Tear Sheet:

Zapadoslovenska energetika a.s.

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This report does not constitute a rating action.

The headroom of Zapadoslovenska energetika a.s. (ZSE) is expected to decline, although it will start from a robust position. Solid 2025 financial performance, bolstered by the advanced integration of the Východoslovenská energetika (VSE) group, resulted in S&P Global Ratings-adjusted EBITDA of €436 million, exceeding our previous forecasts of €380 million-€400 million. This level is expected to remain broadly stable through 2026-2028. Continuous grid investments are projected to drive average annual capital expenditure (capex) to nearly €250 million from 2025, before declining to below €200 million from 2029. Dividend payments rose significantly in 2025, exceeding €300 million, and remain at a higher-than-historical range of €150 million-€200 million for 2026-2028. Consequently, S&P Global Ratings-adjusted funds from operations (FFO) to debt is expected to decline to 34%-36% in 2026 from 43% in 2025, and further to 27%-32% in 2027-2028. While this indicates narrowing rating headroom, levels remain comfortably above our 23% threshold for the current rating.

We note that ZSE's grid investments will continue to be supported by the EU's Recovery and Resilience Facility and the modernization fund. Grants are expected to cover more than 20% of ZSE's total capex for the 2026-2030 period.

ZSE's financial policy and leverage limits stipulated in the shareholder agreement will continue to support the rating. We see management and shareholders committed to maintaining the current rating. Following the VSE integration, the dividend policy aligns with the new shareholder agreement, which sets a maximum leverage limit of 3x net debt to EBITDA (three-year average) from 2025. Given the strong 2025 performance and low leverage (approximately 2x), dividends are expected to increase, pushing leverage into the 2.5x-2.7x range in the coming years, but still maintaining headroom below the 3x cap. We assume continued support from shareholders--Slovakia (51%) and E.ON (49%)--noting ZSE retains the flexibility to reduce dividends to preserve leverage and liquidity. Due to increased dividends and annual investments of approximately €250 million, S&P Global Ratings-adjusted debt is projected to rise to €1.1 billion-€1.2 billion by 2027 from approximately €867 million at year-end 2025.

The stability of the current regulatory term (2023-2027) supports ZSE's highly regulated cash flows. In 2025, approximately 87% of EBITDA is derived from regulated business (74% from stable electricity distribution; 13% from electricity and gas supply). While EU trends toward market-based retail pricing may eventually transition the supply segment to an unregulated model, we do not expect this to significantly affect the business risk profile or our medial volatility assessment.

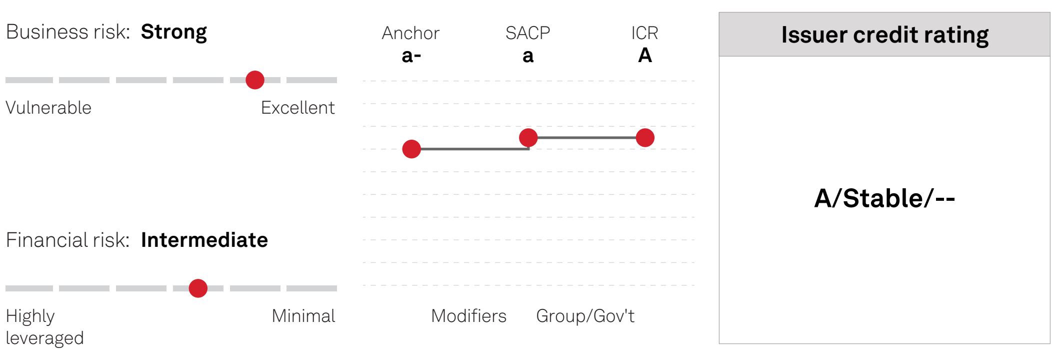
Long-term, the share of the regulated distribution business is expected to grow gradually alongside network investments.

Slovakia's regulator (RONI) has increased the pre-tax weighted average cost of capital to 5.71% for 2027, driven by a higher 10-year average of the risk-free rate, after raising it to 5.47% for 2026 (from 5.39% in 2025) due to higher corporate income tax. For 2026, grid-loss costs will be compensated via a forward price settlement with a t+2 correction mechanism, mitigating deficit risks and limiting tariff adjustment delays. We view the regulatory framework as stable and transparent (assessed as strong/adequate), providing highly predictable earnings through the 2023-2027 period. The subsequent regulatory period (2028-2032) is expected to maintain a five-year duration, with no significant methodological changes anticipated.

The disposal of the Malzenice Power Plant is progressing toward a projected completion in 2026-2027. The 436-megawatt combined cycle gas turbine plant, acquired from E.ON in the third quarter of 2018, is being acquired by the Slovak state following the exercise of a call option in August 2023. Currently treated as a noncore asset held for sale, the state views Malzenice as essential for electricity grid security and stability. The sale process is currently pending and there is an ongoing change in the shareholder structure of the buyer. We continue to factor in a moderately high likelihood of extraordinary government support from Slovakia, which maintains a neutral impact on the stand-alone credit profile (SACP).

Refinancing transactions completed have strengthened the liquidity and maturity profile. The group secured €400 million in loans, with a 7-year tenor, from the European Investment Bank (EIB) at quite favorable rates. Additionally, ZSE replaced existing three-year floating-rate green loans with three new green loans totaling €300 million with five-year tenors. The next refinancing is scheduled for 2027, well ahead of the €315 million bond maturity in first-quarter 2028.

Ratings Score Snapshot



ICR--Issuer credit rating. SACP--Stand-alone credit profile.

Recent Research

- Tear Sheet: Zapadoslovenska energetika a.s., July 14, 2025

Company Description

ZSE's shareholders are consolidating ZSE, the sole distribution system operator in western Slovakia, with VSE, a natural monopoly in power distribution in eastern Slovakia. Additionally, the combined group holds a leading position in the Slovak power supply market with a 40% market share and is the second-largest supplier of gas with an 11% market share.

In 2025, ZSE distributed 13.7 terawatt-hours (TWh) of electricity (versus 13.5 TWh in 2024) and supplied 9.0 TWh of power and 5.7 TWh of gas. At year-end 2025, ZSE posted reported EBITDA of about €436 million (from continuous operations) and gross financial debt of €1.109 billion (without leases).

Currently, 51% of ZSE shares are owned by the Ministry of Economy of the Slovak Republic and 49% by the E.ON Group. Although ZSE is 51% state controlled, the company's operations and strategy are sufficiently autonomous.

Outlook

The stable outlook reflects our forecast of continued stable and predictable earnings and cash flow from ZSE's relatively low risk regulated distribution business in western and eastern Slovakia. We also anticipate that the utility will maintain its strong retail supply position in its service area. Over the next two years, we expect FFO to debt at about 25%-35%, well above the minimum of 23% that we view commensurate with the current 'a' SACP.

Downside scenario

We could also lower the rating if we revise the SACP downward by one notch without revising our view of extraordinary state support. This could occur if there were unexpected negative changes to the regulatory framework, or if ZSE's operating or capital investment costs were higher than the regulator allows. We could also revise the SACP down if the utility's credit metrics weakened, notably if S&P Global Ratings-adjusted FFO to debt fell to 23% without any prospect of recovery. This could occur if the company adopts more aggressive financial policy in terms of leverage tolerance or dividend payouts, which we view as unlikely due to the change in the shareholder agreement.

Upside scenario

We see an upgrade as remote. We could raise the rating on ZSE if we upgraded Slovakia, or if ZSE posted a S&P Global Ratings-adjusted FFO to debt sustainably above 35%, assuming our view of the likelihood of extraordinary government support did not change.

Key Metrics

Zapadoslovenska energetika a.s.--Key Metrics*

Period ending	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027	Dec-31-2028
(Mil. EUR)	2024a	2025a	2026f	2027f	2028f
EBITDA	397	436	420-440	405-425	450-470
Funds from operations (FFO)	261	374	320-340	300-320	360-380
Capital expenditure (capex)	235	312	210-220	260-270	260-270
Free operating cash flow (FOCF)	33	56	95-105	30-40	95-105
Dividends	106	318	150-160	190-200	175-185
Debt	641	867	900-950	1,080-1,130	1,150-1,200
Adjusted ratios					
Debt/EBITDA (x)	1.6	2.0	2.0-2.4	2.4-2.8	2.4-2.8
FFO/debt (%)	40.6	43.1	34.0-36.0	27.0-29.0	30.0-32.0

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. EUR--euro.

Financial Summary

Zapadoslovenska energetika a.s.--Financial Summary

Period ending	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025
Reporting period	2020a	2021a	2022a	2023a	2024a	2025a
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR	EUR
Revenues	1,211	1,341	1,991	2,322	2,469	2,332
EBITDA	257	265	243	417	397	436
Funds from operations (FFO)	210	204	191	350	261	373
Interest expense	19	19	19	19	23	18
Cash interest paid	19	19	19	24	25	22
Operating cash flow (OCF)	203	138	79	666	268	367
Capital expenditure	125	136	108	175	235	311
Free operating cash flow (FOCF)	78	2	(29)	491	33	56
Discretionary cash flow (DCF)	4	(88)	(117)	418	(73)	(262)
Cash and short-term investments	83	11	48	284	214	289
Gross available cash	83	11	48	284	214	289
Debt	587	672	747	585	641	867
Common equity	217	269	313	1,286	1,349	1,256
Adjusted ratios						
EBITDA margin (%)	21.2	19.7	12.2	18.0	16.1	18.7
Return on capital (%)	25.1	23.1	17.5	23.6	13.1	14.2
EBITDA interest coverage (x)	13.4	13.8	12.7	21.8	17.0	23.9
FFO cash interest coverage (x)	12.3	12.0	11.3	15.5	11.3	17.6
Debt/EBITDA (x)	2.3	2.5	3.1	1.4	1.6	2.0
FFO/debt (%)	35.7	30.3	25.6	59.7	40.6	43.1
OCF/debt (%)	34.5	20.5	10.6	113.7	41.8	42.4
FOCF/debt (%)	13.2	0.2	(3.9)	83.9	5.1	6.4
DCF/debt (%)	0.6	(13.1)	(15.7)	71.4	(11.4)	(30.2)

Peer Comparison

Zapadoslovenska energetika a.s.--Peer Comparisons

	Zapadoslovenska energetika a.s.	Alliander N.V.	CEZ a.s.	Electricity North West Ltd.
Foreign currency issuer credit rating	A/Stable/--	A/Positive/A-1	A-/Negative/--	BBB+/Stable/A-2
Local currency issuer credit rating	A/Stable/--	A/Positive/A-1	A-/Negative/--	BBB+/Stable/A-2
Period	Annual	Annual	Annual	Annual
Period ending	2025-12-31	2025-12-31	2025-12-31	2025-03-31
Mil.	EUR	EUR	EUR	EUR
Revenue	2,332	3,273	13,680	789
EBITDA	436	893	5,822	491
Funds from operations (FFO)	373	770	3,545	297
Interest	18	106	535	149

Zapadoslovenska energetika a.s.--Peer Comparisons

Cash interest paid	22	90	312	139
Operating cash flow (OCF)	367	823	2,620	388
Capital expenditure	311	2,115	2,538	441
Free operating cash flow (FOCF)	56	(1,292)	82	(53)
Discretionary cash flow (DCF)	(262)	(1,410)	(1,014)	(86)
Cash and short-term investments	289	307	1,440	261
Gross available cash	289	307	1,440	261
Debt	867	4,912	13,797	2,327
Equity	1,256	6,008	10,347	1,330
EBITDA margin (%)	18.7	27.3	42.6	62.2
Return on capital (%)	14.2	3.8	14.4	8.9
EBITDA interest coverage (x)	23.9	8.4	10.9	3.3
FFO cash interest coverage (x)	17.6	9.5	12.4	3.1
Debt/EBITDA (x)	2.0	5.5	2.4	4.7
FFO/debt (%)	43.1	15.7	25.7	12.8
OCF/debt (%)	42.4	16.7	19.0	16.7
FOCF/debt (%)	6.4	(26.3)	0.6	(2.3)
DCF/debt (%)	(30.2)	(28.7)	(7.4)	(3.7)

Liquidity

We assess ZSE's liquidity as adequate. Our view of ZSE's liquidity reflects our expectation that its liquidity sources will exceed its liquidity needs by about 2.0x over the 12 months started March 31, 2026. ZSE has sound relationships with banks. The company has recently refinanced its EIB loans, amounted to €400 million and issued new green loans worth €300 million with five-year tenor. We do not view the liquidity as strong because we expect ZSE to generate negative discretionary cash flow for the forecast period due to increased capex and dividend, which will gradually reduce the current liquidity buffer.

Principal liquidity sources	Principal liquidity uses
As of March 31, 2026, according to our estimates: • Access to unrestricted short-term cash of about €500 million-€530 million; • Undrawn committed credit facilities of about €100 million maturing beyond 12 months; and • Cash FFO of €300 million-€330 million.	Over the same period: • Short-term debt maturities of about €60 million over the next 12 months; • Working capital outflow of €10 million-€20 million over the next 12 months; • Capex of €200 million-€250 million; and • Dividend payments of €150 million-€170 million.

Rating Component Scores	
Foreign currency issuer credit rating	**A/Stable/--**
Local currency issuer credit rating	**A/Stable/--**
Business risk	**Strong**
Country risk	Intermediate
Industry risk	Very Low
Competitive position	Satisfactory
Financial risk	**Intermediate**
Cash flow/leverage	Intermediate (Medial Volatility Table)
Anchor	**a-**
Modifiers	
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Positive (+1 notch)
Stand-alone credit profile	**A**
Related government rating	**A/Stable/A-1**
Likelihood of government support	**Moderately High**

Related Criteria

- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 24, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010