliable and trustworthy partner to our customers.

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 v likvidácii, s.r.o., ZSE Energy Solutions, s.r.o., ZSE MVE, s. r. o. and ZSE Business Services, s. r. o. a ZSE Energetické služby, s.r.o. Západoslovenská energetika, a.s. is also the sole founder of Nadácia ZSE (ZSE Foundation). ZSE Energia, a.s. has organisational unit in Czech Republic. The company Západoslovenská energetika, a.s. has no other organisational units abroad.

ZSE Group through ZSE Energetické služby, s.r.o. also acquired a 58% business share in EKOTERM, s.r.o., and 67% of shares in BK, a.s.

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.

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

Company Bodies

The structure of statutory and supervisory bodies of the Company during the year 2021 was as follows:

Statutory Body

Board of Directors	
As at 31 December 2021	
Chairman	Markus Kaune (start of office on 1 September 2020)
Vice-Chairman	Ing. Ľuboš Majdán (start of office on 1 September 2020)
Members	Ing. Pavol Viskupič (start of office on 1 September 2020)
	Marian Rusko (start of office on 16 March 2020)
	Mgr. Juraj Krajcár (start of office on 5 December 2017 and end of the office on 5 December 2021)
	Mgr. Juraj Krajcár (start of office on 6 December 2021)

Supervisory Body

Supervisory Board	
As at 31 December 2021	
Chairman	Mgr. Tomáš Galbavý (start of office as a Member on 20 November 2020 and as the Chairman on 14 December 2020)
Vice-Chairman	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)

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 2021, the Audit Committee of the Company had the following structure:

Audit Committee in 2021
Ing. Ján Rusnák (till 6 December 2021)
Ing. Michal Kubinský (till 6 December 2021)
JUDr. Peter Hajduček (till 6 December 2021)
Mgr. Ing. Lucia Starečková (from 6 December 2021 till 6 December 2021)
Mgr. Katarína Goldbergerová (from 6 December 2021)
Ing. Mgr. Juraj Bayer, PhD. (till 24 September 2021)
Ing. Boris Németh (from 24 September 2021)

Shareholders' Structure

The shareholders' structure in Západoslovenská energetika, a.s. as at 31 December 2021 was as follows:

Shareholders' Structure

As at 31 December 2021	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.

The Organisational 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 Financial Statements

The Company has internal control and risk management system in place, relating 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 require 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 assessment 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 with the Compliance Programme; as well as for monitoring and supervising compliance,
- updating of the Company Code of Conduct;
- performance of the activities relating to verification of the breach of the Company 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 Companies´ 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 Companies 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 decision").

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 2021, the Board of Directors of the Company had the following structure:

Board of Directors of the Company in 2021	
Chairman of the Board of Directors:	Markus Kaune (from 1 September 2020)
Vice-chairman of the Board of Directors:	Ing. Luboš Majdán (from 1 September 2020)
Members of the Board of Directors:	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 2021 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, out of the meeting of the Board of Directors ("per rollam decisions") in 2021.

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 decision").

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 2021, 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 2021 a decision 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:

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

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

3. Part of the organisational structure of the ZSE Group is also the position of the **Compliance Manager**, whose role includes not only the responsibility for drafting and updating documentation related to the Business Compliance 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. Market Developments

Market Developments

The European context of energy and our strategy

To assess the year 2021 immediately after its end is an uneasy job because it is beyond any historical parallel and its consequences will be still felt for a long time. It was the year of all superlatives, and not only positive ones such as "the most extraordinary", the most difficult, the most dangerous", but also the year of exceptional opportunities. It was the year when the market paradigm changed and the long-term energy transformation started in reality.

The pandemic was the main topic in 2021 but compared to the previous year, its impacts limited to the health care sector without direct economic effects and as such it was seen by financial and commodity markets too. Global incentives announced by the world´s governments significantly contributed to this trend too, qualifying for unprecedented 20 percent of the global GDP (E-trend) and causing the return to the extraordinary economic growth which, following experience from the previous year, the society was not ready for.

In Europe, this stimulus was conditioned by the transition to green technologies, which meant the acknowledgement of climate commitments, which stop being the issue of political choice but - from the perspective of climate protection - becomes a necessity. This resulted in great growth of the price of emission permits, which went up from the original EUR 30/tCO_2 and reached the historical maximum EUR 90/tCO2. This development was intensified by extraordinary price situation on the gas market and the fight with coal as fuel for electricity generation.

Year 2021 reminded us that global climate, its warming and current weather can be two different things and we were witnesses of two consecutive colder and longer winters and springs in a global context. It resulted in extreme low level of underground gas storage, which was one of the main reasons behind enormous growth of natural gas price, causing that coal returned to the market, even temporarily. Natural gas reported the biggest price growth in global comparison and its prices reached the multiples of what we saw in the past, still before the start of winter season.

Gradual shut-down of coal-fuelled and nuclear sources which is planned in the long-run significantly reduced the offer of conventional power plants.

A series of extraordinary events in a global context deepened this gap between higher demand and reduced offer even more. We mean, in particular, the accident in the Panama Canal where LNG tankers, heading for Asia, got stuck at the time of maintenance of nuclear power plants combined with cold weather or extremely dry weather in the Latin America, which caused that demand for LNG supply went up. Technical problems with the Jamal gas pipeline in autumn or geopolitical factors in our direct neighbourhood had impact on limited supplies of Russian gas to European markets despite their record prices.

It resulted in an extraordinary intensive volatility and falling liquidity, while proving a key need of the financial security for business positions. We saw the bankrupt of many energy suppliers, both on local and European markets, causing the

regime of the last resort supply. Even the consumption of customers in the original portfolio exceeded all current maxima. It was caused by the factor such as weather, high economic growth, but also pandemic measures and frequent work from home where consumption is double.

Expectations 2022

2022 will be characterised by the transition processes launched in 2021, therefore we expect that it will be an extraordinary year in many areas. In the period of supply, we have to cope with higher credit risk of business counterparties caused by the market situation and extremely material weather risk - especially for suppliers to regulated segments.

Underground storage capacities will definitely have not been full by the summer, therefore the risk on the gas market will have the tendence to affect the next winter season too.

In Slovakia, the primary energy legislation is being updated, with respect to the fourth package. Also, the third block of the nuclear power station Mochovce is expected to be put into operation.

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.

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.

ZSE Elektrárne, s.r.o.

The main area of operation of ZSE Elektrárne, s.r.o. is the production of electricity. In 2021, the power plant supplied 2,391,384 MWh to the energy network, consuming 433,629,522 m^3 of gas and producing 847,889 tons of CO_2.

The year 2021 was the first year of operation of the power plant at base load. The biggest risk for the power plant and its economic stability is unplanned short-term power plant outages due to possible failures at the power plant equipment, which means large costs for the deviation caused in the system Slovenská elektrizačná prenosová sústava, a.s. However, these risks are minimised by regular planned and preventive maintenance of all power plant equipment. The power plant is commercially insured against a long-term outage.

The principle of preventive maintenance of power plant equipment continues to apply, where the main tool is diagnostics and early detection of possible machine failure.

ZSE Elektrárne, s.r.o. sees the conflict in Ukraine as a potential threat to its future economic activities, as its core business is inextricably linked to gas supplies.

Significant events that occurred after the end of 2021 and require disclosure in the annual report

The recent armed conflict between Russian Federation and Ukraine and related events has increased the perceived risks of doing business in the energy sector.

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

After 31 December 2021, no other significant events have occurred that would require recognition or disclosure in this annual report.

3. Economy

Economy

Selected Data from the Separate Financial Statements

In 2021, the parent company Západoslovenská energetika, a.s. generated a profit of EUR 90,490 thousand and incurred costs totaling EUR 44,106 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	2021	2020
Non-current assets	966,944	972,976
Current assets	87,912	129,387
Total assets	**1,054,856**	**1,102,363**
Equity	372,562	371,293
Non-current liabilities	634,461	635,944
Current liabilities	47,833	95,126
Total equity and liabilities	**1,054,856**	**1,102,363**
Continuing operations:		
Revenues	16,571	15,484
EBIT (profit from operations)	**91,218**	**89,895**
EBITDA	95,299	93,921
Total income	134,596	133,345
Total expenses	42,908	42,968
Profit before tax	91,688	90,377
Profit for the year from continuing operations	**90,490**	**89,816**
Profit for the year from discontinued operations		-
Profit for the year	**90,490**	**89,816**
Total other comprehensive income for the year	381	(164)
Total comprehensive income for the year	**90,871**	**89,652**
Total comprehensive income for the year from continuing operations	90,871	89,652
Capital expenditures	2,205	4,961
Average number of employees	171	169

Distribution of the 2020 Profit

The General Meeting of Západoslovenská energetika, a.s. held on 24 June 2021 approved the proposal for the distribution of the 2020 profit of EUR 89,816 thousand. In June 2021 the Company's shareholders were paid dividends from the 2020 profit in the total amount of EUR 89,602 thousand. Also, the amount of EUR 214 thousand from the 2020 profit was designated as a contribution to the social fund from profit. In 2021, the dividend per share amounted to EUR 15.10 (2020: EUR 12.49 per share).

Decision on the 2021 Profit Distribution
Ku dňu zostavenia účtovnej závierky štatutárny orgán zatiaľ nenavrhol rozdelenie zisku za rok 2021.

Selected Data from the Consolidated Financial Statements

In 2021, the ZSE Group generated a profit of EUR 135,577 thousand and incurred costs totaling EUR 1,236,624 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	2021	2020
Non-current assets	1,170,199	1,081,896
Current assets	255,372	253,685
Total assets	**1,425,571**	**1,335,581**
Equity	269,440	217,408
Non-current liabilities	818,995	815,953
Current liabilities	337,136	302,220
Total equity and liabilities	**1,425,571**	**1,335,581**
Revenue from sales	1,341,136	1,210,843
EBIT (profit from operations)	**184,171**	**176,757**
EBITDA	247,130	239,796
Total income	1,372,201	1,258,176
Total expenses	1,205,375	1,099,004
Profit before tax	166,826	159,172
Profit for the year	**135,577**	**135,571**
Other comprehensive income for the year	4,030	(1,334)
Total comprehensive income for the year	**139,607**	**134,237**
Average number of employees	**2,115**	**1,983**

Structure of Electricity Sources and Use of electricity

Structure of Electricity Distribution

In GWh	As at 31 December 2021	Share (%)	As at 31 December 2020	Share (%)
Wholesale	5,760	58	5,531	59
Retail – businesses	1,348	14	1,322	14
Retail – households	2,783	28	2,579	27

Structure of Electricity Supplies

V GWh	As at 31 December 2021	Share (%)	As at 31 December 2020	Share (%)
Volume of electricity supplied including losses (GWh)	6,815	100	6,722	100
Of which: supplies to households (GWh)	2,251	33	2,053	31
Of which: supplies excluding households (GWh)	4,564	67	4,669	69

Useful electricity supply (GWh)	
Year	**Total**
2021	6,815
2020	6,722

Distributed electricity (GWh)			
Year	**Total**	**Of which: wholesale**	**Of which: retail**
2021	9,891	5,760	4,131
2020	9,432	5,531	3,901

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

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

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

Indicators of ZSE Energia, a.s		
As at 31 December	**2021**	**2020**
Volume of electricity sold (GWh)	6,815	6,722
Revenue from the sale of electricity (EUR thousand)*	1,114,254	968,924
Volume of electricity purchased (GWh)	6,815	6,722
Number of supply points	1,002,782	935,326

Information on sales in monetary terms for the ZSE Group:

Indicators of the ZSE Group		
As at 31 December	**2021**	**2020**
Volume of electricity sold (GWh)	6,815	6,722
Volume of electricity distributed (GWh)	9,891	9,432
Revenue from the sale and distribution of electricity (EUR thousand)*	1,139,700	1,075,211
Volume of electricity purchased (GWh)	6,815	6,722
Volume of electricity generated (GWh)	2,447	1,787

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

Indicators of ZSE Energia, a.s		
As at 31 December	**2021**	**2020**
Revenue from the sale of gas (EUR thousand)*	179,773	125,451
Volume of gas supplied (GWh)	3,524	2,960
Number of supply points	89,400	78,493

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

4. Human Resources

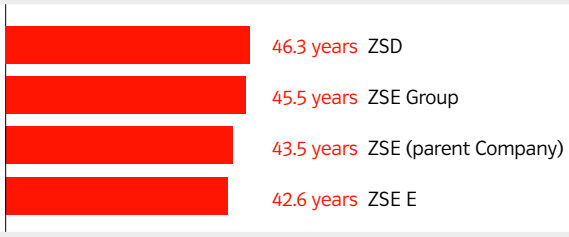
Human Resources

In 2021, the ZSE Group employed 2,115.26 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).

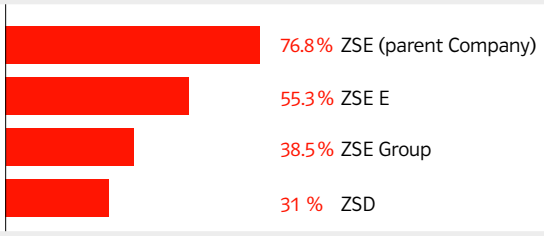
Number of employees in individual companies

	Number of employees
ZSE	**170.62**
ZSEE	**275.66**
ZSD	**1,505.01**
ZSE MVE	**6**
ZSE BS	**1.45**
ZSE Elektrárne	**31.71**
EKOTERM	**7.40**
BK	**117.41**

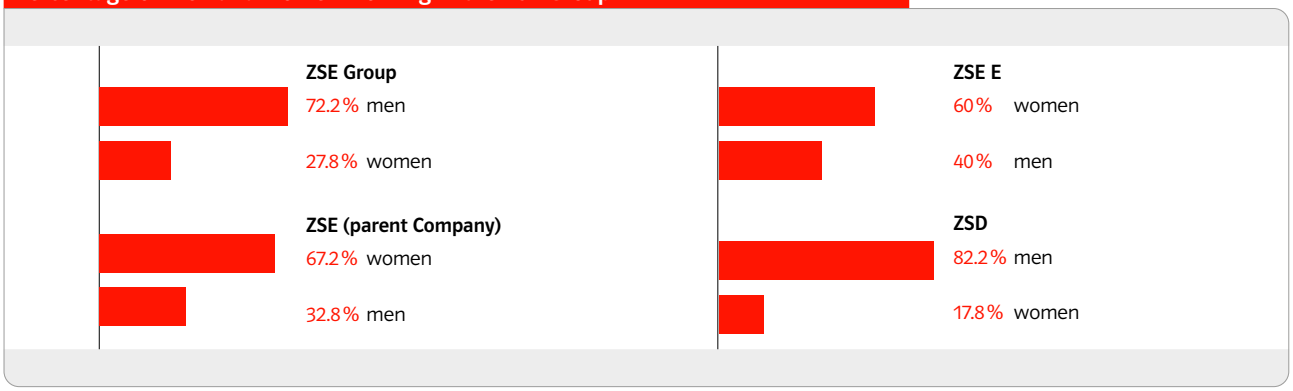
Average age of employees



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 2% on average. At the same time, as part of the employee's total income, part of the variable wage component was transferred to the basic wage.

All employees of the ZSE Group received the contribution from the Social Fund for recovery of labour force. Above standard preventive medical check-ups were also provided to employees. The employer continued in contributing to the supplementary pension savings scheme of employees in 2021 too. Every employee was entitled to 5 days of holidays beyond the Labour Code.

Education of employees and cooperation with schools

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

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

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

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

The graduate programme "Power" is a key programme for practical training of young generation. It is designed for graduates of secondary and higher schools of electrical engineering, and it is aimed at education of successors for technical positions through systematic development and work positions in selected units.

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

Students of secondary vocational schools can participate in many projects, such as dual education, technical trainings or various competitions and events. In 2021, the Company organised "ZSE Online Excursions" for students of secondary vocational schools located in western Slovakia, in the Bratislava and Nitra regions, to present them work of our technical colleagues and possibility of dual learning. Students of secondary electrical schools participated in the next year of the 4E.ON competition, in which they produced important teaching aids for electrical engineering in the field of electrical engineering. The evaluation of the competition and the final event took place for the second time online.

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

5.

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 Occupational Safety and Health Protection Act.

Initial trainings concerning the occupational health and safety were conducted online, and our contractors and suppliers were informed of health and safety matters online too. The amount of EUR 842,401 was invested for all ZSE Group companies into personal and protective work equipment and tools, obligatory training courses on occupational health and safety, and preventive medical check-ups.

The TRIF comb. indicator – a number of incidents incurred by the employees of the ZSE Group and of contractors per 1 million hours of work for the monitored period - is reported in the ZSE Group. In 2021, the TRIF comb. reached a value of 1.8. Five registered work accidents were reported in 2021, of which one fatal accident of our contractors. In 2021, employees of contractors worked 514,721 hours at the sites or facilities of the ZSE Group.

Within the supervisory audit in 2021, the ZSE Group showed improvement of the established System of Integrated Management (SIM) and managed to keep international certificates ISO 9001, ISO 14001 and ISO 45 001. The re-certification agency identified SIM strengths and improvements and concluded that SIM is in line with the requirements of ISO 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.

6. Environmental Protection and Sustainability

Environmental Protection and Sustainability

Protection of environment is considered by all companies of the ZSE Group as a top priority of the sustainable development concept. All activities are accompanied by preventive measures in order to avoid water and soil pollution, and measures are taken to reduce noise in the surroundings of our own facilities. The new solutions contribute to reducing the carbon footprint. The construction of the ACON project makes a significant contribution to environmental protection. Environmental aspects of all activities including relating legal requirements are analysed and assessed on a regular basis.

In 2021, the companies of the ZSE Group invested EUR 3,226 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 727 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 and soil pollution and to reduce water consumption.

In accordance with regulation (EU) 2020/852 of the EP and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment and related delegated acts (hereafter referred to as „EU Taxonomy" or „EU Regulation 2020/852"). Group's management considers following economic activities of the Group as eligible in accordance with Commission Delegated Act (EU) 2021/2139:

- 4.9. Transmission and distribution of electricity - within subsidiary Západoslovenská distribučná, a.s.
- 4.5. Electricity generation from hydropower - within subsidiary ZSE MVE, s.r.o.
- 6.15. Infrastructure enabling road transport and public transport and 7.4. Installation, maintenance and repair of charging stations for electric vehicles in buildings (and parking spaces attached to buildings) within service line „e-mobility".

In accordance with EU Taxonomy, an eligible economic activity is such an activity that is described in the delegated acts to the EU Regulation 2020/852 regardless of the fact whether such activity meets the technical criteria determined within these delegated acts. Assessment of whether a certain economic activity is eligible under EU Taxonomy therefore does not necessarily means that such activity will also be considered as environmentally sustainable economic activity and that it would substantially contribute to one or more environmental objectives set within EU Taxonomy.

Starting from the following year (for period 2022) the Group will disclose additional information on alignment of its economic activities. It is also expected that the scope of the assessment will increase after criteria for additional environmental objectives are added and/or after further activities are included.

Considering the difference in the scope of assessment for the current and for the future accounting period the information may not be comparable.

The proportion of Taxonomy-eligible and Taxonomy non-eligible economic activities on the consolidated turnover of the Group, its consolidated capital and operational expenditure for year 2021 is provided in the table below. The Group avoided double reporting of economic activities primarily by using data from its segment reporting. Transactions within Group have been eliminated.

Consolidated capital and operational expenditure for year 2021

	Turnover	CapEx	OpEx[3]
Taxonomy-eligible activities	28%	74%[4]	68%
Taxonomy non-eligible activities	72%	26%	32%
Total (in thousands of EUR)	**1,341,136[1]**	**152,988[2]**	

[1] Refer to Note 24 of Notes to the Consolidated Financial Statements
[2] Refer to Notes 6, 7, 8 and 9 of Notes to the Consolidated Financial Statements
[3] Operating expenses (OpEx) mainly include repair and maintenance services from external providers, IT costs related to repairs and maintenance and costs of employees performing repairs and maintenance related to assets that are associated with taxonomy-eligible activities
[4] Taxonomy-eligible capital expenditure excluding purchases of emission allowances represents 90%

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 organisation, to set specific measures. In 2021, the Company continued in the international cooperation for the protection of raptors. In an effort to create a safer bird corridor along the Danube River, 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 in Záhorie region. As a part of the project, power lines were equipped with visible reflective elements in the critical spots, increasing visibility under bad weather conditions and eliminating death of birds when they collide with power lines. So far, more than 1,000 km of older lines have been treated. New lines are treated automatically. In total, more than EUR 1 million was invested in the environmental improvement of the lines. As part of the ACON project, we replaced more than 58 km of lines with underground cables.

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.

ZSE Elektrárne, s.r.o. with regard to environmental protection, it uses the best available technologies and long-term experience within the company. Environmental protection is implemented at all degrees of the company, with each employee following the principles of environmental protection.

The steam-gas power plant is operated on the basis of a permit from SIŽP Nitra for trial operation no. 4764-22502 / 2018 / Tit / 374860108 / Z9. The company complies with all the obligations arising from the trial operation permit as well as other decisions of the competent environmental authorities.

7. Corporate Social Responsibility

Corporate Social Responsibility

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

Education

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

The ZSE Group contributed to better quality of education in Slovakia through the grant scheme Exceptional School. In 2021, the ZSE Foundation announced its third year. The aim of the programme is to support teachers at elementary and secondary schools across Slovakia who, despite obstacles, did not lose encouragement to teach differently and be inspiration for their students and colleagues. In 2021, a total sum of EUR 50,000 was distributed within the Exceptional Schools programme, supporting 23 projects.

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

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

Protection of environment

Environmental responsibility has been among the priorities of the ZSE Group in the long-run. For more than 20 years environmentalists and us have been jointly working on the harmony between the landscape and industry on this territory which is also a part of the distribution area of ZSE.

In 2021, we continued to complete long-term environmental projects. With the Raptor Protection of Slovakia organisation, we managed to protect birds against collisions with electrical lines. ZSD employees helped installing the so-called deflectors at the poles, minimising risk of collisions in bad weather conditions. Last year, the drones were tested as to whether it would be possible to use them in order to install deflectors on the lines that cross over the Danube river. More than a EUR million has been spent so far to make the lines more environmentally friendly. In cooperation with the ornithologists, we continued to install booths on the high voltage poles on the selected lines.

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

Community development

Engagement of the ZSE Group employees has been one of our pillars of our activities within social responsibility. Effort and engagement of our colleagues help to contribute to better environment we live in and in which our company operates. For 15 years our volunteers have been involved in the projects with the aim of bringing positive and visible change. Through the Employees´ grant programme the ZSE Group supports volunteering activities of those employees who, besides their daily work and duties, are willing to be engaged in their community. The amount of EUR 80,000 was redistributed among 119 projects of active employees.

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

Mutual aid connects us

In 2021, the ZSE Foundation further developed the cooperation with the Disabled Aid Association through the We Remove Barriers programme. Natural persons, informal groups of citizens and non-governmental organisations could apply for support, with the aim of organising their own charity sport or cultural events or public collections in Western Slovakia. Like many other events, charity events in 2021 were significantly affected by the coronavirus pandemic. Nevertheless, organisers of the supported projects managed to collect almost EUR 23,000. The contribution of the ZSE Foundation was EUR 15,000 in total.

Annex:

Separate Financial Statements

31 december 2021

Content

Separate Statement of Financial Position

Separate Statement of Financial Position			
In thousands of EUR	**Note**	**31 december 2021**	**31 december 2020**
ASSETS			
Non-current assets			
Property, plant and equipment	6	27,588	30,952
Intangible assets	7	1,134	1,018
Investment properties	8	16,957	19,306
Right-of-use assets	9	2,730	3,044
Investments in subsidiaries and joint venture	10	292,664	293,228
Finance lease receivables	11	1,321	1,551
Trade and other receivables	14	770	404
Loans provided to subsidiary	12	623,473	623,473
Deferred income tax receivables	19	307	-
Total non-current assets		**966,944**	**972,976**
Current assets			
Investments in subsidiaries and joint venture	10	564	-
Inventories	13	943	783
Accrued interest on loans provided to subsidiary	12	8,534	8,534
Trade and other receivables	14	8,556	3,675
Current income tax refund receivable	19	-	49
Finance lease receivables	11	257	253
Receivables from cash pooling	23	60,636	41,353
Cash and cash equivalents	15	8,422	74,740
Total current assets		**87,912**	**129,387**
TOTAL ASSETS		**1,054,856**	**1,102,363**
EQUITY			
Share capital	16	196,969	196,969
Legal reserve fund	17	39,421	39,421
Retained earnings		136,172	134,903
TOTAL EQUITY		**372,562**	**371,293**
LIABILITIES			
Non-current liabilities			
Issued bonds	18	628,267	627,815
Lease liabilities	9	3,982	5,009
Trade and other payables	22	1,410	1,648
Deferred income tax liabilities	19	-	236
Post-employment defined benefit obligations	20	613	1,049
Other long term employee benefits	21	189	187
Total non-current liabilities		**634,461**	**635,944**
Current liabilities			
Issued bonds and accrued interest on issued bonds	18	6,881	6,881
Borrowings	24	21,430	-
Lease liabilities	9	1,054	1,170
Trade and other payables	22	9,970	7,653
Current income tax liability	19	1,271	-
Liabilities from cash pooling	23	7,227	79,422
Total current liabilities		**47,833**	**95,126**
TOTAL LIABILITIES		**682,294**	**731,070**
TOTAL LIABILITIES AND EQUITY		**1,054,856**	**1,102,363**

These separate financial statements have been approved for issue by the Board of Directors on 31 March 2022.

Markus Kaune
Chairman of the Board of Directors and CEO

Marian Rusko
Member of the Board of Directors

The accompanying notes 1 to 42 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	2021	2020
Revenues from contracts with customers	**25**	**16,571**	**15,484**
Raw material, energy and other consumption	26	(1,856)	(1,630)
Employee benefits	27	(9,474)	(9,107)
Depreciation of property, plant and equipment and investment properties	6, 8	(3,437)	(3,444)
Amortisation of intangible assets	7	(199)	(134)
Depreciation of right-of-use assets	9	(445)	(448)
Other operating expenses	28	(8,449)	(9,164)
Other operating income	30	11,174	8,794
Dividend income	29	87,049	89,103
Income from subleases		119	177
Own work capitalised		165	264
Operating profit		**91,218**	**89,895**
Finance income / (costs)			
Interest income calculated using the effective interest method	32	19,518	19,523
Interest costs and similar expense	31	(19,048)	(19,041)
Finance income, net		**470**	**482**
Profit before tax		**91,688**	**90,377**
Income tax expense	19	(1,198)	(561)
Profit for the year		**90,490**	**89,816**
Other comprehensive loss			
Items that will not be subsequently reclassified to profit or loss			
Actuarial remeasurements of post-employment defined benefit obligations	20	483	(207)
Deferred tax on actuarial remeasurements of post-employment defined	19	-102	43
benefit obligations			
Total other comprehensive income / loss for the year		**381**	**(164)**
Total comprehensive income for the year		**90,871**	**89,652**

The accompanying notes 1 to 42 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	Základné imanie	Zákonný rezervný fond	Nerozdelené zisky	Vlastné imanie spolu
Balance at 1 January 2020	**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**
Profit for the year	-	-	90,490	**90,490**
Other comprehensive loss for the year	-	-	381	**381**
Total comprehensive income for 2021	**-**	**-**	**90,871**	**90,871**
Dividends declared and paid (Note 16)	-	-	(89,602)	**(89,602)**
Balance at 31 December 2021	**196,969**	**39,421**	**136,172**	**372,562**

The accompanying notes 1 to 42 are an integral part of these separate financial statements.

Separate Statement of Cash Flows

Separate Statement of Cash Flows

In thousands of EUR	Note	2021	2020
Cash flows from operating activities			
Profit before tax		91,688	90,377
Adjustments for non-cash items:			
- Depreciation of property, plant and equipment and investment properties	6, 8	3,280	3,444
- Loss / (gain) on disposal of property, plant and equipment	6	(1,736)	(71)
- Amortisation of intangible assets	7	199	134
- Impairment of property, plant and equipment and investment properties	6, 8	157	-
- Depreciation of right-of-use assets	9	445	448
- Amortization of govermment grant deferred income		(231)	243
- Interest income		(19,341)	(19,523)
- Interest and similar expense		18,699	18,712
- Dividend income	29	(87,049)	(89,103)
- ECL allowance for loan provided to subsidiary		(365)	131
- Other non-cash items		23	444
Cash generated from operations before changes in working capital		5,769	5,236
Changes in working capital:			
- Inventories		(160)	(448)
- Trade and other receivables		(5,199)	(242)
- Receivables and liabilities from cash pooling	23	(91,113)	(12,748)
- Trade and other payables		1,647	914
- Lease liabilities		(118)	(144)
- Provisions for liabilities and charges		43	38
Cash (used in)/generated from operations before interest and taxes		**(89,131)**	**(7,394)**
Interest income received		19,341	19,523
Interest expense paid		(18,241)	(18,254)
Income tax refund/ (paid)	41	(523)	(599)
Net cash (used in)/from operating activities		**(88,554)**	**(6,724)**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(2,205)	(4,961)
Dividend income received	29	87,049	89,103
Receipts from finance lease receivables		366	397
Cash received as a result of government grant		8	1,786
Proceeds from sale of property, plant and equipment and intangible assets	6	6,205	98
Net cash from investing activities		**91,423**	**86,423**
Cash flows from financing activities			
Dividends paid	16	(89,602)	(74,135)
Repayment of principal of lease liabilities	36	(1,015)	(1,121)
Borrowings	24	21,430	-
Net cash used in financing activities		**(69,187)**	**(75,256)**
Net change in cash and cash equivalents		**(66,318)**	**4,443**
Cash and cash equivalents at the beginning of the year		74,740	70,297
Cash and cash equivalents at the end of the year	**15**	**8,422**	**74,740**

The accompanying notes 1 to 42 are an integral part of these separate financial statements.

Notes to the Separate Financial Statements – 31 december 2021

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 2021 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. v likvidácii (entry into liquidation at 31 August 2021) 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 2021 and 31 December 2020. 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 171 staff on average during 2021, of which 8 were management (2020: 169 employees on average, of which 10 were management). Number of employees at 31 December 2021 was 177 (31 December 2020: 173).

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 financial statements have been prepared on accrual basis and

under the going concern assumption. The transactions are recognized in the financial statements in the period to which they relate.

The Board of Directors may propose to the Company's shareholders to amend the 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 con trols 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:

Estimated useful lives

	Useful lives in 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:

Estimated useful lives

	Useful lives in years
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. v likvidácii, 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.

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

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

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.

Changes in the presentation of the financial statements. The following prior reporting period data in the financial statements as at 31 December 2020 were amended to reflect the presentation in the current accounting period. These changes in presentation of comparatives had no impact on the total amount of assets, equity and profit or loss of the Company for the prior reporting period.

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

The impact of changes on the financial statements of the Company for the prior reporting period

In thousands of EUR	31 december 2020
Increase in item "Trade and other receivables"	404
Increase in item "Total non-current assets"	**404**
Decrease in item "Trade and other receivables"	(404)
Decrease in item "Total current assets"	**(404)**
Total changes in item "Total assets"	**-**
Increase in item „Trade and other payables"	1,648
Increase in item "Total non-current liabilities"	**1,648**
Decrease in item „Trade and other payables"	(1,648)
Decrease in item "Total current liabilities"	**(1,648)**
Total changes in item „Total liabilities"	**-**

3 Adoption of New or Revised Standards and Interpretations

The following amended standards became effective for the Company from 1 January 2021, but did not have any material impact:

- Amendments to IFRS 16 Leases COVID-19-Related Rent Concessions beyond 30 June 2021 (Effective for annual periods beginning on or after 1 April 2021).

4 New Accounting Pronouncements

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

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

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

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

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

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

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

Amendment to IFRS 9 Financial Instruments The improvements clarify that, when assessing whether an exchange of debt instruments between an existing borrower and lender are on terms that are substantially different, the fees to include together with the discounted present value of the cash flows under the new terms include only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

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

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

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

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

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

Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture (Effective date deferred indefinitely. Available for optional adoption in full IFRS financial statements.).
The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:

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

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

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

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

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

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

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. (2020:3.59% 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 41) 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	Equip-ment, vehicles and other assets	Equip-ment, vehicles and other assets leased to third parties	Capital work in progress	Total
Cost at 1 January 2020	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 1 January 2020	**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**
Transfer to investment property	146	816	-	-	-	962
Additions	-	-	-	-	2,092	2,092
Transfers	-	1,244	1,789	41	(3,074)	-
Depreciation charge	-	(670)	(990)	(649)	-	(2,309)
Disposals	(39)	(176)	(1)	(3,879)	(14)	(4,109)
Cost at 31 December 2021	1,583	24,707	15,700	-	3,578	45,568
Accumulated depreciation and impairment losses	-	(8,649)	(9,331)	-	-	(17,980)
Carrying amount at 31 December 2021	**1,583**	**16,058**	**6,369**	**-**	**3,578**	**27,588**

The Company holds insurance against damages caused by natural disasters up to EUR 277,381 thousand for buildings and up to amount of EUR 29,675 thousand for equipment, fixtures, fittings and other assets (2020: EUR 268,829 thousand and EUR 46,173 thousand).

Rental income is presented in Note 30. Future rental income from non-cancellable operating leases are payable as follows:

Future rental income from non-cancellable operating leases are payable		
In thousands of EUR	**2021**	**2020**
Due within:		
- 1 year	-	980
Total operating lease payments receivable under non-cancellable leases	**-**	**980**

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

The proceeds from disposal of property, plant and equipment		
In thousands of EUR	**2021**	**2020**
Net book value of assets disposed of	4,483	80
(Loss) / gain on disposal of property, plant and equipment	1,736	71
Other	(14)	(53)
Proceeds from disposals	**6,205**	**98**

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 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**

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 2021	27,113	649	27,762
Accumulated amortisation and impairment losses	(26,744)	-	(26,744)
Carrying amount at 1 January 2021	**369**	**649**	**1,018**
Additions	-	315	315
Transfers	478	(478)	-
Amortisation charge	(199)	-	(199)
Cost at 31 December 2021	27,435	486	27,921
Accumulated amortisation and impairment losses	(26,787)	-	(26,787)
Carrying amount at 31 December 2021	**648**	**486**	**1,134**

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, including properties held under lease agreements

	2021			2020		
In thousands of EUR	**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	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 1 January	**18,024**	**1,282**	**19,306**	**13,719**	**1,693**	**15,412**
Transfer from property, plant and equipment to investment property	(962)	-	(962)	4,872	-	4,872
Additions	405	-	405	148	58	206
Depreciation charge and impairment	(776)	(352)	(1,128)	(715)	(469)	(1,184)
Disposals	(374)	(214)	(588)	-	-	-
Reduction in value	-	(76)	(76)	-	-	-
Cost at 31 December	25,646	694	26,340	27,414	2,225	29,639
Accumulated depreciation and impairment losses	(9,329)	(54)	(9,383)	(9,390)	(943)	(10,333)
Carrying amount at 31 December	**16,317**	**640**	**16,957**	**18,024**	**1,282**	**19,306**

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 30. Direct operating expenses of investment properties were EUR 3,242 thousand (2020: EUR 3,250 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 with consideration of the above verbal agreement is receivable

In thousands of EUR	2021	2020
Due during:		
- year 1	6,181	6,201
- year 2	6,128	5,814
- year 3	6,128	5,790
- year 4	6,128	5,645
- year 5	5,971	5,637
- periods after year 5	39,486	44,992
Total future investment properties operating lease payments receivable	**70,022**	**74,079**

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:

Right-of-use Assets and Lease Liabilities

In thousands of EUR	Energy buildings and equipment	Vehicles	Total
Carrying amount at 1 January 2020	**3,292**	**198**	**3,490**
Additions	-	-	**-**
Disposals	-	-	**-**
Depreciation charge	(371)	(77)	**(448)**
Reduction in value	2	-	**2**
Carrying amount at 31 December 2020	**2,923**	**121**	**3,044**
Additions	-	136	**136**
Disposals	-	(5)	**(5)**
Depreciation charge	(370)	(75)	**(445)**
Carrying amount at 31 December 2021	**2,553**	**177**	**2,730**

The Company recognised lease liabilities as follows:

The Company recognised lease liabilities

In thousands of EUR	2021	2020
Short-term lease liabilities	1,054	1,170
Long-term lease liabilities	3,982	5,009
Total lease liabilities	**5,036**	**6,179**

Interest expense on lease liabilities is presented in Note 31.

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 other than short-term leases		
In thousands of EUR	**2021**	**2020**
Expense relating to short-term leases	2	2
Expense relating to leases of low-value assets that are not as short-term leases	94	53

Total cash outflows for leases were as follows:

Total cash outflows for leases		
In thousands of EUR	**2021**	**2020**
Short-term lease payments	2	2
Payments for leases of low-value assets other than short-term leases	94	53
Repayment of principal of lease liabilities	1,015	1,121
Interest from leasing paid	114	134
Total cash outflows for leases	**1,225**	**1,310**

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 2021, potential future cash outflows of EUR 0 thousand (2020: EUR 0 thousand) (undiscounted) have not been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated).

10 Investments in Subsidiaries and Joint Venture

Investments in Subsidiaries and Joint Venture		
In thousands of EUR	**2021**	**2020**
Total non-current investments at 1 January	**293,228**	**293,228**
Disposals	(564)	-
Total non-current investments at 31 December	**292,664**	**293,228**
Total current investments at 1 January	**-**	**-**
Additions	564	-
Total current investments at 31 December	**564**	**-**

Investments in Subsidiaries and Joint Venture				
In thousands of EUR	**% ***	**Activities**	**2021**	**2020**
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.

On June 24, 2021, the Ordinary General Meeting of Západoslovenská energetika, a.s. approved the entry of ZSE Development, s.r.o. to liquidation. It entered into liquidation by registering the liquidator in the Commercial Register on August 2021. Due to this fact, the Company reported the investments in the subsidiary ZSE Development, s.r.o. v likvidácii as short-term as at the balance date.

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	**2021**	**2020**
Due during		
- the 1st year	279	276
- the 2nd year	279	276
- the 3rd year	279	276
- the 4th year	279	276
- the 5th year	166	276
Later than 5 years	454	604
Total undiscounted finance lease payments receivable	**1,736**	**1,984**
Unearned finance income	(158)	(180)
Finance lease receivable	**1,578**	**1,804**

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	**2021**	**2020**
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)	(6,527)
Total loans provided to subsidiary – non-current	**623,473**	**623,473**
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**	**632,007**

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 and in the gross amount of loans		
In thousands of EUR	**Credit loss allowance**	**Gross carrying amount**
At 1 January 2020	6,631	630,000
Reassessment of ECL during the reporting period	(104)	-
At 31 December 2020	**6,527**	**630,000**
Reassessment of ECL during the reporting period	-	-
At 31 December 2021	**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 (2020: EUR 0 thousand). The cost of inventories recognized as expense and included in 'Raw materials, energy and other consumption' is disclosed in Note 26.

14 Trade and Other Receivables

Trade and Other Receivables		
In thousands of EUR	**2021**	**2020**
Trade receivables	770	404
Less allowance for possible impairment of trade receivables	-	-
Total non-current trade and other receivables, net	**770**	**404**
Trade receivables	8,170	3,150
Less allowance for possible impairment of trade receivables	(114)	(92)
Current trade receivables, net	**8,056**	**3,058**
Prepayments	500	617
Total current trade and other receivables	**8,556**	**3,675**

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

Movements in the impairment allowance for current trade receivables		
In thousands of EUR	**2021**	**2020**
Allowance for impairment at 1 January	**92**	**90**
Impairment loss expense	26	5
Amounts written off during the year as uncollectible	(4)	(3)
Allowance for impairment at 31 December	**114**	**92**

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

The Company has a concentration of credit risk towards its subsidiaries and other related parties. Refer to Note 41.
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 2021				31 december 2020			
	Loss rate	Gross carrying amount	Lifetime ECL	Net carrying valu	Loss rate	Gross carrying amount	Lifetime ECL	Net carrying valu
Non-current	0,00%	770	-	770	0,00%	404	-	404
Total non-current trade receivables		**770**	**-**	**770**		**404**	**-**	**404**
Current	0.00%	7,976	-	7,976	0.00%	3,018	-	3,018
Past due:								
- less than 30 days overdue	5.71%	70	4	66	8.82%	34	3	31
- 31 to 60 days overdue	20.00%	5	1	4	33.33%	3	1	2
- 61 to 90 days overdue	66.67%	3	2	1	50.00%	2	1	1
- 91 to 120 days overdue	62.50%	8	5	3	50.00%	4	2	2
- 121 to 180 days overdue	50.00%	2	1	1	66.67%	3	2	1
- 181 to 360 days overdue	64.29%	14	9	5	66.67%	9	6	3
- over 360 days overdue	100.00%	92	92	-	100.00%	77	77	-
Total current trade receivables		**8,170**	**114**	**8,056**		**3,150**	**92**	**3,058**
Total trade receivables		**8,940**	**114**	**8,826**		**3,554**	**92**	**3,462**

15 Cash and Cash Equivalents

Cash and Cash Equivalents

In thousands of EUR	2021	2020
Current accounts with banks	8,422	24,740
Short term bank deposits	-	50,000
Total cash and cash equivalents in the statement of financial position	**8,422**	**74,740**

The Company has a concentration of cash and cash equivalents balances towards 4 banks (2020: 4 banks).

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

Úverová kvalita peňazí a peňažných ekvivalentov

In thousands of EUR	2021	2020
Items without significant increase in credit risk (stage 1)		
Credit rating Aa3 by Moody's	17	17
Credit rating A2 by Moody's	8,405	59,434
Credit rating A3 by Moody's	-	15,289
Total cash and cash equivalents	**8,422**	**74,740**

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.

16 Share Capital

The Company issued and has outstanding 5,934,594 ordinary shares (2020: 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 89,602 thousand or EUR 15.10 per share (2020: dividends of EUR 74,135 thousand or EUR 12.49 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	2021	2020
Issued bonds – non-current	628,267	627,815
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	**635,148**	**634,696**

19 Income Taxes

Income tax expense comprises the following:

Income tax expense comprises

In thousands of EUR	2021	2020
Current tax at standard rate of 21% (2020: 21%)	1,767	352
Current tax for the previous period	76	100
Deferred tax	(645)	109
Total income tax expense	**1,198**	**561**

In 2021, the applicable standard income tax rate was 21% (2020: 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	2021	2020
Profit before tax	**91,688**	**90,377**
Theoretical tax charge at applicable tax rate of 21% (2020: 21%)	19,254	18,979
Non-deductible expenses / (non-taxable income) for which deferred tax was not recognised		
- dividend income not subject to tax	(18,280)	(18,712)
- expenses not deductible for tax purposes	267	124
Impact of income tax for the previous period	76	100
Other	(119)	70
Income tax expense for the period	**1,198**	**561**

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 2021, that will become current tax in 2022, will be settled in 2023 upon filing the 2022 tax return. The corporate tax advance payments are calculated based on prior year taxes and are thus unrelated to deferred tax balances or the current tax expense expected for subsequent years.

Deferred 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	2021	2020
Differences between tax base and carrying value of property, plant and equipment	(2,026)	(2,598)
Post-employment defined benefit obligation and other long term and short term employee benefits	377	474
Other liabilities	343	140
Provision for impairment of trade receivables and loans	1,604	1,686
Other	9	62
Total net deferred tax assets / (liability), net	**307**	**(236)**

The movements in deferred taxes for temporary differences were recognised in profit or loss except for EUR (102) thousand (2020: EUR 43 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	2021	2020
Present value of unfunded post-employment defined benefit obligations at the beginning of the year	**1,049**	**815**
Current service cost	105	78
Interest cost	6	6
Total expense (Note 27)	**111**	**84**
Actuarial remeasurements:		
- attributable to changes in financial assumptions	(15)	126
- attributable to changes in demographic assumptions	-	29
- attributable to experience adjustments	(468)	51
Total actuarial remeasurements recognised in other comprehensive income	**(483)**	**206**
Benefits paid during the year	(64)	(56)
Present value of unfunded post-employment defined benefit obligations at the end of the year	**613**	**1,049**

The principal actuarial assumptions were as follows:

The principal actuarial assumptions

	2021	2020
Number of employees at 31 December	177	173
Staff turnover	4.58%	4.58%
Expected salary increases short-term	2.00%	2.00%
Expected salary increases long-term	4.00%	4.00%
Discount rate	0.90%	0.60%

If the actual discount rate differed by 0.5% from the estimated discount rate, the value of the liability due to pension benefits would be by EUR 27 thousand lower or by EUR 29 thousend higher (2020: EUR 69 thousand lower or EUR 77 thousand higher).

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

21 Other Long Term Employee Benefits

The Company makes EUR 1,400 (2020: EUR 1,400) payment to each employee at the age of 50, subject to 5 year continuous service (2020: 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 (2020: 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 Payable

Trade and Other Payable

In thousands of EUR	2021	2020
Other payables from grants	1,410	1,648
Total non-current trade and other payables	**1,410**	**1,648**
Trade payables	3,596	2,868
Other accrued liabilities	1,179	901
Other financial liabilities	41	9
Total current financial instruments within trade and other payables	**4,816**	**3,778**
Employee benefits payable	348	360
Social security on employee benefits	276	275
Accrued staff costs	1,190	1,273
Advance payments	-	13
Value added tax payable	1,197	466
Liabilities of issued guarantees	1,629	1,051
Other payables	514	437
Total current trade and other payables	**9,970**	**7,653**

The Company had overdue trade payables of EUR 13 thousand (2020: EUR 117 thousand).

23 Receivables and Liabilities from Cash Pooling

Receivables and Liabilities from Cash Pooling		
In thousands of EUR	**2021**	**2020**
Receivables from subsidiaries		
ZSE Energia, a.s.	24,766	-
ZSE MVE, s. r. o.	920	1,087
ZSE Business Services, s. r. o.	-	301
ZSE Elektrárne, s.r.o.	30,975	41,175
ZSE Energetické služby, s.r.o.	5,087	267
Total receivables from cash pooling gross	61,748	42,830
ECL allowance for possible impairment of receivables from cash pooling	(1,112)	(1,477)
Total receivables from cash pooling	**60,636**	**41,353**
Liabilities to subsidiaries		
ZSE Energia, a.s.	-	58,572
ZSE Energy Solutions, s.r.o.	179	87
ZSE Development, s.r.o.	514	562
Západoslovenská distribučná, a.s.	6,479	20,201
ZSE Business Services, s. r. o.	55	-
Total liabilities from cash pooling	**7,227**	**79,422**

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. (2020: 0.4% p.a.). The interest rate on liabilities from cash pooling was 0.00% p.a. (2020: 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 0.00% p.a. for both banks .).

The Company recognised ECL allowance for receivable from cash pooling due from the subsidiary ZSE Elektrárne, s.r.o. of EUR 1,112 thousand (31 December 2020: EUR 1,477 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 and in the gross carrying value		
In thousands of EUR	**Credit loss allowance**	**Gross carrying amount**
At 1 January 2020	**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**
ECL allowance change due to cash pooling receivables movement	(365)	18,918
At 31 December 2021	**1,112**	**61,748**

24 Borrowings

Borrowings		
In thousands of EUR	**2021**	**2020**
Revolving loan	21,430	-
Total borrowings	**21,430**	**-**

As at 31 December 2021, the Company has agreements with banks about revolving credit facilities amounting to EUR 75,000 thousand (2020: EUR 75,000 thousand) and overdraft credit facilities amounting EUR 0 thousand (2020: EUR 100,000 thousand). As at 31 December 2021 the Company has drawn EUR 21,430 thousand from these facilities (2020: EUR 0 thousand).

All the Group's borrowings are denominated in EUR. The fair value of current borrowings equals their carrying amount, as the impact of discounting is not significant. There is no property, plant and equipment or other assets pledged as collateral for the borrowings.

25 Revenues from Contracts with Customers

Revenues comprise the following:

Revenues from Contracts with Customers

In thousands of EUR	2021	2020
Services provided to subsidiaries, joint venture and to the shareholder	15,256	14,114
Other revenues	1,315	1,370
Total revenues from contracts with customers *	**16,571**	**15,484**

* The revenues shown in the table above are included in segment other in the segment reporting (Note 33)

Revenue recognition pattern is as follows:

Revenue recognition pattern

In thousands of EUR	2021	2020
At a point in time	516	140
Over time	16,055	15,344
Total revenues from contracts with customers	**16,571**	**15,484**

26 Raw Materials, Energy and Other Consumption

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

Raw Materials, Energy and Other Consumption

In thousands of EUR	2021	2020
Energy consumption	1,061	1,063
Purchases of electricity for resale	526	360
Consumption of other materials and spare parts	269	207
Total raw materials, energy and other consumption	**1,856**	**1,630**

27 Employee Benefits

Employee Benefits

In thousands of EUR	2021	2020
Wages and salaries	6,042	5,997
Defined contribution pension costs	1,017	925
Post-employment defined benefit plan expense (Note 20)	111	84
Other long-term employee benefit plans - current service and interest cost	22	20
Actuarial remeasurements of other long-term employee benefit plans	-	13
Other social costs	2,282	2,068
Total employee benefits expense	**9,474**	**9,107**

28 Other Operating Expenses

Other Operating Expenses		
In thousands of EUR	**2021**	**2020**
Information technology and software maintenance costs	874	750
Repairs and maintenance costs	699	596
Postal and telecommunication services	14	14
Security services	1,353	1,356
Advertising and marketing services	541	493
Facility management expenses	719	732
Project management expenses	309	659
Travel expenses	41	41
Gifts	173	335
Insurance	120	119
Advisory services	527	1,006
Statutory audit	153	188
Non-audit services provided by the audit firm	-	52
Central services	503	438
Call center services	60	1
Metrology	80	90
Communication services	582	277
Other operating expenses	377	257
Property and motor vehicle tax	198	198
Impairment loss expenses on loans provided, trade receivables and receivable from cash pooling	(339)	136
Expenses relating to short-term leases	2	2
Expenses relating to leases of low-value assets	94	53
Other purchased services	1,369	1,371
Total other operating expenses	**8,449**	**9,164**

KPMG network (2020: PwC) provided to the Company non-audit services in the amount of EUR 0 thousand (2020: EUR 57 thousand). These services were part of non-audit services provided by KPMG network (2020: PwC) to the Group, comprising the Company and its subsidiaries, totalling EUR 0 thousand (2020: EUR 77 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.

29 Dividend Income

Dividend Income		
In thousands of EUR	**2021**	**2020**
Západoslovenská distribučná, a.s.	62,777	70,304
ZSE Energia, a.s.	24,096	18,304
Energotel, a.s.	176	495
Total dividend income	**87,049**	**89,103**

30 Other Operating Income

Other Operating Income		
In thousands of EUR	**2021**	**2020**
Operating lease income from investment properties (Note 8)	2,623	2,702
Operating lease income – related services	3,602	3,611
Operating lease income from other assets (Note 6)	1,648	1,868
(Loss) / gain on disposal of property, plant and equipment	1,736	71
Income from fees for guarantees issued for subsidiaries	844	719
Grants	235	(243)
Other	486	66
Total other operating income	**11,174**	**8,794**

31 Interest and Similar Expenses

Interest and Similar Expenses		
In thousands of EUR	**2021**	**2020**
Interest expense on bonds	18,113	18,113
Amortisation of bonds transaction costs and similar expenses	596	590
Interest expense on lease liability	114	134
Other interest expense	20	13
Other finance costs	205	191
Total interest and similar expenses	**19,048**	**19,041**

32 Interest Income Calculated Using the Effective Interest Method

Interest Income Calculated Using the Effective Interest Method		
In thousands of EUR	**2021**	**2020**
Interest income from loans due from Západoslovenská distribučná, a.s.	19,341	19,341
Other interest income	177	182
Total interest revenue calculated using the effective interest method	**19,518**	**19,523**

33 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 78% (2020: 92%) of the Group's EBITDA and 75% of the Group's EBIT (2020: 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., EKOTERM, s.r.o. and BK a.s. 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 2021 is as follows:

Reportable segment information for 2021

In thousands of EUR	Distribution	Supply	Production	Other	Eliminations / consolidation adjustments	Total Group
Revenue from external customers	173,874	1,153,248	1,162	12,852	-	**1,341,136**
Inter-segment revenues	202,237	149,635	157,832	19,680	(529,384)	-
Total segment revenues	376,111	1,302,883	158,994	32,532	(529,384)	**1,341,136**
Purchases of electricity, natural gas for electricity production and related fees	(116,821)	(1,085,458)	(114,086)	(13,232)	511,018	**(818,579)**
Purchases of natural gas for sale	-	(161,612)	-	-	76	**(161,536)**
Employee benefits expense	(59,543)	(12,943)	(1,484)	(12,203)	2	**(86,171)**
Other operating expenses	(47,410)	(19,139)	(4,207)	(9,523)	21,496	**(58,783)**
Dividend income	-	-	-	87,049	(86,873)	**176**
Other operating income	4,999	2,613	12	11,532	(8,914)	**10,242**
Income from subleases	-	-	-	119	(119)	**-**
Own work capitalized	19,773	-	-	165	707	**20,645**
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**177,109**	**26,344**	**39,229**	**96,439**	**(91,991)**	**247,130**
Depreciation of property, plant and equipment and investment properties	(67,175)	(17)	(934)	(3,625)	17,046	**(54,705)**
Amortisation of intangible assets	(3,457)	(1,287)	(20)	(199)	(215)	**(5,178)**
Depreciation of right-of-use Assets	(7,306)	(827)	-	(498)	(5,555)	**(3,076)**
Earnings before interest and taxes (EBIT)	**99,171**	**24,213**	**38,275**	**92,117**	**(69,605)**	**184,171**
Capital expenditures	**120,225**	**1,399**	**3,966**	**3,083**	**(2,558)**	**126,115**

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)**
Dividend income	-	-	-	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**

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	2021	2020
Total EBIT for all operating segments	**184,171**	**176,757**
Interest income of the Group	2	11
Interest and similar expense of the Group	(17,347)	(17,596)
Elimination of impact of consolidation of subsidiaries	(75,138)	(68,795)
Profit before tax of the Company	**91,688**	**90,377**

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	2021	2020
Total capital expenditures for all operating segments	**126,115**	**109,977**
Carbon dioxide emissions quota purchases	26,859	27,973
Assets acquired but not paid for	(30,398)	(32,205)
Payments for assets acquired in prior periods	27,307	21,071
First time consolidation of BK, a.s. – payment for assets acquired within acquisition of a subsidiary	(11,793)	-
Elimination of impact of consolidation of subsidiaries	(135,885)	(121,855)
Payments for purchases of property, plant and equipment and intangible assets	**2,205**	**4,961**

At 31 December 2021 the property, plant and equipment ("PP&E") of the electricity distribution segment represents 93% of the total Group´s PP&E (2020: 99%).

Entity wide information. Revenue is analysed in Note 25. 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.

34 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 and borrowings.

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 at the end of the reporting period, would not have any impact on the Company's profit or loss for the year.

Equity price risk. The Company is not exposed to significant equity price risk because it does not have material financial investments in equities 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 at 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), the amount guaranteed of subsidiaries' liabilities (Note 41) and borowings (Note 24).

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 at 31 December 2021 and 2020, 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 2021:

The maturity analysis is as follows at 31 December 2021

In thousands of EUR	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
Issued bonds – principal due	-	-	-	315,000	315,000	**630,000**
Issued bonds – future interest payments	-	5,513	12,600	34,650	11,025	**63,788**
Borrowings	21,430	-	-	-	-	**21,430**
Lease liabilities (including future interest payments)	83	166	748	3,988	413	**5,398**
Trade payables (Note 22)	2,103	1,493	-	-	-	**3,596**
Other accrued liabilities (Note 22)	590	185	404	-	-	**1,179**
Other financial liabilities (Note 22)	41	-	-	-	-	**41**
Liabilities from cash pooling (Note 23)	7,227	-	-	-	-	**7,227**
Issued guarantees (Note 41)	246,601	-	-	-	-	**246,601**
Total future payments, including future principal and interest payments	**278,075**	**7,357**	**13,752**	**353,638**	**326,438**	**979,260**

The maturity analysis is as follows at 31 December 2020:

The maturity analysis is as follows at 31 December 2020

In thousands of EUR	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
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 41)	214,995	-	-	-	-	**214,995**
Total future payments, including future principal and interest payments	**299,127**	**6,798**	**13,643**	**367,270**	**331,982**	**1,016,820**

35 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 372,562 thousand at 31 December 2021 (2020: EUR 371,293 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.

36 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:

Reconciliation of Movements in Liabilities from Financing Activities

In thousands of EUR	Issued bonds	Borrowings	Lease liabilities	Total
At 1 January 2021	**634,696**	**-**	**6,179**	**640,875**
Non-cash movements				
Disposals of leases	-	-	(32)	(32)
Interest expense	18,113	14	114	18,241
Amortisation of bonds transaction costs	452	-	-	452
Other	-	-	(96)	(96)
Cash payments				
Interest expense paid	(18,113)	(14)	(114)	(18,241)
Borrowings received	-	21,430	-	21,430
Lease principal repayments	-	-	(1,015)	(1,015)
At 31 December 2021	**635,148**	**21,430**	**5,036**	**661,614**

Reconciliation of Movements in Liabilities from Financing Activities

In thousands of EUR	Issued bonds	Borrowings	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**

37 Offsetting Financial Assets and Financial Liabilities

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2021:

Offsetting Financial Assets and Financial Liabilities

In thousands of EUR	Gross amounts before offsetting in the statement of financial position (a)	Gross amounts set off in the statement of financial position (b)	Net amount after offsetting in the statement of financial position (c) = (a) - (b)	Amounts not set off in the statement of financial position: Financial instruments (d)	Amounts not set off in the statement of financial position: Cash collateral received (e)	Net amount of exposure (c) - (d) - (e)
ASSETS						
Loans provided to subsidiary	632,007	-	632,007	6,479	-	625,528
Receivables from cash pooling	60,636	-	60,636	748	-	**59,888**
TOTAL ASSETS SUBJECT TO POSSIBLE OFFSETTING AND SIMILAR ARRANGEMENT	**692,643**	**-**	**692,643**	**7,227**	**-**	**685,416**
LIABILITIES						
Liabilities from cash pooling	7,227	-	7,227	7,227	-	-
TOTAL LIABILITIES SUBJECT TO POSSIBLE OFFSETTING, AND SIMILAR ARRANGEMENT	**7,227**	**-**	**7,227**	**7,227**	**-**	**-**

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

Offsetting Financial Assets and Financial Liabilities

In thousands of EUR	Gross amounts before offsetting in the statement of financial position (a)	Gross amounts set off in the statement of financial position (b)	Net amount after offsetting in the statement of financial position (c) = (a) - (b)	Amounts not set off in the statement of financial position: Financial instruments (d)	Amounts not set off in the statement of financial position: Cash collateral received (e)	Net amount of exposure (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**

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.

38 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 Value Disclosures

	31 december 2021			31 december 2020		
In thousands of EUR	**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)	-	679,530	632,007	-	696,512	632,007
Trade receivables, net (Note 14)	-	8,826	8,826	-	3,462	3,462
Finance lease receivable (Note 11)	-	1,578	1,578	-	1,804	1,804
Receivables from cash pooling (Note 23)	-	60,636	60,636	-	41,353	41,353
Cash and cash equivalents (Note 15)	-	8,422	8,422	-	74,740	74,740
TOTAL ASSETS	**-**	**758,992**	**711,469**	**-**	**817,871**	**753,366**
LIABILITIES						
Issued bonds (Note 18)	673,251	-	635,148	696,512	-	634,696
Borrowings (Note 24)	-	21,430	21,430	-	-	-
Trade payables (Note 22)	-	3,596	3,596	-	2,868	2,868
Other accrued liabilities (Note 22)	-	1,179	1,179	-	901	901
Other financial liabilities (Note 22)	-	41	41	-	9	9
Issued financial guarantees (Note 41)	-	1,404	1,629	-	470	1,051
Liabilities from cash pooling (Note 23)	-	7,227	7,227	-	79,422	79,422
TOTAL LIABILITIES	**673,251**	**34,877**	**670,250**	**696,512**	**83,670**	**718,947**

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.

39 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*.

40 Contingencies and Commitments

Tax contingencies. Slovak tax law contains certain provisions that allow for more than one interpretation. Management's interpretation of the Company's business activities may not coincide with the interpretation of these activities by the tax authorities, but the extent of this risk cannot be reasonably quantified. The fiscal years from 2017 to 2021 remain open to tax inspection, however, for transfer pricing issues of cross-border transactions, earlier periods are also subject to tax inspection.

Capital expenditure commitments. At 31 December 2021, the Company had outstanding contractual commitments for purchases of property, plant and equipment of EUR 11,141 thousand (2020: EUR 7,633 thousand). Outstanding contractual commitments for purchases of intangible assets were EUR 602 thousand (2020: EUR 250 thousand).

41 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 2021:

Balances and Transactions with Related Parties

In thousands of EUR	Ministry of Economy of the Slovak Republic	E.ON Slovensko, a.s	E.ON Group**	Slovak govern-ment*	Subsi-diaries (Note 10)	Joint venture (Note 10)
Revenue, finance and other operating income	9	158	13	20	46,918	1,012
Dividend income	-	-	-	-	86,873	176
Purchases and expenses	-	-	1,095	120	3,741	6
Receivables other than taxes	-	-	29	23	708,175	98
Liabilities other than taxes	-	-	586	19	11,469	4
Dividends declared and paid	45,697	34,945	8,960	-	-	-

* 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 28.

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:

The income tax paid

In thousands of EUR	2021	2020
Current income tax expense at standard rate of 21% (2020: 21%) – refer to Note 19	(1,843)	(452)
Current income tax refund (liability) / receivable at the beginning of the period	49	(98)
Curent income tax refund (receivable) / liability at the end of the reporting period	1,271	(49)
Income tax refund / (paid)	**(523)**	**(599)**

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

The related party transactions and outstanding balances for 2020

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.

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

The Company issued financial guarantees of liabilities of subsidiaries arising from their purchases

In thousands of EUR	31 december 2021			31 december 2020		
	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.	106,601	37,128	650	104,995	28,075	663
ZSE Elektrárne, s.r.o.	140,000	19,384	979	110 000	15,767	388
TOTAL	**246,601**	**56,512**	**1,629**	**214,995**	**43,842**	**1,051**

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

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	2021	2020
Board of directors and other key management personnel		
Salaries and other short-term employee benefits	592	667
Defined contribution pension costs	81	76
Total remuneration of board of directors and other key management personnel	**673**	**743**
Supervisory board		
Salaries and other short-term employee benefits	139	117
Defined contribution pension costs	23	19
Total remuneration of supervisory board	**162**	**136**

42 Events after the End of the Reporting Period

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

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

Management authorised these financial statements for issue on 31 March 2022

Markus Kaune
Chairman of the Board of Directors and CEO

Marian Rusko
Member of the Board of Directors

Annex:

Consolidated Financial Statements

31 december 2021

Content

Consolidated Statement of Financial Position

Consolidated Statement of Financial Position

In thousands of EUR	Note	31 december 2021	31 december 2020
ASSETS			
Non-current assets			
Property, plant and equipment	6	1,037,593	973,183
Intangible assets	7	79,896	61,050
Investment properties	8	1,409	-
Right-of-use assets	9	23,911	24,230
Equity method investments	10	558	558
Deferred income tax assets	18	24,006	20,448
Trade and other receivables	12	2,693	1,723
Other non-current assets		133	704
Total non-current assets		**1,170,199**	**1,081,896**
Current assets			
Inventories	11	7,251	7,090
Loans provided		-	202
Trade and other receivables	12	236,770	163,753
Cash and cash equivalents	13	10,787	82,640
Other current assets		564	-
Total current assets		**255,372**	**253,685**
TOTAL ASSETS		**1,425,571**	**1,335,581**
EQUITY			
Share capital	14	196,969	196,969
Legal reserve fund	15	39,421	39,421
Retained earnings / (accumulated deficit)		30,938	(19,199)
Total equity attributable to owners of the parent company		267,328	217,191
Non-controlling interests	31,32	2,112	217
TOTAL EQUITY		**269,440**	**217,408**
LIABILITIES			
Non-current liabilities			
Issued bonds	16	628,267	627,815
Lease liabilities	9	21,116	21,005
Deferred income tax liabilities	18	48,019	44,848
Trade and other payables	23	8,861	5,844
Post-employment defined benefit obligations	19	9,018	13,043
Other long-term employee benefits	20	2,249	2,342
Contract liabilities from connection fees and customer contributions	22	101,465	101,056
Total non-current liabilities		**818,995**	**815,953**
Current liabilities			
Issued bonds and accrued interest on issued bonds	16	6,881	6,881
Borrowings	17	22,566	-
Lease liabilities	9	3,236	3,507
Trade and other payables	23	221,758	224,998
Current income tax liabilities		3,262	12,292
Provisions for liabilities and charges	21	71,202	46,688
Contract liabilities from connection fees and customer contributions	22	8,231	7,854
Total current liabilities		**337,136**	**302,220**
TOTAL LIABILITIES		**1,156,131**	**1,118,173**
TOTAL LIABILITIES AND EQUITY		**1,425,571**	**1,335,581**

Consolidated financial statements for the year ended 31 December 2021 prepared in accordance with International Financial Reporting Standards as adopted by the European Union and approved for issue by the Board of Directors on 31 March 2022.

Markus Kaune
Chairman of the Board of Directors and CEO

Marian Rusko
Member of the Board of Directors

The accompanying notes 1 to 40 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	2021	2020
Revenue from electricity and other related revenue	**24**	**1,161,439**	**1,085,441**
Revenue from natural gas	**24**	**179,697**	**125,402**
Purchases of electricity, natural gas for electricity production and related fees	25	(818,579)	(772,569)
Natural gas purchased for sale		(161,536)	(113,635)
Employee benefits	26	(86,171)	(79,550)
Depreciation of property, plant and equipment and investment properties	6, 8	(54,705)	(53,386)
Amortization of intangible assets	7	(5,178)	(6,378)
Depreciation of right-of-use assets	9	(3,076)	(3,275)
Other operating expenses	27	(58,783)	(52,615)
Share of profit of equity method investments	10	176	495
Government grant for renewable energy purchases	39	-	20,478
Other operating income	28	10,242	7,847
Own work capitalised		20,645	18,502
Profit from operations		**184,171**	**176,757**
Finance income / (costs)			
Interest income calculated using the effective interest method		2	11
Interest and similar expense	29	(17,347)	(17,596)
Finance costs, net		**(17,345)**	**(17,585)**
Profit before tax		**166,826**	**159,172**
Income tax expense	18	(31,249)	(23,601)
Profit for the year		**135,577**	**135,571**
Other comprehensive income / (loss)			
Items that will not be subsequently reclassified to profit or loss			
Actuarial remeasurements of post-employment defined benefit obligations	19	4,572	(1,687)
Deferred tax on actuarial remeasurements of post-employment defined benefit obligations	18	(542)	353
Total other comprehensive income / (loss) for the year		**4,030**	**(1,334)**
Total comprehensive income for the year		**139,607**	**134,237**
Profit / (loss) for the year is attributable to:			
- owners of the parent company		135,709	135,571
- non-controlling interest	31, 32	(132)	-
Total comprehensive income / (loss) for the year is attributable to:			
- owners of the parent company		139,739	134,237
- non-controlling interest	31, 32	(132)	-

The accompanying notes 1 to 40 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	Retained earnings / (accumulated deficit)	Total		
Balance at 1 January 2020	**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 14)	-	-	(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**
Profit for the year	-	-	135,709	135,709	(132)	**135,577**
Other comprehensive loss for the year	-	-	4,030	4,030	-	**4,030**
Total comprehensive income for 2021	**-**	**-**	**139,739**	**139,739**	**(132)**	**139,607**
Dividends declared and paid (Note 14)	-	-	(89,602)	(89,602)	-	**(89,602)**
Acquisition of a subsidiary (Note 1, 31)	-	-	-	-	2,027	**2,027**
Balance at 31 December 2021	**196,969**	**39,421**	**30,938**	**267,328**	**2,112**	**269,440**

The accompanying notes 1 to 40 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

Consolidated Statement of Cash Flows

In thousands of EUR	Note	2021	2020
Cash flows from operating activities			
Profit before tax		166,826	159,172
Adjustments for non-cash items:			
- Depreciation of property, plant and equipment and investment properties	6, 8	54,705	53,386
- Depreciation of right-of-use assets	9	3,076	3,275
- (Gain) / loss on disposal of property, plant and equipment	6	(2,073)	117
- Charge for carbon dioxide emissions to be settled by quotas	21	19,787	16,951
- Amortisation of government grants deferred income		(667)	148
- Amortisation of intangible assets	7	5,178	6,378
- Interest income calculated using the effective interest method		(2)	(11)
- Interest and similar expense		16,980	17,266
- Contract assets – deferred sales commissions		(954)	(914)
- Share of profit of equity method investees		(176)	(495)
- Other non-cash items		165	2,427
Cash generated from operations before changes in working capital		262,845	257,700
Changes in working capital:			
- Inventories		181	7,033
- Trade and other receivables		(67,939)	(7,705)
- Trade and other payables		(9,827)	(11,423)
- Provisions and contract liabilities		13,174	3,744
Cash generated from operations before interest and taxes		**198,434**	**249,349**
Interest income received		2	11
Interest expense paid		(16,451)	(16,737)
Income tax paid	39	(42,526)	(28,626)
Net cash from operating activities		**139,459**	**203,997**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(111,231)	(98,843)
Purchase of emission quotas	7	(26,859)	(27,973)
Dividend income received from equity method investees		176	495
Proceeds from sale of property, plant and equipment and intangible assets	6	2,746	368
Grants received		2,905	1,789
Acquisition of a subsidiary, net of cash acquired	1, 31	(4,345)	(247)
Net cash used in investing activities		**(136,608)**	**(124,411)**
Cash flows from financing activities			
Dividends paid	14	(89,602)	(74,135)
Repayment of loans provided		150	-
Borrowings received	17	20,056	-
Repayment of principal of lease liabilities	9	(5,308)	(5,027)
Net cash used in financing activities		**(74,704)**	**(79,162)**
Net change in cash and cash equivalents		**(71,853)**	**424**
Cash and cash equivalents at the beginning of the year		82,640	82,216
Cash and cash equivalents at the end of the year	**13**	**10,787**	**82,640**

The accompanying notes 1 to 40 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements – 31 december 2021

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 2021 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 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, electrical installations and facility management services for third parties.

The Regulatory Office for 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. v likvidácii (entry into liquidation at 31 August 2021), ZSE Energetické služby, s. r. o. which is holding company for energy services companies, EKOTERM, s.r.o. and BK, a.s. (Note 31 and 32) are companies which provide services and ZSE Elektrárne, s.r.o. (Note 5) which operates CCGT power plant. All the subsidiaries are incorporated in the Slovak Republic.

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 2021 and 31 December 2020. 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 14. These consolidated financial statements are available directly at the seat of the Company.

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 2,115 staff on average during 2021, of which 50 were management (2020: 1,983 employees on average, of which 45 were management). Number of employees of the Group at 31 December 2021 was 2,166 (31 December 2020: 2,013 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 consolidated financial statements have been prepared on accrual basis and under the going concern assumption. The transactions are recognized in the consolidated financial statements in the period to which they relate.

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.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and the fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill" or a "bargain purchase") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all the liabilities and contingent liabilities assumed and reviews the appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including the fair value of assets or liabilities from contingent consideration arrangements, but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition of and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed.

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.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Group. Non-controlling interest forms a separate component of the Group's equity.

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:

Useful lives in years

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

The residual value of an asset is the estimated amount that the 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.

Goodwill. Goodwill is carried at cost less accumulated impairment losses, if any. Goodwill is allocated to the cash-generating units ("CGU"), or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment.

Goodwill was recognised in the consolidated financial statements of the Group as a result of the business combination – acquisition of the subsidiary BK, a.s. in 2021 (Note 31). The amount of goodwill represents the difference between fair value of the subsidiary's business and fair value of identifiable assets and liabilities that belong to the subsidiary.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Intangible assets other than goodwill. 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:

Useful lives in years

	Useful lives in 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 recognitio
n 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 and other 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 expected credit losses ("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 was 6.54% p.a. for years 2019 – 2020 and a rate of 4.356% applies from 2021. The levy is a deductible expense for the purposes of applying the standard corporate income tax rate.

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

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

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

Provisions for onerous contracts. The Group recognizes provisions for onerous contracts based on the assumption that the future costs of purchasing commodities intended for delivery resulting from contractual obligations to deliver the commodity to customers, will exceed the economic benefits arising from these contracts.

Provisions for onerous contracts are measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract, which is determined based on incremental costs necessary to fulfil the obligation under the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with the contract.

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

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

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.

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

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

The impact of changes on the consolidated financial statements of the Group for the prior reporting period

In thousands of EUR	31 december 2020
Increase in item "Trade and other receivables"	1,723
Total increase in item "Non-current assets"	**1,723**
Decrease in item "Trade and other receivables"	(1,723)
Total decrease in item "Current assets"	**(1,723)**
Total increase/(decrease) in item "Total assets"	**-**
Increase in item „Trade and other payables"	5,844
Total increase in item "Non-current liabilities"	**5,844**
Decrease in item "Trade and other payables"	(5,844)
Total decrease in item "Current liabilities"	**(5,844)**
Total increase/(decrease) in item "Total liabilities"	**-**

3 Adoption of New or Amended Standards and Interpretations

The following amended standards became effective for the Group from 1 January 2021, but did not have any material impact:

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

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 2022, and which the Group has not early adopted:

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

The following other new standards or their amendments were issued and would not have a material impact on the financial statements of the Group:

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

Amendments to IAS 37, Provisions, Contingent Liabilities and Contingent Assets - Onerous Contracts – Cost of Fulfilling a Contract (Effective for annual periods beginning on or after 1 January 2022. Early application is permitted). In determining costs of fulfilling a contract, the amendments require an entity to include all costs that relate directly to a contract.

Paragraph 68A clarifies that the cost of fulfilling a contract comprises both: the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts.

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

Amendment to IFRS 9, Financial Instruments. The improvements clarify that, when assessing whether an exchange of debt instruments between an existing borrower and lender are on terms that are substantially different, the fees to include together with the discounted present value of the cash flows under the new terms include only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

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

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

Amendments to IAS 12, Income Taxes - Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Effective for annual periods beginning on or after 1 January 2023. Early application is permitted). The amendments narrow the scope of the initial recognition exemption (IRE) to exclude transactions that give rise to equal and offsetting temporary differences – e.g. leases and decommissioning liabilities. For leases and decommissioning liabilities, the associated deferred tax assets and liabilities will need to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented. Amendments to IFRS 10 and IAS 28 - Sale or contribution of assets between an investor and its associate or joint venture (Effective date deferred indefinitely. Available for optional adoption in full IFRS financial statements).

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

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

The European Commission decided to defer the endorsement indefinitely, it is unlikely that it will be endorsed by the EU in the foreseeable future.

Amendments to IAS 1, Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgments (Effective for annual periods beginning on or after 1 January 2023. Early application is permitted). The amendments to IAS 1 require companies to disclose their material accounting policy information rather than significant accounting policies.
Amendments to IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors (Effective for annual periods beginning on or after 1 January 2023. Early application is permitted). The amendments introduced a definition of "accounting estimates" and included other amendments to IAS 8 clarifying how to distinguish changes in accounting policies from changes in estimates. The distinction is important as changes in accounting policies are generally applied retrospectively while changes in estimates are accounted for in the period in which the change occurs.

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 represents an accounting estimate based on estimated volume of delivered and distributed electricity expressed in MWh for low voltage network and estimated unit price that will be billed in the future.

The Group uses a software application Enersim to estimate the unbilled deliveries based on assumed customer demand profiles and which amounted to EUR 131,084 thousand at 31 December 2021 (2020: EUR 150,375 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 2021	31 december 2020
Accrued receivables from distribution and delivery of electricity as part of item „Trade and other receivables"	16,898	10,411
Accrued liabilities from distribution and delivery of electricity as part of item „Trade and other payables"	30,694	28,759

Should the estimate of total network losses be lower by 0.1%, representing approximately 10 GWh of electricity (2020: 10 GWh), with other parameters unchanged, the revenues for commodity and distribution services would increase by EUR 1,079 thousand (2020: EUR 1,101 thousand).

Unbilled gas. The unbilled revenue from delivery and distribution represents 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 2021	31 december 2020
Accrued receivables from distribution and delivery of gas as part of item „Trade and other receivables"	944	7,317
Accrued liabilities from distribution and delivery of gas as part of item „Trade and other payables"	4,220	9,449

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 2021, the Group would have recognised an additional depreciation of network assets of EUR 5,105 thousand (2020: EUR 5,049 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 2021, potential future cash outflows of EUR 0 thousand (undiscounted) (2020: 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 58,633 thousand (2020: 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 16,052 thousand (2020: EUR 15,000 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 49,268 thousand (2020: EUR 57,995 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 2021:

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 2021	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 1 January 2021	23,672	70,039	481,924	206,030	27,944	45,662	6,266	111,646	**973,183**
Additions	-	-	-	-	-	-	-	112,759	**112,759**
Capitalised borrowing costs**	-	-	-	-	-	-	-	2,111	**2,111**
Transfers	260	17,124	48,410	35,433	-	6,997	304	(108,528)	**-**
Depreciation charge	-	(3,704)	(19,217)	(22,965)	(1,871)	(6,123)	(798)	-	**(54,678)**
Disposals	(115)	(36)	-	(53)	-	(473)	-	(72)	**(749)**
Termination of the lease by the purchase of an asset	-	101	1,354	139	-	-	-	-	**1,594**
First time consolidation of BK, a.s. (Note 31)	917	-	-	-	-	2,390	-	66	**3,373**
Cost at 31 December 2021	**24,734**	**144,051**	**820,249**	**478,561**	**32,446**	**121,945**	**24,349**	**117,982**	**1,764,317**
Accumulated depreciation and impairment losses	**-**	**(60,527)**	**(307,778)**	**(259,977)**	**(6,373)**	**(73,492)**	**(18,577)**	**-**	**(726,724)**
Carrying amount at 31 December 2021	**24,734**	**83,524**	**512,471**	**218,584**	**26,073**	**48,453**	**5,772**	**117,982**	**1,037,593**

* 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 2021 (2020: 3.07% p.a.).

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.

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:

The proceeds from disposal of property, plant and equipment and intangible assets

In thousands of EUR	2021	2020
Net book value of disposals	749	1,333
Transfer of emission quotas to National registry of emission quotas	16,945	11,811
Usage of provision for CO_2 emissions	(16,945)	(11,811)
Gain/(Loss) on sale of property, plant and equipment (Note 28)	2,073	(117)
Other	(76)	(848)
Proceeds from disposals	**2,746**	**368**

The Group holds insurance against damages caused by natural disasters up to EUR 734,304 thousand for buildings and up to amount of EUR 1,011,785 thousand for machinery, equipment, fixtures, fittings and other assets (2020: EUR 700,961 thousand and 972,139 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 28. Future rental income from non-cancellable leases is due as follows:

Future rental income from non-cancellable leases

In thousands of EUR	2021	2020
Due:		
- within 1 year	209	980
Total future rental payments to be received	**209**	**980**

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	Goodwill	Valuable rights	Software and similar assets	Assets not yet available for use	Total
Cost at 1 January 2020	25,374	-	8,728	57,929	8,171	**100,202**
Accumulated amortisation and impairment losses	-	-	(5,655)	(50,452)	-	**(56,107)**
Carrying amount at 1 January 2020	**25,374**	**-**	**3,073**	**7,477**	**8,171**	**44,095**
Additions	27,973	-	327	-	6,844	**35,144**
Transfers	-	-	1,251	4,903	(6,154)	**-**
Amortisation charge	-	-	(2,292)	(4,086)	-	**(6,378)**
Disposals	(11,811)	-	-	-	-	**(11,811)**
Cost at 31 December 2020	41,536	-	8,224	62,389	8,861	**121,010**
Accumulated amortisation and impairment losses	-	-	(5,865)	(54,095)	-	**(59,960)**
Carrying amount at 31 December 2020	**41,536**	**-**	**2,359**	**8,294**	**8,861**	**61,050**
Additions	26,859	-	-	-	7,126	**33,985**
Transfers	-	-	653	7,549	(8,202)	**-**
Amortisation charge	-	-	(1,034)	(4,144)	-	**(5,178)**
Disposals	(16,945)	-	-	-	-	**(16,945)**
First time consolidation of BK, a.s. (Note 31)	-	1,139	5,795	30	20	**6,984**
Cost at 31 December 2021	51,450	1,139	14,625	69,724	7,805	**144,743**
Accumulated amortisation and impairment losses	-	-	(6,852)	(57,995)	-	**(64,847)**
Carrying amount at 31 December 2021	**51,450**	**1,139**	**7,773**	**11,729**	**7,805**	**79,896**

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

8 Investment Properties

The Group leases out part of its land and administrative and operational premises under operating leases to third parties.

Movements in the carrying amount of the investment properties were as follows:

Movements in the carrying amount of the investment properties

	2021			2020		
In thousands of EUR	**Land**	**Buildings**	**Total**	**Land**	**Buildings**	**Total**
Cost at 1 January	-	-	-	-	-	-
Accumulated depreciation and impairment losses	-	-	-	-	-	-
Carrying amount at 1 January	**-**	**-**	**-**	**-**	**-**	**-**
First time consolidation of BK, a.s. (Note 31)	143	1,293	1,436	-	-	**-**
Transfer from property, plant and equipment to investment properties	-	-	-	-	-	**-**
Additions	-	-	-	-	-	**-**
Depreciation charge	-	(27)	(27)	-	-	**-**
Disposals	-	-	-	-	-	**-**
Cost at 31 December	143	1,293	1,436	-	-	**-**
Accumulated depreciation and impairment losses	-	(27)	(27)	-	-	**-**
Carrying amount at 31 December	**143**	**1,266**	**1,409**	**-**	**-**	**-**

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

Rental income from investment properties leased to third parties is presented in Note 28. The future minimum lease payments receivable under operating leases of investment properties are as follows:

The future minimum lease payments receivable under operating leases of investment properties

In thousands of EUR	**2021**	**2020**
Due during:		
- year 1	93	-
- year 2	80	-
- year 3	80	-
- year 4	80	-
Total undiscounted operating lease payments receivable at 31 December	**333**	**-**

9 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.

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 2020	**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)**
Reduction in value	(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**
Additions	-	322	3,383	2,539	**6,244**
Disposals	-	(537)	(1,572)	(47)	**(2,156)**
Depreciation charge	(10)	(897)	(668)	(1,501)	**(3,076)**
Reduction in value	-	(994)	-	-	**(994)**
Termination of the lease by the purchase of an asset (Note 6)	-	-	(1,594)	-	**(1,594)**
First time consolidation of BK, a.s. (Note 31)	-	1,257	-	-	**1,257**
Carrying value at 31 December 2021	**359**	**6,493**	**12,250**	**4,809**	**23,911**

The Group recognised lease liabilities as follows:

Recognised lease liabilities

In thousands of EUR	31 December 2021	31 December 2020
Short-term lease liabilities	3,236	3,507
Long-term lease liabilities	21,116	21,005
Total lease liabilities	**24,352**	**24,512**

Interest expense on lease liabilities included in interest and similar expense for 2021 was EUR 404 thousand (2020: EUR 443 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 assets that are not short-term leases

In thousands of EUR	2021	2020
Expense relating to short-term leases	231	211
Expense relating to leases of low-value assets that are not shown above as short-term leases	886	577

Total cash outflows for leases were as follows:

Total cash outflows for leases		
In thousands of EUR	**2021**	**2020**
Short-term lease payments	231	211
Payments for leases of low-value assets other than short-term leases	886	577
Repayment of principal of lease liabilities	5,308	5,027
Interest expense on lease liabilities paid	404	443
Total cash outflows for leases	**6,829**	**6,258**

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.

10 Equity Method Investments

Equity Method Investments		
In thousands of EUR	**2021**	**2020**
Energotel, a.s. - 20% investment in joint venture	525	525
SPX, s.r.o.	33	33
Total equity method investments	**558**	**558**

11 Inventories

Inventories		
In thousands of EUR	**2021**	**2020**
Natural gas	3,370	4,237
Materials and spare parts	3,350	2,459
Work-in-progress	217	231
Merchandise	314	163
Total inventories	**7,251**	**7,090**

The inventory items are shown net of provision for slow-moving materials and spare parts of EUR 74 thousand (2020: EUR 21 thousand) and merchandise of EUR 30 thousand (2020: EUR 0 thousand).

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

12 Trade and Other Receivables

Trade and Other Receivables		
In thousands of EUR	**2021**	**2020**
Trade receivables	501	-
Less impairment provision for trade receivables	(38)	-
Non-current trade receivables, net	**463**	**-**
Contract assets - dealers commission costs	2,230	1,723
Total non-current trade and other receivables	**2,693**	**1,723**
Trade receivables	231,887	170,040
Less impairment provision for trade receivables	(19,507)	(17,246)
Current trade receivables, net	**212,380**	**152,794**
Commodity contracts at FVTPL	20,053	7,302
Contract assets - dealers commission costs	1,456	1,009
Prepayments	2,578	2,647
Other	303	1
Total current trade and other receivables	**236,770**	**163,753**

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

Movements in the impairment provision for trade receivables						
	2021			**2020**		
In thousands of EUR	**For noncurrent receivables**	**For current receivables**	**Total**	**For noncurrent receivables**	**For current receivables**	**Total**
Provision for impairment at 1 January	**-**	**17,246**	**17,246**	**-**	**24,861**	**24,861**
Impairment loss expense (Note 27)	12	3,841	3,853	-	(1,236)	(1,236)
Amounts written off during the year as uncollectible	-	(1,839)	(1,839)	-	(6,379)	(6,379)
First time consolidation of BK, a.s. (Note 31)	26	259	285	-	-	-
Provision for impairment at 31 December	**38**	**19,507**	**19,545**	**-**	**17,246**	**17,246**

The Group has a concentration of credit risk towards related parties of the Slovak Government. Refer to Note 39.

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

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

	31 december 2021				31 december 2020			
In thousands of EUR	**Loss rate**	**Gross carrying amount**	**ECL**	**Net carrying amount**	**Loss rate**	**Gross carrying amount**	**ECL**	**Net carrying amount**
Non-current trade receivables:								
Not past due	7.58%	501	38	463	-	-	-	-
Total non-current trade receivables		**501**	**38**	**463**	**-**	**-**	**-**	
Current trade receivables:								
Not past due	1.30%	211,154	2,739	208,415	1.42%	151,325	2,151	149,174
Past due:								
- 1 to 30 days	9.47%	3,008	285	2,723	6.18%	2,848	176	2,672
- 31 to 60 days	31.19%	513	160	353	12.40%	500	62	438
- 61 to 90 days	23.61%	144	34	110	12.93%	232	30	202
- 91 to 120 days	12.33%	73	9	64	61.50%	187	115	72
- 121 to 180 days	34.30%	207	71	136	58.15%	325	189	136
- 181 to 360 days	71.09%	467	332	135	84.69%	653	553	100
- over 360 days	97.28%	16,321	15,877	444	100.00%	13,970	13,970	-
Total current trade receivables		**231,887**	**19,507**	**212,380**		**170,040**	**17,246**	**152,794**
Total trade receivables		**232,388**	**19,545**	**212,843**		**170,040**	**17,246**	**152,794**

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

Movements in contract assets, which represents the deferred sales commissions

In thousands of EUR	**2021**	**2020**
At 1 January	2,732	1,818
Additions	2,585	1,903
Amortization	(1,631)	(989)
Total contract assets at 31 December	**3,686**	**2,732**

Out of the carrying value of contract assets, EUR 1,456 thousand (2020: EUR 1,009 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 current trade receivables is presented as follows:

Vplyv zabezpečenia pohľadávok z obchodného styku

In thousands of EUR	31 december 2021		31 december 2020	
	Carrying value	Insured value	Carrying value	Insured value
Trade receivables under credit insurance	44,608	44,608	81,047	81,047
Trade receivables not secured	167,772	-	71,747	-
Current trade receivables, net	**212,380**	**44,608**	**152,794**	**81,047**

Non-current trade receivables are not under credit insurance.

13 Cash and Cash Equivalents

Cash and Cash Equivalents

In thousands of EUR	2021	2020
Cash on hand	12	-
Current accounts with banks	10,775	32,640
Short-term bank deposits	-	50,000
Total cash and cash equivalents in the statement of financial position	**10,787**	**82,640**
Less restricted cash balances	-	-
Total cash and cash equivalents in the statement of cash flows	**10,787**	**82,640**

The Group has a concentration of cash and cash equivalents balances towards five banks (2020: five banks).

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

The credit quality of cash and cash equivalents

In thousands of EUR	2021	2020
Neither past due nor impaired		
Credit rating Aa3 by Moody's	18	17
Credit rating A2 by Moody's	9,396	59,972
Credit rating A3 by Moody's	-	21,790
Credit rating Baa1 by Moody's	861	861
Unrated	512	-
Total cash and cash equivalents	**10,787**	**82,640**

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.

14 Share Capital

The Company issued and has outstanding 5,934,594 ordinary shares (2020: 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 89,602 thousand or EUR 15.10 per share (2020: dividends of EUR 74,135 thousand or EUR 12.49 per share). Slovak legislation identifies distributable reserves as retained earnings reported in the separate financial statements of the Company which amount to EUR 136,172 thousand (2020: EUR 134,903 thousand).

15 Legal Reserve Fund

The legal reserve fund represents appropriations of profits of the Company required by Slovak legislation. The Company is obliged to appropriate at least 10% of its profit until the legal reserve fund achieves at least 20% of the Company's share capital. This fund is not distributable and exists to cover future losses.

16 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	2021	2020
Issued bonds – non-current and deferred transaction costs	628,267	627,815
Accrued interest payable within one year and deferred transaction costs	6,881	6,881
Total carrying value of the bonds	**635,148**	**634,696**

17 Borrowings

Borrowings

In thousands of EUR	2021	2020
Revolving loan	21,430	-
Bank overdrafts	1,136	-
otal borrowings	**22,566**	**-**

As at 31 December 2021, the Group has agreements with banks about revolving credit facilities amounting to EUR 75,000 thousand (2020: EUR 75,000 thousand) and overdraft credit facilities amounting to EUR 4,650 thousand (2020: EUR 100,000 thousand). As at 31 December 2021 the Group has drawn EUR 22,566 thousand from these facilities (2020: EUR 0 thousand).

All the Group's borrowings are denominated in EUR. The fair value of current borrowings equals their carrying amount, as the impact of discounting is not significant. There is no property, plant and equipment or other assets pledged as collateral for the borrowings.

18 Income Taxes

Income tax expense comprises the following:

Income Taxes

In thousands of EUR	2021	2020
Current tax at standard rate of 21% (2020: 21%)	27,751	29,040
Special levy on profits from regulated activities	5,581	6,707
Deferred tax	(2,083)	(12,146)
Income tax expense/(credit) for the year	**31,249**	**23,601**

In 2021, the applicable standard income tax rate was 21% (2020: 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 x (revenues from regulated activities/total revenues). The rate of special levy was 6.54% p.a. for the years 2019 - 2020 and 4.356% p.a. applies 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:

As a result, the income tax rate applicable to regulated activities

In thousands of EUR	2021	2020
Standard income tax rate for the year	21.000%	21.000%
Special levy rate	4.356%	6.540%
Effect of deductibility of special levy from standard rate*	(1.058%)	(1.691%)
Tax rate applicable on profits generated by regulated industry operations	**24.298%**	**25.849%**

* the effect is calculated as special levy rate in % x ((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 24.298% rate (2020: 25.849%) applicable to regulated industry operations. The applicable tax rate of 22.522% (2020: 23.307%) 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 special levy rate and in the mix of profits from regulated and unregulated industry operations (2020: due to changes in the mix of profits from regulated and unregulated industry operations). A reconciliation between the reported income tax charge and the theoretical amount that would arise using the applicable tax rates is as follows:

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

In thousands of EUR	2021	2020
Profit before tax	**166,826**	**159,172**
Theoretical tax charge at applicable tax rate of 22.522% (2020: 23.307%)	37,573	37,098
Non-deductible expenses /(non-taxable income) for which deferred tax was not recognised		
- income from equity method investees not subject to standard tax	(37)	(104)
- expenses not deductible for standard tax but deductible for special levy purposes	505	298
Impact of change in unrecognised deferred tax asset from deductible temporary differences (Note 5)	(7,676)	(15,000)
Other	884	1,309
Income tax expense for the reporting period	**31,249**	**23,601**

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 2021, that will become current tax in 2022, will be settled in 2023 upon filing the 2022 tax return. The corporate tax advance payments are calculated based on prior year taxes and are thus unrelated to deferred tax balances or the current tax expense expected for subsequent years.

Deferred 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:

Tax rate applied to a regulated activity		
In thousands of EUR	**2021**	**2020**
Differences between tax base and carrying value of property, plant and equipment, including deferred tax arising from special levy	60,243	56,678
Post-employment defined benefit obligation and other long-term and short-term employee benefits	(3,632)	(4,111)
Other liabilities	(9,537)	(6,848)
Allowance for credit losses on trade receivables	1,546	21
Other	(601)	(892)
Total net deferred tax liability	**48,019**	**44,848**

Tax rate applied to a regulated activity		
In thousands of EUR	**2021**	**2020**
Differences between tax base and carrying value of property, plant and equipment, including deferred tax arising from special levy	17,087	17,766
Post-employment defined benefit obligation and other long-term and short-term employee benefits	985	677
Other liabilities	4,144	1,726
Allowance for credit losses on trade receivables	2,573	396
Other	(783)	(117)
Total net deferred tax asset	**24,006**	**20,448**

The movements in deferred taxes for temporary differences were recognised in profit or loss except for EUR (542) thousand (2020: EUR 353 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.

19 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:

The movements in the present value of defined benefit obligation	2021	2020
Present value of unfunded post-employment defined benefit obligations at the beginning of the year	**13,043**	**11,156**
Current service cost	886	708
Interest cost	77	77
Past service costs due to changes in the defined benefit plan rules	-	-
Total expense (Note 26)	785	629
Actuarial remeasurements:		
- attributable to changes in financial assumptions	(165)	1,278
- attributable to changes in demographic assumptions	(624)	315
- attributable to experience adjustments	(3,783)	94
Total actuarial remeasurements recognised in other comprehensive income	(4,572)	1,687
Benefits paid during the year	(416)	(585)
Present value of unfunded post-employment defined benefit obligations at the end of the year	**9,018**	**13,043**

The principal actuarial assumptions were as follows:

The principal actuarial assumptions	2021	2020
Number of employees at 31 December	2,166	2,013
Staff turnover	4.58% p.a.	4.58% p.a.
Expected salary increases short-term	2.00% p.a.	2.00% p.a.
Expected salary increases long-term	4.00% p.a.	4.00% p.a.
Discount rate	0.90% p.a.	0.60% p.a.

If the actual discount rate differed by 0.5% from the estimated discount rate, the value of the liability due to pension benefits would be by EUR 140 thousand lower or by EUR 519 thousand higher (2020: EUR 700 thousand lower or EUR 764 thousand higher).

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

20 Other Long Term Employee Benefits

The Group makes EUR 1,400 (2020: EUR 1,400) payment to each employee at the age of 50, subject to 5-year service vesting condition (2020: 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 (2020: between EUR 400 to EUR 1,250). The liability for other long-term employee benefits was estimated using the Projected Unit Credit Method.

21 Provisions for Liabilities and Charges

Provisions for Liabilities and Charges		
In thousands of EUR	**2021**	**2020**
Provisions for legal proceedings	43,050	29,739
Provisions for onerous contracts	8,365	-
Provisions for released CO_2 emissions	19,787	16,949
Total current provisions for liabilities and charges	**71,202**	**46,688**

As of 31 December 2021 and 2020, 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 38.

Movements in provisions for liabilities and charges are as follows:

Movements in provisions for liabilities and charges							
	2021				**2020**		
In thousands of EUR	**Provisions for legal proceedings**	**Provisions for onerous contracts**	**Provisions for CO_2 emissions**	**Total provisions**	**Provisions for legal proceedings**	**Provisions for CO_2 emissions**	**Total provisions**
At 1 January	29,739	-	16,949	**46,688**	21,666	11,808	**33,474**
Additions recognized in profit or loss	13,968	8,365	19,787	**42,120**	8,795	16,951	**25,746**
Usage of provision	-	-	(16,945)	**(16,945)**	-	(11,811)	**(11,811)**
Reversal of provision	(657)	-	(4)	**(661)**	(722)	-	**(722)**
Other	-	-	-	**-**	-	1	**1**
At 31 December	**43,050**	**8,365**	**19,787**	**71,202**	**29,739**	**16,949**	**46,688**

In 2021, as a matter of prudence and based on assessment of the internal risk arising from disputes over tariff for electricity producers' access to the distribution system, the Group created an additional provision for legal proceedings for the non-expired portion of payments for the years 2017 and 2018 amounted to EUR 10,089 thousand (2020: EUR 8,795 thousand), which have not yet been covered by the provision. Refer also to Note 38.

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

Based on the decision of the Regulatory Office for Network Industries ("RONI"), ZSE Energia, a.s. supplies electricity as the supplier of last resort ("SoLR") on a part of the defined territory of Západoslovenská distribučná, a.s., distribution system operator. As a result of unfavourable development of electricity and gas prices on commodity markets, at 31 December 2021 the Group created a provision for onerous contracts, in relation to electricity and gas supply to the customers acquired within the SoLR mechanism. Such newly acquired customers are mainly household consumers. Since this segment is subject to regulated prices of electricity and gas and the Group did not have required volume of commodities sourced for these customers, the Group had to source it on the wholesale market for market prices which are higher than the prices approved by RONI for the household segment for 2021 and 2022.

This estimate is based mainly on the estimated number of customers who will leave the portfolio in the future. If the estimated percentage of left customers was lower by 1%, while other parameters will be unchanged, the total provision would be lower by EUR 43 thousand

22 Contract Liabilities from Connection Fees and Customer Contributions

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

Contract Liabilities from Connection Fees and Customer Contributions

In thousands of EUR	2021	2020
Non-current		
Contract liabilities - customer contributions	32,482	32,636
Contract liabilities - connection fees	68,983	68,420
Total non-current contract liabilities	**101,465**	**101,056**

Contract Liabilities from Connection Fees and Customer Contributions

In thousands of EUR	2021	2020
Current		
Contract liabilities - customer contributions	2,259	2,233
Contract liabilities - connection fees	5,972	5,621
Total current contract liabilities	**8,231**	**7,854**

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 from connection fees and customer contributions

	Non-current			Current		
In thousands of EUR	Customer contributions	Connection fees	Total	Customer contributions	Connection fees	Total
At 1 January 2020	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**
Additions	2,105	6,535	**8,640**	-	-	**-**
Transfers	(2,259)	(5,972)	**(8,231)**	2,259	5,972	**8,231**
Recognized in revenue	-	-	**-**	(2,233)	(5,621)	**(7,854)**
At 31 December 2021	**32,482**	**68,983**	**101,465**	**2,259**	**5,972**	**8,231**

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

The maturity analysis of contract liabilities to customers

In thousands of EUR	At 31 December 2021			At 31 December 2020		
	Customer contributions	Connection fees	Total	Customer contributions	Connection fees	Total
At 31 December due						
Current:						
Less than 12 months	2,259	5,972	**8,231**	2,233	5,621	**7,854**
Non-current:						
From 12 months to 5 years	9,101	24,201	**33,302**	8,873	23,194	**32,067**
Over 5 years	23,381	44,782	**68,163**	23,763	45,226	**68,989**
Total non-current	**32,482**	**68,983**	**101,465**	**32,636**	**68,420**	**101,056**
Total at 31 December	**34,741**	**74,955**	**109,696**	**34,869**	**74,041**	**108,910**

23 Trade and Other Payables

Trade and Other Payables

In thousands of EUR	2021	2020
Trade payables	263	-
Other financial liabilities	571	-
Total financial instruments within non-current trade and other payables	**834**	**-**
Grants	8,027	5,844
Total non-current trade and other payables	**8,861**	**5,844**
Trade payables	93,751	115,972
Other accrued liabilities	10,350	8,430
Commodity contracts at FVTPL	17,501	6,752
Other financial liabilities	6,047	3,700
Total financial instruments within current trade and other payables	**127,649**	**134,854**
Contract liabilities – electricity and natural gas and related distribution fees	35,331	38,425
Employee benefits payable	3,381	3,176
Social security on employee benefits	2,895	2,683
Accrued staff costs	9,975	9,387
Advance payments	27,715	22,976
Value added tax payable	6,022	4,575
Other payables	7,744	8,055
Grants	710	531
Excise duty payable	336	336
Total current trade and other payables	**221,758**	**224,998**

The Group had overdue current trade payables of EUR 512 thousand (2020: EUR 219 thousand) and overdue non-current trade payables of EUR 0 thousand (2020: EUR 0 thousand). None of the payables are overdue more than 30 days at 31 December 2021 and 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 for unbilled electricity, natural gas and related distribution fees

In thousands of EUR	2021	2020
At 1 January	38,425	43,583
Additions	35,331	38,425
Recognized in revenues	(38,425)	(43,583)
At 31 December	**35,331**	**38,425**

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

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

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

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

In thousands of EUR	2021	2020
Revenue recognised at a point in time	19,352	10,253
Revenue recognised over time	1,321,784	1,200,590
Total revenue from electricity and other related revenue and revenue from natural gas	**1,341,136**	**1,210,843**

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

Revenue comprises the following:

Revenue comprises

In thousands of EUR	2021	2020
Sales of electricity to industrial and other commercial customers	405,985	372,394
Sales of electricity to residential customers	141,225	142,043
Total sales of electricity	**547,210**	**514,437**
Distribution fees for electricity to industrial and other commercial customers	393,254	382,371
Distribution fees for electricity to residential customers	189,799	169,282
Revenue for reserved capacity	9,437	9,121
Accrued decrease in revenue from customer returns	(9,432)	(8,073)
Total distribution fees	**583,058**	**552,701**
Revenue from natural gas	179,697	125,402
Revenues for connection work and testing fees	6,360	5,976
Other revenue	24,811	12,327
Total revenue from electricity and other related revenue and revenue from natural gas	**1,341,136**	**1,210,843**

25 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:

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

In thousands of EUR	2021	2020
Purchase of electricity from: Slovenské elektrárne ("SE")	117,492	106,034
Purchase of electricity from other domestic producers and traders	110,743	248,909
Purchase of electricity on the spot market	276,321	47,693
Commodity contracts at FVTPL	70	2,988
Purchase of natural gas for electricity production	52,658	69,285
Settlement of contracted but unconsumed natural gas for electricity production	(54,189)	-
Emission quotas consumption	19,783	16,951
Total purchases of electricity and natural gas for electricity production	**522,878**	**491,860**
Electricity transmission fees, system access and ancillary service charges, tariff for system operation and system services and related fees	295,701	280,709
Total purchases of electricity, natural gas for electricity production and related fees	**818,579**	**772,569**

26 Employee Benefits

Employee Benefits

In thousands of EUR	2021	2020
Wages and salaries	57,891	53,406
Defined contribution pension costs	9,925	9,255
Post-employment defined benefit plan expense (Note 19)	963	785
Other long-term employee benefit plans – current service and interest cost (Note 20)	191	183
Actuarial remeasurements of other long-term employee benefit plans (Note 20)	28	115
Other social costs	17,173	15,806
Total employee benefits expense	**86,171**	**79,550**

27 Other Operating Expenses

Other Operating Expenses		
In thousands of EUR	**2021**	**2020**
Information technology and software maintenance costs	8,102	8,729
Repairs and maintenance costs	9,927	8,918
Expenses relating leases of low-value assets and short-term leases	1,117	788
Postal and telecommunication services	2,873	3,028
Call centre services	2,925	2,610
Security services	2,171	1,942
Advertising services	1,875	1,728
Travel expenses	797	804
Statutory audit	315	323
Other services	7,204	7,316
External dealers commission	1,306	1,121
Project management	309	659
Advisory services	1,169	1,761
Marketing	767	832
Operation and maintenance of telecommunication network	555	606
Provisions for legal proceedings (Note 21)	3,879	-
Facility management expenses	1,242	1,144
Impairment loss on trade and other receivables (Note 12)	3,853	(1,236)
Bad debt write-offs	23	(49)
Property and motor vehicle tax	863	864
Gifts	359	559
Insurance	2,154	1,802
Other operating expenses	4,998	8,366
Total other operating expenses	**58,783**	**52,615**

In 2021, the KPMG (2020: PwC) network provided non-audit services to the Group in the amount of EUR 0 thousand (2020: EUR 77 thousand). In 2020, 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.

28 Other Operating Income

Other Operating Income		
In thousands of EUR	**2021**	**2020**
Customer contributions to their connection costs	2,276	1,678
Operating lease income (Note 6)	1,499	1,453
Gain/(Loss) on disposal of fixed tangible assets (Note 6)	2,073	(117)
Grants	667	(142)
Income from contractual penalties	771	1,037
Income from unauthorized consumption of electricity	376	286
Fees for payment reminders	1,084	952
Income from insurance claims	159	1,279
Other	1,337	1,421
Total other operating income	**10,242**	**7,847**

29 Interest and Similar Expense

Interest and Similar Expense		
In thousands of EUR	**2021**	**2020**
Interest expense on bonds	18,113	18,113
Amortisation of bonds transaction costs and similar expense	596	590
Interest expense on lease liability	404	443
Other interest expense	345	268
Less capitalised borrowing costs (Note 6)	(2,111)	(1,818)
Total interest and similar expense	**17,347**	**17,596**

30 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 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 78% (2020: 92%) of the Group's EBITDA and 75% (2020: 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., EKOTERM, s.r.o. and BK, a.s. 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 also realizes 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, electrical installations and facility management services for third parties.

Reportable segments information for 2021 is as follows:

Reportable segments information for 2021

In thousands of EUR	Distribution	Supply	Production	Other	Eliminations and consolidation adjustments	Total
Revenue from external customers	173,874	1,153,248	1,162	12,852	-	**1,341,136**
Inter-segment revenues	202,237	149,635	157,832	19,680	(529,384)	-
Total segment revenues	376,111	1,302,883	158,994	32,532	(529,384)	**1,341,136**
Purchases of electricity, natural gas for electricity production and related fees	(116,821)	(1,085,458)	(114,086)	(13,232)	511,018	**(818,579)**
Purchases of natural gas for sale	-	(161,612)	-	-	76	**(161,536)**
Employee benefits expense	(59,543)	(12,943)	(1,484)	(12,203)	2	**(86,171)**
Other operating expenses	(47,410)	(19,139)	(4,207)	(9,523)	21,496	**(58,783)**
Dividend income	-	-	-	87,049	(86,873)	**176**
Other operating income	4,999	2,613	12	11,532	(8,914)	**10,242**
Income from subleases	-	-	-	119	(119)	**-**
Own work capitalized	19,773	-	-	165	707	**20,645**
Earnings before interest, taxes, depreciation and amortization (EBITDA)	**177,109**	**26,344**	**39,229**	**96,439**	**(91,991)**	**247,130**
Depreciation of property, plant and equipment and investment properties	(67,175)	(17)	(934)	(3,625)	17,046	**(54,705)**
Amortization of intangible assets	(3,457)	(1,287)	(20)	(199)	(215)	**(5,178)**
Depreciation of right-of-use assets	(7,306)	(827)	-	(498)	5,555	**(3,076)**
Earnings before interest and taxes (EBIT)	**99,171**	**24,213**	**38,275**	**92,117**	**(69,605)**	**184,171**
Capital expenditures	**120,225**	**1,399**	**3,966**	**3,083**	**(2,558)**	**126,115**

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	2021	2020
Total EBIT for all operating segments	**184,171**	**176,757**
Interest income calculated using the effective interest method	2	11
Interest and similar expense	(17,347)	(17,596)
Profit before tax	**166,826**	**159,172**

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)**
Dividend income	-	-	-	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 and investment properties	(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 capital expenditures to payments for purchases of property, plant and equipment and intangible assets is as follows:

Reconciliation of capital expenditures to payments for purchases of property

In thousands of EUR	2021	2020
Total capital expenditures for all operating segments	**126,115**	**109,977**
Payments for emission quotas acquired	26,859	27,973
Assets acquired but not paid for	(30,398)	(32,205)
Payments for assets acquired in prior periods	27,307	21,071
First time consolidation of BK, a.s. – payment for assets acquired within acquisition of a subsidiary (Note 31)	(11,793)	-
Payments for purchases of property, plant and equipment and intangible assets	**138,090**	**126,816**

At 31 December 2021 the property, plant and equipment ("PP&E") of the electricity distribution segment represents 93% of the total Group´s PP&E (2020: 99%).

Entity wide information. Revenue is analysed by type of product or service in Note 24. 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.

31 Business Combinations

ZSE Energetické služby, s. r. o., a subsidiary of the Company, acquired 66.95% of shares in BK, a.s. during 2021. The remaining shares are owned by minority shareholders (Note 1 and 32). BK, a.s. provides electrical installations and facility management services for third parties and was acquired in order to strengthen the energy solutions business of the Group.

Details of the assets and liabilities acquired and goodwill arising are as follows:

Details of the assets and liabilities acquired and goodwill arising

In thousands of EUR	Note	Attributed fair value
Property, plant and equipment	6	3,373
Intangible assets	7	5,845
Investment properties	8	1,436
Right-of-use assets	9	1,257
Deferred income tax assets		89
Inventories		342
Trade and other receivables		5,466
Cash and cash equivalents		480
Lease liabilities	35	(1,257)
Deferred income tax liabilities		(1,244)
Borrowings	35	(2,510)
Trade and other payables		(6,980)
Current income tax liabilities	39	(164)
Fair value of identifiable net assets of subsidiary		**6,133**
Less: Non-controlling interest		(2,027)
Goodwill arising from the acquisition	7	1,139
Total purchase consideration		**5,245**
Less: Deferred payment		(450)
Less: Cash and cash equivalents of subsidiary acquired		(480)
Outflow of cash and cash equivalents on acquisition		**4,315**

The non-controlling interest represents a share in the net assets of the acquiree attributable to owners of the non-controlling interest. The fair values of assets and liabilities acquired are based on discounted cash flow models. The valuation of identifiable intangible assets was performed by an independent professional appraiser.

The goodwill is primarily attributable to the profitability of the acquired business, its customer base and trademark. The goodwill will not be deductible for tax purposes in future periods.

32 Non-Controlling Interest

The following table provides information about each subsidiary that has non-controlling interest that is material to the Group:

Non-Controlling Interest

In thousands of EUR	Place of business (and country of incorporation if different)	Proportion of non-controlling interest	Proportion of non-controlling interest's voting rights held	Profit or loss attributable to noncontrolling interest	Accumulated non-controlling interest in the subsidiary	Dividends paid to non-controlling interest during the year
Year ended 31 December 2021						
BK, a.s.	Slovakia	33.05%	33.05%	(144)	1,883	-
EKOTERM, s.r.o.	Slovakia	42.00%	42.00%	12	229	-
Year ended 31 December 2020						
EKOTERM, s.r.o.	Slovakia	42.00%	42.00%	-	217	-

The summarised financial information of these subsidiaries was as follows:

The summarised financial information of these subsidiaries

	At 31 December				Year ended 31 December			
In thousands of EUR	Current assets	Noncurrent assets	Current liabilities	Noncurrent liabilities	Revenue	Profit/ (loss)	Total comprehensive income	Cash flows
2021								
BK, a.s.	7,138	4,806	6,883	1,061	18,332	678	678	233
EKOTERM, s.r.o.	900	44	692	-	1,201	142	142	**(4)**
2020								
EKOTERM, s.r.o.	268	-	151	-	359	(47)	(47)	18

Financial information for the current accounting period is only preliminary.

33 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 ± 99 thousand (2020: EUR ± 1,065 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 13, 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 13 and credit quality information about trade receivables is included in Note 12.

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 2021:

The maturity analysis is as follows at 31 December 2021

In thousands of EUR	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
Issued bonds – principal due	-	-	-	315,000	315,000	**630,000**
Issued bonds – future interest payments	-	5,513	12,600	34,650	11,025	**63,788**
Borrowings (Note 17)	22,566	-	-	-	-	**22,566**
Trade payables – non-current (Note 23)	-	-	-	263	-	**263**
Trade payables - current (Note 23)	66,328	26,831	592	-	-	**93,751**
Other accrued liabilities (Note 23)	7,814	661	1,875	-	-	**10,350**
Lease liabilities (including future interest payments)	274	549	2,667	17,422	6,049	**26,961**
Other financial liabilities – non-current (Note 23)	-	-	-	571	-	**571**
Other financial liabilities – current (Note 23)	6,047	-	-	-	-	**6,047**
Commodity contracts at FVTPL:						
- payments*	515	1,031	4,638	3,242	-	**9,426**
- receipts**	(651)	(1,302)	(5,859)	(622)	-	**(8,434)**
Total future payments, including future principal and interest payments	**102,893**	**33,283**	**16,513**	**370,526**	**332,074**	**855,289**

* 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 2020:

The maturity analysis is as follows at 31 December 2020						
In thousands of EUR	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Liabilities						
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 - current (Note 23)	76,634	38,367	387	584	-	**115,972**
Other accrued liabilities (Note 23)	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 - current (Note 23)	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**

* Nominálna hodnota záväzku predstavuje brutto stranu peňažnej platby komoditných zmlúv ocenených v reálnej hodnote cez hospodársky výsledok. Súvisiaci nepeňažný príjem komodity nie je vykázaný.

** Nominálna hodnota pohľadávky predstavuje brutto stranu peňažného príjmu komoditných zmlúv ocenených v reálnej hodnote cez hospodársky výsledok. Súvisiaci prevod komodity nie je vykázaný vo vyššie uvedenej tabuľke likvidity.

34 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 269,440 thousand at 31 December 2021 (2020: EUR 217,408 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.

35 Movements in Liabilities from Financial Activities

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

Movements in Liabilities from Financial Activities

In thousands of EUR	Issued bonds (Note 16	Borrowings (Note 17)	Lease liabilities (Note 9)	Total
At 1 January 2020	**634,244**	**-**	**26,103**	**660,347**
Non-cash movements				
Additions to leases (Note 9)	-	-	4,272	**4,272**
Interest expense (Note 29)	16,295	-	443	**16,738**
Capitalised interest costs (Note 6 and 29)	1,818	-	-	**1,818**
Amortisation of bonds transaction costs	452	-	-	**452**
Termination and modifications of leases	-	-	(767)	**(767)**
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**
Non-cash movements				
Additions to leases (Note 9)	-	-	6,561	**6,561**
Interest expense (Note 29)	16,002	35	404	**16,441**
Capitalised interest costs (Note 6 and 29)	2,111	-	-	**2,111**
Amortisation of bonds transaction costs	452	-	-	**452**
Termination and modifications of leases	-	-	(2,156)	**(2,156)**
First time consolidation of BK, a.s. (Note 31)	-	2,510	1,257	**3,767**
Other	-	-	(514)	**(514)**
Payments				
Interest expense paid	(18,113)	(35)	(404)	**(18,552)**
Borrowings received	-	20,056	-	**20,056**
Lease liability principal repayments	-	-	(5,308)	**(5,308)**
At 31 December 2021	**635,148**	**22,566**	**24,352**	**682,066**

36 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:

Disclosure of fair values

In thousands of EUR	31 December 2021			31 december 2020		
	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
Trade receivables – non-current, net (Note 12)	-	463	463	-	-	-
Trade receivables – current, net (Note 12)	-	212,380	212,380	-	152,794	152,794
Cash and cash equivalents (Note 13)	-	10,787	10,787	-	82,640	82,640
TOTAL ASSETS	**-**	**223,630**	**223,630**	**-**	**235,636**	**235,636**
LIABILITIES						
Issued bonds (Note 16)	673,251	-	635,148	696,512	-	634,696
Borrowings (Note 17)	-	22,566	22,566	-	-	-
Trade payables – non-current (Note 23)	-	263	263	-	-	-
Trade payables - current (Note 23)	-	93,751	93,751	-	115,972	115,972
Other accrued liabilities (Note 23)	-	10,350	10,350	-	8,430	8,430
Other financial liabilities – non-current (Note 23)	-	571	571	-	-	-
Other financial liabilities - current (Note 23)	-	6,047	6,047	-	3,700	3,700
TOTAL LIABILITIES	**673,251**	**133,548**	**768,696**	**696,512**	**128,102**	**762,798**

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

37 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*.

38 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 2017 to 2021 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 21). At 31 December 2021, the maximum additional exposure of the Group to the risk of these legal proceedings is EUR 0 thousand (2020: EUR 23,192 thousand) in excess of the provision already created.

Capital expenditure commitments. At 31 December 2021, the Group had outstanding contractual commitments for purchases of property, plant and equipment of EUR 72,425 thousand (2020: EUR 63,880 thousand). Outstanding contractual commitments for purchases of intangible assets were EUR 4,975 thousand (2020: EUR 897 thousand).

Bank guarantees. Bank guarantees for purchase liabilities were issued in favor of the Group with the maximum amount of EUR 50,375 thousand (2020: EUR 11,528 thousand), where the actual amount of guaranteed liabilities at the balance sheet date is EUR 5,972 thousand (2020: EUR 26,551 thousand).

39 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 14: (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 2021:

Balances and Transactions with Related Parties

In thousands of EUR	Ministry of Economy of the Slovak Republic	E.ON Slovensko, a.s	E.ON Group**	Slovak Government*	Joint venture (Note 10)
Revenue, other operating income and interest income	81	159	19,906	136,510	1,057
Dividend income	-	-	-	-	176
Purchases and expenses	25	-	12,452	676,383	1,326
Receivables other than taxes	5	-	1,118	50,986	100
Liabilities other than taxes	-	-	3,217	34,211	94
Dividends declared and paid	45,697	34,945	8,960	-	-

* 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 18. Outstanding value added tax payable is presented in Note 23. Property and motor vehicle taxes are disclosed in Note 27.

The income tax paid was as follows:

The income tax paid

In thousands of EUR	2021	2020
Current income tax expense at standard rate of 21% (2020: 21%) – refer to Note 18	(27,751)	(29,040)
Special levy on profits from regulated activities (Note 18)	(5,581)	(6,707)
Current income tax liabilities at the beginning of the reporting period	(12,292)	(5,179)
Current income tax liabilities at the end of the reporting period	3,262	12,292
Other	(164)	8
Income tax paid	**(42,526)**	**(28,626)**

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

Balances and Transactions with Related Parties

In thousands of EUR	Ministry of Economy of the Slovak Republic	E.ON Slovensko, a.s	E.ON Group**	Slovak Government*	Joint venture (Note 10)
Revenue, other operating 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	-	-

* Stĺpec Vláda Slovenskej republiky predstavuje individuálne významné transakcie so spoločnosťami pod kontrolou, spoločnou kontrolou alebo významným vplyvom Vlády Slovenskej republiky.

** Stĺpec Skupina E.ON predstavuje transakcie so spoločnosťami pod kontrolou, spoločnou kontrolou alebo významným vplyvom skupiny E.ON.

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. The 2019 deficit was partially paid during 2021 based on the decision of RONI and recognized within revenue (Note 24).

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 comprised

In thousands of EUR	2021	2020
Board of directors and other key management personnel		
Salaries and other short-term employee benefits	2,023	1,977
Defined contribution pension costs	307	218
Total remuneration of board of directors and other key management personnel	**2,330**	**2,195**
Supervisory board		
Salaries and other short-term employee benefits	388	360
Defined contribution pension costs	66	55
Total remuneration of supervisory board	**454**	**415**

40 Events after the End of the Reporting Period

On 24 February 2022, a planned shutdown of the CCGT power plant in Malženice was carried out due to an overhaul. The resumption of power plant operation is scheduled on 14 April 2022.

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

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

Management authorised these financial statements for issue on 31 March 2022:

Markus Kaune
Chairman of the Board of Directors and CEO

Marian Rusko
Member of the Board of Directors

Complete annual report here.