Stredoslovenská distribučná

21

# Annual Report

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# 1. Foreword by the Chairman of the Board of Directors and the Chief Executive Officer

Dear customers, business partners, shareholders and colleagues,

The past year 2021 was marked by the ongoing COVID-19 pandemic not only in the energy sector but in society as a whole. From the very beginning, we anticipated that, in addition to all our activities, we would have to consistently focus on minimizing the negative effects of this pandemic on our employees and our company. However, compared to 2020, we already had more experience and knowledge, so we were able to apply the tried and tested procedures in practice. Despite the escalation of the pandemic situation, this enabled us to successfully fulfil the mission of our company and the obligations stipulated by legislation without major adverse consequences. This is primarily due to the responsible approach of our employees, their willingness to adhere to anti-pandemic measures and also the exemplary attitude towards vaccination against the disease. As regards the ratio of vaccinated persons to the total number of employees, we significantly exceeded the national average. On behalf of the entire management of the company, our thanks and acknowledgement go to our employees for their responsible approach to themselves, their loved ones, their colleagues and the environment.

In the area of electricity distribution, our main activity, we were able to maintain the standard quality of the services we provide. In several areas, we have even achieved better parameters than in the previous year. The investments in infrastructure in the form of significant reconstructions or further expansion of the distribution network in the territory of Central Slovakia played an important role. In 2021, we invested approximately 43 million euros in the distribution network.

Developments in the European energy market, especially in the second half of the year, began to be significantly adversely affected by global factors, which resulted in a radical increase in the price of electricity on the stock exchange. For some market participants, this meant ceasing their operations. Securing the supply of electricity to their customers subsequently had to be handled at the expense of other energy companies. Unfortunately, the negative developments in the price of electricity largely affected our company as well, although this will be evident to a much worse extent especially in 2022. Another problematic area was the purchase of materials and key components, where we had to deal not only with increasing prices, but also with their shortage or delayed deliveries.

Despite all the difficulties mentioned, we managed to end the year 2021 with a remarkable result in the volume of distributed electricity of 6.4 TWh. This volume is even higher compared to the period before the start of the pandemic, which was accompanied by a deceleration in the growth of the Slovak economy associated with a decline in energy consumption.

The effort to constantly improve the services provided to our customers resulted in the successful implementation of several innovations. One of them, which will certainly be appreciated by our customers, was the introduction of a central electronic application system. The rate of utilisation of this tool is a clear proof of the effective solution of individual steps needed for services related to electricity distribution and efficient communication. The internal support of this solution was also associated with several organizational changes, which should contribute to achieving this goal.

By reading this annual report, you will have the opportunity to get acquainted in more detail with further information concerning our company's financial results and activities in 2021. These are the results of the work of our employees and the results of cooperation with our business partners, suppliers and customers of electricity. We sincerely thank all those who took part in ensuring the activities and operation of Stredoslovenská distribučná, a.s., last year. We firmly hope that we will continue our good cooperation in the following periods.

Best regards,

**Ing. František Čupr, MBA**
Chairman of the Board of Directors

**Mgr. Ing. Marek Štrpka**
Chief Executive Officer

# 2. About the Company

## 2.1 Basic Information on the Company

Stredoslovenská distribučná, a. s., (hereinafter: "SSD, a.s." or the "Company") was founded with the business name Stredoslovenská energetika – Distribúcia, a s., on 22 March 2006. It was entered in the Commercial Register of the District Court in Žilina on 8 April 2006. The incorporation was initiated by the obligation of Stredoslovenská energetika, a.s. to implement the legal separation of activities associated with the operation of the distribution system, the so-called unbundling. The Company operates in the Žilina, Banská Bystrica and part of the Trenčín Regions, where it distributes electricity to almost 770,000 supply points for customers, i.e., entrepreneurs and households. The Company started its operation on 1 July 2007, when according to Article 25(1) of the Energy Act (unbundling), the distribution system operator was unbundled by contribution of part of the Company – Division 7000 – Distribution System Operator – to the registered capital of the subsidiary company Stredoslovenská energetika – Distribúcia, a.s. On 1 March 2018, Stredoslovenská energetika – Distribúcia, a.s., changed its business name to Stredoslovenská distribučná, a.s.

## 2.2 Identification Data

| Business name: | Stredoslovenská distribučná, a.s. |
|---|---|
| Address: | Pri Rajčianke 2927/8, 010 47 Žilina |
| Reg. No. (IČO): | 36442151 |
| Tax ID (DIČ): | 2022187453 |
| VAT ID (IČ DPH): | SK 2022187453 |
| Bank details: | VÚB, a. s., Žilina |
| IBAN: | SK44 0200 0000 0021 4355 0551 |
| BIC: | SUBASKBX |

The joint-stock company is registered in the Commercial Register of the District Court Žilina, Section Sa, Insertion no. 10514/L, incorporation date 8 April 2006.

| | |
|---|---|
| E-mail: | prevadzkovatel@ssd.sk |
| Website: | www.ssd.sk |

## 2.3 Business Purpose

**Stredoslovenská distribučná, a.s., pursues its business activities based on licences granted according to special laws of the Slovak Republic and carries out the following main activities:**

- Distribution of electricity,
- Assembly and repair of measuring and control technology,
- Design and construction of electrical equipment,
- Advisory activities in the energy sector,
- Engineering activities and related technical consultancy,
- Rental of energy equipment,
- Constructions and changes thereto,
- Repairs, expert inspections and technical examinations of electrical classified technical equipment in the scope of S, O (OU, R, M) – E1-A,
- Assembly of determined metering devices.

The Company's core business is the distribution of electricity to final customers, which in most cases is invoiced through electricity traders in the form of the so-called Contract on composite electricity supply.

## 2.4 Shareholder Structure

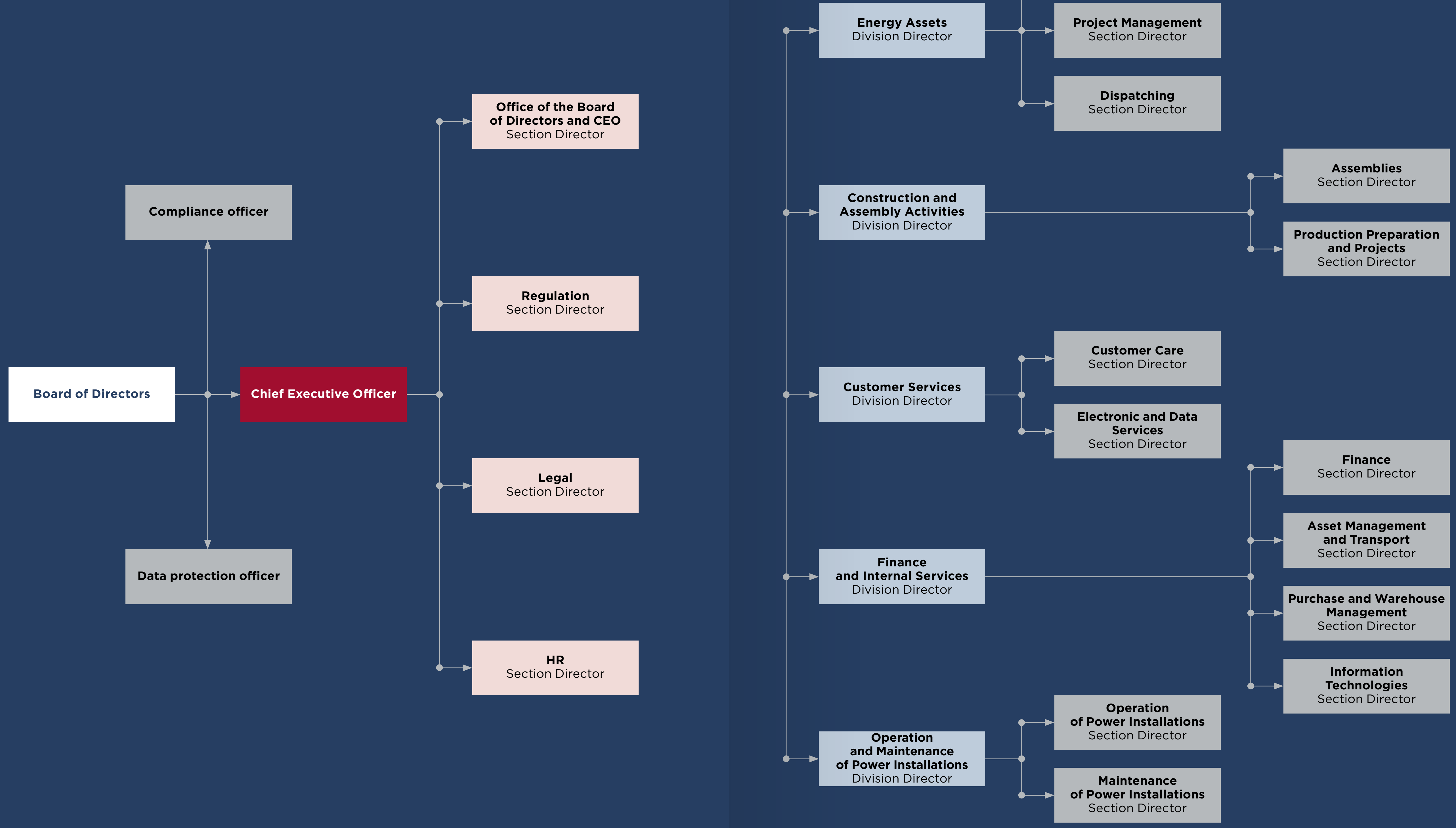
The sole shareholder of Stredoslovenská distribučná, a.s., holding 100% of shares, is Stredoslovenská energetika Holding, a.s., with its registered office at Pri Rajčianke 8591/4B, 010 47 Žilina, Reg. No. (IČO): 36403008, registered in the Commercial Register of the District Court in Žilina, Section Sa, Insertion number 10328/L, incorporation date 1 January 2002.

## 2.5 Company Management during the Year Ended on 31 December 2021

| Board of Directors: | |
|---|---|
| Ing. František Čupr, MBA | Board of Directors |
| Ing. Roman Hušťava | Vice-Chairman |
| JUDr. Peter Hajduček | Member |
| Ing. Roman Filipoiu | Member |
| Petr Kozojed | Member |

| Supervisory Board: | |
|---|---|
| Ing. Drahomír Múdry | Chairman |
| Gary Mazzotti | Vice-Chairman |
| Ing. Róbert Klimo | Member |
| Mgr. Michal Komada | Member |
| Ing. Pavol Matlák | Member, (until 10 September 2021) |
| Mgr. Maroš Skopal | Member |
| Ing. Dušan Majer | Member elected by employees |
| Ing. Igor Pištík | Member elected by employees |
| Ing. Miroslav Martoník | Member elected by employees |

# 2.6 Organizational structure as at 31 December 2021



# 3. Company Activities

## 3.1 Significant Events in 2021

### Customer Services

As in 2020, the respective year was significantly affected by the COVID-19 pandemic. Stredoslovenská distribučná made every effort to meet the priorities in relation to the safe and reliable operation of the distribution system, which included the security of IT systems and their company-wide and national connections.

In 2021, the application management web portal was in full production operation. The new communication route was used on average by 80% of applicants with requirements regarding the distribution system and more than 98% of applicants who wanted to conclude connection contracts for change of final customer, thus wanting to meet the legislative obligation valid from 1 January 2019. The new system also provided customers with the advantage of communication and solution of requirements from the comfort of their home, which was of particular importance during the period of anti-pandemic measures in the Slovak Republic.

The Company was involved in project activities in order to implement the fourth energy package, which is covered by OKTE, a. s.

During the year, we conducted a feasibility study to automate selected processes, identifying options for removing bottlenecks in key processes with a direct impact on SSD's legislative deadlines and responsibilities. The study resulted in the modification of some algorithms, formulas and process steps, owing to which we managed to increase the quality of services provided without additional investment.

At the end of the year, several electricity suppliers ceased their operations. This was a consequence of the developments in electricity and gas prices for 2022. The legislation provides customers with a guarantee in terms of supply of commodities for the necessary time through the institute of the supplier of last resort. Unpaid receivables will extend in the next years in the form of legal enforcement. Historical experience has shown that the outlook for payment of receivables is not favourable. SSD appreciates that the largest supplier, which has ceased its operations on the Slovak electricity and gas market, has met its obligations to SSD.

In the course of 2021, SSD prepared an application for final customers for self-deduction of consumed electricity. It is published on the Company's website at www.ssd.sk.

We also made partial organizational changes to make the Company ready to meet the obligations of the new legislation. As in previous years, in 2021 we managed and performed activities under regulated and non-discriminatory conditions.

### Operation and Maintenance of Power Installations

In the Operation and Maintenance of Power Installations Division, we managed to successfully complete the campaign of assembly of intelligent metering systems (IMS). We installed them at 138,984 supply points, which met the criteria set by the legislation, thus meeting the conditions of the decree.

In the area of cooperation with local governments, we have intensified communication and specific practical solutions in matters of care for plantations under low-voltage overhead lines in cities and municipalities.

During 2021, we had to deal with eight power disasters. We eliminated the consequences using mostly our internal capacities. The cost of removing them amounted to EUR 1.4 million. For comparison, in 2020 we dealt the same number of disasters at a cost of EUR one million.

Operational accidents affected our distribution system six times at very high voltage and twice at high voltage. The cost of removing them climbed to EUR 257 thousand.

### External Communication

In view of the continuing unfavourable situation in connection with the pandemic, it was necessary for external communication activities to adapt to the circumstances. The Company informed customers and the public through the media about the security measures it had taken and how it affected its activities. Among other things, it also informed about the course of vaccination of critical infrastructure employees, which has remained well above the national average for a long time since its launch. SSD focused on the topic especially in the first months of the year, when the pandemic situation was the most serious.

Communication with the external environment traditionally also addressed changes in the distribution price list, power disasters, more extensive failures, planned outages and, last but not least, investment projects. The public had enough information about all key activities of Stredoslovenská distribučná, whether it was strategic reconstructions of the distribution system at the level of very high voltage or addressing calamity sections at the level of high voltage. We also paid attention to environmental issues, in which the Company has been involved for a long time. For example, the installation of special protective elements on power lines that prevent injuries and death of animals, as well as cooperation with various environmental organizations.

The negative of 2021 in terms of external communication was again the lack of opportunities to organize personal meetings, whether with representatives of the media, local governments or cooperating institutions. Nevertheless, SSD's external communication remained at an appropriate level and fulfilled its task as evidenced by 37 published press releases, more than fifty television reports and dozens of news reports on the radio.

## 3.2 Investment Planning, Key Investments in 2021

Our permanent goals are to strengthen the critical points of the grid, to renew the system's physical condition, to comply with quality standards, to reduce electricity distribution losses, and to connect new supply points. Our investment activity reflects current needs for the development and quality of the distribution system, previous development as well as legislative requirements for its operator. At our Company, we realize that the quality of distribution and trouble-free operation are very important to our customers. The planned activities and investments are therefore targeted at achieving the required quality of services. We make every effort to best meet the expectations of our customers.

In connection with our Company's mission, the investment process is divided into three basic sections:

- New connections,
- Quality and increase of the transmission capacity of lines,
- Other investments linked to the distribution activity.

**Structure of investment expenditures in 2021 by individual sections:**

| | |
|---|---|
| New connections | EUR 11.526 million |
| Quality and increase of the transmission capacity of lines | EUR 24.678 million |
| Other investments associated with the distribution activity (development, IT, measuring sets, vehicles, buildings and others) | EUR 11.873 million |

### New Connections

Within this investment section, we addressed development actions of the construction of the distribution system due to the need to connect larger supply points to the very high voltage (VHV) and high voltage (HV) levels, which include, for instance, industrial parks, multifunctional buildings, and retail spaces. On the low-voltage (LV) level, we invested in the construction of new supply points, such as family houses, housing developments, smaller business premises, and public amenities. In 2021, we completed 246 constructions at the HV and LV level, and invested EUR 10.245 million. At the VHV level, we invested EUR 1.281 million.

In 2021, the connection of new supply points continued also in the form of development projects. This form offers SSD partners an effective tool for time management from the perspective of the connection applicant. The main benefit for SSD is the optimization of funds used to build the distribution system.

### Quality and Increase of the Transmission Capacity of Facilities

From the point of view of investment construction in the area of quality and the increase of the transmission capacity of the facilities, we implemented 149 constructions at the HV/LV level and 18 constructions at the VHV level at a total annual investment cost of EUR 24.678 million in 2021. The purpose of these investments is to ensure the reliability and fluency of the distribution of electricity and the resulting customer satisfaction.

The continuing priorities of the construction included complying with the quality parameters, eliminating adverse physical conditions due to external influences and equipment lifetime, reducing failure rates, modernizing equipment and improving the possibilities of electricity distribution.

**Values of the basic SAIDIP and SAIFIP indicators achieved in the previous period:**

| Year | SAIDIP | SAIFIP |
|---|---|---|
| 2012 | 81 | 0.36 |
| 2013 | 85 | 0.35 |
| 2014 | 89 | 0.35 |
| 2015 | 118 | 0.46 |
| 2016 | 179 | 0.60 |
| 2017 | 140 | 0.49 |
| 2018 | 190 | 0.60 |
| 2019 | 194 | 0.65 |
| 2020 | 194 | 0.64 |
| 2021 | 227 | 0.78 |

In the event of unplanned interruptions in the electricity supply caused in particular by failures (whether due to adverse weather or technical reasons), the priority is to restore the distribution after interruption in the shortest possible time and in accordance with the terms defined by Decree of the Regulatory Office for Network Industries No. 236/2016, which regulates the quality standards of electricity transmission, distribution and supply.

**In this context, we achieved the following parameters:**

| Year | SAIDIU | SAIFIU |
|---|---|---|
| 2012 | 86 | 1.72 |
| 2013 | 83 | 1.81 |
| 2014 | 77 | 1.62 |
| 2015 | 88 | 1.89 |
| 2016 | 86 | 2.19 |
| 2017 | 91 | 1.97 |
| 2018 | 96 | 2.08 |
| 2019 | 105 | 2.24 |
| 2020 | 86 | 1.75 |
| 2021 | 97 | 2.12 |

Due to extreme weather conditions, mainly strong wind storms, rain or snowfall, eight disasters occurred during the year with significant interruption of electricity distribution. Our distribution region was mainly affected by disasters in February, June and August, which affected mainly the mountainous regions of Považie, Kysuce, Orava, Liptov, Horehronie and Gemer, but outages also occurred in other parts of Central Slovakia. Particularly, uprooted trees collapsed on electric power equipment resulted in torn wires, bent brackets, broken support points and broken insulators. Not only the lines, but also the HV and LV stations and VHV equipment. To eliminate the consequences of outages, our employees often worked in very difficult-to-access terrain and demanding natural conditions. Their aim is always to restore the distribution of electricity to customers in the shortest possible time.

## 3.3 Main Activities and Investments in Terms of the Development of the Distribution System

In order to ensure the prescribed source mix and implementation of the regulations of the fourth energy package in accordance with European Union legislation, we began to address the issue of determining the capacity of sources supplying to the SSD distribution system and other related conditions and measures resulting from this regulation. The regulations are implemented by our Company with regard to the safe and reliable operation of energy equipment, which will then be reflected in the conditions of secondary and tertiary connection legislation.

In close cooperation with a transmission system operator and other regional distribution system operators, the study on reactive energy flows from the distribution system to the transmission system was completed in 2021. These flows have had a progressive trend in recent years due to growing cabling, a revolutionary change in the nature of electricity appliances and the deployment of sources. By increasing the voltage, they cause serious problems in the operation of the transmission system. The study contains a technical and economic analysis of the suitability of the location of compensators for the regulation of these flows.

An activity aimed at optimizing the management of the distribution system was the measurement of 110 kV line operating parameters and evaluation of the technical condition of our energy equipment using a functional database model.

Another activity was the preparation of a joint procedure with SEPS, a. s., during the construction of the 400/110 kV transformation in the new Ladce Electric Station owned by SEPS, a. s., which also has an impact on significant investments on the SSD side in the construction of 110 kV lines and the reconstruction and expansion of the existing 110/22 kV Ladce Electric Station owned by SSD.

**2021 flagship projects:**

- At the Sučany HC hub, a comprehensive reconstruction was completed in order to increase the safety and reliability of the SSD distribution system.
- In coordination with SEPS, a. s., works at the Bystričany hub caused by the transition of the transmission system from 220 kV to 400 kV were completed throughout the implementation range, including comprehensive final tests, and the change in the transformation of EHV/VHV voltage levels to the new higher-level system was implemented subsequently.
- Work on the Prievidza Electric Station was completed in the entire planned scope of RIS reconstruction, measurement, automatic voltage regulation and completion of the OZ remote control. The implementation contributed to the modernization of the systems at the automatic electric station in order to increase the reliability of the distribution network around Prievidza.
- In 2021, the implementation of new systems for the comprehensive reconstruction of the Vlkanová Electric Station was successfully completed, with its implementation completed and tested to the full extent planned.
- In the area of the Žilina – Rajčianka Electric Station, work began on the construction of a new building of joint operations within the reconstruction of RIS, protections, own consumption and R 22 kV so that it would be possible to complete the investment project by the end of 2022.
- As part of the renewal plan, additions to the motor generators and related modifications were made to the existing own consumption systems at the Varín hub and the Žilina – Rajčianka technology centre, with a planned completion in 2022.
- In 2021, planned replacements of VHV/HV transformers were carried out at the Liptovský Mikuláš and Závažná Poruba Electric Stations. The replacement of transformers resulted in a reduction in future operating costs, increased stability of the distribution network and higher environmental safety in Liptov. At the ZDT Dubnica nad Váhom, Vavrečka and Ladce Electric Stations, hub reactors with higher power were replaced to eliminate ground currents.
- In the Lučenec area, re-insulation was carried out with the replacement of conductors on VHV power lines 7816 and 7820 in a total length of 28 km. In the third quarter of 2021, work began on the reconstruction of VHV power lines no. 7859, 7860, 7868, 7870 from the Medzibrod hub to the Vlkanová Electric Station. Besides increasing the transmission capacity and expanding SSD's optical network, the aim of the project, the completion of which is planned for 2022, is also static reinforcement of masts in demanding terrain and ensuring its future long-term safe operation.
- After long-term preparation, the implementation of a new 1 x 110 kV cable line commenced at the end of 2021 to ensure the requirement of the industrial company in Púchov to increase the supply of electricity due to the expansion of production. The construction of a new underground cable line with a length of three kilometres will be completed by trial operation at the end of June 2022.

# 3.4 Technical Parameters of the Distribution System

**Technical parameters of our distribution system in 2021:**

| TECHNICAL PARAMETERS OF THE DISTRIBUTION SYSTEM | |
|---|---|
| **Total length of the distribution system in km** | **35,477** |
| VHV | 2,534 |
| HV | 11,080 |
| LV | 21,863 |
| **Number of transformer substations, substations, transformer stations** | **9,374** |
| VHV Substations in stations TS/VHV | 6 |
| Transformer substations VHV/HV | 56 |
| Transformation and switching stations HV/HV | 79 |
| Distribution transformer stations HV/LV | 9,233 |

# 3.5 Environmental Protection and OHS

### Environmental Management System

The Company has a certified and fully functional environmental management system according to the ISO 14001:2015 standard. The Company's environmental policy was updated in June 2021.
The SSD management aims to create adequate technical, economic and social conditions for the effective protection of the environment and for ensuring sustainable development, as well as to provide quality services with minimized environmental impact. The environmental policy is published on the Company's website at www.ssd.sk and is available to the public and suppliers.

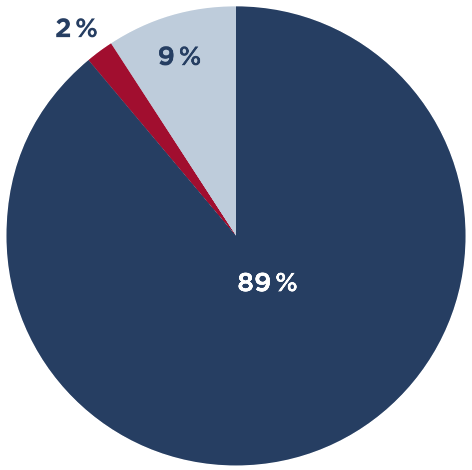
### Nature Protection and Biodiversity

Nature and landscape protection has long been one of the Company's priorities. Every year, we spend funds on securing high-risk sections against bird strikes in power lines by installing visibility elements – bird deflectors.
In cooperation with the regional departments of the State Nature Conservancy of the Slovak Republic and with the municipal authorities, we recorded suggestions for relocation of stork nests from support points of power lines to support points outside the distribution network (Hliník nad Hronom, Lieskovec, Podrečany, Radnovce and Tomášovce).

### Waste Management

In the field of waste management, we were able to recover the majority of waste produced. We have long preferred waste recovery over disposal. We recover waste for all secondary raw materials, inert waste and some types of discarded equipment not containing hazardous substances. The majority of waste is generated during the operation and maintenance of electrical networks, distribution facilities, construction and reconstruction of power installations. In 2021, we produced a total of 215 tonnes of hazardous waste and 9,875 tonnes of other waste. The share of recovered waste was 65%.

### Waste Production in 2021




### Surface Water and Groundwater Protection

As part of the economical use of water and compliance with the quality of discharged wastewater, we have established operating procedures. Our aim is to comply with the quality of discharged wastewater. As regards water protection, we proceed in accordance with the provisions of Act No. 364/2004 Coll. on Waters, as amended, and related decrees. Based on the decisions of state administration bodies, wastewater is discharged into surface waters. In 2021, we collected 297 $m^3$ from our own resources (wells) and 17,480 $m^3$ from the water supply network.

In the event of any releases of pollutants, we take immediate measures to prevent pollution of the territory and waters. Oil leaks occurred due to technical failures in the facilities. The performed remediation was addressed in accordance with the emergency plans in cooperation with the Slovak Environmental Inspectorate. In 2021, we spent EUR 26,154 on remediation work and the purchase of sorbents to prevent the spread of pollution.

### Protection of the Earth's Air and Ozone Layer

Equipment with the content of the greenhouse gas SF6, which serves as an insulating and cooling medium in such equipment, is used to ensure the distribution of electricity. We monitor and evaluate the emissions of this gas every year. In 2021, SF6 gas leaks of 44.012 kg were recorded, which is equivalent to 1,003 tonnes of $CO_2$. Our employees are holders of certificates and attestations of professional competence to work with SF6 gas equipment.

| air pollution source category | small source up to 0.3 MW | medium source up to 3 MW |
|---|---|---|
| number of motor generators | 2 | 6 |

The Company operates small and medium sources of air pollution, motor generators designed as backup sources for its own needs.

In accordance with the legislation in the field of air protection and the generally binding regulations of the respective cities, we fulfil the reporting and fee obligation in accordance with the legal regulations. In accordance with the obligations under Act No. 137/2010 Coll. on Air Protection, data on emissions of pollutants released into the air from medium sources for the year 2021 were reported to the national emission information system electronically.

### Environmental Awareness

In line with the Company's commitment to raising employees' environmental awareness, recurrent employee training in the form of distance learning through an online app continued. The Company provides employees with various opportunities to engage in environmental activities, such as the Earth Days corporate event. In June 2021, we promoted the Rescue Station for Injured Animals in Zázrivá as part of our volunteer activities.

### Safety Management System and OHS

The priority of our business is to ensure reliable and safe operation of the distribution system, therefore safety and health protection at work of employees, suppliers, customers and the public is our key mission.

The certification company successfully examined the occupational health and safety management system and verified its compliance with the ISO 45001:2018 standard, based on which our certificate was confirmed.

We have also been involved in the European campaign Healthy Workplaces – Safety and Health at Work Week – Healthy Workplaces Lighten the Load, organized by the European Agency for Safety and Health at Work.

### Prevention against COVID-19

In 2021, among other things, we addressed the ongoing global issue of COVID-19. Our Company adopted above-standard solutions as regards the pandemic and continued with the established special regime at dispatching.

We provided germicidal radiators at places where several employees from different workplaces meet (e.g., during compulsory training). We tested employees with antigen and PCR tests.

In order not to spread the COVID-19 disease in the SSD premises, in the most critical period, we ordered employees who were allowed to do so to work from home. We banned all foreign travel and also restricted business travel in Slovakia. We managed the entry of visitors and suppliers into SSD's premises in connection with the prevention against COVID-19. Meetings were replaced by telephone or electronic communication. We regularly distributed protective equipment against the spread of the disease to all employees.

By the end of 2021, 255 employees had been preventively tested with PCR tests and 12,703 employees with antigen tests at the employer's expense. As at 31 December 2021, there were 383 COVID-19 positive employees in the Company.

## 3.6 Employees

As at 31 December 2021, we recorded 1,337 employees. Uncertainty in the labour market caused by the COVID-19 pandemic has subsided, which has also been reflected in a slight increase in voluntary turnover rate, which rose to 1.8% compared to last year. During 2021, 25 employees retired (old-age pension, early retirement, disability pension), which represents 35% of all employees who left the Company. As at 31 December 2021, the average employee age grew compared to the previous year, to 46.23 years. The average length of employment in SSE Holding dropped only slightly, at 19.7 years at the end of 2021.

| Structure of employees by gender | As at 31 December 2021 | Share (in %) |
|---|---|---|
| Women | 236 | 18% |
| Men | 1,101 | 82% |
| **Total** | **1,337** | **100%** |

### Education

Education in 2021 focused mainly on skills development. In terms of the number of events and retrained employees, those resulting from legislative requirements were represented the most. In 2021, employees participated in professional training, courses, seminars, conferences, workshops, as well as training in soft skills, especially in the online environment.

As part of internal education, e-learning trainings in the field of cyber security included in the Alert programme took place. This year, we also included online trainings focused on the GDPR news presented by an internal lecturer. Within the internal project Vocational Education in SSD, trainings Work under Voltage – LV took place. These trainings took place in classrooms and in the training area in the Žiar nad Hronom Education Centre. There were also trainings of safe working procedures with internal lecturers, which were connected with the verification of employees' knowledge in the MEGADtB app.

In the area of manager education, in 2021 we continued with the TRAFOnline management training programme with individual topics in the modules: hybrid management and management of people working from home, personal efficiency and planning, and difficult conversations – conflict resolution.

This year, too, the trainings took place in the form of face-to-face, e-learning


and online sessions in MS Teams, Zoom, Hopin and similar platforms. Educational development of employees remains the main goal in the field of human resources. In 2021, the Company invested EUR 213,655 in 10,212 retrained employees.

### Professional Experience and Cooperation with Schools

Also in 2021, we continued to cooperate with secondary vocational schools within the SSD's scope, which focus on heavy current electrical engineering due to the interest in the education and training of their graduates. In the 2021/2022 school year, agreements on practical training were concluded with the Secondary Vocational School of Electrical Engineering in Žilina, the Joint School of Banská Bystrica and the Secondary Vocational Polytechnic School in Dolný Kubín-Kňažia. Under the guidance of experienced mentors, a total of 11 students completes professional experience at individual Operation and Maintenance of Power Installations Division centres, within which they have the opportunity to verify their theoretical knowledge and gain practical experience in the field. Students are rewarded financially and materially. The programme for fourth- and fifth-grade university students began its ninth year in 2021.

### Internal Communication

As regards internal communication, we continued to communicate online, focusing mainly on anti-pandemic measures, online activities and human resources information. We prepared several thematic videos concerning occupational safety and health, education and investment and placed them on the intranet, the LinkedIn social network and the YouTube channel.

We managed to successfully relocate almost all internal events to the online environment. We prepared knowledge quizzes, online competitions via intranet, social networks and various apps. We also prepared online lectures and video training. We equipped electricians and storage operators with smartphones so that everyone could have access to company e-mails and later to the intranet.

The main source of internal information for employees in 2021 was the Distribution Magazine, which was read by 700 employees on average per month. Another information channel was traditionally the intranet, which has been redesigned, and Distribution News – a joint e-mail through which all employees receive corporate e-mails Week in Distribution, Distribution Magazine, Chief Executive Officer's orders, as well as many other important information from the Company's environment. We used the Distribution News as an information channel in organizing company-wide testing of employees, in data collection and also in informing about preventive measures against the spread of COVID-19.



# 4. Report on the Economic Results and Operation of the Company Stredoslovenská distribučná, a.s., for the Year 2021

## Economic Results

In the area of financial management, the Company continued to focus in 2021 on dealing with the effects of the ongoing COVID-19 pandemic, ensuring stable conditions for the provision of distribution services for its customers and at the same time achieving the planned economic results.

The financial statements of the Company as at 31 December 2021 were compiled according to the International Financial Reporting Standards (IFRS) as adopted by the European Union and as ordinary financial statements in accordance with Article 17(6) of Act of the National Council of the Slovak Republic No. 431/2002 Coll. on Accounting, as amended ("Accounting Act") for the accounting period between 01 January 2021 and 31 December 2020.

For 2021, the Company achieved a profit after tax of EUR 71.4 million, which represents a year-on-year decline in profits of EUR 67 million (-48%). The decrease was due to transactions related to the system operating tariff (SOT) and historical debt compensation from the support scheme for renewable energy sources in accordance with the applicable legislation.

The company generated operating income of EUR 270.9 million. The largest and most stable part of income is represented by revenues from electricity distribution, which the Company manages to keep at the level of previous periods. The Company reported a significant decrease in revenues from the system operating tariff (SOT), which is related to the compensation of historical debt from the support scheme for renewable energy sources.

Operating costs amounted to EUR 120.3 million, of which the most significant part is in particular the costs of purchasing electricity for distribution losses and costs related to the transmission of electricity from the higher-level system. Other significant cost items are personnel costs and the costs of operating and maintaining the distribution system.

| in EUR million | 2021 | 2020 |
|---|---|---|
| Operating income | 270.9 | 359.8 |
| Operating costs | -120.3 | -122.9 |
| **EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization)** | **150.6** | **236.9** |
| Depreciation of tangible and intangible assets | -56.0 | -53.3 |
| Financial costs, net | -0.3 | -0.3 |
| **Profit before tax** | **94.3** | **183.2** |
| Income tax | -22.9 | -44.9 |
| **Profit after tax** | **71.4** | **138.4** |

## Capital Structure – Assets, Equity and Liabilities

### Assets

As at 31 December 2021, the Company's assets amounted to EUR 932.4 million, which represents a year-on-year decline by EUR 108.2 million (-10%).

**Non-current assets** amounted to EUR 795.7 million (85% of the value of total assets). The highest share is made up of lines, electric stations and other distribution network parts, real estate, means of transport and mechanisms, machinery, equipment, software and investments in progress. In 2021, we reported additions to non-current assets of EUR 84.7 million, which were mainly generated by investments aimed at the renewal and development of the distribution system. The value of non-current assets increased by EUR 28.5 million year-on-year (4%).

**Current assets** amounted to EUR 136.8 million (15% of the value of total assets). As at 31 December 2021, the Company reported trade receivables in the amount of EUR 70.9 million gross, of which due receivables accounted for EUR 68.9 million gross. The funds managed by the parent company, Stredoslovenská energetika Holding, a.s., on the basis of the "Cash-Pooling Agreement" as at 31 December 2021 amounted to EUR 16.3 million and are reported as a receivable from the parent company. The year-on-year decrease in current assets by EUR 136.7 million (-50%) is mainly due to the payment of a dividend from the 2020 economic result and the related decrease in cash and funds deposited in cash-pooling.

### Liabilities

**Equity** of the Company as at 31 December 2021 reached EUR 671.7 million, which accounts for 72 % of the value of the assets cover. The year-on-year decline by -18% is due to lower retained earnings in 2021

**Non-current and current liabilities,** excluding liabilities arising from contracts and deferred income, account for 20% of the total assets cover, and their amount as at 31 December 2021 was EUR 189.5 million, which represents a year-on-year increase by EUR 32.4 million (+21%). Significant items included, in particular, deferred tax liabilities (EUR 82.2 million) and trade payables (EUR 90.4 million).





Liabilities from contracts, which mainly represent connection fees, amounted to EUR 38.1 million in 2021, rising by EUR 2.0 million (+ 6%) compared to 2020. Long-term deferred revenues amounted to EUR 33.2 million, representing 3% of the value of the assets cover, with a year-on-year increase by EUR 1.9 million (+6%). The most significant part of the revenues for the coming years are revenues associated with the relocation of power equipment (EUR 29.7 million).

| in EUR million | 2021 | % | 2020 | % |
|---|---|---|---|---|
| **Assets** | **932.4** | | **1,040.7** | |
| Non-current assets | 795.7 | 85% | 767.2 | 74% |
| Current assets | 136.8 | 15% | 273.5 | 26% |
| **Liabilities** | **932.4** | | **1,040.7** | |
| Equity | 671.7 | 72% | 816.2 | 78% |
| Non-current liabilities | 129.2 | 14% | 102.1 | 10% |
| Current liabilities | 60.3 | 6% | 54.9 | 5% |
| Liabilities arising from contracts – connection fees | 38.1 | 4% | 36.1 | 3% |
| Long-term deferred income | 33.2 | 4% | 31.3 | 3% |

# 5. Report on the Activities of the Supervisory Board for the Year 2021

| During 2021, the Supervisory Board of the Company worked in the following structure: | |
|---|---|
| Ing. Drahomír Múdry | Chairman of the Supervisory Board |
| Gary Mazzotti | Vice-Chairman |
| Ing. Róbert Klimo | Member of the Supervisory Board |
| Mgr. Michal Komada | Member of the Supervisory Board |
| Ing. Pavol Matlák | Member of the Supervisory Board until 10 September 2021 |
| Mgr. Maroš Skopal | Member of the Supervisory Board |
| Ing. Dušan Majer | Member elected by employees |
| Ing. Igor Pištík | Member elected by employees |
| Ing. Miroslav Martoník | Member elected by employees |

In 2021, the Supervisory Board convened five times at its meetings: 10 March 2021, 14 April 2021, 23 June 2021, 22 September 2021 and 16 December 2021. The Supervisory Board had a quorum at each meeting.

In the scope of its powers and in accordance with the Articles of Association and the Commercial Code, in 2021 the Supervisory Board:

**(a) Adopted the following fundamental decisions:**

- Approved the Report on Activities of the Supervisory Board for 2020;
- Approved the Opinion of the Supervisory Board on the draft audited ordinary individual financial statements prepared as at 31 December 2020 and on the proposal of profit distribution of the Board of Directors for 2020;
- Approved the relevant proposals of variable parts of remuneration of members of the Board of Directors in accordance with the applicable remuneration principles of members of the Board of Directors;
- Examined, within the meaning of Article XI (1) (h) of the Articles of Association, a proposal for the individual annual budget and business plan of the Company, including the proposal of the CAPEX plan for 2022;
- Approved the implementation of investment actions for the construction of an industrial park in Rimavská Sobota.

**(b) Noted, in particular:**

- Relevant decisions of the sole shareholder in 2021;
- Information on basic objectives of the Company's business management, as well as on the expected development of assets, finances and revenues of the Company in accordance with Article 193 of the Commercial Code for the Supervisory Board for the year 2021;
- Statement of the Board of Directors for the members of the Supervisory Board for 2020 pursuant to Article XII(21)(a)(ii) of the Articles of Association concerning financial transactions carried out by the Company with related parties in which the value of any such transaction individually or the series of related transactions together exceed EUR 100,000, and the Company's transactions concluded under other than standard commercial conditions;
- Information on related party transactions for the relevant quarters of 2021;
- Report on the results of audits and inspections for 2020 and the audit and control plan for 2021;
- Information on economic results, including the development of CAPEX 2021 plan fulfilment for the relevant periods;
- Information on the status of implementation of significant investment projects of the Company;
- Information on pending lawsuits that may have a significant negative impact on the Company's economy;
- The annual report on the fulfilment of the Compliance Programme of the Company for 2020, and the Compliance Programme 2021;
- Information on the development of COVID-19 and its effects on the Company.

During 2021, the Supervisory Board did not request the Board of Directors of the Company to convene a General Meeting.

**CONCLUSION:**

Throughout the 2021, the Supervisory Board fulfilled its controlling function properly pursuant to the Articles of Association of the Company and Article 197 et seq. of the Commercial Code. The Supervisory Board did not discover any breach of the Articles of Association or valid legal provisions by the Board of Directors by performing the business activities of the Company.

This Report was approved by the Supervisory Board of the Company at its meeting held on 13 April 2022.

**Ing. Drahomír Múdry**
Chairman of the Supervisory
Stredoslovenská distribučná, a.s.

# 6. Proposal of the Board of Directors for the Distribution of Profits for the Year 2021

| Audited net profit for the year 2021 (In EUR) | 71,403,624.67 |
|---|---|
| Allocation to social fund | 0.00 |
| Royalties for members of the Board of Directors and of the Supervisory Board | 0.00 |
| Part of the profit kept in equity on the account of Retained earnings of previous years | 0,00 eur |
| **Net profit available for distribution of dividends to the shareholder** | **71,403,624.67** |





# 7. Opinion of the

## Supervisory Board of Stredoslovenská distribučná, a.s. on the Ordinary Individual Financial Statements as at 31 December 2021 and on the Proposal for the Distribution of Profits for the Year 2021

On 13 April 2022, the Supervisory Board of Stredoslovenská distribučná, a.s., verified the Ordinary Individual Financial Statements of the Company as at 31 December 2021, including the report of the independent auditor KPMG Slovensko spol. s r. o., SKAU licence no. 96, dated 11 March 2022 and a proposal of the Board of Directors for the distribution of the Company's profit for the year 2021.

**On the basis of the above mentioned, the Supervisory Board of Stredoslovenská distribučná, a. s.,**

**r e c o m m e n d s the Ordinary General Meeting of the company Stredoslovenská distribučná, a.s. to:**

**1. Approve the Ordinary Individual Financial Statements of Stredoslovenská distribučná, a.s., as at 31 December 2021,**

**2. Approve the proposal for the distribution of profits of Stredoslovenská distribučná, a.s., for 2021 as follows:**

| Audited net profit for the year 2021 (In EUR) | 71,403,624.67 |
|---|---|
| Allocation to social fund | 0.00 |
| Royalties for members of the Board of Directors and of the Supervisory Board | 0.00 |
| Part of the profit kept in equity on the account of Retained earnings of previous years | 0,00 |
| **Net profit available for distribution of dividends to the shareholder** | **71,403,624.67** |

Žilina, 13 April 2022

**Ing. Drahomír Múdry**
Chairman of the Supervisory Board
Stredoslovenská distribučná, a.s.

# 8. Report on Fulfilment

## of the Compliance Programme of Stredoslovenská distribučná, a.s., for the Year 2021

**Report on Fulfilment of Measures Adopted within the Compliance Programme of Stredoslovenská distribučná, a.s., for the Year 2021**

**Introduction:**

Stredoslovenská distribučná, a.s. (hereinafter: the "Company"), having its registered office at Pri Rajčianke 2927/8, 010 47 Žilina, Reg. No. (IČO): 36 442 151, registered in the Commercial Register of the District Court in Žilina, Section Sa, Insertion no. 10514/L, founded in 2006, being the holder of electricity distribution license No. 2007E 0260 in full version issued by the Regulatory Office for Network Industries (hereinafter: the "Office"), is a distribution system operator and at the same time a part of a vertically integrated entity.

This report provides transparent information on the fulfilment of measures adopted within the Compliance Programme in the field of transparent and non-discriminatory approaches to all customers and participants in the electricity market.

**1. Legislative Framework**

The legislative framework of the Compliance Programme is established by Directive 2009/72/EC of the European Parliament and of the Council, which was implemented in the Slovak Republic into Act No. 251/2012 Coll. – the Energy Act (hereinafter referred to as the "Act"). This legislation sets out the rules for the internal electricity market. The Compliance Programme is a document containing measures that ensure a non-discriminatory and transparent approach to all market participants by the distribution system operator (hereinafter: the "DS").

On the basis of the above mentioned, the DS operator is obliged to elaborate a report on the fulfilment of the "Compliance Programme", which is part of the annual report according to Article 31(5) and Article 32(8)(b) of the Act. It is also obliged, pursuant to Article 20 of Act No. 431/2002 Coll. on Accounting, as amended, to publish a report on the implementation of the measures specified in the Compliance Programme.

According to Article 31(6) of the Act, the DS operator is further obliged to publish, by 30 June each year, on its website, together with the annual report, a report on the implementation of measures adopted within the Compliance Programme for the previous year prepared by the Company's Compliance Officer according to Article 32(8)(b) of the Act.

**2. Compliance Programme in the Company**

On the basis of the above-mentioned legislative standards for the Independent Position of a Distribution System Operator in a Vertically Integrated Company, the SSE Group provided the legal unbundling of distribution-system operation into a separate company, while the rights and obligations of the distribution system operator have been transferred to Stredoslovenská distribučná, a.s. At the same time, in 2005 the Board of Directors approved a binding internal document of the Compliance Programme which contains a list of measures aimed at ensuring the non-discriminatory behaviour of the distribution system operator. The Compliance Programme is updated on a regular basis for the respective year, while respecting all legislative changes.

In accordance with the aforementioned legal obligations, all obligations arising from current legislation, i.e., elaboration and approval of the new Compliance Programme of the Company, including the action plan of measures and the appointment of a person required to ensure compliance in the Company, were performed. With effect from 1 January 2013, the person required to ensure the compliance in the Company was appointed, thereby creating the appropriate institutional background for the implementation of the approved Compliance Programme of the Company.

In 2015 an update of the Compliance Programme was carried out as since 1 April 2014, an organizational change occurred in the Company which required new responsibilities to be taken into account in its structure.

**3.Fulfilment of the Compliance Programme Measures during the Year 2021**

Part of the Compliance Programme is the Action Plan of the Compliance Programme, which contains a list of measures for the relevant calendar year and is subject to an annual update. By implementing measures and monitoring their compliance, the appointed Compliance Officer is obliged to ensure compliance while addressing ad-hoc situations related to ensuring the non-discriminatory behaviour of the distribution system operator and the protection of confidential information. In addition, that person receives and solves incentives from the external and internal environment pointing to possible violation of the Compliance Programme's principles and updates the Action Plan of the Compliance Programme, if necessary, and proposes further measures.

The measures of the Action Plan of the Compliance Programme are focused on activities in the following areas:

■ **Prevention:**

During 2021, prevention measures focused mainly on the increase of employee awareness in the field of the Compliance Programme. During 2021, training for newly recruited staff was organized continuously. In 2021, 86 SSD a.s., employees were retrained (59 newly hired full-time employees, 6 employees returning from maternity and parental leave, 1 transferring employee (within SSE Holding), 20 employees with an agreement).

■ **Monitoring and control/audit**

Throughout the year 2021, the implementation of the change within the organizational structure of the Company continued. This process involved the implementation of new processes that passed from SSE, a.s., and internal guidelines were modified or new ones were drafted as well. In terms of review, five corporate guidelines (O-K-2018-0042-KSM-00 - Inventory of Assets, Liabilities and Difference between Assets and Liabilities, O-K-2018-0007-KSM-00 - Internal Audits of Integrated Management System in SSE Holding Group, O-K-2018-0057-KSM-00 – Revision of Electrical Appliances, Moving Leads and Hand Power Tools in SSE Holding Group, O-K-2019-0167-KSM-00 – Emergency Information System in SSE Holding Group Companies, O-K-2018-0063-KSM-00 – Preventive Medical Examinations) were updated and two new guidelines (Information Security Management in SSE Holding Group, Information Security Policy – Framework) were adopted.

At the same time, an inspection aimed at information security protection related to the operation of the distribution system against the access of unauthorized persons was carried out aimed at verifying access rights to distribution systems, contractual relations and disclosure of information. In terms of so-called Compliance Management, i.e., verifying each internal or external complaint related to the application of the Compliance Programme's principles by the Compliance Officer, no complaint was addressed during 2021. Moreover, the Compliance Officer received, consulted and dealt with internal requests from employees related to their actions so as not to infringe the rules ensuring non-discriminatory behaviour of the distribution system operator and the protection of confidential information.

■ **Assessment and Reporting**

This area contains mainly the assessment of achieved objectives as related to the implementation of the Compliance Programme in the form of monthly reports and in the form of this Report included in the Annual Report of the Company. In accordance with Article 32(8)(b) of the Act, the report was prepared by the Compliance Officer and shall be submitted to the office and subsequently published in the manner specified in Article 31(6) of the Act.

In conclusion, it may be stated that the tasks listed in the Action Plan were fulfilled in 2021 and the Compliance Officer found no breach of the measures adopted within the Compliance Programme in 2021.

Author:
28 February 2022
**Ing. Ján Michalík, PhD.**
Compliance Officer





# 9. Special Relevance
## Events Occurring after the Accounting Period for which the Annual Report is Prepared

No events took place after 31 December 2021 that would require disclosure or recognition in the 2021 Annual Report.

# 10. Information

## on the Expected Future Development of the Accounting Entity's Activities

The key tool for determining future goals and implementing the Company's strategy is the Company's business plan, which was approved by the Company's Board of Directors on 16 December 2021. The expected impacts of the ongoing COVID-19 pandemic were taken into account in the preparation of the business plan. The Company will continue to focus on the safety and reliability of electricity distribution, building new connections, expanding the distribution network, reconstruction, maintaining the quality of distribution as well as increasing the quality of services provided to its customers.

# 11. Expenses Related

## to Activities in the Field of Research and Development

The Company did not have any expenses related to activities in the field of research and development in 2021.

# 12. Acquisition

## of Own Shares, Temporary Certificates, Business Shares and Stock

In 2021 the Company did not acquire any of its own shares, temporary stock, or business shares.





# 13. Organizational Units

## of the Accounting Entity Abroad

The Company has no branches abroad.

**ANNEX NO. 1:** REPORT OF THE INDEPENDENT AUDITOR ON THE VERIFICATION OF THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2021 AND THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2021

**Stredoslovenská distribučná, a.s.**

**Independent Auditors' Report and Financial Statements as at 31 December 2021**

**Prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union**

Translation note:

This version of the accompanying financial statements is a translation from the original, which was prepared in Slovak. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the financial statements takes precedence over this translation.

**Stredoslovenská distribučná, a.s.**

Separate financial statements for the year ended 31 December 2021 prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union have been authorised for issue on 16 February 2022.

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Ing. František Čupr, MBA
Chairman of the Board of Directors

............................................................

Ing. Roman Hušťava
Vice chairman of the Board of Directors

# Contents

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Internet: www.kpmg.sk

Translation of the Independent Auditors' Report originally prepared in Slovak language

# Independent Auditors' Report

## To the Shareholder, Supervisory Board and Board of Directors of Stredoslovenská distribučná, a.s.

## Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of Stredoslovenská distribučná, a.s. (the "Company"), which comprise:

- the statement of financial position as at 31 December 2021;

and, for the period then ended:

- the income statement and statement of other comprehensive income;
- the statement of changes in equity;
- the statement of cash flows;

and

- notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements of the Act No. 423/2015 Coll. on statutory audit and on amendments to Act No. 431/2002 Coll. on accounting as amended ("the Act on Statutory Audit") including the Code of Ethics for an Auditor that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Responsibilities of the Statutory Body and Those Charged with Governance for the Financial Statements

The statutory body is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the statutory body determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the statutory body is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the statutory body either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the statutory body;
- Conclude on the appropriateness of the statutory body's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG

## Report on Other Legal and Regulatory Requirements

### Reporting on other information in the Annual Report

The statutory body is responsible for the other information. The other information comprises the information included in the Annual Report prepared in accordance with the Act No. 431/2002 Coll. on Accounting as amended ("the Act on Accounting") but does not include the financial statements and our auditors' report thereon. Our opinion on the financial statements does not cover the other information in the Annual Report.

In connection with our audit of the financial statements, our responsibility is to read the other information in the Annual Report that we have obtained prior to the date of the auditors' report on the audit of the financial statements, and, in doing so, consider whether the other information is materially inconsistent with the audited financial statements or our knowledge obtained in the audit of the financial statements, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

The Annual Report of the Company was not available to us as of the date of this auditors' report on the audit of the financial statements.

When we obtain the Annual Report, based on the work undertaken in the course of the audit of the financial statements we will express an opinion as to whether, in all material respects:

- the other information given in the Annual Report for the year ended 31 December 2021 is consistent with the financial statements prepared for the same financial year; and
- the Annual Report contains information required by the Act on Accounting.

In addition, we will report whether we have identified any material misstatement in the other information in the Annual Report in light of the knowledge and understanding of the Company and its environment that we have acquired during the course of the audit of the financial statements.

Slovenská komora audítorov SKAU Č.licencie 96 KPMG Slovensko spol. s r.o.

Audit firm:
**KPMG Slovensko spol. s r.o.**
License SKAU No. 96

Responsible auditor:
**Ing. Peter Balážik**
License UDVA No. 1178

Bratislava, 11 March 2022

*(All amounts are in thousands of EUR unless stated otherwise)*

## Statement of financial position

| | Note | As at 31 December 2021 | 2020 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Non-current tangible assets | 5 | 783 579 | 754 411 |
| Non-current intangible assets | 6 | 12 075 | 12 769 |
| | | **795 654** | **767 180** |
| **Current assets** | | | |
| Inventories | | 3 886 | 3 159 |
| Trade and other receivables | 8 | 70 815 | 15 917 |
| Receivables from the parent company (Cash Pooling) | | 16 325 | 40 396 |
| Accrued income | 9 | 20 033 | 88 131 |
| Cash and cash equivalents | 10 | 25 725 | 125 890 |
| | | **136 784** | **273 493** |
| **Total assets** | | **932 438** | **1 040 673** |
| **EQUITY** | | | |
| **Equity** | | | |
| Share capital | 11 | 499 835 | 499 835 |
| Legal reserve fund | 11 | 99 967 | 99 967 |
| Non-monetary contribution from the parent company | | 3 401 | 3 401 |
| Other parts of comprehensive income | | -2 627 | -2 112 |
| Retained earnings | | 71 167 | 215 148 |
| **Total equity** | | **671 743** | **816 239** |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Lease liabilities | 14 | 35 202 | 3 459 |
| Non-current bank loans | 15 | 2 500 | 5 000 |
| Deferred tax liability | 16 | 82 184 | 83 950 |
| Non-current provisions | 17 | 9 266 | 9 731 |
| Non-current contract liabilities | 13 | 36 892 | 34 976 |
| Non-current deferred income | 12 | 33 165 | 31 293 |
| | | **199 209** | **168 409** |
| **Current liabilities** | 14 | 55 179 | 42 096 |
| Trade and other liabilities | | 1 846 | 9 578 |
| Current bank loans | 15 | 2 500 | 2 500 |
| Current contract liabilities | 13 | 1 176 | 1 096 |
| Current provisions | 17 | 785 | 755 |
| | | **61 486** | **56 025** |
| **Total liabilities** | | **260 695** | **224 434** |
| **Total equity and liabilities** | | **932 438** | **1 040 673** |

*(All amounts are in thousands of EUR unless stated otherwise*

## Income statement

| | Note | Year ended 31 December 2021 | 2020 |
|---|---|---|---|
| Revenue | 18 | 264 785 | 353 686 |
| Purchases of electricity, system and other related fees | 20 | -61 224 | -62 960 |
| Personnel expenses | 22 | -43 831 | -42 034 |
| Depreciation and impairment allowances for non-current tangible and amortisation of intangible assets | 5, 6 | -56 038 | -53 333 |
| Material and energy consumption | | -5 889 | -5 536 |
| Capitalisation of non-current tangible and intangible assets | | 10 944 | 9 665 |
| Other operating income | 19 | 6 102 | 6 068 |
| Other operating expenses | 21 | -20 272 | -22 034 |
| **Operating profit** | | **94 577** | **183 522** |
| Interest income | 23 | 2 | - |
| Interest expenses | 23 | -281 | -274 |
| Net other financial expenses | 23 | -3 | -4 |
| **Net financial expenses** | | **-282** | **-278** |
| **Profit before tax** | | **94 295** | **183 244** |
| Income tax | 24 | -22 891 | -44 890 |
| **Profit for the period** | | **71 404** | **138 354** |

## Statement of comprehensive income

| | Note | Year ended 31 December 2021 | 2020 |
|---|---|---|---|
| **Profit for the period** | | **71 404** | **138 354** |
| Other comprehensive income | | | |
| Actuarial loss | 17 | -651 | -668 |
| Deferred tax | | 136 | 141 |
| Total other comprehensive income | | -515 | -527 |
| **Comprehensive income for the period** | | **70 889** | **137 827** |

*(All amounts are in thousands of EUR unless stated otherwise)*

## Statement of changes in equity

| | Share capital | Legal reserve fund | Non-monetary contribution from the parent company | Retained earnings | Actuarial (loss) from long-term employee benefits, net of tax | Total equity |
|---|---|---|---|---|---|---|
| **Balance as at 1 January 2021** | **499 835** | **99 967** | **3 401** | **215 148** | **-2 112** | **816 239** |
| Profit for the year 2021 | - | - | - | 71 404 | - | 71 404 |
| Other comprehensive income | - | - | - | - | -515 | -515 |
| Dividends | - | - | - | -215 386 | - | -215 386 |
| Other | - | - | - | 1 | - | 1 |
| **Balance as at 31 December 2021** | **499 835** | **99 967** | **3 401** | **71 167** | **-2 627** | **671 743** |
| | | | | | | |
| **Balance as at 1 January 2020** | **499 835** | **99 967** | **3 401** | **189 003** | **-1 585** | **790 621** |
| Profit for the year 2020 | - | - | - | 138 354 | - | 138 354 |
| Other comprehensive income | - | - | - | - | -527 | -527 |
| Dividends | - | - | - | -112 209 | - | -112 209 |
| **Balance as at 31 December 2020** | **499 835** | **99 967** | **3 401** | **215 148** | **-2 112** | **816 239** |

*(All amounts are in thousands of EUR unless stated otherwise)*

## Statement of cash flows

| | Note | Year ended 31 December 2021 | 2020 |
|---|---|---|---|
| Profit before tax | | 94 295 | 183 244 |
| Adjustments for: | | | |
| Depreciation and amortisation | 5, 6 | 56 727 | 53 461 |
| Loss / (Gain) from sale of non-current tangible assets | | 143 | -172 |
| Change in impairment allowance for non-current assets | | -689 | -128 |
| Change in impairment allowance for receivables | 8 | 83 | 115 |
| Change in provisions | 17 | 102 | 1 404 |
| Net interest expenses | 23 | 279 | 274 |
| **Operating profit before change in working capital** | | **150 940** | **238 198** |
| Changes in working capital: | | | |
| Decrease in trade receivables and accrued income | 8, 9 | 37 465 | 100 060 |
| Increase in inventories | | -727 | -410 |
| Increase / (Decrease) in payables and deferred income | 12, 14 | 11 756 | -16 732 |
| **Cash flow from operating activities** | | **199 434** | **321 116** |
| **Cash flow from operating activities** | | | |
| Cash from operating activities | | 199 434 | 321 116 |
| Interest paid | 23 | -281 | -274 |
| Interest received | 23 | 2 | - |
| Income tax paid | | -32 251 | -39 192 |
| **Net cash flow from operating activities** | | **166 904** | **281 650** |
| **Cash flow from investing activities** | | | |
| Purchase of non-current tangible and intangible assets | 5, 6 | -47 998 | -45 008 |
| Proceeds from sale of non-current assets | | 265 | 1 406 |
| **Net cash flow used in investing activities** | | **-47 733** | **-43 602** |
| **Cash flows from financing activities** | | | |
| Repayment of loans and borrowings | 15 | -2 500 | -2 500 |
| Lease payments - principal | 5 | -1 451 | -1 297 |
| Dividends paid | 11 | -215 385 | -112 209 |
| **Net cash used in financing activities** | | **-219 336** | **-116 006** |
| **Net increase (+) / decrease (-) in cash and cash equivalents** | | -100 165 | 122 042 |
| **Cash and cash equivalents as at the beginning of the period** | | 125 890 | 3 848 |
| **Cash and cash equivalents as at the end of the period** | | **25 725** | **125 890** |

## 1 General information

**Trade name and registered address**

Stredoslovenská distribučná, a.s.
Pri Rajčianke 2927/8
Žilina 010 47

Registration number (IČO): 36442151
Tax registration number (DIČ): 2022187453
Tax registration number for VAT purposes (IČ DPH): SK2022187453

Stredoslovenská distribučná, a.s. (hereafter referred to as the "Company" or "SSD, a.s."), was established under the business name Stredoslovenská energetika – Distribúcia, a.s. on 22 March 2006, and was registered in the Commercial Register on 8 April 2006 (Commercial register of the District court Žilina, Section Sa, Insert No. 10514/L). With effect from 1 March 2018, the business name of the Company was changed to Stredoslovenská distribučná, a.s.

The Company was established to comply with legal requirements, to unbundle the distribution business from other commercial activities of integrated electricity companies, established by European directive 2003/54 on common rules for the internal market in electricity. The directive was transferred into Slovak legislation by the Act on energy (656/2004), issued in 2004. The Act prescribed legal unbundling of distribution activities, by 30 June 2007 at the latest. The company Stredoslovenská energetika, a.s. carved out those parts of its business that conducted principal distribution activities, revalued items of assets and liabilities to fair value, and contributed them to the Company. On 1 July 2007, the Company started to provide distribution of electricity as its core business activity.

**Main business activities of the Company**

- Distribution of electricity and related services
- Engineering and related technical consultancy
- Rental of electrical devices
- Realisation and revision of construction
- Projects with, and construction of, electrical devices
- Repair, revision and testing of technical electrical devices in the groups S, O (OU, R, M) – E1-A
- Assembly and repair of selected electrical gauges
- Assembly and repair of regulative technology

The Company is one of the three largest electrical distribution companies in the Slovak Republic and operates within the regions of Žilina, Trenčín and Banská Bystrica. The Company's main business activity is electricity distribution, to all customers connected to the distribution system of SSD, a.s., in the following sectors:
- low voltage,
- high voltage,
- very high voltage.

The main activity of the Company is distribution of electricity, which is usually invoiced to final customers by the electricity supplier, mostly in the form of an integrated contract (the price of electricity invoiced to the final customer includes the distribution fee).

The Company's operations are governed by the terms of its license, granted under the Energy Law ("the Energy License"). The Regulatory Office of Network Industries of the Slovak Republic ("ÚRSO") regulates all aspects of the Company's relationships with its customers, including pricing.

The structure of the Company's shareholders as at 31 December 2021 is as follows:

| | Absolute amount in thousands of EUR | Ownership interest % | Voting rights % |
|---|---|---|---|
| Stredoslovenská energetika Holding, a.s. | 499 835 | 100 | 100 |
| **Total** | **499 835** | **100** | **100** |

The Company is a subsidiary of Stredoslovenská energetika Holding, a.s., which owns 100% of its registered capital. Effective from 1 January 2019, the parent company changed its business name from Stredoslovenská energetika, a.s. to Stredoslovenská energetika Holding, a.s. The company Stredoslovenská energetika Holding, a.s. prepares consolidated financial statements and is an immediate consolidating company.

Stredoslovenská energetika Holding, a.s. is a subsidiary of EP Energy, a.s. ("EPE"), based in Pařížská 130/26, Josefov, 110 00, Praha 1, Czech Republic, IČO: 29 259 428, registered in the Commercial Register of the Municipal court in Praha, Section B, file No. 21733, Czech Republic, which owns a 49% share in the registered capital of the parent company (until 26 May 2014 owned by EPH Financing II, a.s.), and has managerial control.

The Ministry of Economy of the Slovak Republic, based in Mlynské Nivy 44/a, 827 15 Bratislava 212, owns a 51% share in the registered capital of the parent company, from 1 August 2014 (the National Property Fund of the Slovak Republic owned this 51% shareholding until 1 August 2014).

The consolidated financial statements of Stredoslovenská energetika Holding, a.s. are available at the registered address of the parent company in Žilina, Pri Rajčianke 8591/4B, and are filed in the Commercial Register of the District Court Žilina. These financial statements are included into consolidated financial statements of the largest group of accounting entities, which are prepared by EP Investment S.à.r.l., 39, Avenue John F. Kennedy, L-1855 Luxembourg. Its consolidated financial statements for the year ended 2021 and 2020 will be deposited at the registered office of EP Investment S.à.r.l. The address of the registration court maintaining the Commercial register where these consolidated financial statements will be deposited is Luxembourg Business Registers G.I.E., 14 Rue Erasme L-1468 Luxembourg, R.C.S. Luxembourg C24.

**Unlimited liabilities**

The Company is not a shareholder with unlimited liabilities in other entities.

**Date of approval of the financial statements for the previous accounting period**

On 17 May 2021, the General Meeting approved the Company's financial statements for the previous accounting period, ending 31 December 2020.

**Publication of financial statements for the prior accounting period**

The financial statements of the Company and the Auditors' report on the audit of the financial statements as at 31 December 2020, were filed and published in the Register of financial statements on 30 March 2021. The annual report and supplement to the independent auditors' report, as at 31 December 2020, was filed in the Register of financial statements on 24 May 2021.

**Approval of the auditor**

On 17 May 2021, the Company's General Meeting appointed KPMG Slovensko spol. s r.o. as auditor of the financial statements for the year ended 31 December 2021.

**The Company's statutory bodies**

The list of members of the Company's Board of Directors and Supervisory Board is publicly available in the Commercial register, operated by the Ministry of Justice of the Slovak Republic, at www.orsr.sk

**Average number of employees**

In 2021, the average number of employees of the Company was 1 339 (2020: 1 328), of which 9 were managers (2020: 9).

## 2 Significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented.

### 2.1 Basis for preparation of the financial statements

Legal reasons for preparing the financial statements:

The Company's financial statements, as at 31 December 2021, have been prepared as ordinary financial statements, under § 17 Sec. 6 of Slovak Act No. 431/ 2002 Coll. ("the Act on Accounting"), for the accounting period from 1 January 2021 to 31 December 2021.

The Slovak Act on Accounting requires the Company to prepare financial statements for the year ended 31 December 2021, in accordance with International financial reporting standards as adopted by the European Union ("IFRS EU").

These financial statements have been prepared in accordance with IFRS as adopted by the EU. The Company applies all IFRS standards issued by the International accounting standards board ("IASB") and interpretations issued by the International financial reporting interpretation committee ("IFRIC") as adopted by EU, which were in force as at 31 December 2021.

The financial statements have been prepared under the historical cost measurement basis.

The financial statements were prepared on accrual basis and under the going concern principle.

The Company operates in a sector that has not been significantly affected by the outbreak of COVID - 19. The Company realised stable sales and its operations including supplies were uninterrupted. Based on the publicly available information at the date these financial statements were prepared, management of the Company has considered the potential development of the outbreak and its expected impact on the Company and economic environment, in which the Company operates, including the measures already taken by the Slovak government.

Based on information available to the Company, the Company's current KPI's and in view of the actions initiated by management of the Company, management of the Company does not anticipate a direct immediate and significant adverse impact of the COVID – 19 outbreak on the Company, its operations, financial position and operating results.

However, the management of the Company cannot preclude the possibility that extended lock down periods, an escalation in the severity of such measures or a consequential adverse impact of such measures on the economic environment the Company operates in, will not have an adverse effect on the Company, its financial position and operating results, in the medium and longer term. Management of the Company continues to monitor the situations closely and will respond to mitigate the impact of such events and circumstances as they occur.

The Board of Directors of the Company may propose amendments of the financial statements to the Company's shareholders before their approval at the General Meeting. If, after the financial statements are approved, management identifies that comparative information would not be consistent with the current period, IFRS EU allows entities to restate comparative information for the accounting period in which the relevant facts are identified.

Preparation of the financial statements in conformity with IFRS EU requires the use of certain significant accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies on complex transactions. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

The separate financial statements are presented in thousands of euros ("EUR thousand"), unless stated otherwise.

*Application of new standards and interpretations*

Standards and interpretations applied for annual periods beginning on or 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. Early application is permitted, including in financial statements not authorised for issue at 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 and has been applied by the Company in its financial statements.

A lessee applies the amendments retrospectively and recognises the cumulative effect of initially applying them in the opening retained earnings of the reporting period in which they are first applied.

Adoption of above-mentioned amendments did not have significant impact on accounting policies and financial statements of the Company.

International Financial Reporting Standards adopted by the European Union not yet effective.

*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 amendments must be applied retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. The cumulative effect of initially applying the amendments will be recognised as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented (if necessary).

The Company plans to apply the amendments from 1 January 2022.

The Company does not expect the amendments, when initially applied, will have a significant impact on the financial statements of the Company.

*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.

An entity shall apply those amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application). The entity shall not restate comparative information. Instead, the entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.

The Company plans to apply the amendments from 1 January 2022.

However, the quantitative impact of the adoption of the Amendments is not yet determined as it will depend on the status of the contracts in place at the date of initial application of the amendments.

*Annual Improvements to IFRS Standards 2018-2020*

Effective for annual periods beginning on or after 1 January 2022. Early application is permitted.

*Amendment 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 does not expect the amendments, when initially applied, will have a significant impact on the financial statements of the Company.

*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.

In recognition of deferred tax on leases and liabilities related to restoration, the Company applies the so-called integrally linked approach, which results in a similar result to the amendments, except that the effect of deferred tax is presented net in the Statement of financial position. Under the amendments, the Company will separately recognise a deferred tax asset and deferred tax liability. As at 31 December 2021, temporary differences of the right-of-use asset are in the amount of EUR 36 676 thousand and deductible temporary differences related to lease liabilities in the amount of EUR 36 778 thousand, and the resulting deferred net tax liability is in the amount of EUR 21 thousand. After the adoption of the amendments, the Company will recognise a deferred tax liability in the amount of EUR 7 702 thousand and deferred tax asset in the amount of EUR 7 723 thousand. The adoption will not affect retained earnings.

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

Effective date deferred indefinitely.  Available for optional adoption in full IFRS financial statements.

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

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

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

However, the quantitative impact of the adoption of the Amendments can only be assessed in the year of initial application of the Amendments, as this will depend on the transfer of asset or businesses to the associate or joint venture that take place during that reporting period.

*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.

*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.

The Company does not expect the amendments, when initially applied, will have a significant impact on the financial statements of the Company.

### 2.2 Foreign currency translation

#### (i) Functional and presentation currencies

Items included in the financial statements are presented in EUR, which is the currency of the primary economic environment in which the Company operates ("the functional currency").

#### (ii) Transactions and balances in the Statement of financial position

Transactions denominated in foreign currencies are translated to euro, as at the date of the accounting transaction, by the reference exchange rate determined and declared by the European Central Bank ("ECB") or National Bank of Slovakia ("NBS"), as at the date preceding the date of transaction.

Financial assets and liabilities denominated in foreign currencies are translated to euro at the reporting date, according to the reference exchange rate determined and declared by the ECB or the NBS, as at the reporting date, and recorded with an impact on profit or loss.

Non-financial assets and liabilities, advance payments made, and advance payments received, denominated in foreign currencies, are translated to euro as at the date of the accounting transaction, by the reference exchange rate determined and declared by the ECB or the NBS, as at the date preceding the date of transaction.

### 2.3 Non-current tangible assets

Non-current tangible assets are measured at cost, less accumulated depreciation and accumulated impairment losses.

#### (i) Acquisition costs

Acquisition costs include expenditures which are directly attributable to the acquisition of assets. Interest expenses are capitalised if they meet the criteria of IAS 23, as part of acquisition cost, otherwise they are expensed as incurred.

Self-constructed, non-current tangible assets are valued at their conversion cost. Conversion cost includes all direct costs from production or other activities, and indirect costs related to production or other activities.

Subsequent expenditures 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. The carrying amount of the replaced part is derecognised. All other expenditures on repairs and maintenance are charged to the Income statement in the period in which they incurred.

#### (ii) Depreciation

The depreciation of non-current tangible assets starts in the month that they are available for use. Non-current tangible assets are depreciated in line with the approved depreciation plan, using the straight-line method. Monthly depreciation is determined as the proportion of the depreciable amount, divided by the estimated useful life of non-current tangible assets. The depreciable amount is the cost, less the expected value at the time the assets are disposed of.

*(All amounts are in thousands of EUR unless stated otherwise)*

The estimated useful lives of individual groups of assets in 2021 and 2020 were as follows:

| | |
|---|---|
| Buildings, halls, structures of distribution network | 30 – 70 years |
| Distribution network (technological part), equipment and vehicles | 4 – 45 years |
| Other non-current tangible assets | 5 – 15 years |

Estimated value at time of disposal and estimated useful life of non-current tangible assets are reviewed and adjusted as at the balance sheet date where necessary.

Land and assets under construction in tangible assets are not depreciated.

The expected value at the time of disposal of an asset is its expected selling price, less selling expenses, if the asset has the expected age and characteristics which are expected at the end of its useful life. The carrying amount of an asset is equal to zero, or its disposal value, if the Company expects to use the asset until the end of its useful life.

Each part of an item of non-current tangible asset, whose value is significant in relation to the total value of the asset, is depreciated separately. The Company allocates the amount initially allocated to the non-current tangible asset item to its significant parts and depreciates each part separately.

The carrying amount of an asset is reduced immediately to its recoverable amount, if the carrying amount of the asset is higher than its estimated recoverable amount (Note 2.5).

Assets that are worn out or disposed of are derecognised from the Statement of financial position, along with appropriate accumulated depreciation and provisions. Disposal gains and losses are determined by comparing the proceeds to their carrying amount and are recognised in operating profit or loss.

### 2.4 Non-current intangible assets

Non-current intangible assets are measured upon acquisition at cost. Non-current intangible assets are recognised when it is probable that future economic benefits associated with the assets will flow to the Company, and the costs can be measured reliably. Upon subsequent measurement, non-current intangible assets are carried at cost, less accumulated amortisation and impairment losses. Interest expenses, if they meet the criteria of IAS 23, are capitalised as part of costs, or otherwise expensed in the relevant period. The Company has no non-current intangible assets with indefinite useful lives. Non-current intangible assets are amortised on a straight-line basis over their useful lives, which do not exceed 20 years, except for easements.

The amortisation of non-current intangible assets starts in the month in which they are put into use, in accordance with the approved amortisation plan, using the straight-line method.

The monthly amortisation is determined as the proportion of depreciable value and estimated useful life of the assets. The amortisation amount is the cost, less any residual value at the time the assets are disposed of.

Residual values of non-current intangible assets are expected to be zero if:

- there is no commitment by a third party to purchase the assets at the end of their useful life; or
- there is no active market for the assets, and so residual value cannot be determined by the reference to that market, and it is improbable that such a market will exist at the end of the assets’ useful life.

Expenses associated with maintaining computer software are recognised when they are incurred.

Subsequent expenditures, which enhance or extend the performance of computer software beyond their original specification and meet the criteria for recognition as intangible assets according to IAS 38, are recognised as technical improvements, and added to the original cost of the software. Each part of an item of non-current intangible assets, whose cost is significant in comparison to the total cost of an item, is amortised separately. The Company divides the value of the original item to significant parts proportionally and amortises the parts separately.

**2.5 Impairment of non-financial assets**

Non-current intangible assets with an indefinite useful life, and intangible assets not yet in use, are not subject to amortisation, and are tested for impairment annually. Non-financial assets, except for deferred tax assets and inventory, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount is higher than the recoverable amount. If an indicator of impairment exists, the asset's recoverable amount is estimated. An impairment loss is recognised in the consolidated Income statement, for the amount by which the asset's, or cash generating unit's, carrying amount exceeds its recoverable amount. The recoverable amount is the asset's fair value, less costs to sell or value in use, depending on which one is higher.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are individually identifiable cash flows. Non-financial assets, other than goodwill, which were impaired in previous periods are reassessed as at each reporting date to ascertain whether the impairment loss decreased ceased to exist, i.e. to reverse the impairment loss.

**2.6 Financial instruments**

Trade receivables and issued debt securities are initially recognised on the date that they are originated. All other financial assets and financial liabilities are recognised initially in the Statement of financial position, on the date when the Company becomes a contract party to the agreements which include said financial instruments.

Financial assets (except for trade receivables which do not contain a significant financial component) or financial liabilities are initially recognised at fair value, increased by costs related to the acquisition or issue of the financial instruments except for items measured at fair value through profit or loss (FVTPL), less acquisition costs or expenses related to issue. Trade receivables which do not contain a significant financial component are initially recognised at transaction value.

**2.7 Financial assets**

The Company initially classifies its financial assets into the following categories:
- amortised costs,
- at fair value through other comprehensive income (FVOCI),
- at fair value through profit or loss (FVTPL).

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets.

A financial asset is measured at amortised cost if it meets both of the following conditions, and is not designated as at FVTPL:
- it is held within a business model whose objective is to hold assets to collect contractual cash flows, and
- its contractual terms give rise on specified dates to cash flows, that are solely payments of principal and interest on the outstanding principal.

For equity instruments not held-for-trading, the Company may irrevocably decide that subsequent changes in fair value (including foreign exchange gains and losses) will present a comprehensive result in other components. They may not be reclassified to profit or loss under any circumstances.

All financial assets, not classified at amortised cost or FVOCI, are measured at FVTPL. This includes all derivative financial assets.

Subsequent measurement and gains and losses

- Amortised cost – the assets are subsequently measured at amortised cost using the effective interest method, reduced by impairment losses. Interest income, foreign exchange gains and losses, and impairment losses are recognised in profit or loss.
- FVTPL – the assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
- Equity investments at FVOCI – the assets are subsequently measured at fair value. Dividends received are recognised in profit or loss. Other net gains and losses are recognised in OCI and are not reclassified to profit or loss.

## 2.8 Financial liabilities

Financial liabilities are initially measured at amortised cost or FVTPL. The Company assigns a financial liability to FVTPL if it is held-for-trading, it is a derivative instrument, or it is included in FVTPL at initial recognition. When a financial liability is initially recognised in FVTPL, the Company measures it at fair value, and net gains and losses, including interest expenses, are recognised in profit or loss.

Other financial liabilities are after the initial recognition valued at amortised cost using the effective interest method. Interest expenses, and foreign exchange gains and losses, are recognised in profit or loss. Any gains and losses arising on derecognition are recognised in profit or loss.

The Company has the following non-derivative financial liabilities: loans and borrowings, trade and other liabilities.

*Derecognition of financial instruments*

The Company derecognises financial assets when:
a) The assets have been paid back, or rights for investment cash flows have expired, or
b) The Company has transferred the rights to cash flows of the investment, or has entered into a transfer agreement, thereby
(i) transferring substantially all risks and potential gains inherent in the ownership or
(ii) has not transferred or retained substantially all risks and potential gains of ownership, without retaining control. It will retain control if the counterparty does not have a realistic opportunity to sell the assets as a whole to an unrelated third party, without additionally restricting the sale.

Financial liabilities (or parts thereof) are derecognised from the Company's Statement of financial position if they are extinguished, i.e. when obligations specified in the contract are discharged, cancelled, or expire. The difference between the carrying amount of disposed financial liability and consideration paid is recognised in profit or loss.

*Offsetting*

Financial assets and liabilities are presented in the Statement of financial position on a net basis, if the Company has a right to offset the amounts, and it intends to either settle them on a net basis, or to realise the assets and settle the liabilities simultaneously.

The Company does not hold any other financial assets measured at FVOCI, or at FVTPL, other than equity investments.

## 2.9 Impairment of financial assets

The "expected credit loss" model ("ECL") means that a loss event will no longer need to occur before an impairment allowance is recognised. This impairment model is applied to financial assets measured at amortised cost or FVOCI (except for investments in equity instruments), and to contract assets.

Financial assets measured at amortised cost, using the effective interest rate method, comprise trade and other receivables, cash and cash equivalents, and a loan provided to a related party.

Under IFRS 9, impairment allowances will be measured on either of the following bases:

- 12-month ECLs: these are ECLs which result from possible default events within the 12 months after the reporting date, and
- Lifetime ECLs: these are ECLs resulting from all possible default events over the expected life of a financial asset.

In determining whether the credit risk of a financial asset has increased significantly since its initial recognition, and in calculating the ECL, the Company uses appropriate supporting information that has been assessed as appropriate, and available to the Company without incurring disproportionate costs or efforts to obtain it. This includes both quantitative and qualitative information, and analyses based on the Company's historical experience and credit risk assessment, including information on future potential developments.

The Company considers financial assets impaired if:

- It is unlikely that a borrower will pay its obligations to the Company in their entirety, without the Company taking an action, such as realising the collateral; or
- Financial assets are overdue.

Lifetime ECLs are ECLs which result from all possible impairments over the expected life of a financial asset. The maximum period for ECL estimate is the contractual period during which the Company is exposed to credit risk.

*Valuation of ECLs*

ECLs are estimates calculated as weighted average of impairment probabilities, and credit loss realisations. Credit losses are measured at the present value of all cash shortfalls, i.e. the difference between cash flows due to the Company in accordance with the contract, and the cash flows that the Company expects to receive.

ECLs are not discounted, as they do not contain any significant financial component.

*Impairment losses*

Impairment losses related to trade and other receivables are recognised in profit or loss.

An impairment loss is reversed if the reversal can be objectively attributed to an event that occurs after an impairment loss is recognised. For financial assets measured at amortised cost, the reversal is recognised in profit or loss.

The carrying amount of receivables are reduced through the use of an allowance account. Creation and release of impairment allowances are reported in other operating expenses in the Income statement. Unrecoverable receivables are written off. Receivables repaid by debtors, which were previously written off, are recognised in the Income statement in other operating income. The manner in which the Company recognises revenue is disclosed in Note 2.19.

### 2.10 Leases - IFRS 16

At inception of a contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time, in exchange for consideration. The Company considers a contract to be a lease in where all following conditions are met:

- an identifiable asset exists, specified explicitly or implicitly, and
- a lessee has the right to obtain substantially all economic benefits from use of the asset, and
- a lessee has the right to direct use of the assets.

This policy is applied to contracts commenced on or after 1 January 2019.

The Company exercised the exemption and applied the new IFRS 16 to all contracts it concluded before 1 January 2020 and identified them as leases under IAS 17 and IFRIC 4. This means that the Company does not reassess leases which have been classified as leases under IAS 17, whether they meet the new definition of leasing under IFRS 16.

Upon initial recognition, and subsequent revaluation of a lease contract which includes a lease component, the Company assigns the contractually agreed consideration to each lease component on a pro rata basis, if agreed separately. The Company separately recognises leasing and non-leasing components in the lease of vehicles, land and property. For the lease of land, property and other assets, the Company does not account for both the leasing and non-leasing components separately but considers them as one leasing component.

Leased assets (the Company as a lessee)

The Company recognises right-of-use assets and lease liabilities at the commencement of lease. Initial value of right-of-use assets is determined as the sum of the initial value of lease liabilities, lease payments made before or on the commencement date of the lease, and initial direct costs to the lessee, less any lease incentives received.

In determining lease term, the length of agreed lease term, as well as the possibility of early termination or prolongation are considered. In assessing probability of exercising the option to extend or prematurely terminate lease terms, the Company takes all relevant facts and circumstances that provide economic incentives to exercise (or not exercise) these options into account. The length by which contracts can be renewed (or the length following the possibility to terminate contracts early) are included in lease terms only if the Company is certain that prolongation will be exercised.

Right-of-use assets are depreciated on a straight-line basis over the lease term, from commencement to termination. If the lease involves a transfer of ownership or a call option, right-of-use assets are depreciated on a straight-line basis over the useful life of the assets. Depreciation begins on the date of commencement. Assessment of possible impairment to right-of-use assets is carried out in a similar way to impairment assessment of non-financial assets, as described in Note 2.5 Impairment of non-financial assets.

Lease liabilities are initially measured on the date when the leased assets are made available to the lessee (lease commencement date). Lease liabilities are initially valued at the present value of lease payments over the lease term that were not paid at the initial measurement, using the discount rate, which is the incremental borrowing rate. Lessee's incremental borrowing rate is determined based on available financial information relating to the Company. Subsequent revaluation of lease liabilities is made in the event of changes to contractual terms (e.g. a change in lease terms due to an option to extend or prematurely terminate contracts, a change in lease payment based on a change in the index or rate used to determine payments, a change in the assessment of the probability of exercising the call option, etc.). Any subsequent reassessment of lease liabilities will also affect the valuation of right-of-use assets. If this leads to negative values for right-of-use assets, remaining impacts are recognised with in profit or loss (so the resulting right-of-use assets will be recognised at nil).

The Company has exercised an optional exemption and does not recognise right-of-use assets or lease liabilities, for all types of lease contracts, with a lease term of 12 months or less. The costs associated with these leases are recognised in the financial statements as operating expenses, on a straight-line basis over the lease term.

The Company has also exercised an optional exemption and does not report right-of-use assets or lease liabilities, in lease contracts where the value of leased assets is clearly less than USD 5 000. The estimated value of assets is based on the assumption, that they are new assets. If the value of assets cannot be reliably determined, the optional exemption is not applied to such leases.

In the Statement of financial position, the Company recognises right-of-use assets under non-current tangible assets, and lease liabilities under long-term and short-term trade and other liabilities.

In addition, the Company recognises lease transactions in the Statement of cash flows as follows:

- principal payments relating to lease liabilities in cash flows from financing activities,
- interest payments on lease liabilities in cash flows from operating activities,
- payments for short-term leases, lease of low-value assets, and payments for variable parts of leases, which are not included in the measurement of lease liabilities, in cash flows from operating activities.

**2.11 Inventories**

Inventories are valued at the lower of either cost or net realisable value. Measurement of inventories is recalculated using the weighted arithmetic average method. Cost includes all acquisition costs, such as customs and shipping, net of returns, discounts and rebates. Net realisable value is an estimate of selling price in the ordinary course of business and is reduced by the relevant cost of sale.

**2.12 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.

Funds managed by the Parent Company under the “Agreement for cash-pooling service” are recognised as receivables from the parent, and not as cash/cash equivalents.

**2.13 Share capital**

Ordinary shares are classified as share capital.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax.

**2.14 Current and deferred income taxes**

Current income tax is calculated based on tax laws enacted at the reporting date. Management regularly evaluates positions taken in tax returns, with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions as appropriate, on the basis of amounts expected to be paid to tax authorities.

Deferred income tax is presented in the financial statements using the balance sheet method, based on temporary differences arising between the tax basis of assets and liabilities, and their carrying amounts in the financial statements. Deferred income tax is not accounted for, however, if it arises from initial recognition of assets or liabilities in a transaction, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates which have been enacted, or substantively enacted, and are expected to be applied at the date of the temporary differences settlement.

Current and deferred taxes are recognised in the Income statement, except for cases when they are recognised directly in equity, or in the Statement of comprehensive income.

Deferred income tax assets are recognised to the extent that it is probable that the Company will achieve the sufficient taxable profit in the future against which the temporary differences can be utilised.

The Company offsets deferred tax assets and deferred tax liabilities, where the Company has a legally enforceable right to offset tax assets against tax liabilities, and these relate to income taxes levied by the same tax authority.

**2.15 Provisions**

Provisions are recognised when the Company has a present contractual or constructive obligation to transfer economic benefits as a result of past events, it is probable that such a transfer will be required to settle these liabilities, and a reliable estimate of the amount can be made. No provisions are created for future operating losses. When the Company anticipates that a provision will be reimbursed in future, for example under an insurance contract, future income is recognised as an individual asset, but only when such reimbursement is almost certain.

*(All amounts are in thousands of EUR unless stated otherwise)*

If there are several similar commitments, then the probability that the expenditures will need to be settled is determined by considering the group of liabilities as a whole. A provision is also recognised when the probability of expenditures is low with respect to any item included in the same liabilities group.

Provisions are measured at present value of expenditures expected to settle the liabilities, using a pre-tax rate that reflects the current market estimate of the time value of money, and the risks specific to the liabilities. Increases in provisions due to the passage of time are recognised as interest expenses.

### 2.16 Contingent liabilities

Contingent liabilities are not recognised in the Statement of financial position. They are disclosed in the notes to the financial statements if the probability of an outflow of resources representing the economic benefits is not probable. They are not disclosed in the notes to the financial statements if the possibility of an outflow of resources representing the economic benefits is remote.

### 2.17 Contract liabilities

Contract liabilities represent the Company's obligation to transfer goods or provide services to customers, in a situation where the Company has already received consideration for these goods or services. For the Company, these are primarily customer fees for connection to the distribution network, and subsequent access to the provision of distribution services.

### 2.18 Employee benefits

The Company has a pension scheme with a predetermined pension benefit, as well as a predetermined contribution.

**Pension plans**

A predefined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive upon retirement. It is dependent on one or more factors such as age, years of service and compensation.

A predefined contribution plan is a pension plan, under which the Company pays fixed contributions to the third parties or to the Government. The Company has no legal or constructive obligations to pay further contributions, if the funds do not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

**Unfunded defined benefit pension plan**

According to the Labour Code and Company Collective Agreement for the years 2020 – 2022, the Company is obliged, based on the number of years in service and meeting the employment termination requirements, to pay its employees, upon retirement or disability, the following multiples of their average monthly salary:

| | Average monthly salary multiple |
|---|---|
| within 10 years | 2 |
| over 10 to 15 years | 4 |
| over 15 to 20 years | 5 |
| over 20 to 25 years | 6 |
| over 25 years | 7 |

The minimum requirement of the Labour code of one-month average salary payment upon retirement is included in the above multiples.

**Other predefined benefits**

The Company also pays the following life and work jubilee benefits:

- one additional monthly salary on the 25th annual work anniversary;
- a single payment of 40% to 110% of employee's monthly salary, depending on number of years worked for the Company, when employee reaches the age of 50 years.

The Company's employees expect the Company to continue providing these benefits and, in the opinion of management, it is unlikely that the Company will stop providing them.

Liabilities recognised in the Statement of financial position, in respect of defined benefit pension plans, are the present value of defined benefit obligations, as at the reporting date.

Defined benefit obligations are calculated annually by the Company, using the Projected Unit Credit method. Present value of defined benefit obligations are determined by (a) discounting estimated future cash outflows, using interest rates of high quality government or corporate bonds, which have terms to maturity approximating the terms of the related pension liabilities, and then (b) attributing the calculated present values to periods of service based on the plan.

Actuarial gains and losses arising from experience, adjustments and changes in actuarial assumptions are immediately recognised in the period incurred. Pension liabilities are recognised in the Statement of comprehensive income, and life and work jubilee benefits in the Income statement. Past-service costs are recognised immediately in the Income statement.

**Predefined contribution pension plans**

The Company contributes to state and private pension schemes with predetermined contributions.

The Company makes contributions to government health, sickness, pension, accidental and guarantee insurance, and unemployment schemes, at statutory rates during the year, based on gross salary payments.

Throughout the year, the Company makes contributions to these funds amounting to 35.2% (2020: 35.2%) of gross salaries, up to a monthly salary ceiling, which is defined by the relevant law, to a maximum of EUR 7 644 (2020: up to a maximum of EUR 7 091) depending on the type of fund, while the base for health and accidental insurance is unlimited and the payment is calculated from the total gross salary of the employee. An employee contributes an additional 13.4% to the relevant insurance (2020: 13.4%). The cost of these payments is charged to the Income statement in the same period as the related salary cost.

In addition, with respect to those employees who have chosen to participate in supplementary pension insurance, the Company makes annual contributions to supplementary pension insurance, between 2% and 6% of monthly wage, based on the years worked, up to maximum of EUR 1 400 (2020: EUR 1 400) per year.

**Termination benefits**

Termination benefits are payable whenever an employee's employment is terminated by the employer before the normal retirement date, upon agreement between the employer and employee resulting from redundancy, in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either: (a) terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal, or (b) provide termination benefits as a result of an offer made to encourage voluntary redundancy. Present value of termination benefit does not significantly differ from carrying amount, as the influence of discounting is not significant.

### Profit sharing and bonus plans

Liabilities for any employee benefits, in the form of profit sharing and bonus plans, are recognised as other liabilities when there is no real alternative but to settle the liabilities, and at least one of the following conditions is met:

- a formal plan officially exists, and the amounts to be paid are determinable before the financial statements are authorised for issue; or
- past practice created a valid expectation for employees that they will receive profit sharing or other bonus, and the amount can be determined before the financial statements are authorised for issue.

Liabilities for profit sharing and bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

### 2.19 Revenue recognition

Revenue comprises fair value of the consideration received, or receivables for the sale of goods and services in the ordinary course of the Company's activities. Revenue is recognised, net of value-added tax, excise duties, estimated returns, rebates and discounts.

The Company recognises revenue when the amount can be reliably measured, it is probable that future economic benefits will flow to the Company, and specific criteria were met for each of the Company's activities as described below.

The amount of revenue is not considered to be reliably measurable until all conditions related to sale are met. The Company bases its estimates on historical results, taking into consideration the type of customer, type of transaction, and the specifics of each arrangement.

Revenue from 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 billing cycle of retail customers (households and small businesses) is metered on an annual basis, and billed on a monthly basis, as the Company invoices distribution services to the electricity supplier on a monthly basis, according to electricity actually distributed.

The Company uses a methodology for the estimate of network losses that is consistent with the methodology used during the year 2020. Calculation of network losses is derived from actual metering, as well as from the estimate of supply at low voltage level, based on past experience.

Sales of services are recognised in the accounting period in which they are rendered. By reference to the level of the specific transaction the sale of services is assessed based on actual service provided as a proportion of total services to be provided.

Proceeds from fees for connection to the distribution network and subsequent access to distribution services are recognised as contract liabilities, and are released to income of a current period over the average useful life of the assets relating to electricity distribution.

In accordance with existing legislation, assets obtained by withholding (e.g. transformer stations), assets acquired free of charge, and identified inventory surpluses of assets are initially recognised at fair value in deferred income, while the amount equal to the annual depreciation charge of the related assets is recognised in income of the current reporting period.

Fees for relocation of energy equipment are recognised in the same way as withheld assets, i.e. the amount of such fees is recognised in deferred income, while the amount equal to the annual depreciation charge for these assets is recognised in the revenue of the current reporting period.

Interest income is recognised on an accrual basis in the period to which it relates, using the effective interest rate method.

### 2.20 Dividend payment

Payment of dividends to the Company's shareholders are recognised as a liability in the Company's financial statements, in the period in which the dividends are approved by the Company's shareholders.

## 3 Financial risk management

### 3.1. Financial risk factors

As a result of its activities, the Company is exposed to a variety of financial risks: market risk (including foreign exchange, price, and interest rate risks), operational, credit and liquidity risks. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. The Company does not use derivative financial instruments to hedge risk exposures.

Financial risk management is performed by the central financial department (the Company procures services from the sister company Stredoslovenská energetika, a.s.), in accordance with procedures approved by the Board of Directors. The central financial department identifies, assesses, and hedges financial risks, in cooperation with operational departments within the Company. The Board of Directors and the Company's management issue written principles for overall risk management, as well as written procedures covering specific areas such as foreign exchange risk, interest rate risk, credit risk and the use of non-derivative financial instruments.

#### (i) Market risk

#### (a) Foreign exchange risk

The Company is not exposed to foreign exchange risk, as expenses and revenue in foreign currencies are not significant for the Company.

#### (b) Price risk

Distribution services provided by the Company are subject to price regulation by ÚRSO. Based on adopted regulatory policy for 2017 - 2021 with extended effect for one year until 31 December 2022, ÚRSO determines the scope and method of price regulation. ÚRSO sets the price assessment for distribution services of the Company for the whole regulatory period, but usually changes them each regulatory year. These prices are binding for the Company when invoicing. Reasonable profit is derived from the regulatory basis of assets, and the rate of return set by the ÚRSO. Nevertheless, there may be circumstances outside of the Company's direct control, that will result in an adjustment of the price assessment during the year, and thus have a negative or positive impact on the Company's profit or loss. The level of this risk cannot be quantified in advance. In the event of such occurrence, the Company's management enters into negotiations with ÚRSO in order to minimise negative impact on the Company.

#### (c) Interest rate risk affecting fair value and cash flows

The Company is not exposed to interest rate risk from its long-term loans.

As at 31 December 2021 and 31 December 2020, all loans are denominated in EUR, bearing fixed interest rates, and are recorded at amortised cost. For more details see Note 15.

#### (ii) Operational risk

Operational risk is the risk of direct or indirect losses, arising from a wide variety of causes associated with the Company's processes, personnel, technology, infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements, and generally accepted standards of corporate behaviour. Operational risks arise from all of the Company's operations.

*(All amounts are in thousands of EUR unless stated otherwise)*

The Company's objective is to manage operational risk to balance the eliminations of financial losses, and damage to the Company's reputation, with overall cost effectiveness, and to avoid control procedures that restrict initiative and creativity. The primary responsibility for development and implementation of controls to address operational risk is assigned to the Company's senior management.

The Internal audit department carries out regular reviews to ensure that the Company's processes are in compliance with internal guidelines. Results of the internal audit are discussed by the Company's top management.

### (iii) Credit risk

Credit risk arises from cash and cash equivalents, deposits in banks and financial institutions, cash-pooling receivables from the parent company, as well as exposure to large and small customers, including outstanding receivables and future transactions from concluded contracts. As regards relations with banking and financial institutions, the Company only enters into relations with those with high independent credit ratings. Where independent ratings for large customers are available, these ratings shall be used. In the absence of such assessment, the customer's creditworthiness will be assessed taking financial position, historical data, and other factors into account.

The key service of the Company is the distribution of electricity to final customers, which is in most cases invoiced through electricity suppliers (e.g. the sister company Stredoslovenská energetika, a.s. or another supplier) in the form of so-called integrated contracts for bundled electricity supply (the electricity price is invoiced to the end customer together with the distribution fee). The Company manages the risk of non-payment of customers through an advance payment system.

As regards trade receivables from the sister company Stredoslovenská energetika, a. s., receivables from cash-pooling from the parent company Stredoslovenská energetika Holding, a.s. and a low number of other customers (electricity suppliers and direct customers), the Company has a significant concentration of credit risk against these companies (2021: 28% of receivables; 2020: 85% of receivables). Year-on-year decrease in concentration resulted in cash-pooling receivable decrease.

The Company measures impairment allowances for trade receivables at an amount equal to the lifetime ECL.

Impairment losses from trade and other receivables are recognised in profit or loss. An impairment loss is reversed if the reversal can be objectively attributed to an event that occurs after an impairment loss is recognised.

The table below shows balances of receivables from banks and cash balances, as at the reporting date:

| | | **Balance as at 31 December** | |
|---|---|---|---|
| **Counterparty** | **Rating*** | **2021** | **2020** |
| Banks | | | |
| Všeobecná úverová banka, a.s | A2 | 25 690 | 125 844 |
| UniCredit Bank, a.s. | BBB | 9 | 9 |
| Slovenská sporiteľňa, a.s., | A2 | 11 | 21 |
| Cash on hand | - | 15 | 16 |
| **Total** | | **25 725** | **125 890** |

Funds managed by the parent company Stredoslovenská energetika Holding, a.s., based on the "Agreement for cash-pooling service", as at 31 December 2021, represent the amount of EUR 16 325 thousand (31 December 2020: EUR 40 396 thousand) and they are classified as a receivable from the parent company.

*The Company uses independent ratings of Moody's, Standard & Poor's and Fitch.

*(All amounts are in thousands of EUR unless stated otherwise)*

**Credit risk exposure**

The carrying amount of financial assets represents the maximum credit exposure, which is as at 31 December 2021, and as at 31 December 2020 as follows:

| | | Balance as at 31 December | |
|---|---|---|---|
| **Financial instrument** | **Note** | **2021** | **2020** |
| Trade receivables (before impairment allowance) | 8 | 70 910 | 16 464 |
| Receivables from parent company (cash-pooling) | 7 | 16 325 | 40 396 |
| Cash and cash equivalents | 10 | 25 725 | 125 890 |
| | | **112 960** | **182 750** |

**(iv) Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, availability of funds through the committed credit facilities, and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Company aims to maintain flexibility in funding from the parent company.

The Company concluded an Agreement for cash-pooling service with the parent company Stredoslovenská energetika Holding, a.s., through which it manages liquidity risk, which should, if necessary, cover insolvency. Funds from cash-pooling are available on request. The Company regularly monitors the status of its liquid assets.

The Company also uses the advantages of payment terms between the Company and its suppliers to secure sufficient financing funds to cover its needs. The maturity of supplier's invoices is between 14 and 90 days.

Expected cash flows are prepared as follows:

- Expected future cash inflows from main operations of the Company,
- Expected future cash outflows securing operations of the Company and leading to settlement of all liabilities of the Company, including tax liabilities.

A cash flows forecast is prepared monthly. It identifies the immediate need for cash and, if funds are sufficient, it enables the Company to make short-term deposits.

The table below analyses the Company's financial liabilities according to remaining maturity period. Amounts disclosed in the table are the contractual undiscounted cash flows. The difference between carrying and estimated amount of liabilities represents future expected interest.

| | Carrying amount | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Total |
|---|---|---|---|---|---|
| **As at 31 December 2021** | | | | | |
| Bank loans (principal including future interest charges) | 5 000 | 2 585 | 2 528 | - | 5 113 |
| Trade and other liabilities (excluding liabilities not in the scope of IFRS 7) | 91 174 | 91 174 | - | - | 91 174 |
| **Total** | **96 174** | **93 759** | **2 528** | **-** | **96 287** |
| **As at 31 December 2020** | | | | | |
| Bank loans (principal including future interest charges) | 7 500 | 2 642 | 2 585 | 2 528 | 7 755 |
| Trade and other liabilities (excluding liabilities not in the scope of IFRS 7) | 54 040 | 54 040 | - | - | 54 040 |
| **Total** | **61 540** | **56 682** | **2 585** | **2 528** | **61 795** |

### 3.2. Capital risk management

For purposes of managing capital, management considers equity as capital. The Company's objective when managing capital is 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's management manages shareholders' capital reported under IFRS EU as at 31 December 2021, amounting to EUR 671 743 thousand (2020: EUR 816 239 thousand).

Consistent with other companies within the industry, the Company also monitors capital on the basis of gearing ratio. This ratio is calculated as total debt, divided by total liabilities and equity. Total debt is calculated as the sum of bank loans and borrowings (including current and non-current bank loans, and borrowings as presented in the Statement of financial position).

During 2021, as well as in 2020, the Company primarily used its own resources to finance operating activities.

### 3.3. Fair value estimation

Fair value of financial instruments traded in the active markets is based on quoted market prices at the reporting date. Different methods, such as discounted estimated future cash flows, are used for determining fair value of other financial instruments.

The carrying amounts of trade receivables and liabilities, decreased by impairment allowance, are assumed to approximate their fair values. Fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

## 4 Significant accounting estimates and judgements

### Use of estimates and judgements

The preparation of financial statements in accordance with IFRS as adopted by the EU, requires management of the Company to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and related assumptions are based on historical experience and other miscellaneous factors deemed appropriate under the circumstances. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis and corrections to accounting estimates are recognised in the period in which the estimates are corrected, if the correction only affects this period, and in the future periods, if the correction affects this and future periods.

Information about significant areas of estimation uncertainty and critical judgements in using accounting policies, that have the most significant impact on amounts reported in the financial statements are stated below.

### (i) Estimated useful lives of assets

The useful lives of non-current tangible and intangible assets are determined by the management, in cooperation with internal and external experts. If the revised useful lives of the assets are shorter by 10% than the management's estimate, as at 31 December 2021, the Company would recognise additional depreciation of non-current tangible and intangible assets, charged to the Income statement in the amount of EUR 6 081 thousand (2020: EUR 5 905 thousand).

*(All amounts are in thousands of EUR unless stated otherwise)*

## 5 Non-current tangible assets

Movements of non-current tangible assets from 1 January 2020 to 31 December 2021 are presented below:

| | Land | Buildings | Machinery, equipment and other assets | Assets not yet in use including advances | Total |
|---|---|---|---|---|---|
| **As at January 2020** | | | | | |
| Acquisition cost | 13 015 | 995 477 | 356 571 | 24 522 | 1 389 585 |
| Accumulated depreciation and impairment allowances | -41 | -487 415 | -144 207 | - | -631 663 |
| **Net book value** | **12 974** | **508 062** | **212 364** | **24 522** | **757 922** |
| **Year ended 31 December 2020** | | | | | |
| Opening balance | 12 974 | 508 062 | 212 364 | 24 522 | 757 922 |
| Additions | 167 | 19 968 | 9 708 | 18 503 | 48 346 |
| Transfer from assets not yet in use | 6 | 5 263 | 3 311 | -8 580 | - |
| Disposals | -260 | -307 | -85 | -33 | -685 |
| Depreciation | -51 | -34 900 | -16 349 | - | -51 300 |
| Reversal of impairment allowances | - | 128 | - | - | 128 |
| **Net book value** | **12 836** | **498 214** | **208 949** | **34 412** | **754 411** |
| **As at 31 December 2020** | | | | | |
| Acquisition cost | 12 929 | 1 017 488 | 365 244 | 34 412 | 1 430 073 |
| Accumulated depreciation and impairment allowances | -93 | -519 274 | -156 295 | - | -675 662 |
| **Net book value** | **12 836** | **498 214** | **208 949** | **34 412** | **754 411** |
| **Year ended 31 December 2021** | | | | | |
| Opening balance | 12 836 | 498 214 | 208 949 | 34 412 | 754 411 |
| Additions | 116 | 54 304 | 9 557 | 18 894 | 82 871 |
| Transfer from assets not yet in use | 12 | 14 470 | 8 735 | -23 217 | - |
| Disposals | -24 | -21 | -92 | -47 | -184 |
| Depreciation | -64 | -36 433 | -17 711 | - | -54 208 |
| Reversal of impairment allowances | - | 689 | - | - | 689 |
| **Net book value** | **12 876** | **531 223** | **209 438** | **30 042** | **783 579** |
| **As at 31 December 2021** | | | | | |
| Acquisition cost | 13 032 | 1 074 176 | 377 109 | 30 042 | 1 494 359 |
| Accumulated depreciation and impairment allowances | -156 | -542 952 | -167 671 | - | -710 779 |
| **Net book value** | **12 876** | **531 223** | **209 438** | **30 042** | **783 579** |

As at 31 December 2021, no non-current tangible assets were pledged in favour of a creditor.
The Company has no contracts in respect of pledged assets and long-term leases of non-current assets.

Impairment allowances represent an impairment loss relating to buildings not used. As at 31 December 2021, the value of the impairment for unused buildings amounted to EUR 1 656 thousand (31 December 2020: EUR 2 346 thousand).

There are no restrictions of ownership relating to non-current tangible assets and they are not pledged.

*(All amounts are in thousands of EUR unless stated otherwise)*

Buildings, machines, equipment and other assets mainly include the distribution network, switching stations, transformers, administrative buildings, equipment, vehicles and machinery, hardware, servers, telephone exchanges, remote control equipment, electrometers, metering equipment, system failure detectors and electrical hand tools and machines.

Relocation of energy devices, assets obtained by withholding (transformer stations, power lines), assets obtained free of charge, and inventory surplus are recorded in accordance with existing legislation, and initially recorded at fair value as deferred income. Subsequently, an amount equal to the annual accounting depreciation of these assets is recognised in revenue for the current period (Note 12).

Overview of rights-of-use lease assets under IFRS 16 recognised under non-current tangible assets:

| | Land | Buildings, halls, constructions and networks | Machinery, equipment and other assets | Total |
|---|---|---|---|---|
| **Balance as at 1 January 2020** | **439** | **1 160** | **3 034** | **4 633** |
| Additions | 84 | 87 | 1 026 | **1 197** |
| Depreciation | -51 | -163 | -1 107 | **-1 321** |
| Disposals | - | - | - | - |
| **Balance as at 31 December 2020** | **472** | **1 084** | **2 953** | **4 509** |
| **Balance as at 1 January 2021** | **472** | **1 084** | **2 953** | **4 509** |
| Additions | 75 | 32 888 | 702 | **33 665** |
| Depreciation | -64 | -283 | -1 151 | **-1 498** |
| Disposals | - | - | - | - |
| **Balance as at 31 December 2021** | **483** | **33 689** | **2 504** | **36 676** |

As at 31 December 2021, the Company leases 439 new vehicles up to 3.5 tons from a leasing company (2020: 435), and fleet management for 271 vehicles owned by the Company (2020: 268).

The framework contract with the leasing company is concluded for a period of 4 years after the expiry of which, upon fulfilment of the stipulated conditions specified in the contract, will be automatically changed for an indefinite period. The notice period of the lease is 12 months for the new vehicle rental service and 3 months for the fleet management.

As at 31 December 2021, additions related to leased property were in the amount of EUR 33 665 thousand, of which the largest part of the additions are buildings, halls, structures and networks. The increase in leased property related to buildings arose from a new lease contract for non-residential premises (lease of buildings) with Stredoslovenská energetika Holding, a.s. The contract is concluded from 1 November 2021 for an indefinite period. The lease term was estimated to last 50 years.

**Method and amount of insurance of tangible assets**

Non-current tangible assets are insured up to EUR 1 145 943 thousand (2020: EUR 1 113 459 thousand) for natural hazards, vandalism and theft, and up to EUR 13 469 thousand (2020: EUR 13 469 thousand) due to machine fracture risk.

*(All amounts are in thousands of EUR unless stated otherwise)*

## 6 Non-current intangible assets

The following table summarises the movements of non-current intangible assets from 1 January 2020 to 31 December 2021:

| | Software | Assets not yet in use including advances | Other non-current intangible assets | Total |
|---|---|---|---|---|
| **As at 1 January 2020** | | | | |
| Acquisition cost | 40 759 | 1 413 | 287 | 42 459 |
| Accumulated amortisation | -29 054 | - | -19 | -29 073 |
| **Net book value** | **11 705** | **1 413** | **268** | **13 386** |
| **Year ended 31 December 2020** | | | | |
| Opening balance | 11 705 | 268 | 1 413 | 13 386 |
| Additions | 980 | 2 | 1 164 | 2 146 |
| Transfer from assets not yet in use | 399 | 96 | -495 | - |
| Disposals | -601 | - | -1 | -602 |
| Amortisation | -2 150 | -11 | - | -2 161 |
| **Net book value** | **10 333** | **355** | **2 081** | **12 769** |
| **As at 31 December 2020** | | | | |
| Acquisition cost | 41 538 | 386 | 2 081 | 44 005 |
| Accumulated amortisation | -31 205 | -31 | - | -31 236 |
| **Net book value** | **10 333** | **355** | **2 081** | **12 769** |
| **Year ended 31 December 2021** | | | | |
| Opening balance | 10 333 | 355 | 2 081 | 12 769 |
| Additions | 1 083 | 7 | 736 | 1 826 |
| Transfer from assets not yet in use | 386 | 20 | -406 | - |
| Amortisation | -2 509 | -11 | - | -2 520 |
| **Net book value** | **9 293** | **371** | **2 411** | **12 075** |
| **As at 31 December 2021** | | | | |
| Acquisition cost | 43 007 | 413 | 2 411 | 45 831 |
| Accumulated amortisation and impairment allowances | -33 714 | -42 | - | -33 756 |
| **Net book value** | **9 293** | **371** | **2 411** | **12 075** |

Software consists mainly of customer information systems (SAP ISU/CRM), information systems for service administration (EAM), graphic information systems (GIS) and operating information systems (RIS). Additions are represented mainly by upgrades of software (SAP, RIS, GIS).

The Company has no limited right to dispose of non-current intangible assets and does not use them as collateral.

*(All amounts are in thousands of EUR unless stated otherwise)*

## 7 Financial instruments by category

Analysis of the financial instruments by measurement categories, under IFRS 9 is as follows:

| | Balance as at 31 December | |
|---|---|---|
| | **2021** | **2020** |
| **Assets as per Statement of financial position** | | |
| Trade receivables (before impairment allowance) (Note 8) | 70 910 | 16 464 |
| Receivables from parent company (cash-pooling) | 16 325 | 40 396 |
| Cash and cash equivalents (Note 10) | 25 725 | 125 890 |
| **Total** | **112 960** | **182 750** |
| **Liabilities as per Statement of financial position** | | |
| Bank loans (Note 15) | 5 000 | 7 500 |
| Trade and other liabilities (Note 14) | 90 382 | 45 555 |
| **Total** | **95 382** | **53 055** |

## 8 Trade and other receivables

| | Balance as at 31 December | |
|---|---|---|
| | **2021** | **2020** |
| Current receivabels and provided guarantees: | | |
| Receivables due | 68 913 | 14 520 |
| Receivables overdue but not impaired | - | - |
| Individually impaired receivables | 1 997 | 1 944 |
| Trade receivables (before impairment allowance) | **70 910** | **16 464** |
| Less impairment allowance for receivables | -1 585 | -1 779 |
| Net trade receivables | **69 325** | **14 685** |
| Other receivables and assets | 1 491 | 1 232 |
| **Trade and other receivables** | **70 816** | **15 917** |

The structure of receivables within due date is as follows:

| | Balance as at 31 December | |
|---|---|---|
| | **2021** | **2020** |
| Very high voltage | 800 | 919 |
| High voltage | 994 | 723 |
| Low voltage | 6 | 4 |
| Aggregated invoices | 13 283 | 11 542 |
| EE producers (MPDS - NJF contribution) | 83 | 81 |
| TPS - settlement of green energy purchase from OKTE | 53 518 | 22 |
| Other customers | 229 | 1 229 |
| **Trade and other receivables due** | **68 913** | **14 520** |

*(All amounts are in thousands of EUR unless stated otherwise)*

The structure of trade receivables by maturity is as follows:

| | Balance as at 31 December | |
|---|---|---|
| | **2021** | **2020** |
| Receivables due | 68 913 | 14 520 |
| Receivables overdue | 1 997 | 1 944 |
| **Total** | **70 910** | **16 464** |

Impaired receivables relate to both large and small customers, who are facing the unexpectedly difficult economic situations.

It is expected that part of overdue receivables that are impaired will be repaid.

Ageing of receivables is as follows:

| | Balance as at 31 December | |
|---|---|---|
| | **2021** | **2020** |
| From 1 to 30 days | 48 | 80 |
| From 31 to 90 days | 316 | 32 |
| From 91 to 180 days | 61 | 13 |
| From 180 to 360 days | 14 | 20 |
| over 361 days | 1 558 | 1 799 |
| **Total individually impaired receivables** | **1 997** | **1 944** |

Movements in impairment allowance for receivables are recognised in the Income statement in other operating expenses. They are presented in the following table:

| | Balance as at 31 December | |
|---|---|---|
| | **2021** | **2020** |
| As at the beginning of the year | 1 779 | 2 577 |
| Creation of impairment allowance for receivables | 83 | 115 |
| Use of impairment allowance for receivables | -277 | -913 |
| **As at the end of the year** | **1 585** | **1 779** |

## 9 Accrued income

Up to and including 31 December 2019, the Company was obliged to bear all costs related to support of OZE/KVET, including purchase of electricity from OZE/KVET, responsibility for imbalance, and payment of a surcharge in the amount approved by ÚRSO. These costs are covered by the operational tariff ("TPS"). For the period 2019, the Company incurred a loss due to the difference between the costs related to the support of OZE/KVET, and revenue from TPS. Based on the ÚRSO decision of December 2020, the Company recognised accrued income in the Statement of financial position, in the amount of ÚRSO approved compensation of a 2019 loss in the amount of EUR 88 131 thousand. In 2021, a portion of the compensation was paid through TPS tariff and the remaining portion remains recorded as an accrued income. The balance as at the end of the 2021 is in the amount of EUR 19 805 thousand (2020: EUR 88 131 thousand).

## 10 Cash and cash equivalents

The Company has entered into a Service agreement on cash-pooling with its parent company, whereby available cash is managed by the parent company. These funds are available to the Company upon request.

*(All amounts are in thousands of EUR unless stated otherwise)*

As at 31 December 2021, the Company recognised a receivable in the amount of EUR 16 325 thousand (as at 31 December 2020: EUR 40 396 thousand) from the parent company Stredoslovenská energetika Holding, a.s. This receivable bears interest of 0.00% p.a. for credit balance and 0.40% p.a. for debit balance and is payable on demand.

| | Balance as at 31 December | |
|---|---|---|
| | **2021** | **2020** |
| Bank accounts and cash on hand | 2 725 | 1 890 |
| Short-term bank deposits | 23 000 | 124 000 |
| **Total** | **25 725** | **125 890** |

| | Balance as at 31 December | |
|---|---|---|
| | **2021** | **2020** |
| Cash and balances in bank accounts with original commitment period within 3 months | 25 725 | 125 890 |
| **Total** | **25 725** | **125 890** |

The carrying amount of cash and cash equivalents, as at 31 December 2021 and as at 31 December 2020, approximates their fair value.

## 11 Equity

No changes occurred in the Company's share capital in 2020 or in 2021. The Company has no registered share capital that is not registered in the Commercial register.

The Company's share capital consists of 15 058 shares (2020: 15 058 shares), at nominal value of EUR 33 194 per share (2020: EUR 33 194 per share). As at 31 December 2021, the entire share capital was issued and paid.

The Commercial code requires the Company to create a legal reserve fund, in the amount of 10% of its share capital at the time of incorporation of the Company. This amount must be increased annually by at least 10% from net profit, until the legal reserve fund reaches 20% of share capital. Use of this fund is restricted under the commercial code, to cover losses of the Company, and it is not a distributable reserve. As at 31 December 2021, the legal reserve fund amounted to EUR 99 967 thousand (as at 31 December 2020: EUR 99 967 thousand), and thus reached its full required limit.

The General Meeting of the Company, held on 17 May 2021, approved the Company's financial statements for the previous period, and agreed to pay dividends to shareholders in the amount of EUR 215 386 thousand of which EUR 138 354 thousand from profit of 2020 and EUR 77 032 thousand from retained earnings of previous periods (2020: EUR 112 209 thousand from profit of 2019).

As at the date of preparation of the financial statements, the Board of Directors of the Company did not submit a proposal of the distribution of the 2021 profit.

*(All amounts are in thousands of EUR unless stated otherwise)*

## 12 Deferred income

| | Balance as at 31 December | |
|---|---|---|
| | **2021** | **2020** |
| Relocation of energy devices | 29 666 | 28 011 |
| Withheld assets | 59 | 62 |
| Other | 3 440 | 3 220 |
| **Deferred income non-current** | **33 165** | **31 293** |

Relocation of energy equipment, assets obtained by withholding (transformer stations, power lines), free-of-charge assets, and identified inventory surpluses of assets are recognised in accordance with existing legislation, initially at fair value through profit or loss, while annual depreciation of these assets is recognised in income of the current reporting period.

## 13 Contract liabilities

| | Balance as at 31 December | |
|---|---|---|
| | **2021** | **2020** |
| Connection fees non-current | 36 892 | 34 976 |
| Connection fees current | 1 176 | 1 096 |
| **Contract liabilities** | **38 068** | **36 072** |

Reported contract liabilities consist mainly of customers' fees for connection to the distribution network, and subsequent access to distribution services, while they are released into revenue of the current reporting period over the average lifetime of related electricity distribution assets. The Company estimates annual revenue from the release of contract liability, as at 31 December 2022, in the amount of approximately EUR 1 176 thousand (as at 31 December 2021: approximately EUR 1 096 thousand).

## 14 Non-current and current trade and other liabilities

| | Balance as at 31 December | |
|---|---|---|
| | **2021** | **2020** |
| Trade and other liabilities - current | 31 246 | 28 312 |
| Lease liabilities - non-current | 35 202 | 3 459 |
| Deferred income – current (Note 12) | 1 053 | 1 093 |
| Liabilities to employees | 1 611 | 1 611 |
| Social security | 1 143 | 1 148 |
| Accrued personnel expenses | 5 928 | 4 939 |
| Social fund | 48 | 24 |
| VAT - liability | 11 159 | 2 252 |
| Other liabilities | 2 991 | 2 717 |
| **Total** | **90 381** | **45 555** |

The increase in non-current lease liabilities in 2021 compared to 2020 is caused by the conclusion of a new lease contract on non-residential premises (lease of buildings) with Stredoslovenská energetika Holding, a.s. The contract is signed from 1 November 2021 for an indefinite period. The lease term was estimated at 50 years and the lease non-current liability as at 31 December 2021 is in the amount of EUR 32 264 thousand.

*(All amounts are in thousands of EUR unless stated otherwise)*

No liabilities are secured by a lien or other collateral.

The structure of liabilities by maturity is as follows:

| | Balance as at 31 December | |
|---|---|---|
| | **2021** | **2020** |
| Liabilities due | 90 373 | 45 544 |
| Liabilities overdue | 8 | 11 |
| **Total** | **90 381** | **45 555** |

An overview of lease liabilities recognised within trade liabilities and other current liabilities and lease long-term liabilities is shown in the following table:

| | Balance as at 31 December | |
|---|---|---|
| | **2021** | **2020** |
| Up to 1 year | 1 576 | 1 106 |
| 1 - 5 years | 4 073 | 2 452 |
| More than 5 years | 31 129 | 1 007 |
| **Total** | **36 778** | **4 565** |

An overview of lease transactions, recognised in the Statement of cash flows, is presented in the following table:

| | Balance as at 31 December | |
|---|---|---|
| | **2021** | **2020** |
| Total lease payments | 1 590 | 1 377 |
| **Total** | **1 590** | **1 377** |

Payments for leases relating to principal during the reporting period, in the amount of EUR 1 451 thousand (2020: EUR 1 297 thousand), are recognised in the Statement of cash flows, as cash flows from financial activities. Interest payments related to lease obligations, amounting to EUR 139 thousand (2020: EUR 80 thousand), are reported as operating cash flows in the Statement of cash flows.

Carrying amounts of liabilities are denominated in the following currencies:

| | Balance as at 31 December | |
|---|---|---|
| | **2021** | **2020** |
| EUR | 90 379 | 45 540 |
| CZK | 2 | 15 |
| **Total** | **90 381** | **45 555** |

## Social fund

Creation and use of the social fund during the accounting period are shown in the following table:

| | Balance as at 31 December | |
|---|---|---|
| | **2021** | **2020** |
| Opening balance as at 1 January | 24 | 85 |
| Creation as expense | 372 | 412 |
| Drawing | -348 | -473 |
| **Closing balance as at 31 December** | **48** | **24** |

According to the Social fund act, creation of the social fund is compulsory, charged to expenses, and a portion may be generated from profit. According to the Social fund act, the social fund is used for social, health, recreational and other needs of employees.

## 15 Bank loans and liabilities to the parent company

### Bank loans

Effective from 1 January 2020, the Company became a direct debtor in a bank loan to Slovenská sporiteľňa. The Company took the responsibility to pay the amount of the loan, including related fees, to the extent that the parent company Stredoslovenská energetika Holding, a.s. originally committed to pay to Slovenská sporiteľňa.

Maturity of bank loans is as follows:

| | Balance as at 31 December | |
|---|---|---|
| **Maturity** | **2021** | **2020** |
| Short-term portion of bank loans | 2 500 | 2 500 |
| Long-term portion of bank loans from 1 to 5 years | 2 500 | 5 000 |
| more than 5 years | - | - |
| **Total** | **5 000** | **7 500** |

Fair value of loans as at 31 December 2021 does not differ significantly from the carrying amount.

Bank loans and their structure as at 31 December 2021 and 2020 are as follows:

| **Bank** | **Amount in thousands o EUR** | | **Interest rate % p. a.** | **Final maturity** | **Form of collateral** |
|---|---|---|---|---|---|
| | **2021** | **2020** | | | |
| **Slovenská sporiteľňa** | 5 000 | 7 500 | Fixed 2.25% | 30.6.2023 | - |
| **Total** | **5 000** | 7 500 | **X** | **X** | **X** |

All loans are denominated in EUR.

The loan agreement with Slovenská sporiteľňa contains certain contractual conditions that require the Company to achieve the minimum set indicators of total indebtedness, liquidity, profitability, cash receipt, interest coverage and the ratio of total debt to operating profit (bank covenants), calculated according to the consolidated financial statements data of the Stredoslovenská energetika Holding, a.s. group. The Company has fulfilled all contractual conditions as at the reporting date.

*(All amounts are in thousands of EUR unless stated otherwise)*

Reconciliation of loans and borrowings with cash flows from financing activities for the year ended 31 December 2021:

| | Bank loans and borrowings | Lease liabilities | Total |
|---|---|---|---|
| **Balance as at 1 January 2021** | **7 500** | **4 564** | **12 064** |
| **Changes in cash flows from financing activities** | | | |
| Loans and borrowings repayment | -2 500 | - | **-2 500** |
| Lease payments | - | -1 451 | **-1 451** |
| Interest paid - leases | - | -139 | **-139** |
| Interest paid - loans and borrowings | -139 | - | **-139** |
| **Total changes in cash flows from financing activities** | **-2 639** | **-1 590** | **-4 229** |
| **Other changes** | | | |
| Interest expenses | 139 | 139 | **278** |
| New lease contracts | - | 33 665 | **33 665** |
| **Total other changes** | **139** | **33 804** | **33 943** |
| **Balnace as at 31 December 2021** | **5 000** | **36 778** | **41 778** |

## 16 Deferred income tax

Deferred income tax is calculated from temporary differences using the balance sheet method. For the purpose of deferred income tax calculation, a tax rate of 21% was used as at 31 December 2021 and 2020.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset a current asset and a current liability, and when deferred income tax relates to the same tax authority.

| | Balance as at 31 December 2021 | 2020 |
|---|---|---|
| **Deferred tax asset** | | |
| - Deferred tax assets to be settled after more than 12 months | 1 985 | 1 983 |
| - Deferred tax assets to be settled within 12 months | 1 389 | 1 321 |
| | **3 374** | **3 304** |
| **Deferred tax liability** | | |
| - Deferred tax liability to be settled after more than 12 | -85 558 | -87 254 |
| | **-85 558** | **-87 254** |
| **Net deferred tax liability** | **-82 184** | **-83 950** |

*(All amounts are in thousands of EUR unless stated otherwise)*

Movements in deferred tax assets and liabilities during the year are as follows:

| | **Balance as at 1 January 2021** | **(Debited) / credited to the Income statement** | **Recognised in equity** | **Balance as at 31 December 2021** |
|---|---|---|---|---|
| Non-current assets * | -87 254 | 1 696 | - | -85 558 |
| Provision for employee benefits and compensation | 2 628 | 47 | 137 | 2 812 |
| Other | 676 | -114 | - | 562 |
| | **-83 950** | **1 629** | **137** | **-82 184** |

| | **Balance as at 1 January 2020** | **(Debited) / credited to the Income statement** | **Recognised in equity** | **Balance as at 31 December 2020** |
|---|---|---|---|---|
| Non-current assets * | -88 156 | 902 | - | -87 254 |
| Provision for employee benefits and compensation | 2 408 | 80 | 140 | 2 628 |
| Other | 957 | -281 | - | 676 |
| | **-84 791** | **701** | **140** | **-83 950** |

* Includes the difference between book value and tax base of non-current tangible and intangible assets.

As at 31 December 2021 and as at 31 December 2020, the Company did not have any temporary deductible differences for which no deferred income tax assets were recognised.

*(All amounts are in thousands of EUR unless stated otherwise)*

## 17 Provisions for liabilities

| | Pension programs and other long-term employee benefits (a) | Termination benefits (b) | Legal proceedings (c) | Other | Total |
|---|---|---|---|---|---|
| **Balance as at 1 January 2021** | **9 731** | **539** | **-** | **216** | **10 486** |
| Creation of provisions | 1 339 | 775 | 250 | 320 | 2 684 |
| Use of provisions | -443 | -94 | - | - | -537 |
| Reversal of unused provisions | -1 921 | -445 | - | -216 | -2 582 |
| **Balance as at 31 December 2021** | **8 706** | **775** | **250** | **320** | **10 051** |

| | Pension programs and other long-term employee benefits (a) | Termination benefits (b) | Legal proceedings (c) | Other | Total |
|---|---|---|---|---|---|
| **Balance as at 1 January 2020** | **8 847** | **610** | **-** | **23** | **9 480** |
| Creation of provisions | 1 282 | - | - | 216 | 1 498 |
| Use of provisions | -398 | - | - | - | -398 |
| Reversal of unused provisions | - | -71 | - | -23 | -94 |
| **Balance as at 31 December 2020** | **9 731** | **539** | **-** | **216** | **10 486** |

| | **Balance as at 31 December** | |
|---|---|---|
| **Analysis of total provisions** | **2021** | **2020** |
| Non-current | 9 266 | 9 731 |
| Current | 785 | 755 |
| **Total** | **10 051** | **10 486** |

### (a) Pension programs and other employee benefits

Pension programs with defined benefits, and other long-term employee benefits, are recognised as follows:

### (i) Pension programs upon retirement

| | **Balance as at 31 December** | |
|---|---|---|
| | **2021** | **2020** |
| Present value of unfunded retirement provisions | 7 693 | 8 693 |
| **Liability recognised in the Statement of financial position** | **7 693** | **8 693** |

*(All amounts are in thousands of EUR unless stated otherwise)*

Amounts recognised in the Income statement are as follows:

| | 2021 | 2020 |
|---|---|---|
| Current service cost | 532 | 443 |
| Change of IAS 19 interpretation* | -1 921 | - |
| Interest expense | 36 | 14 |
| **Total charge included in personnel expenses** | **-1 353** | **457** |

Movements in the present value of pension program liabilities are as follows:

| | Balance as at 31 December | |
|---|---|---|
| | **2021** | **2020** |
| Present value of unfunded liabilities at the beginning of the year | 8 693 | 7 847 |
| Current service cost | 532 | 443 |
| Interest expense | 36 | 14 |
| Paid | -298 | -279 |
| Change of IAS 19 interpretation* | -1 921 | - |
| Actuarial loss | 651 | 668 |
| **Present value of unfunded liabilities at the end of the year** | **7 693** | **8 693** |

* Reversal of a portion of provision in the amount of EUR 1 921 thousand was triggered by a reassessment of the allocation and targeted allocation of costs to the employee's years of service, based on the IFRIC decision of May 2021.

**(ii) Other long-term employee benefits (jubilees and loyalties)**

| | Balance as at 31 December | |
|---|---|---|
| | **2021** | **2020** |
| Present value of unfunded provisions | 1 013 | 1 038 |
| **Liability as per Statement of financial position** | **1 013** | **1 038** |

Amounts recognised in the Income statement are as follows:

| | 2021 | 2020 |
|---|---|---|
| Current service expenses | 91 | 94 |
| Actuarial loss | 24 | 62 |
| Interest expenses | 5 | 1 |
| **Total charge included in personnel expenses** | **120** | **157** |

*(All amounts are in thousands of EUR unless stated otherwise)*

Movements in present value of liabilities of the defined benefit pension program are as follows:

| | Balance as at 31 December | |
|---|---|---|
| | **2021** | **2020** |
| Present value of unfunded liabilities as at the beginning of the year | 1 038 | 1 000 |
| Current service expenses | 91 | 94 |
| Interest expense | 5 | 1 |
| Paid | -145 | -119 |
| Actuarial loss | 24 | 62 |
| **Present value of unfunded liabilities as at the end of the year** | **1 013** | **1 038** |

Basic actuarial assumptions in determining provisions for retirement are as follows:

| | **2021** | **2020** |
|---|---|---|
| Number of employees as at 31 December | 1 337 | 1 344 |
| Employee fluctuation rate | 1.97% p.a. | 1.96% p.a. |
| Expected increase in salaries - long-term | 1.90% p.a. | 1.90% p.a. |
| Discount rate | 0.00 – 1.25% p.a. | 0.00 – 0.65% p.a. |
| | (2022 – 2067) | (2021 – 2066) |

If actual discount rate differed by 1% from estimated discount rate, the amount of pension provisions would be by EUR 711 thousand lower or by EUR 276 thousand higher (2020: by EUR 1 017 thousand lower or by EUR 106 thousand higher).

### (b) Provisions for severance

Provisions for severance represent an estimate of the severance for employees, as a result of an approved and communicated restructuring process, which will be completed in 2024 (2020: to be completed in 2022). Amounts according to the relevant detailed plan of positions accompanying the restructuring process are expected to be paid as follows:

| | Balance as at 31 December | |
|---|---|---|
| | **2021** | **2020** |
| Expected compensation in 2021 | - | 539 |
| Expected compensation in 2022 | | |
| Expected compensation in 2022 | 215 | - |
| Expected compensation in 2023 | 332 | - |
| Expected compensation in 2024 | 228 | - |
| | **775** | **539** |

### (c) Provision for legal proceedings

The Company records claims for financial settlement in the amount of EUR 250 thousand (2020: nil), which are being addressed through legal action. The Company's management has chosen not to provide further details regarding these litigations, as these are currently open and additional information could harm the Company.

*(All amounts are in thousands of EUR unless stated otherwise)*

## 18 Revenue

Revenue by segment includes the following:

| | Segment VVN | | Segment VN | | Segment NN-MOP | | Segment NN-MOO | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Voltage level** | **VVN** | | **VN** | | **NN-MOP** | | **NN-MOO** | | **Allocated** | | **Total** | |
| | **2021** | **2020** | **2021** | **2020** | **2021** | **2020** | **2021** | **2020** | **2021** | **2020** | **2021** | **2020** |
| Revenue from distribution | 29 837 | 28 248 | 97 599 | 99 583 | 53 804 | 54 396 | 79 103 | 78 054 | - | - | 260 343 | 260 281 |
| Revenue from connection fees | 89 | 89 | 482 | 451 | 198 | 183 | 407 | 373 | - | - | 1 176 | 1 096 |
| Revenue from TPS | - | - | - | - | - | - | - | - | 68 098 | 15 107 | 68 098 | 15 107 |
| Revenue from TPS - ÚRSO correction (Note 9) | - | - | - | - | - | - | - | - | -68 098 | 74 307 | -68 098 | 74 307 |
| Revenue from SLA contracts | - | - | - | - | - | - | - | - | 2 270 | 2 068 | 2 270 | 2 068 |
| Other | - | - | - | - | - | - | - | - | 996 | 827 | 996 | 827 |
| **Total** | **29 926** | **28 337** | **98 081** | **100 034** | **54 002** | **54 579** | **79 510** | **78 427** | **3 266** | **92 309** | **264 785** | **353 686** |

The Company divides sales by voltage levels as follows:

a) VVN – very high voltage,
b) VN – high voltage,
c) NN-MOP – low voltage, entrepreneurs,
d) NN-MOO – low voltage, households.

Revenue from electricity distribution is regulated by ÚRSO, based on binding decisions which define distribution fees over a specified period, and for specific customer tariff categories.

TPS revenue is generated from OKTE, a.s. (2020: OKTE, a.s.), based on the TPS tariff (Note 9) stipulated by ÚRSO to cover the loss incurred from the support of OZE/KVET for the year 2019.

*(All amounts are in thousands of EUR unless stated otherwise)*

Distribution fees are invoiced to electricity suppliers, based on consumption at the customers' offtake points, and to customers with separate distribution agreements.

The total amount of revenue was generated in the Slovak Republic.

## 19 Other operating revenue

An overview of other operating income from business activities is presented in the following table:

| | 2021 | 2020 |
|---|---|---|
| Revenue from the use of assets * | 2 023 | 2 009 |
| Revenue from lease of assets | 599 | 582 |
| Release of deferred income (Note 12) | 1 053 | 1 093 |
| Income from insurance claims | 849 | 871 |
| Profit from sale of assets | 143 | 172 |
| Other | 1 435 | 1 341 |
| **Total** | **6 102** | **6 068** |

The Company also receives contributions from customers for connection to the electricity distribution network. Revenue in the form of such contributions is recognised as deferred income (recognised as contract liabilities) and is leased to income over the average useful life of the distribution network.

* The income from the optical fibre capacity and support points, as at 31 December 2021, is in the amount of EUR 1 590 thousand (2020: EUR 1 602 thousand), and rental services in the amount of EUR 433 thousand (2020: EUR 407 thousand).

## 20 Purchase of electricity, system and other related fees

The following items are included in purchase of electricity and system related charges:

| | 2021 | 2020 |
|---|---|---|
| Purchase of electricity: | | |
| Variances settlement expenses | 1 874 | 3 018 |
| Supplies from SEPS | 37 238 | 35 687 |
| Purchase of electricity from renewable resources and related charges | 22 112 | 24 255 |
| **Total** | **61 224** | **62 960** |

*(All amounts are in thousands of EUR unless stated otherwise)*

## 21 Other operating expenses

An overview of other operating expenses is as follows:

| | **2021** | **2020** |
|---|---|---|
| IT services | 3 670 | 3 400 |
| Repair and maintenance | 3 230 | 3 667 |
| Lease – right-of-use assets | 2 236 | 2 490 |
| Security services | 1 244 | 1 159 |
| Forest cutting | 1 050 | 2 324 |
| Postage and telecommunication | 714 | 768 |
| SLA – services | 755 | 745 |
| Insurance expenses | 697 | 656 |
| Consultancy expenses | 657 | 1 047 |
| Fees and other taxes | 589 | 580 |
| Metering of electricity consumption and inspection of distribution points | 544 | 560 |
| Waste disposal and cleaning | 522 | 433 |
| Metrological services | 260 | 295 |
| Service of energy equipment | 258 | 262 |
| Creation of impairment allowances for receivables | 83 | 115 |
| Other operating expenses | 3 763 | 3 533 |
| **Total** | **20 272** | **22 034** |

The cost for audit services are as follows:

| **Audit fee** | **2021** | **2020** |
|---|---|---|
| Audit of the financial statements | 55 | 45 |
| Other assurance services | 2 | 18 |
| Other non-audit services | 45 | 31 |
| **Total** | **102** | **94** |

## 22 Personnel expenses

| | **2021** | **2020** |
|---|---|---|
| Wages and salaries | 31 436 | 28 815 |
| Other personnel expenses | 3 211 | 2 738 |
| Social and health insurance expenses - defined contribution plans | 10 417 | 9 867 |
| Pensions and other long-term employee benefits* | -1 233 | 614 |
| **Total** | **43 831** | **42 034** |

* The year-on-year decrease in pensions and other long-term employee benefits is explained in Note 17.

*(All amounts are in thousands of EUR unless stated otherwise)*

## 23 Net financial expenses

An overview of financial expenses is provided in the following table:

| | 2021 | 2020 |
|---|---|---|
| Interest expenses from borrowings | 139 | 194 |
| Lease interest expenses | 139 | 80 |
| Other financial expenses | 4 | 4 |
| **Net financial expenses** | **282** | **278** |

The following table summarises the lease transactions recognised in profit or loss:

| | Year ended 31 December | |
|---|---|---|
| | 2021 | 2020 |
| Interest expenses | 139 | 80 |
| Short-term lease expenses | 46 | 161 |
| Low-value tangible assets lease expenses, except for short-term low-value tangible assets lease expenses | 347 | 316 |
| **Total** | **532** | **557** |

## 24 Income tax

Reconciliation between theoretical and recorded income taxes is as follows:

| | Year ended 31 December | |
|---|---|---|
| | 2021 | 2020 |
| Profit before tax | 94 295 | 183 245 |
| Theoretical income tax for current period at the rate of 21% | 19 802 | 38 481 |
| Tax non-deductible expenses | 55 | 85 |
| Special levy for business activities in regulated industries including tax impact | 3 028 | 6 313 |
| Other | 6 | 11 |
| | **22 891** | **44 890** |
| **Total income tax recognised** | | |
| Total income tax for current period consists of: | | |
| Deferred tax income | -1 628 | -702 |
| Current tax expense for the current period from continuing activities | 24 507 | 45 593 |
| Income tax for previous periods | 12 | -1 |
| | **22 891** | **44 890** |

The income tax rate for 2021 is 21% (2020: 21%). The effective income tax rate of the Company for 2021 is 24.28% (2020: 24.50%).

The Company is obliged to pay a special levy in accordance with the Special levy act for businesses in regulated industries.

In 2021, the base for the levy is profit or loss before tax recognised according to Slovak accounting standards for the period, multiplied by a coefficient. The coefficient for the special levy base is calculated as the ratio of income from the regulated activity, to total income for the period, for which recognised profit or loss was used to calculate the special levy base. For 2021, the coefficient is 0.98 (2020: SSD: 0.70). For 2021, the rate of the levy is 0.00363 per calendar month, which amounts to 0.04356 (4.356%) for 12 months. The levy is calculated by multiplying the base by the rate. The levy is paid on a monthly basis and is subject to annual settlement.

Special levy rates according to 2016 amendment are applied as follows:
0.00726 per month (8.712% p.a.) for 2017 - 2018,
0.00545 per month (6.54% p.a.) for 2019 - 2020,
0.00363 per month (4.356% p.a.) for 2021 and later.

## 25 Contingent assets and liabilities

### Contingent asset related to compensation for the purchase of electricity to losses

Under the effective Decree of the Regulatory Office for Network Industries of the Slovak Republic (URSO) which regulated the cost regulation for purchase of electricity for losses, was implemented a correction for purchase of electricity for losses for the year 2021. The requiring costs of purchase of electricity for losses for 2021, acknowledged by URSO as eligible costs, are the approximate prices of the Slovak business area on the daily market organised by the organizer of the short-term electricity market in each quarter hour of 2021 in EUR per MWh. Thus, under the effective Decree, URSO uses the correction to compensate the difference between the price of the Slovak business area on the daily market organised by the organizer of the short-term electricity market in each quarter hour of 2021 in EUR per MWh, and the estimated price of purchase of electricity for losses. As a result of the rapid growth in spot electricity prices during 2021, there was a significant difference in the average spot price of electricity for losses compared to the estimated price contained in the URSO decision stipulating tariffs for losses. In this context, the contingent asset to compensate the costs of purchase of electricity for losses in the expected amount of EUR 28 746 thousand had incurred to the company. In accordance with the applicable legislation, it is assumed that the difference incurred will be compensated in the period t+2, i.e. in the year 2023 for the year 2021.

### Taxation

Many parts of Slovak tax legislation remain untested and there is uncertainty about the interpretation that the tax authorities may apply in a number of areas. The effect of this uncertainty cannot be quantified and will only be resolved as legislative precedents are set or when the official interpretations of the authorities are available.

### Litigations

The Company currently registers 266 lawsuits, which are subject to an action for reimbursement of part of network access fees, paid for different time periods. The total claimed amount cannot be reliably and accurately determined. Based on a legal analysis, the Company's management considers the settlement of these disputes to be unlikely, and the Company therefore did not create a provision for these litigations.

*(All amounts are in thousands of EUR unless stated otherwise)*

## 26 Commitments

### Capital commitments

Capital expenditures contracted as at the reporting date, but not recognised in the Statement of financial position, are as follows:

| | Balance as at 31 December 2021 | 2020 |
|---|---|---|
| Non-current tangible assets | 14 452 | 19 586 |
| Non-current intangible assets | 2 224 | 1 908 |
| **Total** | **16 676** | **21 494** |

## 27 Information on off-balance sheet accounts

### Leased assets

By application of IFRS 16, lease contracts would be recognised in the Statement of financial position, as a part of non-current tangible assets.

## 28 Related party transactions

Related party transactions are shown in the following table:

**Related parties**

**a) parent company**
Stredoslovenská energetika Holding, a.s.

**b) sister companies**
Stredoslovenská energetika, a. s.
Elektroenergetické montáže, s.r.o.
SSE – Metrológia, s.r.o.
SSE CZ, s.r.o.
Stredoslovenská energetika - Project Development, s.r.o.
SSE-Solar, s.r.o.
SPV100, s. r. o.
SSE - MVE, s.r.o.
Kinet, s.r.o.

**c) related parties through the parent company**
Energotel, a.s.
SPX, s.r.o.

**d) entities controlled by the Government of the Slovak Republic**
OKTE, a.s.
Slovenská elektrizačná prenosová sústava, a.s.
Slovenský plynárenský priemysel, a.s.
Východoslovenská energetika a.s.
ZSE Energia, a.s.
Žilinská teplárenská, a.s.
Zvolenská teplárenská, a.s.
Martinská teplárenská, a.s.
other (municipalities, water management companies, state hospitals, etc.)

**e) entities controlled by EP Investment, associated entities and their branches**
EP ENERGY TRADING, a.s., organizačná zložka
EP Commodities, a.s.
eustream, a.s.
SPP - distribúcia, a.s.
EP Investment Advisors, s.r.o.
NAFTA a.s.
Slovenské elektrárne, a.s.
Energetický a průmyslový holding, a.s.

**f) key management personnel of the Company or its parent company**
members of the Board of Directors
members of the Supervisory Board

*(All amounts are in thousands of EUR unless stated otherwise)*

### Related party transactions and balances

Related party transactions are performed under standard market conditions.

Related party transactions are shown in the following table:

| **SSE Holding group (a,b,c)** | **2021** | **2020** |
|---|---|---|
| **Sale of goods, services and merchandise** | **154 728** | **155 238** |
| Stredoslovenská energetika, a.s.* | 153 323 | 153 839 |
| Stredoslovenská energetika Holding, a.s. | 28 | 28 |
| Elektroenergetické montáže, s.r.o | 215 | 235 |
| SSE-PD | 54 | 37 |
| SSE – Metrológia, spol. s r.o. | 11 | 12 |
| SSE - Solar, s.r.o. | 226 | 214 |
| SPV100, s.r.o. | - | 1 |
| SSE - MVE, s.r.o. | 25 | 31 |
| Kinet, s.r.o. | 7 | - |
| Energotel, a.s. | 839 | 841 |
| **Sale of assets** | **-** | **728** |
| Stredoslovenská energetika Holding, a.s. | - | 126 |
| Stredoslovenská energetika, a.s. | - | 602 |
| **Total sales** | **154 728** | **155 966** |
| **Purchase of material** | **-** | **619** |
| Stredoslovenská energetika, a. s. | - | 619 |
| **Purchase of energy and other non-storable items** | **24 861** | **27 934** |
| Stredoslovenská energetika, a. s. | 24 861 | 27 934 |
| **Purchase of assets** | **729** | **460** |
| Stredoslovenská energetika, a.s. | - | 20 |
| Elektroenergetické montáže, a.s. | 14 | 143 |
| SSE-Metrológia, spol. s r.o. | 190 | 206 |
| Kinet, s.r.o. | 525 | 91 |
| **Purchase of services** | **3 047** | **2 795** |
| Stredoslovenská energetika, a.s. | 943 | 969 |
| Stredoslovenská energetika Holding, a.s. | 1 220 | 1 109 |
| SSE-Metrológia, spol. s r.o. | 222 | 229 |
| Elektroenergetické montáže, a.s. | 60 | 34 |
| Energotel, a.s. | 602 | 454 |
| **Other expenses** | **82** | **70** |
| Stredoslovenská energetika, a. s. | 82 | 68 |
| Energotel, a. s. | - | 2 |
| **Total purchases** | **28 719** | **31 878** |

*(All amounts are in thousands of EUR unless stated otherwise)*

| **Related parties through the state (d), through EP Investment (e)** | **2021** | **2020** |
|---|---|---|
| Related parties through the state | 108 433 | 53 036 |
| Related parties through EP Investment | 18 738 | 18 736 |
| **Total sales** | **127 171** | **71 772** |
| | | |
| Related parties through the state | 37 954 | 36 442 |
| Related parties through EP Investment | 182 | 180 |
| **Total purchases** | **38 136** | **36 622** |

The Government of the Slovak Republic has a significant influence over the Company and is therefore considered a related party. The Company's management has made reasonable efforts to identify entities under state control or those with significant state influence. The Company's management discloses information that its current accounting system allows to be disclosed in relation to activities with state-controlled companies and with companies that the Company's management believes to the best of its knowledge that they could be considered state-controlled companies.

* The Company realises its revenue through its sister company Stredoslovenská energetika, a.s., which is not the final customer of the Company.

| **Related parties through the key management (f)** | **2021** | **2020** |
|---|---|---|
| Sale of electricity and related fees | - | - |
| **Total sales** | **-** | **-** |
| | | |
| Purchase of electricity and related fees | - | - |
| **Total purchases** | **-** | **-** |

*(All amounts are in thousands of EUR unless stated otherwise)*

The balances with related parties are shown in the following table:

| **SSE Holding group (a,b,c)** | **Balance as at 31 December 2021** | **2020** |
|---|---|---|
| **Trade receivables :** | **8 310** | **7 553** |
| SSE-Metrológia, spol s r.o. | - | 4 |
| Stredoslovenská energetika, a.s. | 8 179 | 7 362 |
| Stredoslovenská energetika Holding, a.s. | 2 | 16 |
| Elektroenergetické montáže, a. s. | 25 | 41 |
| SSE-PD | - | 11 |
| SSE - Solar, s.r.o. | 20 | 25 |
| SSE - MVE, s.r.o. | - | 10 |
| Energotel, a.s. | 84 | 84 |
| **Other receivables within the Consolidated Group :** | **16 325** | **40 396** |
| Stredoslovenská energetika Holding, a.s. | 16 325 | 40 396 |
| **Total assets** | **24 635** | **47 949** |
| **Trade liabilities :** | **3 903** | **3 536** |
| SSE-Metrológia, spol s r.o. | 20 | 22 |
| Stredoslovenská energetika, a.s. | 3 048 | 3 242 |
| Stredoslovenská energetika Holding, a.s. | 6 | 41 |
| SSE - MVE, s.r.o. | 11 | - |
| Kinet, s.r.o. | 26 | 89 |
| Energotel, a.s. | 792 | 142 |
| **Total liabilities** | **3 903** | **3 536** |

| **Related parties through the state (d), through EP Investment (e)** | **Balance as at 31 December 2021** | **2020** |
|---|---|---|
| **Trade receivables** | | |
| Related parties through the state | 56 598 | 2 964 |
| Related parties through EP Investment | 1 452 | 1 410 |
| **Total assets** | **58 050** | **4 374** |
| **Trade liabilities** | | |
| Related parties through the state | 2 352 | 2 121 |
| Related parties through EP Investment | 19 | 19 |
| **Total liabilities** | **2 371** | **2 140** |

*(All amounts are in thousands of EUR unless stated otherwise)*

| | Balance as at 31 December | |
|---|---|---|
| **Related parties through the key management (f)** | **2021** | **2020** |
| Trade receivables | - | - |
| **Total assets** | **-** | **-** |
| Trade and other liabilities | - | - |
| **Total liabilities** | **-** | **-** |

### Remuneration of statutory bodies and key management

The structure or remuneration received by the directors, key management and other members of statutory bodies of the Company is as follows:

| **Board of Directors and key management** | **2021** | **2020** |
|---|---|---|
| Salaries and other short-term employee benefits | 624 | 467 |
| Other non-monetary compensations | 31 | 25 |
| **Total** | **655** | **492** |

| **Supervisory Board** | **2021** | **2020** |
|---|---|---|
| Salaries and other short-term employee benefits | 120 | 67 |
| **Total** | **120** | **67** |

## 29 Events after the reporting date

In connection with the military conflict in Ukraine and related sanctions against the Russian Federation, the Company has identified risks and taken appropriate measures to mitigate the impact on its business. Based on the available information and current developments, the management constantly analyses the situation and assesses its direct impact on the Company. The Company's management has assessed the potential impact of this situation on its operations and business and concluded that it does not currently have a significant impact on the financial statements for the year ended 31 December 2021 or on the going concern assumption in 2022. However, further negative development of this situation, which could subsequently have a significant negative impact on the Company, its business, financial situation, results, cash flows and overall prospects, should be considered.

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Translation of the Independent Auditors' Report originally prepared in Slovak language

# Appendix to the Independent Auditors' Report issued on 11 March 2022 (this Appendix is issued in respect of the Annual Report)

pursuant to Article 27 (6) of the Act No. 423/2015 Coll. on statutory audit and on amendments to Act No. 431/2002 Coll. on accounting as amended ("the Act on Statutory Audit")

## To the Shareholder, Supervisory Board and Board of Directors of Stredoslovenská distribučná, a.s.

We have audited the financial statements of Stredoslovenská distribučná, a.s. (the "Company") as of 31 December 2021 presented as appendix of the accompanying Annual Report. We have issued an unmodified Independent Auditors' Report on the financial statements on 11 March 2022.

This Appendix supplements the aforementioned auditors´ report solely in respect of the following information:

## Report on Other Legal and Regulatory Requirements

### Reporting on other information in the Annual Report

The statutory body is responsible for the other information. The other information comprises the information included in the Annual Report prepared in accordance with the Act on Accounting but does not include the financial statements and our auditors' report thereon. Our opinion on the financial statements does not cover the other information in the Annual Report.

In connection with our audit of the financial statements, our responsibility is to read the other information in the Annual Report that we have obtained prior to the date of the auditors' report on the audit of the financial statements, and, in doing so, consider whether the other information is materially inconsistent with the audited financial statements or our knowledge obtained in the audit of the financial statements, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

The Annual Report of the Company was not available to us as of the date of the auditors' report on the audit of the financial statements.

With respect to the Annual Report, once obtained, we are required by the Act on Accounting to express an opinion on whether the other information given in the Annual Report is consistent with the financial statements prepared for the same financial year, and whether it contains information required by the Act on Accounting.

Based on the work undertaken in the course of the audit of the financial statements, in our opinion, in all material respects:

- the other information given in the Annual Report for the year ended 31 December 2021 is consistent with the financial statements prepared for the same financial year; and
- the Annual Report contains information required by the Act on Accounting.

In addition to this, in light of the knowledge of the Company and its environment obtained in the course of the audit of the financial statements, we are required by the Act on Accounting to report if we have identified material misstatements in the other information in the Annual Report. We have nothing to report in this respect.

Slovenská komora audítorov • SKAU Č.licencie 96 KPMG Slovensko spol. s r.o. •

Audit firm:
**KPMG Slovensko spol. s r.o.**
License SKAU No. 96

Responsible auditor:
**Ing. Peter Balážik**
License UDVA No. 1178

Bratislava, 2 May 2022