Východoslovenská distribučná, a.s.

Annual report 2023
and
Independent Auditor's report
on the Audit of the Financial Statements
and
Report on Other Legal and
Regulatory Requirements

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.

Contents

ANNUAL REPORT 2023

Východoslovenská distribučná, a.s.

Dear readers,
The Annual Report is about the same thing every year - numbers. This year, we decided that, besides the traditional report on how we did well and how it affected our economy, we would show readers that numbers do not always have to be boring. These are indicators of how big we are, how brilliant our colleagues are, how vital our activities are for the region, or how much effort it takes to ensure you do not even notice we are here. For a long time, we have perceived electricity almost automatically as water, air, or sunlight.
We will be happy if we surprise, interest, amuse, and expand your horizons.
Your VSD

Basic indicators		2023	2022
Supply area	km^2	15,746	15,746
Electricity distribution	GWh	3,766	3,938
Number of off-take points		671,011	666,685
Profit from operating activity	ths. EUR	94,694	39,575
Total annual profit	ths. EUR	68,506	28,577
Balance amount	ths. EUR	692,156	733,672
Net cash flows from operating activities	ths. EUR	169,775	40,656
Investments	ths. EUR	59,770	56,572
Average headcount		1,022	1,019

671,000 off-take points.

If we wanted to check each of them, even with a one-minute inspection, one person would have to check for more than 1.5 years. Counting transfers or sleep excluded.

Contents

View of the Chairman of the Board of Directors

Dear customers, business partners, colleagues.

The consolidation of business activities of the E.ON concern in Slovakia reached another critical milestone in 2023 - Východoslovenská distribučná, a.s. (hereinafter referred to as “VSD”) became a subsidiary of ZSE, a.s. and a “sister” of Západoslovenská distribučná, a.s. This significant change fundamentally creates assumptions and expectations, e.g., to harmonize the interfaces between the distribution systems operators in the West and East and other entities in the electricity market. Our customers and business partners naturally expect simplicity, clarity, and transparency in relations with the network infrastructure operator. We devote a lot of effort to this area. Among our priorities in 2023 was the unification, simplification, and digitization of requirements for connecting primarily small and local sources.

The year 2023 was exceptional for investments in the extension and renewal of the distribution system, which reached the highest value in VSD’s history, almost 60 million euros. A significant share of the total investment expenditure was allocated to automation, digitization, and building an optical communication layer.

An equally important achievement was reducing the “SAIDI_N” indicator, which indicates the degree of reliability of electricity distribution affected by faults in distribution system equipment. The trend development and the resulting value achieved in 2023, excluding the impact of extraordinary events caused by extreme weather effects, was 52 minutes. This represents a more than four times improvement over the past ten years. It is essential feedback on the structure of investment expenses and responsible maintenance, and it decisively contributes to the satisfaction of our customers connected to medium and low voltage levels. On the other hand, the frequency and negative impact of weather extremes have a visibly worsening trend over the last decade. Climate change and sudden weather fluctuations are visible, increase operating costs, and hurt the reliability of electricity distribution. In 2023, extreme weather fluctuations occurred in the defined distribution area of VSD every calendar month.

A new 5-year regulatory period began on 1 January 2023. Despite the importance of the need for elementary predictability and transparency, the Regulatory Office for Network Industries did not issue secondary legislation establishing the details of price regulation before 30 June 2023. At the same time, due to the extraordinary situation in the energy market, crisis regulation was applied in 2023 based on the decision of the Slovak Government. Introducing unified and thoughtless compensatory measures to maintain “energy prices” is neither systemic nor sustainable. Such an approach disproportionately burdens public finances and does not lead to the primary motivation of customers to behave responsibly in reducing energy consumption. Despite this, customers have been very active in building decentralized resources. Year-on-year, the total installed capacity of small and local sources increased by more than 55 MW, representing more than 4,000 new installations.

The availability of technology based on photovoltaics will bring significant changes in the future. The basic assumption is electrification, especially in the segment of customers connected to low voltage. Combined with the growth of energy efficiency, a friendly approach to the environment, and climate protection, this is an excellent opportunity for sustainability in the future.

In the context of ongoing changes, the essential role of VSD - high reliability and availability of the distribution system - remains the expected standard. Structural changes in the electricity market, the expected high penetration of decentralized production based on photovoltaics, and changes in the nature and profile of consumption and production will fundamentally affect the technical design of the distribution system, its operation, and management. Among other things, it will also bring new challenges in ensuring reliable and sustainable operations, will require large-scale investment in infrastructure, and will create significant pressure to cover these costs. The low voltage network will be the "network of the near future," and the off-take point will become an "integrated business platform." Anyway, it is an opportunity - both social and business. Mastering it is an elementary prerequisite for society to move towards more responsible use of sustainably produced electricity.

I sincerely thank my colleagues for a job well done and my business partners and customers for their fair cooperation.

Yours sincerely

Ing. Radoslav Haluška

Chairman of the Board of Directors

We have

220 MW of

photovoltaic sources connected to our DS.

If we put them next to each other, they would occupy an area as big as 300 football fields, the whole of Monaco, or five times more than the Vatican. The Starina Water Reservoir would hardly be visible below them.

An Outside View

Report of the Supervisory Board

In 2023, the Supervisory Board of VSD, by Slovak legislation and the Company's Articles of Association, supervised the performance of the Board of Directors' powers, business activity, and Company management, as well as compliance with the Company's Articles of Association. During 2023, three regular meetings of the Supervisory Board were held, and at the same time, five written votes of the Supervisory Board (per roll) were held.

The regular program of the Supervisory Board meetings contained information on the Company's economic results, price regulation, developments in the grid sales and material regulation, and the distribution system operation and development. Information on the Company's activities in communication adopted resolutions from the Board meetings and information on contracts concluded between related parties were included in the regular program of meetings of the Supervisory Board. It was also regularly informed about the Company's activities in health and safety and crisis management, as well as physical and facility security, including employee protection and information security.

The Supervisory Board of the Company, among other things:

- discussed the Company's Annual Report for 2023,
- discussed the Company's Individual Financial Statements for 2023; the Supervisory Board also recommended its approval to the General Meeting,
- discussed the proposal of the Company's Board of Directors on profit distribution for 2023 and recommended the General Meeting of the Company to adopt a resolution on the profit distribution for 2023 in terms of the Board of Directors proposal,
- discussed information on fundamental intentions of the Company's business management for the year 2023 and on the expected development of assets, finances and revenues,
- approved the proposal of the Board of Directors on a transfer and deposit of VSD shares to Západoslovenská energetika, a.s.,
- approved the new full wording of VSD's Articles of Association;
- approved several business decisions of the Company (contracts) exceeding the value of EUR 3 million,
- discussed the VSD Strategic and Business Plan for 2024-2026,
- took due note of the information on progress and results of the held Company General Meetings.

During the year, the Board of Directors informed the Supervisory Board orally and in writing about situations related to:

- Financial results,
- Development of regulatory framework (price and substantive regulation),
- Investment and operating costs,
- System reliability of the distribution grid,
- Development of the distributed electricity volume,
- New customer connections to the distribution system.

Based on the results of its ongoing control activities, the Supervisory Board concludes that the Company Board of Directors did everything necessary to ensure the development of the Company's business activities and maintain its good name.

The Auditor's Report and the Company's Financial Statements, consisting of the statement of financial situation, a summary statement of profit and loss, a statement of changes in equity, a statement of cash flows, and notes to the financial statements, will be discussed by the Supervisory Board members at the meeting in April 2024. The Supervisory Board will review the financial statements and a proposal for profit distribution or reimbursement of losses and submit its statement to the General Meeting and the Company Board of Directors.

Košice, 25 March 2024

JUDr. Milan Piršč
Chairman of the Supervisory Board

In a year,

3.76 TWh of

electricity went through our power lines.
Approximately the same amount of electricity is produced annually by one of Slovakia's nuclear power plant units, of which there are currently four in operation. Two are in Jaslovské Bohunice, two in Mochovce.

Proposal of the Board of Directors on profit distribution for 2023

The Board of Directors proposes to the General Meeting to distribute the profit after tax for 2023 as follows:

- Allocation to the Social Fund of EUR 60 thousand
- Dividend payment to the Shareholder of EUR 69,556 thousand

Basic Information about the Company

Creation and foundation of the Company

Východoslovenská distribučná, s.r.o. ("VSD") was established by the Charter dated 14 October 2005 as a subsidiary of Východoslovenská energetika ("VSE"), whose legal form was changed to a joint stock company by the decision of the General Meeting of 30 January 2007.

Východoslovenská distribučná, a.s. started its operations on 1 July 2007. As part of the legal unbundling of a vertically integrated company VSE, VSD took over all assets, liabilities, rights, and obligations related to the distribution activities the parent company VSE carried out on that date. By the requirements of the energy legislation, on 1 January 2014, a part of the Company was transferred from the parent company VSE (from 1 July 2014 with the business name Východoslovenská energetika Holding a.s. – "VSE Holding") to VSD, while the part of the Company that was transferred was the Grid Services Division, which carries out all activities related to grid operation, maintenance, and construction.

Business name: Východoslovenská distribučná, a.s.
Registered office: Mlynská 31, 042 91 Košice
Company No.: 36 599 361

The Company is registered in the City Court Košice Business Register, in section Sa, insert number 1411/V.

Business line

The Company Východoslovenská distribučná, a.s. is the distribution system operator ("DSO") in the defined territory, which consists of the Košice, Prešov and part of Banská Bystrica self-governing regions, and performs the following main activities:

- electricity distribution,

- system development planning,
- dispatching of the distribution system,
- sale of grid connection capacity,
- supplier change process for grid customers,
- collection and provision of energy data,
- purchase and lease of grid assets,
- designing and constructing electrical equipment,
- provision of services connected with electrical stations servicing without voltage limitation,
- installation of specified meters,
- manufacture of electrical technical equipment in the scope of electrical machines, devices, switchboards, and objects without explosion hazard

Shareholder structure as of 31 December 2023

Shareholder	Capital	Capital Share
Západoslovenská energetika, a.s.*	EUR 220,040,272	100%

*Východoslovenská energetika Holding a.s., as the former sole shareholder of VSD, a.s. (until 23 November 2023), by the decision of 19 September 2023, exercising the powers of the company's General Meeting, approved the transfer and deposit of VSD shares to the company Západoslovenská energetika, a.s. This transfer and deposit of shares became effective on 24 November 2023. On this day, the sole shareholder of VSD, a.s. became the company Západoslovenská energetika, a.s.

Company Bodies in 2023

The Board of Directors

Chairman	Ing. Radoslav Haluška
Vice Chairman	Ing. Peter Čech
Members	Ing. Jana Palková, FCCA until 31 December 2023
	Ing. Marian Kapec
	Mgr. Katarína Goldbergerová

The Supervisory Board

Chairman	JUDr. Milan Piršč
Vice Chairman	Ing. Tomáš Turek, Ph.D
Members	Ing. Andrej Buday
	Mgr. Vladimír Hojstrič
	Mgr. Ľuboš Sopoliga
	Ing. Ivo Grobauer

	Mr Andrej Macár* until 24 August 2023
	Ing. Jozef Jenčo* until 24 August 2023
	Mr Zuzana Vajsová*
	Ing. Peter Macár from 25 August 2023
	Ing. Zdenka Argalášová from 25 August 2023

* Employee representative in the Supervisory Board

22,990 km of power lines

If we started putting them in one line, we would go around half the globe. For example, we would get to Malaysia and go back on foot.

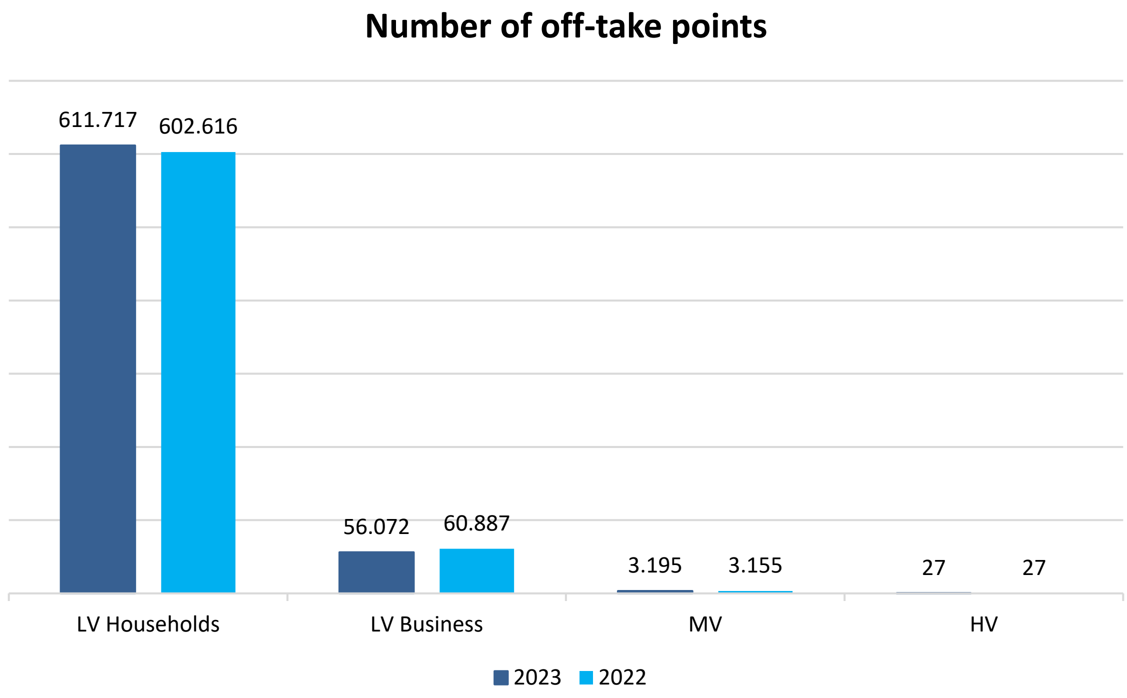
Business View

The phrase "Useful VSD" is the alpha and omega of all our efforts. Above all, it is about usefulness for our CUSTOMER. We believe that usefulness is the key to their satisfaction. Thus, in 2023, we tried to do things that were convenient for the customer. Whether it was extending the offer on our e-Shop, further process automation (mainly the connection of PV power sources), professional events, information service on the e-VSD portal in the form of consultations, or continuing to introduce innovative technologies and artificial intelligence.

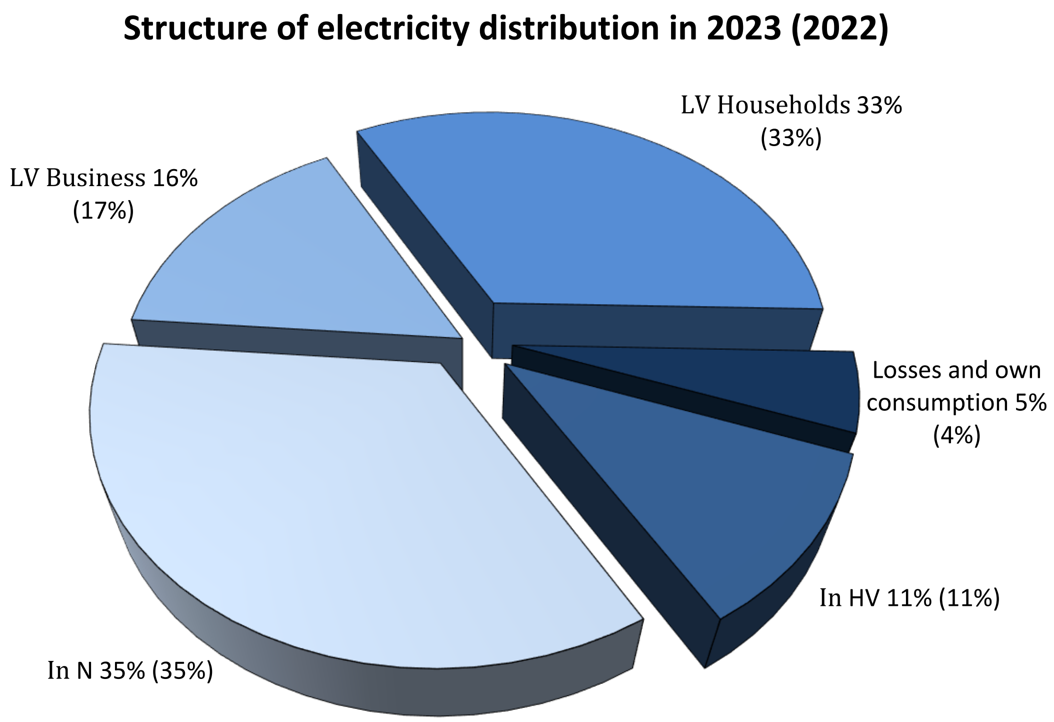
A/ Big numbers

In 2023, we recorded a slight increase in the number of off-take points (+ 4,326 OP) compared to the previous year and a decrease in consumption. The significant year-on-year reduction in consumption at the beginning moderated during the autumn, but the balance remained in negative figures until the end of the year.

Numbers of OPs connected to the VSD DS as of 31 December 2023 and 31 December 2022



Distribution structure by voltage levels or segments as of 31 December 2023 and 31 December 2022.



Households – consumption decline in the most significant segment
Signals of desirable cost-saving measures and consumption reduction mainly caused the latter. The decrease in consumption is partly caused by reduced work from home and people's

return of people to offices. Another factor in reducing household distribution is the trend of electricity self-generation. We expect that increased interest in small sources will also lead to a future distribution volume reduction.
VSD devised a solution a year ago to prevent debt spirals and energy poverty and preserve the dignity and functionality of low-income households. The VSD tool Prepayment (a credit system for electricity consumption), which received the support and formal patronage of the RONI when created, has proven itself.

Small businesses (LV) - a higher drop in consumption than expected
The year-on-year decrease in electricity distribution in this segment is higher than expected. The energy crisis and the conflict across the Eastern borders quickly reflected in the businesses' moods. The first half of the year is characterized by a more than 10% year-on-year decrease in the amount of electricity distributed to small businesses, which only at the end of the year gave way to a slightly optimistic trend that approached the November and December consumption of 2022.
Even in this segment, interest in self-producing electricity by connecting mainly photovoltaic sources grew enormously, reducing the electricity distributed in this customer segment.

Large businesses (MV) – the most significant segment = the most significant turbulence
The promising year-on-year growth in consumption in 2022 for large businesses at the MV level, which makes up the most significant segment in terms of electricity distribution, was replaced by a sharp, almost 5% drop in consumption in the first half of 2023, which also reflected a reduction in orders for goods and services in businesses. The second half of the year was characterized as a less stressful period of the election year, which was reflected in consumption comparable to the previous year.

The largest customers (HV) - gas moves the world
The high voltage level is the smallest segment in terms of its consumption, with an approximately 11% share of the total volume of distribution in 2023.
An essential element affecting consumption at this level is the development of electricity consumption to transport gas, which makes up a significant part of the annual HV consumption. Thanks to this, we recorded only a slight year-on-year decrease in the volume of electricity distribution in this segment.

B/ More and more production

The development of electricity prices on the stock exchanges in recent years was one of the initiators of the increase in requests to connect a source to DS. In 2023, we received and processed over 5,100 requests to connect the source. Physical electricity supply from sources in the VSD territory was more than 758 GWh of electricity.

C/ We are complex, of high quality and in demand

The offer of our services and products for industry and municipalities beyond the legal distributor obligations has been an essential part of our activity for a long time. We use our extensive experience in electricity distribution for customers and translate it into a constant increase in the quality and scope of our services and products portfolio. In 2023, despite ongoing turbulence in the market related to energy crisis effects and the ongoing war conflict in Ukraine, we managed to fulfill our ambitious business goals in the industry and municipal segments. The VSD brand is a substantial market player, confirmed by customer feedback, and is often their first choice.

Growth in the B2B segment
We offer the industrial customer complexity—from project preparation and engineering through implementation to long-term operation and maintenance of their electrical equipment. A standard part of our customer products portfolio is data analysis, whether measured or other

physical quantities of their off-take point. Our knowledge and expertise are in demand and benefit the customer greatly. In 2023, we delivered over 70 works and services in the industry segment, with a significant increase in EBIT compared to the previous year, 2022.

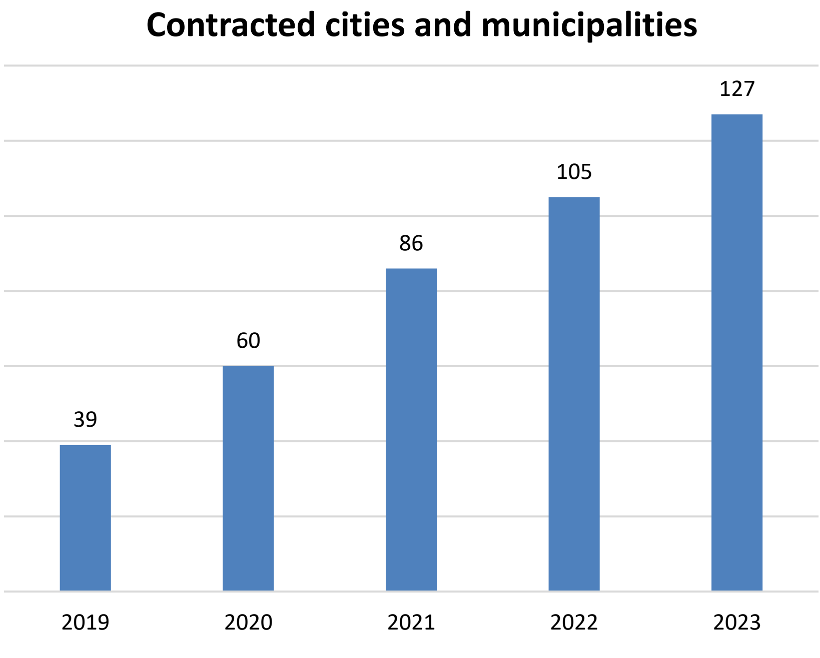
Lighting dominates in B2M

We have offered municipalities a comprehensive service of economical and modern public lighting for over eight years. In 2023, we achieved a significant year-on-year increase in the concluded contracts with this service. We currently provide public lighting services in 127 villages and towns. In addition, on our company's website, the contracting municipality has free access to a comprehensive overview of the energy and information management of public lighting in its municipality.

8,000 of our lamps

light the streets of eastern Slovakia.

Every tenth village in our supply area receives the Light for Municipalities service from VSD. We already light in 127 villages. We are missing just over 1,000 municipalities.



In both segments, customer expectations are met, as confirmed by our regular feedback (CSAT), in which we record customer satisfaction above 90%.

A common interest

VSD considers local self-government to be one of the critical customer and partner groups. This is also evidenced by a unique approach to communication with local government, whether in the form of a special newsletter dedicated to topics necessary for cities and municipalities for their daily functioning, which is confirmed by its above-average readership, or the conference called Regional VSD Day, which we organize in cooperation with regional groups of ZMOS. After returning to active form in 2023, this happened twice, namely in Levoča and Stropkov. VSD also supports the development of the region with a unique grant program, thanks to which, in 2023, in cooperation with the local artistic community and a relevant municipality, we managed to extend the gigantic dictionary of the energy sector with additional terms depicted in a way acceptable to the lay public, at four substations in Košice and Michalovce.

The electricity supplier is a crucial partner for us
We also do not forget another key customer group, electricity suppliers, to which the 7th year of the conference for electricity suppliers was dedicated, which in 2024 was in the spirit of connecting sources for electricity production to the electrification system of the Slovak Republic. Numerous participation and lively discussions show that the event has become a tradition in the conditions of VSD and the entire energy market in Slovakia.

D/ Mass service is now entirely online
The ever-growing number of customer accounts on the e-VSD distribution portal confirms the correctness of VSD's steps in process automation and service provision to the mass customer segment. At the end of the year, it reached 100,000 user accounts, and the number of services ordered through the VSD e-shop exceeded 10,000 orders.
We continuously modify our e-VSD web portal to make the processes more transparent. This was no different in 2023, when, among other modifications, a virtual office for customers or a virtual consulting room for connecting sources for electricity generation was added. This is how we try to reflect the enormously increased interest in connecting production equipment to the distribution system.

Innovativeness proves to be the right approach in customer service as well. Artificial intelligence brings a new level to electronic services. This is demonstrated by almost 40,000 calls handled by the virtual assistant Elektra over the Customer Line. At the same time, it managed to deal with 72,000 fault reports and answer 28,000 chat questions through the e-VSD portal.

E/ Simplicity and promptness

In 2023, we simplified and accelerated several customer processes, e.g., property settlement of low-voltage distributions in mass construction sites and settlement of safety elements (section re-closers) when connecting customers at the MV level.

CUSTOMERS also appreciate the promptness with which VSD meets their requirements. In four years, we have reduced the median processing time of actions as a response to requests from 120 to 5 days. Likewise, the time needed by CUSTOMERS to perform actions on their side was also dramatically reduced. Here, the median was decreased from 230 to 46 days.

We send our CUSTOMERS

1.1 million texts

a year. *We would have wasted 55 tons of paper if they were all leaves. Fortunately, over 88% of VSD communication goes electronically (e-mails, phone calls, SMS, etc.)*

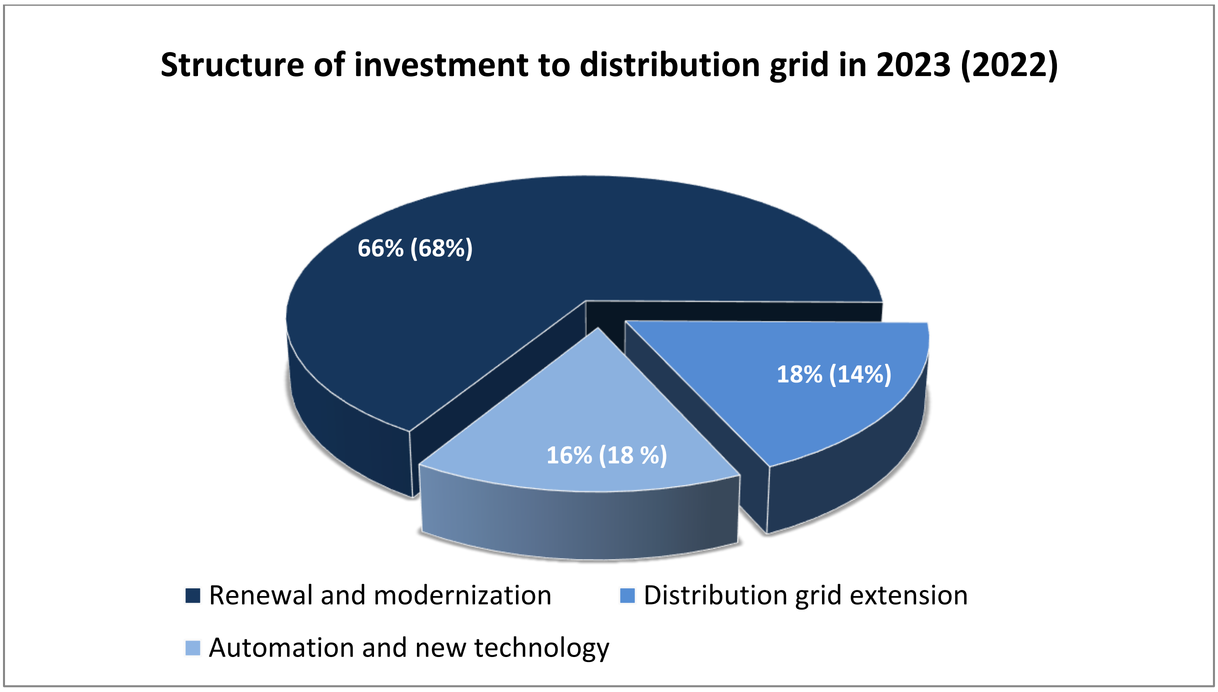
Technical View

The complex economic situation of 2020-2022 caused a significant increase in inflation, which slowed down the development of the world economy and caused uneven recovery of individual states from the consequences of the commodity crisis and the COVID-19 pandemic. Ongoing or new military conflicts in 2023 have expanded the range of adverse factors, conditioning electric power materials' costs and logistics.

Despite these unfavorable facts, the unprecedented development of the so-called small and local sources of electricity using solar energy thus reached the maximum-recorded levels in eastern Slovakia in terms of number and total installed power. The number and speed of installation of these sources positively condition that they are created at existing connection points to the system. As the distribution system operator, we must ensure its continuous renewal and modernization in the low-voltage system and start redesigning this part to handle different directions and levels of power flows shortly.

For a strategic investor establishing itself in eastern Slovakia, we established ambitious high-voltage construction connections and started implementing the first of the main very high-voltage power lines.

VSD invested more than EUR 59.7 million in 2023 in distribution system development and renewal (2022: EUR 56.5 million). Like in previous years, a significant part of the investments went into renewal and modernization.



We consider the most critical investments of 2023 to be:

- **Establishment of the V6830/6831 line in the Valaliky location**
  The most significant investment in system development is the establishment of 110 kV (HV) lines to connect a strategic investor - the VOLVO Car Company. In 2023, the implementation of a double line V6830/V6831 began, consisting of installing the essential parts for lattice masts, on which conductors and insulators will also be installed in the first

half of 2024. The electrical line will thus be ready for connection to the investor's input 110 kV electrical station in the Valaliky location.

- **Construction of power line V6812 Snina - Sobrance**
  Another essential investment activity is the new 110 kV (HV) line V6812 between Snina and Sobrance, which already got into the implementation phase in 2023. The investment in the new line construction, with a length of more than 38 kilometers, will ensure a high level of reliability of electricity distribution and should be completed and put into operation in 2024. The line also contains optical lines to serve the development of communication and automation functionalities of the distribution system. Establishing this line calls for investments in ES Snina, which will connect the line.

- **Electric station 110/22 kV Haniska**
  In 2023, we started a development activity related to a strategic investor connection—the Volvo Car Company in Valaliky and the nearby Haniska electrical station. Construction of a new outlet field was started at the 110 kV level to enable the change of the existing line V6834 corridor for the Kechnec Industrial Park. This measure allows the construction of new fields in 2024 to start new 110 kV power lines V6501/V6502 and connect the strategic investor's power station.

- **Modification of 110/22 kV electrical stations in Bardejov, Stará Ľubovňa and Snina**
  In 2023, construction modifications and reconstructions of the 110 kV technology, selected related technologies, and constructions of three other electrical stations continued.

- **Investments in the renewal and development of HV and LV lines and HV/LV transformer stations**
  In the HV system, with its fundamental impact on distribution reliability, we have long focused on the faultiest sections, and by changing their nature from overhead lines to underground lines, we increase electricity distribution reliability and safety. The 2023 was about the unification of the operating voltage levels in the High Tatras area, the cabling of lines in Gemerská Hôrka, in Smolnícká Huta, near the village of Žehňa, near the village of Porúbka, between the villages of Mníšek nad Hnilcom – Švedlár. It was also about doubling the MV line in the section Fulianka – Raslavice, modifying the route, and reconstructing the HV line in the section Komárov - Dubinné.

- **Intelligent metering systems in the VSD distribution system**
  In 2023, we continued implementing the Intelligent Metering Systems (IMS). Following legislative requirements, almost 113 thousand smart meters were successfully operated as of 31 December 2023.

- **Distribution system automation**
  Investments in HV system automation require special attention. Sixty-eight new automated switching elements were added to the overhead lines, and ten automated transformer stations were established in the predominantly cabled part of the system, switchboards. Thus, at the end of the year, we had more than **843** automated switching points available in the HV system.

- **Innovative information technology**
  One of the long-term projects related to automating the distribution system's control, operation, and maintenance processes is the Livigo Project. This project automates data collection processes and assesses equipment conditions to digitalize the LV system's operation and maintenance processes. It continues the already implemented control of HV-level activities and should be fully operational in 2024.

  Ewita 1 Project, a complex tool for controlling customer processes, initiatives, complaints, operational measures, and compensation payments, is one of the successful IT investments completed in 2023. In 2023, around 70,000 customer motions and complaints had already been solved.

Among necessary innovative information technologies, we have the **Customer Detail Solution**, which provides a comprehensive view of the customer and the nearest part of the LV system, including the status and electrical parameters of IMS electricity meters. The solution continuously develops and brings a new, complex, innovative view of data from various source systems. This year, a “smart” tracing tool was added, capable of automatically assessing the maximum permitted size of the connected source, depending on the distance from the substation, using data from the geographic information system. The same solution was also implemented in the portal for communication with applicants for connection, the so-called small sources of electricity (up to 11 kW).

We have installed

113 thousand IMS

at off-take points in the east of Slovakia.

Smart electricity meters send us current consumption data every 15 minutes. In one day, almost 175 million records arrive in our systems. The data from smart meters take up 4 TB in our databases, and if we wanted to burn them to a CD, we would spend 1.5 million of them.

A project that also deserves attention is our web application **vypadokelektriny.sk,** intended for the general public. It is an electronic channel for reporting faults in the distribution system while displaying places on the map currently without electricity due to planned works or faults we have already registered.

Operational capability

The total area of the supplied territory is almost **16 thousand square kilometers,** and 22,990 km of lines are operated on it.

At the HV level, the distribution system is fed from four superior electrical stations of the transmission system, each with a voltage level of 400 kV. The company operates 56 electrical transformation and switching stations at the HV and MV levels.

Above all, thanks to the daily deployment of several hundred colleagues, we managed to maintain the distribution network's reliability index at a favorable level of almost **99.97 % ASAI** (Average Service Availability Index) also in 2023, taking into account weather effects and distribution interruptions caused by third parties.

The maximum load of the distribution system in 2022 was recorded **on 5 December 2023,** reaching almost **719.5** MW.

Renewable resources
In 2023, the Ministry of Economy of the Slovak Republic (hereinafter referred to as “MoE SR”) again supported the development of local resources when it gradually released additional capacity (+50 MW) for the territory of eastern Slovakia, which, together with the unused capacity of the previous year, created a potential for local resources exceeding 67 MW. At the same time, the transmission system operator SEPS increased the so-called flexibility limit for PVT and WGT by another 14 MW up to a total level of 143 MW (2022: 129 MW). These capacities reflect a demand for the most developed type of RES based on photovoltaic technology (PVT). In this category, more than 56.3 MW were added during this year, while almost 3,600 small electricity sources had a share of 25.5 MW, and more than 466 pieces of local sources represented an installed capacity of 30.3 MW. The rest was made up of the category of commercial sources. FVEs participate in the renewable sources group with almost **220 MW** of installed capacity.

As of 31 December 2023, **606 MW** of electric power is installed in all sources of electricity and is connected to the VSD distribution system. Approximately **421 MW** of this output is made up of renewables.

We invested

EUR 56 million

If we stopped this year, at the latest, nobody in the east of Slovakia would have electricity in 2062 because even the newest cable in our DS would have expired.

Security View

Safety and quality
The Gerlach Project of integration dominated the year 2023 into the new parent company. The primary integration motive is harmonization in all areas; security is among the first. The life and health of our employees and partners is and continues to be the highest priority. This year, psychological safety, directly affected by ongoing changes, was essential for employees.
We have learned from severe events
In terms of accidents, 2023 was more dangerous than the previous years - we had eight accidents, one serious but without severe consequences for the employee. However, one of the injuries was life-threatening, which will have permanent health consequences for the contractor’s employee. We regret all the events and take additional measures to enhance safety at our company’s workplaces and construction sites even more. VSD operates in a risky sector, and the safety and protection of employees are essential for us.
We maintain high standards in both quality and energy efficiency
The compliance of VSD processes with the international ISO standards (quality, environment, and health and safety) was confirmed annually by repeated external supervisory audits. The audit result was without disagreements or findings. External auditors praised the Company’s digitalization, automation direction, and innovative customer approach. This year, thanks to implemented system measures and constant monitoring and improvement of energy parameters, VSD received another international certificate in energy management - ISO 50 001.

Providing high-quality PPE is our long-standing standard. We have carried out personal protective equipment (PPE) tenders, such as hanging ladders and dielectric gloves, and commodities, such as cleaning agents.
This year, we also focused on working with suppliers. The number of internal on-site inspections has increased several times, and we have significantly strengthened the OHS coordination of construction sites with internal capacities. We worked intensively on developing a new supplier management application designed for pre-qualification, evaluation, and disqualification of suppliers, which is ready for deployment.

Safety and health culture

The safety and health culture program continued this year as well. This time, with workshops, we focused on new managers and supplier executives. We also continued implementing various measures from the DuPont activity.

The external audit also checked our Security

VSD, as the operator of the basic service according to the Cyber Security Act, again, after two years, compulsorily completed the so-called repeated external audit by a certified NSO auditor with excellent results.

The so-called phishing bot deployed in 2023 also strengthened Cyber security. It sends tailor-made phishing e-mails, and with the help of artificial intelligence, it helps to train employees and raise awareness of phishing cyber-attacks.

Through these activities, we ensure the functioning of critical processes and, thus, reliable and safe distribution system operation.

We drove

8 million kilometers a year with company cars

without a single injury. That is the same as if we went to the Moon and back ten times. Or we circled the globe 200 times along the Equator.

Human View

In 2023, we explored and analyzed a wide range of topics within human resource management in detail.
Our participation in the 15th Roma Spirit Awards was essential to our efforts to strengthen diversity and inclusion. At the same time, we supported this topic during the Diversity Days by using virtual reality, where our employees could view the world from the perspective of disadvantaged individuals. This experience actively helps us build a safe and respectful work environment that emphasizes accepting people regardless of their differences.

The company Východoslovenská distribučná, a.s., as part of the VSE Holding Group, actively participated in the essential job fairs Profesia Days 2023 and Kariéra, where we presented ourselves as a modern company that is interested not only in its current or future employees but also in business sustainability. We also participated in the traditional job fair at the Technical University of Košice, organized annually by the student organization IAESTE for university students. At this fair, we mainly presented our Trainee and Practice Development Programs, which have been helping us for years in building succession in the core professions of the electric power industry.
This year, we started cooperation with the Office of Labor, Social Affairs and Family (ÚPSVaR) in recruiting new employees. We completed several selection procedures for different job positions and were present at the Labor Exchange organized by the ÚPSVaR.

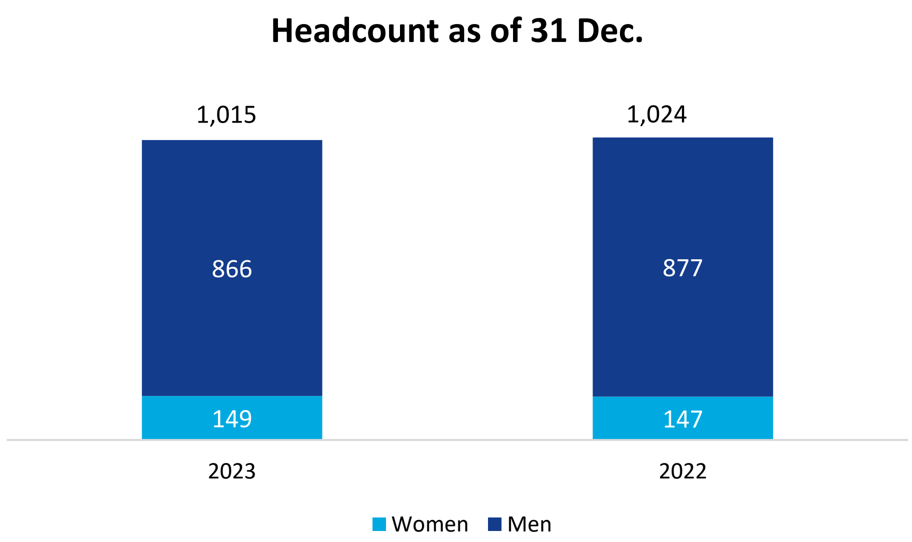
The new normal
After assessing the pilot year of a home office based on positive employee feedback, we decided to continue until the end of 2025. In addition, we have extended the possibility of working from home to include working from EU countries as well, subject to fulfillment of specific conditions, and we are increasing the maximum share of the home office from 60% to 80% of the employee monthly fund. At each superior's discretion, employees' requests to use the benefit of a regular home office are assessed in a way that motivates employees while at the same time does not negatively affect the performance of the team's tasks.
At the end of the year, we launched a campaign called “Recommend a Good Colleague—COLLEAGUE PICKING.” The campaign informs employees of new or simplified options for recommending candidates and future colleagues. With new options, we encourage the employees to share advertisements and obtain contacts for those interested in vacant job positions. More than 40 employees participated in the campaign.

Dual education
In 2023, we continued our efforts to ensure a high-quality future workforce and support young students through dual education, preparing them for professional performance following the specific needs and requirements directly at their assigned workplace. By graduating, they get to know our work environment and develop work habits needed for successful post-graduation adaptation without requiring further training or retraining. The goal is to train young talents for electrician/service technician VTZ I. and system administrator positions. We cooperate with four schools and educate 31 dual students. We have trained seven instructors involved in the dual education program.

Legislative changes
In 2023, we saw many legislative changes, especially in catering and taxation of employee benefits. We transparently informed the employees of these changes and promptly implemented them smoothly and on time in all internal processes and systems.
We completed the activities of internal excellence by deploying the second “robot” in the Human Resources Section, which enabled us to make the payroll process more time-efficient.

Electrification of the Company fleet
The employer decided to move more towards electrifying company vehicles as part of its commitment to environmental protection and sustainable environmental development. This step aims to contribute to a more sustainable environment and reduce the ecological impact of electric car use.

Statistics
As of 31 December 2023, Východoslovenská distribučná, a.s. employed 1,015 people. The number of employees gradually decreased compared to 2022 and 2021. The leave rate 2023 reached 2.2%, while voluntary fluctuation was around 4%.



1,015 employees.

If all of us from the VSD were to hold hands, we would create a human chain that would readily embrace the entire Spiš castle.

Ecological View

We communicate

Environmental protection and assurance of the stability of affected ecosystems are always among our priorities. In this area, we maintain transparent and professional communication with important institutions, such as the State Nature Conservancy, universities and research workplaces, district environmental offices, and non-governmental organizations dealing with environmental protection. We actively inform these institutions and the public about our plans, standpoints, and strategies for environmental protection. Every year, we organize a professional seminar for representatives of these institutions dedicated to the VSD's impact on the environment.

We prefer

Emphasis on environmental protection in all work activities, including technical and project solutions for constructing, reconstructing, and repairing power lines and stations. We prioritize these concepts and propose technologies, equipment, or materials that ensure the distribution system's operational reliability and safety while respecting strict environmental protection requirements.

We cooperate

In cooperation with professional and non-governmental organizations, we jointly prepare and solve environmental projects to eliminate the negative impacts of electricity distribution on the environment.

We innovate

We are committed to implementing an environmental approach to vegetation management in power line corridors and individually assessing each corridor for such an approach. To implement the environmental approach strategy, our central team of biologists map and evaluate each corridor. This analysis is based on factors such as nature conservation, landowner preferences, and the types of habitats present in the area. The VSD strategy includes promoting low-growing species (shrubs, pastures, etc.) to replace invasive tall species. Methods include grazing, mowing, planting plantain trees, or selective cutting of tree species. We also support the revitalization of small water elements and the creation of conditions for hunting. In 2023, we launched a project to manage the expansive forest species Robinia *pseudoacacia*. The project's primary goal is to identify the effects of different management interventions on habitats and choose the most effective and biologically safe method for removing agate in power line corridors. On this project, we are collaborating with universities and the National Forestry Center, which will monitor selected sites and evaluate the impact of management on biodiversity. In 2023, ecosystems were restored in areas under power lines with a total size of 70 ha.

We protect

VSD is aware that overhead power lines are seen as a threat to birds. That is why we are constantly implementing measures to reduce the risk of collisions and electrocution. On the masts of 110 kV lines, nesting sites are created for endangered species, such as the Great Horned Falcon. VSD continued the construction of replacement mats for the White Stork (Ciconia *ciconia*) nest relocation and supported its monitoring and ringing. Dozens of nests were relocated from overhead LV lines to replacement mats in cooperation with the State Nature Conservancy and local governments. We allocate orders for the production of nesting mats to social enterprises. All these activities benefit the relationship between VSD and local communities.

We minimize

We achieve a high level of long-term environmental safety when operating technological equipment and facilities. This applies to both harmful substance leakage and the treatment of waste, as well as to sewage water discharge. In 2023, 1,278 m^3 of sewage was discharged into recipients from the VSD, a.s. cleaning facilities. Regular sampling and analysis were carried out exclusively by an independent accredited laboratory. This confirmed that all set limits were met with a significant safety margin. 296.4 tons of hazardous waste and 29,868.7 tons of other waste were generated in 2023 by network construction, reconstruction, repairs, maintenance, and operation. Of all generated waste, 98% was reused. Mainly due to unfavorable climate conditions, in 2023, there were three minor leaks of insulating oil due to breakdowns of distribution transformers and one hydraulic oil leakage from a machine. A specialized professional organization immediately performed the necessary remedial interventions and recorded no environmental damage.

Internal and external audits in 2023 confirmed the established environmental management system's high degree of functionality, fulfillment of all legal requirements, and continuous improvement in waste management and nature and landscape protection. As the electrical distribution system operator, we hold a certificate for the environmental management system that has been implemented and used, meeting the strict requirements of the international standard EN ISO 14001:2015.

90% of waste

was reused and did not end up in landfills.

If our country had such good results in the further use of waste, we would have at least half as many landfills in Slovakia.

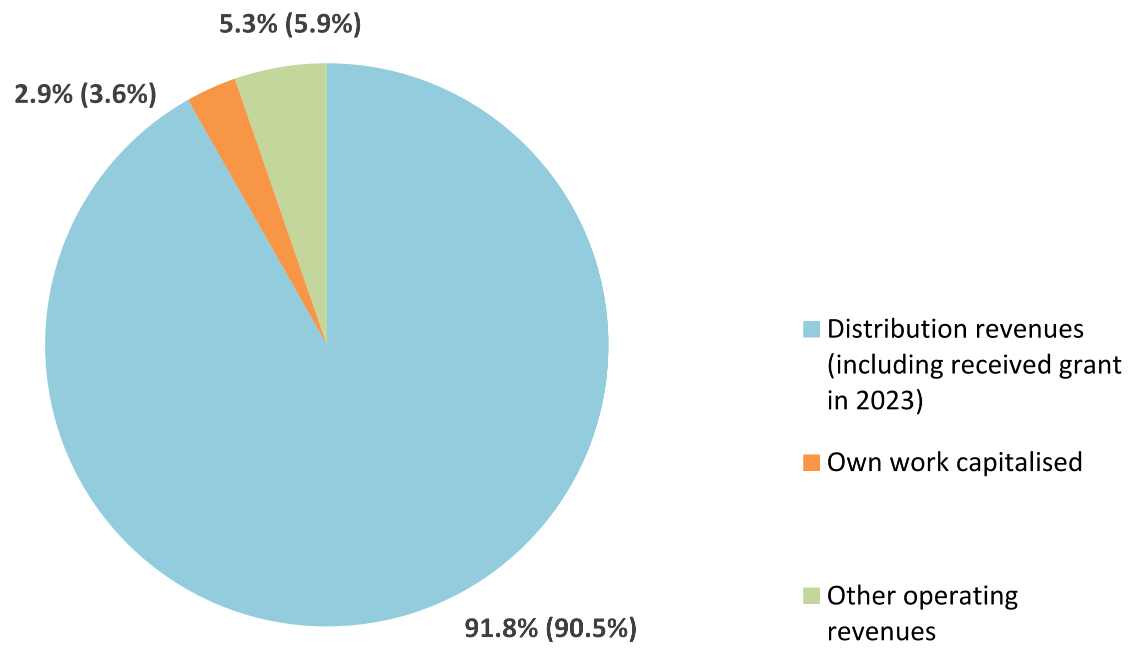
Economic View

The ongoing global crisis and the resulting uncertainty marked 2023. This negative external development also affected our company's financial indicators. Price increases associated with volatility and the frequent physical unavailability of several commodities would be impossible without a flexible yet economical approach to managing the Company’s finances.

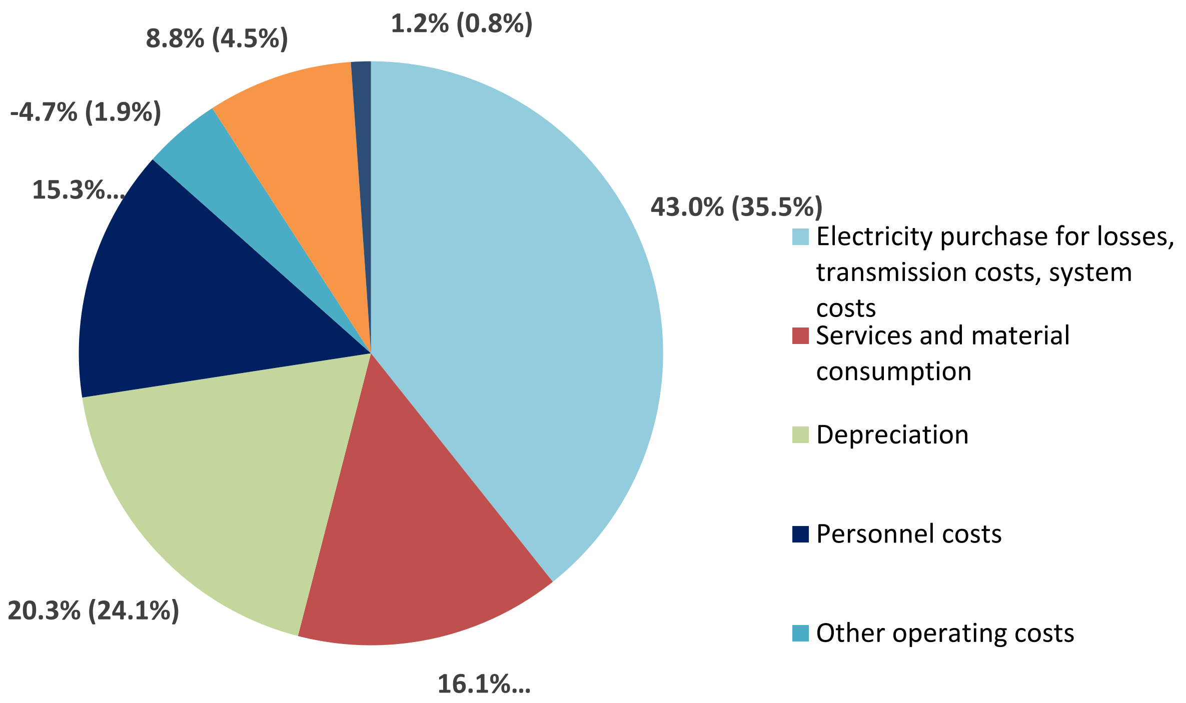
According to International Financial Reporting Standards (IFRS), the Company achieved a total consolidated profit of EUR 68.5 million in 2023 (2022: EUR 28.6 million). Taking into account a gradual stabilization of market electricity prices development in 2023 and a payment of the loss deficit from 2022, as well as the system of tariff compensation for grid losses set by the MoE SR for all invoiced customers, the Company achieved a significant year-on-year increase in profit. Without the deficit correction and compensation of the high tariff for grid losses, there would be a fundamental year-on-year decrease in the Company’s profit.

A total profit in 2023, generated from operating revenues and financial activities, is EUR 318.4 million (2022: EUR 236.5 million), with total costs including income tax costs of EUR 249.9 million (2022: EUR 207.9 million).

Structure of revenues in 2023 (2022)

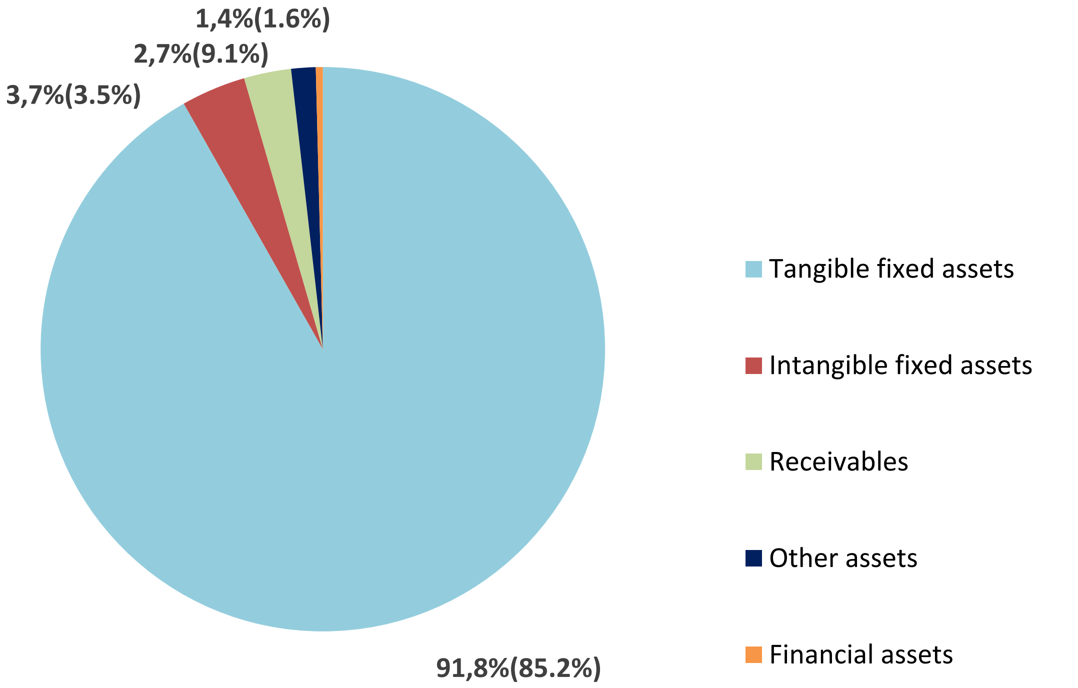


Structure of costs in 2023 (2022)

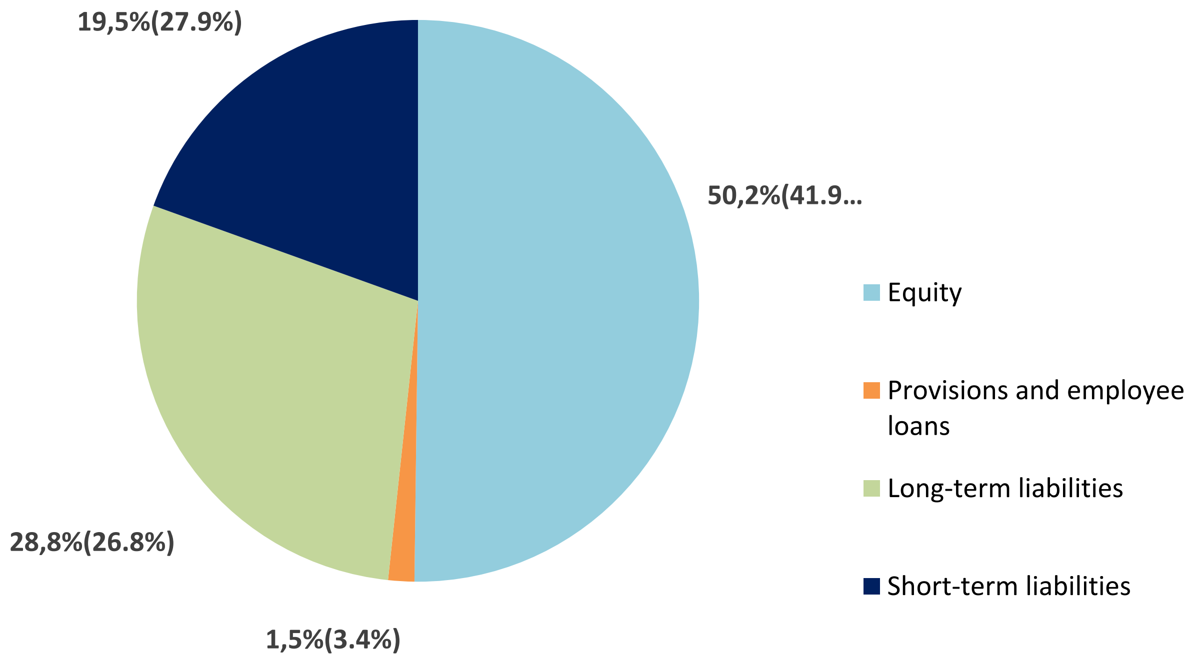


The asset structure reflected a high level of investment in the used asset base necessary for electricity distribution. The resource structure remained stable even in 2023. VSD continued using the existing external bank loans, financial leasing, and cash pooling system to manage investments, operating needs, and dividend policy financing. This system proved to be working well in the difficult time of funding of increased cost inputs.

Structure of assets in 2023 (2022)



Structure of equity and liabilities in 2023 (2022)



A Look into the Future

Transparent, predictable, and fair regulatory framework

The previous 5-year regulatory period, set from 2017 to 2021, was extended by one year due to the COVID-19 pandemic and a need for regulated entity stability, i.e., until the end of 2022. From 1 January 2023, the new 5-year regulatory period began, but the Regulatory Office for Network Industries issued relevant secondary legislation establishing the details of price regulation until 30 June 2023. The prerequisites for a transparent, predictable, and fair framework, rules, and calculating regulated prices for access to the distribution system and electricity distribution were established.

Considering the change of the Regulatory Office for Network Industries Chairman in December 2023 and the announced legislative work on a new decree for establishing price regulation in the electricity industry, VSD believes in maintaining and further improving a transparent, predictable, and fair regulatory framework.

Stable energy prices subsidized by the state budget

In 2023, due to the extraordinary energy market situation, crisis regulation was applied, based on the decision of the Slovak Republic Government, in price regulation of electricity distribution for household electricity consumers, and later also for other electricity consumers. Even though the Regulatory Office for Network Industries issued price decisions on access to the distribution system and distribution of electricity for 2023 following the new regulatory period rules, due to the continuing extraordinary situation in the energy market, crisis regulation was also applied in 2024. It is based on the decision of the Slovak Republic Government, as well as the price regulation of electricity distribution for all electricity customers.

Deployment of the Crisis Regulation Institute in 2023 and 2024 resulted in electricity customers paying lower prices than if prices had reflected all costs. At the same time, the difference between the price paid by electricity customers (according to the Slovak Government) and the price that reflects the cost level (according to the Regulatory Office for Network Industries) is compensated to the regulated entities (including VSD) through the state budget.

Record investment plans

Due to customer demands (mainly, but not only, to connect electricity generation equipment), a constant need to improve the quality of services, a necessity for further automation and digitalization, and the announced arrival of the VOLVO Car Company, VSD’s planned record level of investments in 2023 of almost EUR 60 million is also to be surpassed and reach investments of nearly EUR 68 million in 2024. VSD expects its plans also to be supported by a transparent, predictable, and fair regulatory framework.

Additional information

The ESG area (environmental, social and governance)
Data on sharing of authorized and unauthorized economic activities and related information following the EP and Council Regulation (EU) 2020/852 of 18 June 2020, establishing a framework for facilitation of sustainable investments and related delegated acts ("EU Taxonomy"), as well as non-financial information on development, actions, position, and impact of the activity of the accounting unit on the environmental, social and employment areas, information on the observance of human rights and information on the fight against corruption and bribery, were published by the company Západoslovenská energetika, a.s. (the supreme parent company from 23 November 2023), or the company E.ON SE (the ultimate parent company until 2 November 2023) for the entire "ZSE" Group or "E.ON" Group in its Sustainability Report for 2023. The data also includes information regarding the company Východoslovenská distribučná, a.s. The Sustainability Report for the year 2023 is available on the following websites:
https://www.eon.com/en/investor-relations/financial-publications/annual-report.html
https://www.skupinazse.sk/Uvod/Spolocnost/Vyrocne-spravy

Expenditures for activities in the field of research and development
In 2023, the Company did not incur costs for research and development activities.

Acquisition of own shares, temporary letters, trading shares, and shares temporary letters and trading shares of the parent accounting unit

In 2023, the Company did not conduct any activity in this area.

Information about the Company's organizational units abroad

The Company does not have an organizational unit abroad.

Information on significant risks and uncertainties to which the accounting unit is exposed

The Company's management is unaware of any risks significantly affecting its future management.

Information on events of particular importance that occurred after the end of the accounting period for which the annual report is drawn up

No events of particular importance occurred after the end of the accounting period for which the annual report is drawn up.

Special regulations

The Company is not obliged to provide information according to special regulations other than those on which it compiled this annual report and stated all the information it must present.

The notes to the financial statements for 2023, which are an appendix to this Annual Report, provide detailed information on the above facts.

List of abbreviations

OSH	Occupational Safety and Health
DS	Distribution System
EU	European Union
PVP	Photovoltaic Plant
ISO	International Organization for Standardization
LV households	Low Voltage electricity consumers - households
LV businesses	Low Voltage consumers of electricity - businesses
OP	Off-take Point
CR	Commercial Register
RES	Renewables
MV	Medium Voltage
HV	High Voltage
RONI	Regulatory Office for Network Industries
GWh	Gigawatt hour
ZMOS	Association of Towns and Villages of Slovakia
kV	kilovolt
MW	megawatt
MVAr	mega volt-ampere reactance
VPP	Wind Power Plant
SSE	Small Source of Electricity

Individual financial statements as of December 31, 2023 and independent auditor's report on individual financial statements 2023

KPMG

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Slovakia

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

Independent Auditors' Report

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

Report on the Audit of the Financial Statements

Opinion

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

- the statement of financial position as at 31 December 2023;

and, for the period then ended:

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

and

- notes to the financial statements, comprising material accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2023, and of its financial performance and its cash flows for the period 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.

Report on Other Legal and Regulatory Requirements

Reporting on other information in the Consolidated 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.

With respect to the Annual Report, 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 consolidated 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 2023 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 Consolidated Annual Report. We have nothing to report in this respect.

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

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

Responsible auditor:
Ing. Peter Žoldák
License UDVA No. 1061

Bratislava, 27 March 2024

Východoslovenská distribučná, a.s.

Financial Statements
for the year ended 31 December 2023

prepared in accordance with
International Financial Reporting Standards
as adopted by the European Union

Východoslovenská distribučná, a.s.

Financial statements for the year ended 31 December 2023 prepared in accordance with International Financial Reporting Standards as adopted by the European Union were approved and authorized for issue on 25 March 2024 by the Board of Directors.

Ing. Radoslav Haluška
Chairman of the Board of Directors

Ing. Marián Kapec
Member of the Board of Directors

Index to the financial statements

Independent auditor's report to the Shareholders, Supervisory Board and Board of the Directors of Východoslovenská distribučná, a. s.

in EUR thousand	Note	As at 31 December 2023	As at 31 December Restated 2022*	As at 1 January Restated 2022*
ASSETS				
Non-current assets				
Property, plant and equipment	5	635,245	625,229	618,611
Right-of-use assets	6	3,130	3,326	3,627
Goodwill	7	12,677	12,677	12,677
Other intangible assets	7	12,744	12,994	13,215
		663,796	**654,226**	**648,130**
Current assets				
Inventories	9	6,309	7,071	2,860
Trade and other receivables	8, 3.1,2.19	18,860	66,918	12,458
Cash and cash equivalents	8, 10	2,613	3,875	3,982
Restricted cash	10	-	995	-
Receivable from cash pooling	8, 2.10	-	-	12,016
Current income tax receivable	11	-	-	4,397
Other non-financial assets	11	578	587	1,865
		28,360	**79,446**	**37,578**
Total assets		**692,156**	**733,672**	**685,708**
EQUITY				
Share capital	12	220,040	220,040	220,040
Legal reserve fund	12	44,008	44,008	44,008
Other comprehensive income	12	(2,720)	(1,610)	(1,542)
Retained earnings	12	86,305	45,344	43,924
Total equity		**347,633**	**307,782**	**306,430**
LIABILITIES				
Non-current liabilities				
Contract liabilities with customers	19	31,116	30,311	29,776
Lease liabilities	6	2,175	2,441	2,798
Borrowings	8, 14	110,000	110,000	220,000
Deferred income	2.1	39	76	111
Deferred income tax liabilities	16	55,949	53,812	55,294
Employee benefit obligations	17	5,723	5,254	5,101
		205,002	**201,894**	**313,080**
Current liabilities				
Trade and other payables	8, 13	33,640	31,240	38,078
Payable from cash pooling	8, 2.10	58,005	30,848	-
Contract liabilities with customers	19	22,392	16,669	5,462
Lease liabilities	6	407	357	356
Borrowings	8, 14	1	110,191	195
Employee benefit obligations	17	626	297	207
Provisions	18	3,803	19,255	19,611
Current income tax liability	15	10,610	5,785	-
Other non-financial liabilities	15	10,037	9,354	2,289
		139,521	**223,996**	**66,198**
Total liabilities		**344,523**	**425,890**	**379,278**
Total equity and liabilities		**692,156**	**733,672**	**685,708**

*Comparative balances are re-stated to disclose the correction of error (Note 2.1 and 16).

		Year ended 31 December	
in EUR thousand	**Note**	**2023**	**Restated 2022***
Revenues from contracts with customers	19	198,191	200,090
Own work capitalized	20	9,220	8,606
Purchase of electricity for losses and transmission costs	20	(107,048)	(73,796)
Material consumption	20	(11,184)	(8,865)
Employee benefit expense	20	(37,978)	(33,078)
Services	20	(28,882)	(27,135)
Depreciation and amortization expense	5, 6, 7, 20	(50,485)	(50,100)
Gain / (loss) on sale of property, plant and equipment	20	109	152
Net impairment losses on financial assets	3.1	(45)	(1,452)
Other operating income	20	3,093	2,860
Compensations received	2.19, 20	107,855	24,836
Other operating expenses	20	11,848	(2,543)
Profit from operations		**94,694**	**39,575**
Finance income / (expense)			
Interest income	21	-	-
Interest expense	21	(2,999)	(1,727)
Net finance income / (costs)		**(2,999)**	**(1,727)**
Profit before income tax		**91,695**	**37,848**
Income tax expense	22	(22,079)	(9,203)
Profit for the year		**69,616**	**28,645**
Other comprehensive income not subsequently reclassified through profit or loss			
Re-measurements of post-employment benefit obligation	17	(1,110)	(68)
Total comprehensive income for the year		**68,506**	**28,577**

*Comparative balances are re-stated to disclose the correction of error (Note 2.1 and 16).

in EUR thousand	Share capital	Legal reserve fund	Other Comprehensive income	Retained earnings	Total equity
Balance as at 1 January 2022	**220,040**	**44,008**	**(1,542)**	**36,349**	**298,855**
Correction of error (Note 2.1)	***-***	***-***	***-***	***7,575***	***7,575***
Balance as at 1 January 2022 – Restated	**220,040**	**44,008**	**(1,542)**	**43,924**	**306,430**
Dividends paid (Note 12)	-	-	-	(27,175)	(27,175)
Allocation to the social fund (Note 12)	-	-	-	(50)	(50)
Total transactions with owners, recognized directly in equity	**-**	**-**	**-**	**(27,225)**	**(27,225)**
Profit for the year - Restated	-	-	-	28,645	28,645
Other comprehensive income for the year	-	-	(68)	-	(68)
Total comprehensive income for the year - Restated	**-**	**-**	**(68)**	**28,645**	**28,577**
Balance at 31 December 2022	**220,040**	**44,008**	**(1,610)**	**45,344**	**307,782**
Balance as at 1 January 2023	**220,040**	**44,008**	**(1,610)**	**45,344**	**307,782**
Dividends paid (Note 12)	-	-	-	(28,595)	(28,595)
Allocation to the social fund (Note 12)	-	-	-	(60)	(60)
Total transactions with owners, recognized directly in equity	**-**	**-**	**-**	**(28,655)**	**(28,655)**
Profit for the year	-	-	-	69,616	69,616
Other comprehensive income for the year	-	-	(1,110)	-	(1,110)
Total comprehensive income for the year	**-**	**-**	**(1,110)**	**69,616**	**68,506**
Balance at 31 December 2023	**220,040**	**44,008**	**(2,720)**	**86,305**	**347,633**

in EUR thousand	Note	Year ended 31 December 2023	2022
Cash flows from operating activities			
Cash generated from operations	23	187,487	44,237
Net transfer to a restricted cash account	10	995	(995)
Interest paid from lease liability	6	(4)	(3)
Payments for short-term and low-value leases	6	(349)	(303)
Interest paid from liability other than lease	21	(3,185)	(1,727)
Income tax paid		(15,109)	(503)
Allocation to the social fund	12	(60)	(50)
Net cash from operating activities		**169,775**	**40,656**
Cash flows from investing activities			
Purchase of property, plant and equipment (PPE) and intangible assets	5, 7	(59,832)	(56,573)
Proceeds from sale of PPE		357	255
Net cash used in investing activities		**(59,475)**	**(56,318)**
Cash flows from financing activities			
Cash from cash pooling	2.10	27,157	42,864
(Repayment) / drawing of borrowings	8, 14	(110,000)	(1)
Principal elements of lease payments	8, 14	(124)	(133)
Dividends paid	12	(28,595)	(27,175)
Net cash used in financing activities		**(111,562)**	**15,555**
Net increase/(decrease) in cash, cash equivalents and bank overdrafts	8, 10	**(1,262)**	**(107)**
Cash, cash equivalents and bank overdrafts at the beginning of the year	8, 10	**3,875**	**3,982**
Cash, cash equivalents and bank overdrafts at the end of the year	8, 10	**2,613**	**3,875**

1. General information

The company Východoslovenská distribučná, a.s. ("the Company") was established by a deed of foundation on 14 October 2005 as a subsidiary of Východoslovenská energetika a.s. (since 1 July 2014 Východoslovenská energetika Holding a.s., hereinafter "VSE H"). The registration of the Company into the commercial register at the District Court Košice I. was performed on 4 November 2005 in the section Sro, file No. 17263/V.

By the decision of the General Assembly of the Company dated 30 January 2007 the legal form of the Company was changed from a limited liability company to a joint-stock company. The registration of the company Východoslovenská distribučná, a.s. into the commercial register of the Municipal Court Košice was done on 15 February 2007 in the section Sa, file No. 1411/V.

The enactment of the Energy Act no. 656/2004 Coll. as amended, stated the legal obligation to separate operation of distribution grid as of 1 July 2007.

Considering several options, VSE H decided to fulfil legislation requirements for legal separation of distribution grid operations via establishing a 100% subsidiary Východoslovenská distribučná, a.s. (hereinafter "VSD") followed by non-monetary contribution in the form of a part of business of VSE H (including distribution grid) into the share capital and reserve fund of this company.

Východoslovenská distribučná, a.s. started its operation as of 1 July 2007. As a result of legal unbundling of the vertically integrated company VSE H, VSD took over all the assets and liabilities, all rights and obligations related to the distribution part of business of the parent company VSE H existing as of that date.

The Company operates as provider of distribution of electricity based on licence issued by national regulator (Regulatory Office for Network Industries, hereinafter "URSO") in the region of Eastern Slovakia. It is obliged to connect and distribute electricity to all participants in Slovak electricity market. The Company owns the electricity grid. After the unbundling process in 2007 as described above, there is price regulation for the distribution of electricity in Slovakia while the electricity commodity market is not regulated anymore with the exception of household customers and small enterprises. Distribution prices are approved by the state regulatory body URSO on annual basis for calendar year.

On the basis of the decision of the General Assembly of VSE H dated 19 November 2013 the division grid services were integrated into the Company effective 1 January 2014. The transaction was performed as non-monetary contribution of part of the business (assets and liabilities).

The main Company's customer is Východoslovenská energetika a.s. (hereinafter „VSE"). Intercompany revenues from distribution services towards VSE represent approximately 56% of revenues of the Company for 2023 (2022: 53%). The rest of revenues consist of revenues from distribution services towards other electricity traders and revenues from other activities.

VSE and other electricity traders contract with final users of the electricity and bill them for both trade and distribution part of electricity supply on the basis of integrated contracts.

On April 8, 2022, the shareholders of Západoslovenská energetika a.s. (hereinafter„ZSE"), the company E.ON SE (hereinafter „E.ON") and the Slovak Republic, represented by the Ministry of Economy of the Slovak Republic (hereinafter „State"), the Agreement on the Future consolidation, on the basis of which the contracting parties intend to consolidate the companies ZSE and Východoslovenská energetika Holding a.s. (hereinafter „VSE H"), in which they are direct or indirect sole shareholders (hereinafter referred to as the „Agreement", as amended by Addendum No. 1 dated May 4, 2023).

On November 23, 2023 the transfer and deposit of VSE H shares into the share capital of ZSE became effective, and thus ZSE became the sole shareholder of VSE H.

General Assembly of Východoslovenská distribučná, a.s. dated September 19, 2023 approved the transfer and deposit of shares of the company Východoslovenská distribučná, a.s. to the company Západoslovenská energetika, a.s. (ZSE). This transfer and deposit of shares took effect on November 24, 2023, and from that date the sole shareholder of the Company is ZSE.

The Company is included as a subsidiary in the consolidated financial statements of Západoslovenská energetika, a.s., Čulenova 6, 816 47 Bratislava. The consolidated financial statements are available directly at the seat of the Company.

Until November 23, 2023 the Company was included in the consolidated financial statements of E.ON SE, Brüsseler Platz 1, 45131 Essen, Germany, which is the ultimate controlling party. The consolidated financial statements are available directly at the seat of the Company.

As at 31 December 2023 the Company's shareholder structure was as follows:

in EUR thousand	Interest in share capital	%
Západoslovenská energetika, a.s.	220,040	100
Total	**220,040**	**100**

As at 31 December 2022 the Company's shareholder structure was as follows:

in EUR thousand	Interest in share capital	%
Východoslovenská energetika Holding a.s.	220,040	100
Total	**220,040**	**100**

In average, the Company employed 1,022 employees in 2023 (2022: 1,019 employees).

As at 31 December 2023, the Company employed 1,013 employees (as at 31 December 2022: 1,024 employees).

Members of the statutory bodies of the Company

The members of the Company's statutory bodies were as follows:

Board of Directors	Changes in 2023 and status as at 31 December 2023	Changes in 2022 and status as at 31 December 2022
Chairman	Ing. Radoslav Haluška	Ing. Radoslav Haluška
Vice Chairman	Ing. Peter Čech	Ing. Peter Čech
Members	Ing. Jana Palková, FCCA Ing. Marian Kapec Mgr. Katarína Goldbergerová	Ing. Jana Palková, FCCA Ing. Marian Kapec Mgr. Katarína Goldbergerová (from 17 February 2022)

Supervisory board	Changes in 2023 and status as at 31 December 2023	Changes in 2022 and status as at 31 December 2022
Chairman	JUDr. Milan Piršč	JUDr. Milan Piršč
Vice Chairman	Ing. Tomáš Turek, PhD.	Ing. Tomáš Turek, PhD.
Members	Andrej Macár (until 24 August 2023) Ing. Peter Macár (from 24 August 2023) Ing. Jozef Jenčo (until 24 August 2023) Ing. Andrej Buday Mgr. Vladimír Hojstrič Mgr. Ľuboš Sopoliga Zuzana Vajsová Ing. Ivo Grobauer Ing. Zdenka Argalášová (from 25 August 2023)	Andrej Macár Ing. Jozef Jenčo Ing. Andrej Buday Mgr. Vladimír Hojstrič Mgr. Ľuboš Sopoliga Zuzana Vajsová Ing. Ivo Grobauer

Registered address

The Company is incorporated in Slovak Republic, which is also principal place of business.

The registered address of the Company is:

Mlynská 31
042 91 Košice
Slovak Republic

Company number: 36 599 361

VAT number: SK2022082997

The Company does not have any unlimited liability in other accounting entities.

The General Meeting held on 23 May 2023 approved the financial statements for 2022.

2. Summary of 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 the years presented, unless stated otherwise.

2.1. Basis for preparation of financial statements

The Act on Accounting of the Slovak Republic no 431/2002 as amended requires certain companies to prepare financial statements for the year ended 31 December 2023 in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS").

The Company`s financial statements at 31 December 2023 have been prepared as ordinary financial statements under § 17 Sec. 6 of the Slovak Act No. 431/2002 Coll. ("Accounting Act") for the accounting period from 1 January 2023 to 31 December 2023.

These financial statements have been prepared in compliance with IFRS. The Company applies all IFRS and interpretations issued by International Accounting Standards Board (hereinafter "IASB"), as amended by the European Union, which were in force as of 31 December 2023. Consolidated financial statements of the ZSE group are available at the seat of the parent Company, stated in Note 1.

For purposes of preparation of these financial statements according to IFRS, the management of the Company defines critical assumptions and estimates which have an influence on recognized amounts of assets and liabilities in the Statement of Financial Position and on expenses and revenues recognized in the Statement of Profit or Loss and Other Comprehensive Income. At the application of accounting policies of the Company, the management makes certain critical judgments. The areas which require a more complex decision-making process and areas, where the critical assumptions and estimates are material to these financial statements are presented in Note 4.

The financial statements have been prepared under the historical cost convention.

The financial statements have been prepared on accrual basis and under the going concern assumption. The transactions are recognized in the financial statements in the period to which they relate.

The Board of Directors may propose to the Company`s shareholder to amend the financial statements after their approval by General Shareholder Meeting. However, § 16, points 9 to 11 of the Accounting Act prohibit reopening an entity's accounting records after the financial statements were prepared and approved. If, after the financial statements were approved, management identifies that comparative information would not be consistent with the current period information, the Accounting Act allows entities to restate comparative information in the accounting period, in which the relevant facts are identified.

Correction of error

Under the applicable legislation, in certain circumstances the Company may be required to give up its items of property, plant and equipment at the request of another party. At that, the requesting party is obliged to compensate the Company for the asset given up by providing an equivalent item of property, plant and equipment for no consideration. On initial recognition, the Company had been measuring the replacement item of property, plant and equipment at its fair value. However, the Company had not been recognising a corresponding gain in profit and loss, as it should have made under the guidance in paragraphs 65 and 66 of IAS 16. Instead, the Company erroneously had been deferring the gain in the Statement of Financial Position (as part of Deferred income from non-current assets acquired for no consideration) and releasing it evenly to profit and loss over the useful life of the replacement asset.

In addition, the Company erroneously had been deferring the gain arising from property, plant and equipment stock take surpluses in the Statement of Financial Position (as part of Deferred income from non-current assets acquired for no consideration) and releasing it evenly to profit and loss over the useful life of the recognized asset.

The errors have been corrected by restating each of the affected financial statement line items for prior periods. The following tables summarise the impacts on the Company's financial statements.

The following tables illustrate the effect of the correction of error on the financial statements of the Company.

Statement of Financial Position as at 1 January 2022

	Effect of Correction of Error		
in EUR thousand	**Originally presented**	**Restatement**	**Restated**
ASSETS			
Non-current assets	**648,130**	**-**	**648,130**
Current assets	**37,578**	**-**	**37,578**
Total assets	**685,708**	**-**	**685,708**
EQUITY			
Share capital	220,040	-	220,040
Legal reserve fund	44,008	-	44,008
Other comprehensive income	(1,542)	-	(1,542)
Retained earnings	36,349	7,575	43,924
Total equity	**298,855**	**7,575**	**306,430**
LIABILITIES			
Non-current liabilities			
Contract liabilities with customers	29,776	-	29,776
Lease liabilities	2,798	-	2,798
Borrowings	220,000	-	220,000
Deferred income from non-current assets acquired for no consideration	10,123	(10,012)	111
Deferred income tax liabilities	52,857	2,437	55,294
Employee benefit obligations	5,101	-	5,101
	320,655	**(7,575)**	**313,080**
Current liabilities	**66,198**	**-**	**66,198**
Total liabilities	**386,853**	**(7,575)**	**379,278**
Total equity and liabilities	**685,708**	**-**	**685,708**

Statement of Financial Position as at 31 December 2022

	Effect of Correction of Error		
in EUR thousand	**Originally presented**	**Restatement**	**Restated**
ASSETS			
Non-current assets	**654,226**	**-**	**654,226**
Current assets	**79,446**	**-**	**79,446**
Total assets	**733,672**	**-**	**733,672**
EQUITY			
Share capital	220,040	-	220,040
Legal reserve fund	44,008	-	44,008
Other comprehensive income	(1,610)	-	(1,610)
Retained earnings	37,779	7,565	45,344
Total equity	**300,217**	**7,565**	**307,782**
LIABILITIES			
Non-current liabilities			
Contract liabilities with customers	30,311	-	30,311
Lease liabilities	2,441	-	2,441
Borrowings	110,000	-	110,000
Deferred income from non-current assets acquired for no consideration	10,074	(9,998)	76
Deferred income tax liabilities	51,379	2,433	53,812
Employee benefit obligations	5,254	-	5,254
	209,459	**(7,565)**	**201,894**
Current liabilities	**223,996**	**-**	**223,996**
Total liabilities	**433,455**	**(7,565)**	**425,890**
Total equity and liabilities	**733,672**	**-**	**733,672**

Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2022

	Effect of Correction of Error		
in EUR thousand	**Originally presented**	**Restatement**	**Restated**
Revenues from contracts with customers	200,090	-	200,090
Own work capitalized	8,606	-	8,606
Purchases of electricity for losses and transmission costs	(73,796)	-	(73,796)
Material consumption	(8,865)	-	(8,865)
Employee benefit expense	(33,078)	-	(33,078)
Services	(27,135)	-	(27,135)
Depreciation and amortisation expense	(50,100)	-	(50,100)
Net impairment losses on financial assets	(1,452)	-	(1,452)
Net gain (+) / loss (-) on sale of PPE	152	-	152
Compensations received	24,836	-	24,836
Other operating income	2,874	(14)	2,860
Other operating expenses	(2,543)	-	(2,543)
Profit from operations	**39,589**	**(14)**	**39,575**
Net finance income / (costs)	**(1,727)**	**-**	**(1,727)**
Profit before income tax	**37,862**	**(14)**	**37,848**
Income tax expense	(9,207)	4	(9,203)
Profit for the year	**28,655**	**(10)**	**28,645**
Other comprehensive income not subsequently reclassified through profit or loss			
Re-measurements of post-employment benefit obligation	(68)	-	(68)
Total comprehensive income for the year	**28,587**	**(10)**	**28,577**

a) New or amended Standards and Interpretations that are effective for annual periods beginning after 1 January 2023

Amendments to IAS 12 Income Taxes: International Tax Reform – Pillar Two Model Rules (The relief is effective immediately upon issuance of the amendments on 23 May 2023 and applies retrospectively. Disclosure requirements, other than those about the relief, apply from 31 December 2023. No disclosures are required in interim periods ending on or before 31 December 2023.) 'Pillar Two taxes' are taxes arising from tax laws enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The Pillar Two model rules aim to ensure that large multinational groups pay taxes at least at the minimum rate of 15 percent on income arising in each jurisdiction in which they operate by applying a system of top-up taxes. There are three active mechanisms under Pillar Two model rules that countries can adopt: the income inclusion rule, the undertaxed payment rule and a qualified domestic minimum top-up tax. They are often referred to as 'global minimum top-up tax' or 'top-up tax'. The amendments address stakeholders' concerns about deferred tax accounting in relation to the new top-up tax under IFRSs by providing entities with a temporary mandatory relief from deferred tax accounting for top-up tax; and requiring entities to provide new disclosures in relation to the top-up tax and the relief.

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

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

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

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

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

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgments: Disclosure of Accounting Policies (Effective for annual periods beginning on or after 1 January 2023. Endorsed for use in the EU, however, as practice statements are not endorsed for application in the European Union, the amendments to IFRS Practice Statement 2 have not been endorsed.) The amendments to IAS 1 require companies to disclose their material accounting policy information rather than significant accounting policies. Further amendments explain how an entity can identify a material accounting policy. Examples of when an accounting policy is likely to be material are added. To support the amendment, the Board has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2.

The Company assessed the impact of the amendments on its financial statements as not material.

Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Effective for annual periods beginning on or after 1 January 2023.) 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 applied the amendments from 1 January 2023.

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

The Company assessed the impact of the amendments on its financial statements as not material.

b) New or amended Standards and Interpretations that are effective for annual periods beginning after 1 January 2023, not yet endorsed by the EU as at 9 November 2023

Amendments to IFRS 10 and IAS 28: Sale or contribution of assets between an investor and its associate or joint venture (Effective date deferred indefinitely. Available for optional adoption in full IFRS financial statements. The European Commission decided to defer the endorsement indefinitely, it is unlikely that it will be endorsed by the EU in the foreseeable future).

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

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

The Company assessed the impact of the amendments on its financial statements as not relevant.

Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Effective for annual periods beginning on or after 1 January 2024. On 31 October 2022 the IASB has issued an amendment deferring the effective date to 1 January 2024. Early application is permitted.) The amendments clarify that the classification of liabilities as current or non-current shall be based solely on the Company's right to defer settlement at the end of the reporting period. The Company's right to defer settlement for at least 12 months from the reporting date need not be unconditional but must have substance. The classification is not affected by management's intentions or expectations about whether and when the Company will exercise its right. The amendments also clarify the situations that are considered settlement of a liability.

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

Amendments to IAS 1 Presentation of Financial Statements: Non-Current Liabilities with Covenants (Effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively. Early application is permitted. Specific transition requirements apply for companies that have early-adopted the previously issued but not yet effective 2020 amendments.) Under existing IAS 1 requirements, companies classify a liability as current when they do not have an unconditional right to defer settlement for at least 12 months after the reporting date. The amendments, as issued in 2020, has removed the requirement for a right to be unconditional and instead requires that a right to defer settlement must exist at the reporting date and have substance (the classification of liabilities is unaffected by management's intentions or expectations about whether the company will exercise its right to defer settlement or will choose to settle early).

The amendments, as issued in 2022, further clarify that when the right to defer settlement is subject to a company complying with conditions (covenants) specified in a loan arrangement, only covenants with which the company must comply on or before the reporting date affect the classification of a liability as current or non-current. Covenants with which the company must comply after the reporting date do not affect a liability's classification at that date. However, the amendments require companies to disclose information about these future covenants to help users understand the risk that those liabilities could become repayable within 12 months after the reporting date. The amendments also clarify how a company classifies a liability that can be settled in its own shares (e.g. convertible debt).

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

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

The amendments confirm the following:

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

A seller-lessee may adopt different approaches that satisfy the new requirements on subsequent measurement.

These amendments do not change the accounting for leases other than those arising in a sale and leaseback transaction.

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

Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements (Effective for annual periods beginning on or after 1 January 2024. Disclosure of comparative information for any reporting periods presented before, and information as at the beginning of, the annual reporting period in which the entity first applies those amendments is not required. Also, an entity is not required to disclose the information otherwise required by the amendments for any interim period presented within the annual reporting period in which the entity first applies those amendments. Early application is permitted.) The amendments introduce additional disclosure requirements for a company to provide information about its supplier finance arrangements that would enable users (investors) to assess the effects of these arrangements on the company's liabilities and cash flows, and the company's exposure to liquidity risk. The amendments apply to supplier finance arrangements (also referred to as supply chain finance, payables finance or reverse factoring arrangements) that have all of the following characteristics:

- a finance provider (also referred to as the factor) pays amounts a company (the buyer) owes its suppliers;
- a company agrees to pay under the terms and conditions of the arrangements on the same date or at a later date than its suppliers are paid;
- the company is provided with extended payment terms or suppliers benefit from early payment terms, compared with the related invoice payment due date.

However, the amendments do not apply to arrangements for financing receivables or inventory.

The Company is currently assessing the impact of the amendments on its financial statements.

Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates: Lack of exchangeability (Effective for annual reporting periods beginning on or after 1 January 2025. Earlier application is permitted.) Under IAS 21 The Effects of Changes in Foreign Exchange Rates, a company uses a spot exchange rate when translating a foreign currency transaction. In some jurisdictions, no spot rate is available because a currency cannot be exchanged into another currency.

IAS 21 was amended to clarify:

- when a currency is exchangeable into another currency; and
- how a company estimates a spot rate when a currency lacks exchangeability.

The amendments also include additional disclosure requirements to help users to assess the impact of using an estimated exchange rate on the financial statements.

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

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

2.2. Foreign currency translation

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). Company's functional and presentation currency is Euro ("EUR") and these financial statements are presented in thousands of EUR.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit or loss.

2.3. Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation less accumulated impairment loss.

Historical cost includes expenditure that is directly attributable to the acquisition. Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for the intended use or sale (qualifying assets) are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009. The commencement date for capitalisation is when (a) the Company incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale. Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

Subsequent costs are included in the asset's carrying amount or recognized 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 reliably measured. Repairs and maintenance costs are charged to the profit or loss during the financial period in which they are incurred.

The depreciation of property, plant and equipment begins in the month when the property, plant and equipment is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. It is depreciated in line with the approved depreciation plan. Property, plant and equipment is depreciated using the straight-line method. Monthly depreciation charge is stated as the difference between acquisition costs and residual value, divided by estimated useful life of the property, plant and equipment. The residual value of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual values in the moment of disposal and estimated useful life of non-current assets are subject to reassessment at each end of the reporting period and adjusted, if necessary.

The estimated useful lives of individual groups of assets are as follows:

Buildings and constructions	
- prefabricated buildings of metal	60 years
- residential buildings	50 years
- line construction part	40 years
- underground lines	35 years
- lines on pylons, pylons	25 - 40 years
- electric stations	25 years
- other buildings and constructions	15 - 35 years
- local roads, water distribution equipment	12 years
- sports, recreational and other engineering buildings	12 years
- electric light sources and lamps	10 years
- telecommunications networks and lines	8 years

Machinery and equipment	
- transformers	20 years
- technology part of electro-stations	20 years
- switches and protection parts	15 years
- data collection and processing devices	5 – 12 years
- cars	5 years
- fixtures and fittings	8 - 10 years

Each component of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. The Company proportionally allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant components and depreciates separately each such component.

Land and assets under construction are not depreciated.

The most significant items of property, plant and equipment are represented by electricity grid components.

Gains and losses from disposal of property, plant and equipment are determined as the difference between proceeds from disposal and the asset's carrying amount and are recognized in profit or loss in case of sold property, plant and equipment. In case of disposals of assets without their sale, net book value of disposed items is recognized in profit or loss within Depreciation and amortisation expense.

2.4. Intangible assets

Goodwill

Goodwill was recognised in the financial statements of the Company as a result of contribution-in-kind of grid services division on 1 January 2014. The amount of goodwill represents the difference between fair value of the part of business and fair value of identifiable assets and liabilities that belong to the grid services division.

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

Computer software and other intangible assets

Except for the goodwill, the Company does not have intangible assets with indefinite useful lives. The Company does not have any internally generated intangible assets.

Computer software and other intangible assets are stated at historical cost less accumulated amortization and accumulated impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the items including costs needed to bring the intangible assets to a condition so that the intangible assets can be used as intended by management.

The amortization of an intangible asset begins in the month when the intangible asset is available for use, i.e. when it is in the condition necessary for it to be capable of operating in the manner intended by management. Intangible assets are amortized in line with the approved amortization plan. Intangible assets are amortized using the straight-line method. Monthly amortization charge is stated as the difference between acquisition costs and residual value, divided by the estimated useful life of the intangible assets. The residual value of intangible assets is assumed to be zero, unless (a) there is a commitment by a third party to purchase the asset at the end of its useful life, or (b) there is an active market for the asset and residual value can be determined by the reference to that market, and it is probable that such a market will exist at the end of the asset's useful life.

Costs associated with maintaining computer software programs are recognized as an expense as incurred.

Subsequent expenditures which enhance or extend the performance of computer software programs beyond their original specifications and meets criteria for recognizing it as an intangible asset according to IAS 38, is recognized as a capital improvement and added to the original cost of the software.

The estimated useful lives of individual groups of intangible assets are as follows:

Software	3 years
Other non-current intangible assets	3 years
Valuable rights	3 – 20 years

2.5. Impairment of non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than biological assets, investment property, inventories, contract assets and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs of disposal. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.6. Financial assets

Classification

The Company classifies its financial assets in only one measurement category - those to be measured at amortised cost, because the Company has no financial assets to be measured subsequently at fair value either through other comprehensive income or through profit or loss as defined in IFRS 9.

The classification depends on the purpose for which these financial assets were acquired and on the intention of management of the Company on further use. Management determines the classification of its financial assets at initial recognition.

Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade date, the date on which the Company commits to purchase or sell the asset. A financial asset is derecognised if the contractual rights to cash inflows from the asset expire or if the financial asset is transferred. The latter is the case if all substantial risks and rewards of ownership of the asset are transferred or if control over the asset is lost.

Measurement

At initial recognition, the Company measures a financial asset (other than trade receivables without a significant financing component) at its fair value plus, transaction costs that are directly attributable to the acquisition of the financial asset.

Financial assets are included in current assets, except for maturities greater than 12 months after the end of the reporting period that would be classified as non-current assets.

Subsequent measurement of financial assets depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses.

Trade receivables are amounts due from customers for services performed in the ordinary course of business. Trade receivables are recognised initially at their transaction price, unless they contain significant financing components, when they are recognised at fair value. The Company holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. They are generally due for settlement within 30 days and therefore are all classified as current.

Impairment

The Company applies for trade receivables the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 3.1 for further details.

The Company implemented a new model for estimation of expected credit loss for trade receivables. To satisfy requirements of the new standard, a history of unpaid receivables was gathered, and a provision matrix was created based on customer segment and expected credit loss based on history of defaulting receivables over a period of 24 months. IFRS 9 also requires applying forward looking information to estimate expected credit loss reliably. The provision matrix adjustment mechanism was implemented to satisfy this requirement.

Impairment of trade receivables is recognized on the account of allowance for receivables. Set-up and release of the allowance is recognized in the profit or loss within “Net impairment losses on financial assets”. Trade receivables that cannot be collected are written off against the allowance accounts for trade receivables and are recognized in the profit or loss also within “Net impairment losses on financial assets”.

Trade receivables that were written off and subsequently paid by the paid by the debtors are recognized in the profit or loss within “Net impairment losses on financial assets”.

2.7. Leases

The leases are presented as right-of-use assets and corresponding lease liabilities initially at the commencement date of the lease, which is the date when leased assets are available for use by the Company. Right-of-use assets are presented on a separate line in the statement of financial position.

The Company leases various offices and technological buildings and equipment. Rental contracts are typically made for indefinite period of time. Contracts may contain both lease and non-lease components. The Company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

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

- fixed payments (including in-substance fixed payments) fur non-cancellable period of leases;
- lease payments to be made based on determined lease term (the Company has lease arrangements where more than insignificant economic penalty is present).

There are no significant lease incentives provided by lessors, variable lease payments, residual value guarantees provided by the Company, purchase options, or contractual penalties for terminating leases.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Company, the lessee’s incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

In 2023 the Company used recent third-party financing received by the VSE H (former mother company) as a starting point, adjusted to reflect changes in financing conditions since third party financing was received, to determine the incremental borrowing rate. The Company’s incremental borrowing rate applied to the lease liabilities on 31 December 2023 was 3.39%.

In 2022 the Company used recent third-party financing received by the Company as a starting point, adjusted to reflect changes in financing conditions since third party financing was received, to determine the incremental borrowing rate. The weighted average Company's incremental borrowing rate applied to the lease liabilities on 31 December 2022 0.65%.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Lease liabilities are subsequently measured at amortized cost using effective interest rate. Carrying amount of lease liability is subsequently remeasured in order to reflect any reassessment or modification of the lease or changes in in-substance fixed payments.

Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability. There are no significant lease payments made at or before the commencement date, received lease incentives, initial direct costs or restoration costs.

Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Carrying amount of right-of-use assets is also adjusted by accumulated impairment allowance and by any revaluation of lease liability resulting from modification of lease contracts.

Depreciation of right-of-use-assets:
In case of fixed-term leases with the possibility of exercising the option to extend / terminate the lease, the Company assesses the probability of exercising these options. The assessment shall consider all relevant facts, such as:
- the duration of the contractual relationship with the customer concerning the lease of the right-of-use assets,
- whether the lease is at or below market prices.

In case of leases for an indefinite period, the lease term is derived from the expected useful life of the leased asset, and the Company has considered all relevant facts when estimating the expected useful life of the leased asset. In leases for an indefinite period, the Company applies the following estimates of the expected useful life:

ROU Assets	**Lease term (in years)**
Administrative premises	3-5
Technological buildings, grid facilities and related land	20-25

Payments associated with short-term leases of equipment and all leases of low-value assets (which are assets with individual value of EUR 5,000 or less when new). are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise equipment and small items of office furniture.

The Company does not have any non-cancellable lease arrangements, which would not be effective yet as of the balance sheet date.

Lessor accounting

The Company provides to its customers lease services of optical fibres. The contracts are considered to not include the leasing as the identified asset is not existing (based on the contracts conditions). The contracts are accounted for according to IFRS 15. The revenue from this service is EUR 2,425 thousand in year 2023 (2022: EUR 1,713 thousand).

2.8. Financial liabilities

The Company classifies its financial liabilities according to IFRS 9 “Financial Instruments “as other financial liabilities held at amortized cost.

The classification depends on the contractual provisions of the instrument and the intentions with which management entered into the contract. Management determines the classification of its financial liabilities at initial recognition.

When a financial liability is recognized initially, the Company measures it at its fair value adjusted for transaction costs that are directly attributable to the acquisition of the financial liability. For financial liabilities classified in ‘amortized cost’ category, The Company measures them at amortised cost, using the effective interest rate method.

A financial liability (or a part of a financial liability) is removed from the Company’s statement of financial position when, and only when it is extinguished – i.e. when the obligation specified in the contracts is discharged or cancelled or expires, resulting in gain or loss to be recognized in the profit or loss at derecognition.

2.9. Inventories

Inventories are stated at the lower of cost and net realisable value. Weighted average method is used for the measurement at the disposal of inventories. The cost of material includes purchase price and directly attributable acquisition costs. The net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling costs.

2.10. Cash and cash equivalents and restricted cash, receivables / payables from cash pooling

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, overdrafts, and receivables from cash pooling.

As at 31 December 2023 the Company had payable from cash pooling of EUR 58,005 thousand (31 December 2022: payable from cash pooling EUR 30,848 thousand).

Receivables from cash pooling are repayable on demand (Note 8).

Restricted cash is presented on a separate line within the SOFP.

2.11. Share capital

Ordinary shares are considered as share capital. Additional costs attributable to issuing of new ordinary shares are presented in equity as decrease in equity, net of income tax.

2.12. Dividends

Dividend pay-out is recognized as liability and decreases equity as of the end of the reporting period only if it has been declared latest by the end of the reporting period. The decision on profit distribution for accounting period and the declaration of dividends to Company’s shareholders is made by the General Meeting of the Company.

2.13. Legal reserve fund

Legal reserve fund is created in accordance with Commercial Code, based on financial statements, in the amount of 10% of profit after tax, up to 20% of share capital. Legal reserve fund can be used only for increase of share capital or cover the losses.

2.14. Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset in accordance with IAS 23. To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization is determined by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalized during a period does not exceed the amount of borrowing costs incurred during that period (see Note 21).

2.15. Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Current income tax also includes a special levy on profit from regulated activities at a rate of 4.356% for 2023 (2022: 4.356%). The basis for the special levy is calculated as follows: profit before tax * (income from regulated activities / total income). The special levy is a deductible expense for the purposes of applying the income tax payable.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for, if it arises from initial recognition of an asset or liability in a transaction other than a business combination, and that at the time of the transaction affects neither accounting, nor taxable profit or loss.

Deferred income tax is determined using income tax rates and legislation that have been enacted or substantially enacted by the end of the reporting period, and that are expected to apply when the related deferred income tax asset is realized, or the deferred income tax liability is settled.

A special levy on profit is applied to profit determined in accordance with Slovak accounting regulations, and therefore deferred tax in connection with a special levy arises only if there is a temporary difference between the values of assets and liabilities determined according to Slovak Accounting Standards and according to IFRS. This approach was applied first time in year 2022. The Company calculates the deferred tax using 2 - steps approach. In a first step the Company calculates the deferred tax basis from the temporary differences between the tax value of assets/liabilities and their corresponding accounting value recognised under Slovak Accountig Standards. The deferred tax basis is multiplied by the percentage of the currently valid tax rate (2023: 21%, 2022: 21%) to calculate the deferred tax. In the second step the Company calculates the difference between the accounting value of assets/liabilities recognised under Slovak Accounting Standards and under IFRS. The difference represents the IFRS deferred tax basis which is then multiplied by the currently valid tax rate increased for the effect of a special levy (income tax uplift) to calculate the amount that together with the value calculated in the first step represents the IFRS deferred tax balance.

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

The Company shall offset deferred tax assets and deferred tax liabilities if the Company has a legally enforceable right to set them off and if they relate to income taxes to be paid to the same tax authority.

2.16. Value added tax

Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the statement of financial position on a net basis. Where provision has been made for impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

2.17. Employee benefits

Pension plans and jubilee awards

The Company has defined benefit and defined contribution plans.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligations to pay further contributions in case the fund does 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 contract with the Trade Unions effective from 1 April 2023 till 31 March 2 025 the Company is obliged, based on the number of years in service in VSD, to pay its employees on retirement or disability the following multiples of their average monthly salary (condition than an employee is not entitled to termination benefits must be met):

	Multiple of the average monthly salary	
Years of service	**2023**	**2022**
Up to 10 years	2x	2x
10-15 years	3x	3x
15-20 years	4x	4x
20-25 years	5x	5x
25-30 years	6x	6x
30-35 years	7x	7x
Over 35 years	8x	8x

The minimum requirement of the Labour Code of one-month average salary payment on retirement and disability is included in the above multiples.

One average monthly salary will be added to the retirement benefits when more than 35 years worked and when the Company was the only one employer of employee.

The Company also pays life jubilees benefits. Jubilee benefits when the employee reaches age of 50 years depend on the length of the service within the Company and are as follows:

	Benefit	
Years of service	**2023**	**2022**
5 – 20 years	EUR 623	EUR 623
Over 20 years	EUR 670	EUR 670

Within legal unbundling the Company took over the staff of the former parent company (VSE H), where the same or similar obligation had been included in the contracts with the Trade Unions since 1994. The Company created expectations on the side of its employees that it will continue to provide the benefits, and according to the management, it is not realistic for Company to cease providing them.

The conditions of an unfunded defined benefit pension plan resulting from the currently valid collective agreement do not differ significantly from the previous one, valid from 1 January 2020 to 31 December 2022.

The liability recognized in the SOFP in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period.

The defined benefit obligation is calculated annually by independent actuaries using the Projected Unit Credit Method. The amount of the retirement benefit to which an employee is entitled depends on the length of service before the retirement and equals one month of final salary for each year of service.

For determining the present value, the discount rate derived from the yield curve WTW Global RATE: Link for high quality Europe corporate bonds (AA) quoted as at 31 December 2023 (2022: 31 December 2022) was used (source: Bloomberg).

Re-measurements arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognised immediately in profit or loss as past service costs.

Defined contribution pension plans

The Company contributes to government and to private defined contribution pension plans.

The Company makes contributions to retirement benefit at the statutory rates being in force during the year, based on the gross salary payments.

Throughout the year, the Company contributed to such schemes in the amount of up to 12.5% (2022: 12.5%) of gross salaries up to a monthly salary, which is defined by the relevant law together with the contributions of the employees of a further up to 5.5% (2022: 5.5%) of gross salaries. The costs contributed by the Company are charged to the profit or loss in the same period as the related salary costs.

In addition, with respect to employees who have chosen to participate in a supplementary pension scheme, the Company contributed to the supplementary scheme based on tariff wages and years of service provided in the Company in the following way:

	Benefit	
Years of service	**From 1 January 2023**	**From 1 January 2022**
up to 5 years	1.50 % of gross salary	1.50 % of gross salary
from 5 till 10 years	1.75 % of gross salary	1.75 % of gross salary
from 10 till 15 years	2.00 % of gross salary	2.00 % of gross salary
from 15 till 20 years	2.50 % of gross salary	2.50 % of gross salary
from 20 till 25 years	3.00 % of gross salary	3.00 % of gross salary
from 25 till 30 years	3.50 % of gross salary	3.50 % of gross salary
from 30 till 35 years	4.00 % of gross salary	4.00 % of gross salary
from 35 till 40 years	5.00 % of gross salary	5.00 % of gross salary
Over 40 years	6.00 % of gross salary	6.00 % of gross salary

Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits at the earlier of the following dates: (a) when the Company can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefit.

In the case of an offer made to encouraged voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

2.18. Provisions and contingent liabilities

A provision is recognized by the Company when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognized for future operating losses. An entity may expect reimbursement of some, or all expenditure required to settle a provision (e.g. through insurance contracts). It recognizes a reimbursement when, and only when, it is virtually certain that reimbursement will be received.

When there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Contingent liability is defined as (a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity, or (b) a present obligation that arises from past events, but is not recognized, because: (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or (ii) the amount of the obligation cannot be measured with sufficient reliability.

2.19. Compensations received

At the end of the year 2022 the Government of Slovak Republic approved the new legislation in energy sector that established the “price cap” of energies provided to corporate and public sector. The Government reacted to the extremely high prices of energies on the market. From the beginning of year 2023, the energy sector companies are compensated the difference between the market price and “price cap” price of energies by the Ministry of Economy of Slovak Republic.

Addionally, the Company received compensation of EUR 717 thousand to cover the higher expenses for purchase of electricity consumed in its own buildings.

The amount of compensations earned by the Company was EUR 107,855 thousand in 2023.

On 29 December 2022, Office for the regulation in network industries (URSO) issued a decision regarding the tariff for operating the system for the year 2022 in the part of the correction of electricity purchase costs for losses for the year 2021 and part of the year 2022.

With this decision, in accordance with the Act on Regulation and the valid URSO Price Decree, the correction of electricity purchase costs for losses for the year 2021 in the full amount of EUR 12,576 thousand and part of the correction of electricity purchase costs for losses for the year 2022 in the amount of EUR 12,260 thousand was settled. The Company recognized this income separately in the Statement of Profit or Loss and Other Comprehensive Income.

2.20. Revenues from contracts with customers

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

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

The Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Company and specific criteria are met for each of the Company’s activities as described below. Revenue comprises the fair value of the consideration received or receivable.

Revenue from distribution of electricity

The Company derives revenue from distribution of electricity over time. The Company's customers are its sister company VSE and other electricity traders. These companies contract with final users of electricity and bill them for both trade and distribution part of electricity supply on the basis of integrated contracts. The Company invoices VSE and other electricity traders for distribution services. Revenue from distribution of electricity is recognized upon when the distribution service is provided.

Distribution to HV (high voltage) and MV (medium voltage) final electricity users is metered and billed to electricity traders on monthly basis based on existing tariffs and actual consumption.

Distribution to LV (low voltage) final electricity users in the segment of small entrepreneurs is metered on annual basis in December to measure the consumption from 1 January till 31 December. Estimated consumption is billed to electricity traders on a monthly basis, with any impact of potential inaccuracy in estimated consumption during the year being removed by measurement close before the year-end.

Distribution to households is metered on annual basis for each of eleven billing cycles. Each household is allocated to one of these eleven billing cycles. Annual metering of billing cycles is phased during the year, each month until January to November approximately one eleventh of households is measured. Since 1 December 2015 part of households have started to be metered by IMS (Intelligent Metering System). The Company bills estimated consumption of households to electricity traders on a monthly basis, and this consumption includes real metered consumption and estimated consumption.

The Company uses type diagrams of delivery (TDO) for estimation of the monthly supply to the household segment between the date of last measurement and the end of the reporting period. When a cycle of households is measured, difference between original estimated consumption and measured consumption is reflected in the billing to electricity traders in the given month.

Revenue from connection fees

The Company derives revenue from connection fees over time. The Company receives contribution from the customers to connect them to electricity grid. When connecting to the electricity network, the clients must pay a connection fee based on the actual costs of infrastructure to be built in order to connect them to the network. The revenue from connection fees is deferred and recognised to profit or loss evenly over the estimated useful life of the infrastructure. The amortization period of connection fees is 20 years. Deferred connection fees are carried in the SOFP as non-current and current Contract liabilities from connection fees.

Revenue from electricity producers.

The Company recognises revenue from providing of reserved capacity to producers of electricity.

Revenues from projects

The Company derives revenue from services and projects provided to commercial and public customers, which relate to the grid operation and development e.g. relocations of grid, special metering, optical fibre capacity services, public lighting and other services which are individually immaterial.

2.21. Contract assets and contract liabilities

Contract assets are established in accordance with IFRS 15 in case the Company provides services or goods ahead of payment schedules of customer contracts or in case the related performance obligation is either not yet completely fulfilled or if the right to payment is conditional on a future event. The Company recognizes a loss allowance for contract assets following the adoption of IFRS 9.

The Company has analysed accounting for contract assets and concluded that there are no material contract assets to be recognized.

Contract liabilities in accordance with IFRS 15 are established in case the Company received payments from customers exceeding the services provided to customers. Deferred connection fees are carried in the SOFP as non-current and current contract liabilities from connection fees. Additional contract liabilities relate to advances received from customers.

2.22. Contract costs

Incremental costs of obtaining a customer contract that the Company would not have incurred had the contract not been obtained, are capitalized and amortized during the estimated period in which the economic benefits from the contract will flow to the Company.

The Company has assessed that it has not incurred any material incremental costs of obtaining the contract.

2.23. Interest income

Interest income is recognized using effective interest rate method independent of the timing of settlement of interest.

2.24. Related party disclosures

The Company applies exemptions under IAS 24 and discloses only qualitative and selected quantitative disclosures with entities under control of the government.

2.25. Offsetting financial instruments

Financial assets and liabilities are set off and the net amount reported in the SOFP when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Company did not offset any financial assets and financial liabilities and has no offsetting arrangements.

2.26. Transactions under common control

The Company applies acquisition accounting as set out in IFRS 3 as accounting policy for business combinations under common control. This is relevant for historical contribution-in-kind described in Note 1 when distribution part of business was contributed from VSEH to the Company. The Company applies the historical prices method in the case of combinations of companies under common control, which has no economic substance and is only a reorganization of the group's internal structure.

2.27. Gain / (loss) on disposal of property, plant and equipment

The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds and the carrying amount of the item. It is included in the Statement of Profit or Loss and Other Comprehensive Income when the item is derecognised and reported in other Gain / (loss) on disposal of property, plant and equipment.

3. Financial risk management

The Company’s activities are exposed to a variety of financial risks: market risk (including risk of changes in foreign currency exchange rates, interest rates, and price risk), credit risk and liquidity risk. The strategy of risk management of the Company is focused on the mitigation of potential negative impacts on financial results of the Company. The Company has established risk management framework, focusing on contractual, credit and financial risk.

Risk management function is carried out by the central department Risk controlling, governed by policies approved by the Chief Executive Officer. Risk controlling identifies, evaluates and manages financial risks in close co-operation with the Company’s operating units. The Risk controlling department provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, credit risk, use of derivative financial instruments and non-derivative instruments. Management of liquidity and interest rate risks is carried out by department Finance.

3.1. Credit risk

The Company is exposed to credit risk because of the possibility of failure of business partner and subsequent non-payment. The assessment of credit risk associated with customers of the Company is covered in a part of Operational rules of the Company – Framework distribution contract.

The Company has the following types of financial assets that are subject to the expected credit loss model:

- Trade and other receivables,
- Receivables from cash pooling
- Cash and cash equivalents
- Restricted cash

Trade and other receivables

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

Based on historical data on recoverability of trade receivables within the individual groups, the Company determined expected credit losses for each customer group. The historical loss rates were adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the counterparties to settle the receivables. The Company has identified the GDP and the unemployment rate in Slovakia and European Union countries to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

The Company identifies 4 groups of customers that give rise to trade receivables.

1. Electricity supplier within the ZSE Group - Východoslovenská energetika a.s. (VSE)

Significant part of Company's receivables are intercompany receivables from VSE and from November 23,2023 also from ZSE Energia (48%; 2022: 44%), which are the main electricity suppliers in the Company's distribution area. The Company has determined that there were no delays in payments by these counterparties for sales over a period of 24 months before 31 December 2023 and 31 December 2022 respectively and no historical credit losses experienced within this period. The zero historical loss rates were adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the counterparties to settle the receivables and the expected credit losses are considered immaterial.

2. Electricity suppliers outside the ZSE group

Based on historically low default rates and insignificant value of overdue receivables the Company considers all electricity suppliers outside the ZSE group to have similar credit risk characteristics.

At the end of the year 2023 the Company registered 31 (2022: 30) electricity suppliers with framework distribution contract in force, out of which 7 (2022: 7) were not active. In respect of electricity suppliers, credit risk is concentrated mainly within several large electricity suppliers. The framework distribution contracts and operating regulations of the Company define terms of payments and/or requirements for adequate guarantee for electricity suppliers, based on evaluation of their credit risk.

The Company performs credit risk evaluation of all electricity suppliers with framework distribution contract in force. The credit risk evaluation is performed in accordance with Ordinance No. 24/2013 Coll. of the Regulatory Office which introduces rules for the internal market with electricity and gas (hereinafter referred to as the "Market Rules"). Market rules define the conditions of credit risk evaluation as well as individual groups of payment terms. Based on credit risk evaluation suppliers of electricity are categorised to the categories A, B, C or D, and in line with the Market Rules the supplier of electricity is obliged to provide to the DSO the adequate guarantee if he was categorised to the group „A“ or „D“:

Category „A“

- The supplier has no overdue liabilities towards subjects of public administration and his equity is positive
- The supplier is not obliged to pay prepayments

Category „D“

- The supplier has negative equity or has overdue liabilities towards subjects of public administration
- The supplier is obliged for payment of prepayments in amount of 100% of supposed monthly distribution fee

In addition, in accordance with the Market Rules the suppliers of electricity are obliged to provide to the Company the adequate guarantee i.e., irrevocable bank guarantee from bank with adequate rating, guarantee of parent company with adequate rating or fixed deposit in the amount of supposed distribution fee for one and half calendar month. Deposit is not considered as restricted cash as there is no restriction defined in contracts and amounted to EUR 2,563 thousand as of 31 December 2023 (31 December 2022: EUR 3,543 thousand). As adequate rating is considered long-term rating at least BBB+ (Standard & Poor´s) or Baa1 (Moody´s). If rating of parent company is not available, the Company has right to refuse the guarantee.

In case the supplier of electricity fails to provide the Company adequate guarantee according to the conditions of framework distribution contract, it is considered as fundamental breach of framework distribution contract and the Company is entitled to terminate the contract with supplier of electricity. The Company is also entitled to claim a contractual fine corresponding to the amount of interest on the outstanding amount for each day of collateral condition breach. For each day the payment (advance payment, invoice) is late, the Company is entitled to invoice late payment interest which is based on ECB base rate as defined in Government ordinance no. 21/2013.

Overall, the Market Rules provide the Company with high quality guarantees that the receivables will be settled as non-payment of receivables may lead to significant negative consequences for energy traders. There have been virtually no material defaulting receivables in the monitored 24 months period.

The Company has considered in the estimate of expected credit loss publicly available credit spreads of most significant customers. Remaining group of customers would have no material impact on allowance for bad debt.

Assessment based on individual groups „A“to „D“ as stated above would have immaterial impact on the recognised bad debt allowance.

3. <u>Customers covering revenues from other projects</u>

This group of receivables relates to revenue from projects (Note 2.20).

4. <u>Customers in bankruptcy & illegal offtakes</u>

Part of Company’s receivables are receivables towards customers in bankruptcy and receivables arising from illegal offtakes. The Company has determined that recoverability of such receivables is minimal, therefore expected credit loss was set at 100% for all undue receivables and 90% for due receivables.

The following is a matrix based on due dates of trade and other receivables and percentage of expected credit losses for each group.

Companies within ZSE group

As at 31 December 2023	Not yet due	Overdue 0 to 3 months	3 to 6 months	6 to 12 months	More than 12 months	Total
Expected credit loss percentage	0.0%	0.0%	1.4%	1.8%	2.2%	
Trade and other receivables before allowance	10,732	-	-	-	-	10,732
Expected credit loss	-	-	-	-	-	-
Recognized bad debt allowance	-	-	-	-	-	-

As at 31 December 2022	Not yet due	Overdue 0 to 3 months	3 to 6 months	6 to 12 months	More than 12 months	Total
Expected credit loss percentage	0.0%	0.0%	1.4%	1.8%	2.2%	
Trade and other receivables before allowance	29,316	20	-	-	-	29,336
Expected credit loss	-	-	-	-	-	-
Recognized bad debt allowance	-	-	-	-	-	-

Electricity suppliers outside the ZSE group

As at 31 December 2023	Not yet due	Overdue 0 to 3 months	3 to 6 months	6 to 12 months	More than 12 months	Total
Expected credit loss percentage	0.0%	0.0%	30.0%	60.0%	100.0%	
Trade and other receivables before allowance	5,399	-	-	1	1	5,401
Expected credit loss	-	-	-	-	1	1
Recognized bad debt allowance	-	-	-	-	1	1

As at 31 December 2022	Not yet due	Overdue 0 to 3 months	3 to 6 months	6 to 12 months	More than 12 months	Total
Expected credit loss percentage	0.0%	0.0%	30.0%	60.0%	100.0%	
Trade and other receivables before allowance	4,073	-	-	1	-	4,074
Expected credit loss	-	-	-	1	-	1
Recognized bad debt allowance	-	-	-	1	-	1

Other projects

As at 31 December 2023	Not yet due	Overdue 0 to 3 months	3 to 6 months	6 to 12 months	More than 12 months	Total
Expected credit loss percentage	4.12%	32.33%	77.46%	95.65%	100.00%	
Trade and other receivables before allowance	2,410	605	31	16	44	3,106
Expected credit loss	98	196	24	15	44	377
Recognized bad debt allowance	98	196	24	15	44	377

As at 31 December 2022	Not yet due	Overdue 0 to 3 months	3 to 6 months	6 to 12 months	More than 12 months	Total
Expected credit loss percentage	3.74%	25.07%	65.25%	93.96%	100.00%	
Trade and other receivables before allowance	3,758	115	3	11	199	4,085
Expected credit loss	141	29	2	10	199	380
Recognized bad debt allowance	141	29	2	10	199	380

Customers in bankruptcy & illegal offtakes

As at 31 December 2023	Not yet due	Overdue 0 to 3 months	3 to 6 months	6 to 12 months	More than 12 months	Total
Expected credit loss percentage	90.0%	100.0%	100.0%	100.0%	100.0%	
Trade and other receivables before allowance	-	34	31	69	2,288	2,422
Expected credit loss	-	34	31	69	2,288	2,422
Recognized bad debt allowance	-	34	31	69	2,288	2,422

As at 31 December 2022	Not yet due	Overdue 0 to 3 months	3 to 6 months	6 to 12 months	More than 12 months	Total
Expected credit loss percentage	90.0%	100.0%	100.0%	100.0%	100.0%	
Trade and other receivables before allowance	1	29	40	1,415	968	2,453
Expected credit loss	1	29	40	1,415	968	2,453
Recognized bad debt allowance	1	29	40	1,415	968	2,453

Movements of bad debt provision are presented in the profit or loss in line Net impairment losses on financial asset. They are shown in the following table:

in EUR thousand	2023	2022
Balance at 1 January	**2,833**	**1,475**
Creation of bad debt provision (Note 20)	45	1,452
Receivables written off during the year as uncollectible	(78)	(94)
Balance at 31 December	**2,800**	**2,833**

An overview of the overdue receivables is shown in the following table:

in EUR thousand	As at 31 December 2023	2022
up to 90 days including	639	164
from 91 to 120 days including	37	12
from 121 to 150 days including	16	27
from 151 to 180 days including	9	4
from 181 to 360 days including	86	1,427
from 361 days and more	2,333	1,167
Total	**3,120**	**2,801**

There are no restrictions of ownership relating to receivables.

Analysis of cash collection of receivables stated above as at 31 January, i.e. one month after the year-end is in the table below:

	As at 31 January	
in EUR thousand	**2024**	**2023**
Paid receivables	15,079	48,900
Total	**15,079**	**48,900**

On 29 December 2022, Office for the regulation in network industries (URSO) issued a decision regarding the tariff for operating the system for the year 2022 in the part of the correction of electricity purchase costs for losses for the year 2021 and part of the year 2022.

With this decision, in accordance with the Act on Regulation and the valid URSO Price Decree, the correction of electricity purchase costs for losses for the year 2021 in the full amount of EUR 12,576 thousand and part of the correction of electricity purchase costs for losses for the year 2022 in the amount of EUR 12,260 thousand was settled. The cash payment was received by the Company as at 16 January 2023.

Payables from cash pooling

As at 31 December 2023 the Company had payable from cash pooling of EUR 58,005 thousand (31 December 2022: payable from cash pooling EUR 30,848 thousand).

Cash and cash equivalents and restricted cash

Credit risk also originates from cash and bank accounts that include cash and cash equivalents and restricted cash. Risk resulting from bank accounts is reduced through diversification of deposits in four banks. A long-term global rating of bank accounts in the local currency is stable for all banks. As a result, the Company evaluates the risk of bank accounts as standard.

The table below shows the amounts of cash and bank accounts (in EUR thousand):

in EUR thousand	**Rating**		**Bank balance**	
Bank	**2023**	**2022**	**31 December 2023**	**31 December 2022**
VÚB	A2/P-1	A2/P-1	50	307
Slovenská sporiteľňa	A2/P-1	A2/P-1	-	3
UniCredit Bank	A3/P-2	A3/P-2	-	5
Citibank	Aa3/P-1	Aa3/P-1	2,563	4,555
Total cash and cash equivalents and restricted cash			**2,613**	**4,870**

For overview of restricted cash in each bank, see Note 10.

The Company does not have any credit limit stated for these banks.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

3.2. Liquidity risk

For the Company, prudent liquidity risk management means maintaining sufficient cash and marketable securities and availability of credit facilities. The Company's financing position management is focused on maintaining flexibility of financing by ensuring availability of credit lines, which can be used by the Company. Management monitors interim liquidity forecasts based on expected cash flows that are presented in cash and cash equivalents.

The table below shows the analysis of financial liabilities of the Company according to residual contractual maturities. The amounts in the table present the non-discounted cash flows. The amounts due up to 12 months are equal to their carrying amount, as the impact of discounting is not significant.

in EUR thousand	Less than 3 months	Between 3 months and 1 year	1 to 2 year	2 to 5 years	Over 5 years	Total
31 December 2023						
Bank loans (Note 14)	-	1,048	50,891	60,348	-	112,287
Lease liabilities (Note 6)	284	57	359	1,067	1,228	2,995
Trade and other payables (net of intercompany liabilities) (Note 13)	24,402	-	-	-	-	24,402
Intercompany liabilities (Note 13)	9,238	-	-	-	-	9,238
Total	**33,924**	**1,105**	**51,250**	**61,415**	**1,228**	**148,922**
31 December 2022						
Bank loans (Note 14)	191	111,389	1,059	111,249	-	223,888
Lease liabilities (Note 6)	251	108	337	929	1,181	2,806
Trade and other payables (net of intercompany liabilities) (Note 13)	29,159	-	-	-	-	29,159
Intercompany liabilities (Note 13)	2,081	-	-	-	-	2,081
Total	**31,682**	**111,495**	**1,395**	**112,175**	**1,180**	**257,934**

3.3. Interest rate risk

As stated in Note 14, bank borrowings as of 31 December 2023 have fixed interest rates and therefore are not sensitive to interest rate changes.

On this basis there is low exposure to interest rate changes in both presented periods. No sensitivity analysis was disclosed.

3.4. Foreign exchange risk

The Company is not exposed to significant foreign exchange risk as foreign currency expenditures, and revenues are not significant to the Company.

3.5. Capital management

The Company's capital management objective is focused on maintaining optimal structure of debt and own capital (debt/equity ratio). Management monitors and manages these ratios. Value of debt/equity ratio as at 31 December 2023 was 48% (as at 31 December 2022: 83%). The Company is allowed to draw funds from cash-pooling (Note 2.12), established within the former VSE H Group and VSE H has other undrawn credit lines without a loan commitment.

3.6. Fair value estimation of financial instruments

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured initially at fair value and subsequently at amortised cost or are measured at fair value through profit or loss. To provide an indication about the reliability of the inputs used in determining fair value, the group classifies its financial instruments into the three levels prescribed under the accounting standards.

Level 1:The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period.

Level 2: The fair value of financial instruments that are not traded in an active market is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Fair values analysed by level in fair value hierarchy for financial assets and liabilities is as follows:

Level 1 – Cash in hand (Note 10);

Level 2 – Cash and cash equivalents except for cash in hand (Note 10), Restricted cash (Note 10), Trade and other receivables (Note 3.1), Trade and other payables (Note 8, Note 13), Liabilities from cash-pooling (Note 8), Borrowings (with fixed interest rates) (Note 8, 14), Lease liabilities (Note 6);

Carrying amounts of financial instruments are not materially different to their fair values.

The fair value of bank loans was calculated due to the merge of the VSE Holding group companies with ZSE as at 23 November 2023.

in EUR thousand	**Carrying amount**	**Fair value**
Slovenská sporiteľňa	50,001	47,684
UniCredit Bank	60,000	56,402
Total	**110,001**	**104,086**

4. Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are considered to be reasonable under the circumstances.

4.1. Critical accounting estimates and assumptions

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

Economic useful life of tangible fixed assets

The economic useful life of tangible fixed assets stated in Note 2.3 was based on the best estimate of the Company's management. Should the estimated residual useful life of tangible fixed assets be shorter by 10%, the Company would record additional annual depreciation charge of tangible fixed assets of EUR 5,370 thousand (2022: EUR 5,309 thousand). Should the estimated residual useful life of tangible fixed assets be longer by 10%, the Company would record depreciation charge lower by EUR 4,400 thousand (2022: EUR 4,344 thousand). The Company analyses regularly the appropriateness of economic useful life of tangible fixed assets.

Impairment test of goodwill

At 31 December 2023, the Company has carried out an impairment test of goodwill. Management has assessed that the Company is one cash generating unit. During the impairment test, the Company has analysed fair value and value in use using discounted cash-flow method. Value in use was determined to be higher using the assumptions of pre-tax WACC of 7.61%, terminal growth approximating long-term expected inflation rate of 3.3%, long-term expected EBITDA level of approximately EUR 94.6 million, and long-term expected maintenance CAPEX level of approximately EUR 58.3 million. The Company would have to account for impairment of goodwill in case discounted free cash-flow would decrease by 33% due to changes in one or more of the key assumptions. The company has assessed using fair value, that as with value in use, no impairment loss is required for goodwill.

Estimated outcome of litigation

As stated in Note 18, in 2023 the Company has created a provision for litigation, while estimating the amount of the provision based on the current estimate of cash outflows. The analysis of sensitivity is disclosed in that note.

Revenues from unmeasured electricity distribution

As a result of the fact that the retail customers in the household segment and households are metered at one of the eleven cycles which are phased between January and November of a calendar year, remaining part of electricity distribution for the reporting period gives rise to revenues from unmeasured electricity distribution. It is an accounting estimate which is based on the estimate of the distributed volume to households in technical units (MWh) between the date of last metering and the end of the reporting period.

The balance of such revenues is determined as the estimated distribution in MWh multiplied by unit price in EUR/MWh.

The Company estimates unmeasured distribution based on expected customer consumption time curves. The revenues from unmeasured electricity distribution amounted to EUR 31,507 thousand as at 31 December 2023 (EUR 32,147 thousand as at 31 December 2022).

Historical average differences between the estimate of unmeasured distribution and the subsequent fact found are below 4% on average.

5. Property, plant and equipment

in EUR thousand	Land	Buildings and infrastructure	Machinery, equipment, vehicles and office equipment	Construction in progress	Total
At 1 January 2022					
Cost	12,260	874,004	284,482	29,640	1,200,386
Accumulated depreciation	-	(436,230)	(145,545)	-	(581,775)
Net book value	**12,260**	**437,774**	**138,937**	**29,640**	**618,611**
Additions	-	-	-	52,803	52,803
Transfer from CIP	9	33,917	10,225	(44,151)	-
Net book value of asset sold	(2)	(18)	(74)	(7)	(101)
Net book value of asset damaged	-	-	(349)	(298)	(647)
Net book value of disposals	-	(1,643)	(568)	(1)	(2,212)
Depreciation charge	-	(30,232)	(12,993)	-	(43,225)
Closing net book value	**12,267**	**439,798**	**135,178**	**37,986**	**625,229**
At 31 December 2022					
Cost	12,267	901,967	288,946	37,986	1,241,166
Accumulated depreciation	-	(462,169)	(153 768)	-	(615,937)
Net book value	**12,267**	**439,798**	**135,178**	**37,986**	**625,229**
At 1 January 2023					
Cost	12,267	901,967	288,946	37,986	1,241,166
Accumulated depreciation	-	(462,169)	(153 768)	-	(615,937)
Net book value	**12,267**	**439,798**	**135,178**	**37,986**	**625,229**
Additions	-	-	-	55,943	55,943
Transfer from CIP	18	40,502	11,943	(52,463)	-
Net book value of asset sold	-	(147)	(75)	-	(248)
Net book value of asset damaged	(26)	-	(3)	(31)	(34)
Net book value of disposals	-	(1,674)	(323)	-	(1,997)
Depreciation charge	-	(30,475)	(13,173)	-	(43,648)
Closing net book value	**12,259**	**448,004**	**133,547**	**41,435**	**635,245**
At 31 December 2023					
Cost	12,259	935,159	298,043	41,435	1,286,896
Accumulated depreciation	-	(487,155)	(164 496)	-	(651,651)
Net book value	**12,259**	**448,004**	**133,547**	**41,435**	**635,245**

In the opinion of management, the electricity distribution network does not fall within the scope of IFRIC 12, Service Concessions and is therefore not presented as an intangible asset because (a) the Company has the option to sell or provide assets of this infrastructure to secure its liabilities; and (b) the relationship with the regulator and the Slovak government is not a typical concession to "build, operate and transfer", but rather privatization, for which information note no. 2 to IFRIC 12 indicates that the asset is within the scope of IAS 16, Property, plant and equipment.

There are no restrictions of ownership relating to tangible assets as at 31 December 2023 and 31 December 2022. No tangible assets were pledged.

The Company recognizes and uses no significant real estate subscribed in Cadastral Register, which are not legally permitted for the usage of the Company as at the end of the reporting period. Tangible assets are insured up to the amount of EUR 1,095,133 thousand (2022: EUR 958,472 thousand).

There were no impairment losses on tangible assets recognised nor reversed during the period.

6. Right of use assets and lease liabilities

This note provides information for leases where the Company is a lessee.

Amounts recognised in the Statement of Financial Position

The Statement of Financial Position shows the following amounts relating to leases:

in EUR thousand	31 December 2023	31 December 2022
Right-of-use assets		
Buildings	62	105
Lands	40	48
Equipment & grid	2,924	3,173
Cars	104	-
	3,130	**3,326**
Lease liabilities		
Current	337	357
Non-current	2,245	2,441
	2,582	**2,798**

There were additions of cars in amount of EUR 120 thousand and disposal of building in amount of EUR 64 thousand during the 2023 financial year (2022: no additions or disposals of the right-of-use assets).

Amounts recognised in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

in EUR thousand	2023	2022
Depreciation charge of right-of-use assets		
Buildings	43	43
Lands	9	9
Equipment & grid	248	248
Cars	17	-
	317	**300**
Interest expense (included in finance cost)	25	3
Expense relating to short-term leases (included in service expenses)	64	78
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in service expenses)	199	211

The total cash outflow for leases in 2023 was EUR 474 thousand (2022: EUR 328 thousand).

7. Intangible assets

in EUR thousand	Computer software and other	Goodwill	Intangible assets not yet ready to use	Total
At 1 January 2022				
Cost	50,272	12,677	933	63,882
Accumulated amortization	(37,990)	-	-	(37,990)
Net book value	**12,282**	**12,677**	**933**	**25,892**
Additions	-	-	4,161	4,161
Transfer from CIP	3,894	-	(3,894)	-
Amortization charge	(4,363)	-	-	(4,363)
Net book value of asset damaged	-	-	(19)	(19)
Closing net book value	**11,813**	**12,677**	**1,181**	**25,671**
At 31 December 2022				
Cost	54,161	12,677	1,181	68,019
Accumulated amortization	(42,348)	-	-	(42,348)
Net book value	**11,813**	**12,677**	**1,181**	**25,671**
At 1 January 2023				
Cost	54,161	12,677	1,181	68,019
Accumulated amortization	(42,348)	-	-	(42,348)
Net book value	**11,813**	**12,677**	**1,181**	**25,671**
Additions	-	-	4,286	4,286
Transfer from CIP	4,285	-	(4,285)	-
Amortization charge	(4,523)	-	-	(4,523)
Net book value of asset damaged	-	-	(13)	(13)
Closing net book value	**11,575**	**12,677**	**1,169**	**25,421**
At 31 December 2023				
Cost	58,446	12,677	1,169	72,292
Accumulated amortization	(46,871)	-	-	(46,871)
Net book value	**11,575**	**12,677**	**1,169**	**25,421**

There are no restrictions of ownership relating to intangible assets. No intangible assets are pledged.

There were no impairment losses on intangible assets recognised nor reversed during the period.

See Note 1 for background on goodwill and Note 4.1 for results of impairment test.

8. Financial instruments by category

The Company holds the following financial instruments:

Financial assets

in EUR thousand	As at 31 December 2023	As at 31 December 2022
Financial assets at amortised cost		
Trade and other receivables	18,860	66,918
Cash and cash equivalents (Note 10)	2,613	3,875
Restricted cash (Note 10)	-	995
Total financial assets	**21,473**	**71,788**

Financial liabilities

in EUR thousand	As at 31 December 2023	As at 31 December 2022
Financial liabilities at amortised cost		
Trade and other payables net of intercompany liabilities (Note 13)	24,402	29,159
Intercompany liabilities included in trade and other payables (Note 13)	9,238	2,081
Bank loans (Note 14)	110,001	220,191
Lease liabilities (Note 6)	2,582	2,798
Total financial liabilities	**146,223**	**254,229**

The financial risk management and the Company's impairment policies are described in Note 3 Financial risk management.

9. Inventories

in EUR thousand	As at 31 December 2023	2022
Raw material	6,309	7,071
Total	**6,309**	**7,071**

Inventory represents material to be used by the Company and usable dismounted material from disposed technological property.

Inventories are insured up to the amount of EUR 7,096 thousand (2022: EUR 3,906 thousand).

10. Cash and cash equivalents and restricted cash

in EUR thousand	As at 31 December 2023	2022
Cash at bank and in hand	2,613	3,875
Restricted cash	-	995
Total	**2,613**	**4,870**

The effective interest on a weighted average basis on current interest-bearing deposits was 0.0% p.a. (2022: 0.0% p.a.) with daily settlements (unchanged to 2022).

VÚB bank issued bank guarantee for the Company in the amount of EUR 0 thousand (2022: EUR 60 thousand). Citibank issued bank guarantee for the Company in the amount of EUR 60 thousand (2022: EUR 60 thousand). The bank guarantee is issued on behalf of the company Národná diaľničná spoločnosť, a. s. and relates to the electronic toll system.

The Company had restrictions related to cash and cash equivalents as at 31 December 2022 in amount of EUR 995 thousand. As at 31 December 2023 there are no cash and cash equivalents restrictions.

An overview of cash restrictions in particular bank is provided in the table below:

	As at 31 December	
in EUR thousand	**2023**	**2022**
Citibank	-	995
Total restricted cash	**-**	**995**

11. Other non-financial assets

	As at 31 December	
in EUR thousand	**2023**	**2022**
Advances paid	96	70
Prepaid expenses	463	497
Other	19	20
Total	**578**	**587**

12. Equity

The amount of subscribed share capital of the Company as to 31 December 2023 is EUR 220,040 thousand (31 December 2022: EUR 220,040 thousand). The subscribed share capital is fully paid.

Overview of ordinary shares is in the following table:

	Nominal value of shares (in EUR thousand)	
Number of ordinary shares	**As at 31 December 2023**	**As at 31 December 2022**
10	33	33
1	212,783	212,783
1	4,920	4,920
1	2,304	2,304
Total share capital	**220,040**	**220,040**

There is no share capital not listed in the Commercial Register as to 31 December 2023.

The Company created the legal reserve fund in amount of 20% of share capital established at the transformation to the joint-stock company.

Financial statements of the Company for prior accounting period have been approved by General Meeting on 23 May 2023. The decision on profit distribution for accounting period 2022 resulted in payment of dividends to the shareholders in the amount of EUR 28,595 thousand and allocation to the social fund in the amount of EUR 60 thousand.

The decision on profit distribution for accounting period 2023 will be made by the General Meeting of the Company. The Board of Directors will submit to the General Meeting the following proposal:

- Allocation to the social fund in amount of EUR 60 thousand
- Payment of dividends to the shareholders in amount of EUR 69,556 thousand

13. Trade and other payables

	As at 31 December	
in EUR thousand	**2023**	**2022**
Financial instruments:		
Trade payables (net of intercompany trade payables)	20,750	26,071
Intercompany liabilities included in trade and other payables	9,238	2,081
Employee benefits – accrued bonuses and holidays	1,738	1,712
Payables to employees	1,914	1,376
Total	**33,640**	**31,240**

There are no liabilities pledged or secured in another way.

The amount of trade payables denominated in foreign currencies is not material.

The Company recognizes no payables overdue as at 31 December 2023 and as at 31 December 2022.

14. Borrowings

Borrowings denominated in EUR are stated in the table below:

	As at 31 December	
in EUR thousand	**2023**	**2022**
Non-current borrowings		
Bank borrowings	110,000	110,000
Total	**110,000**	**110,000**
Current borrowings		
Bank borrowings	1	110,191
Total	**1**	**110,191**
Total borrowings	**110,001**	**220,191**

The carrying amounts of bank borrowings are as follows:

	As at 31 December	
in EUR thousand	**2023**	**2022**
Slovenská sporiteľňa	50,001	50,000
UniCredit Bank	60,000	60,000
ING Bank	-	110,191
Total	**110,001**	**220,191**

Further details on loans outstanding as of 31 December 2023 are provided below.

Bank	Currency	Amount in EUR thousand	Interest rate in % as of 31 December 2023 p.a.	Maturity date	Collateral
Slovenská sporiteľňa	EUR	50,001	Fix 0.701%	9 Jul 2025	Statement of Guarantor – ZSE
UniCredit Bank	EUR	60,000	Fix 1.163%	26 Jun 2026	Statement of Guarantor – VSE and ZSE
		110,001			

The effective average interest rates at the end of the reporting period were as follows:

	2023	2022
Bank borrowings	1.81%	0.82%

The reconciliation of bank loans is set out in table below:

in EUR thousand	2023	2022
Carrying amount as of 1 January	**220,191**	**220,195**
Loan repayment	(110,000)	-
Interest expense	2,995	1,699
Interest paid	(3,185)	(1,703)
Carrying amount as of 31 December	**110,001**	**220,191**

The terms of the loan agreements do not contain any financial criteria that the Company would be obliged to meet.

15. Other non-financial liabilities

in EUR thousand	As at 31 December 2023	2022
Value added tax liability	6,739	6,398
Social insurance liability	1,598	1,389
Nuclear fund liability	1,076	1,088
Other	624	479
Total	**10,037**	**9,354**

16. Deferred income tax

Deferred income taxes are calculated on temporary differences under the liability method using enacted tax rate of 21% with an uplift related to special levy legislation (2022: enacted tax rate of 21% with an uplift related to special levy legislation). The uplift is applied to that part of the temporary differences that relates to the difference between values recognized under the Slovak Accounting Standards and values recognized under IFRS. This approach was applied first in year 2022. For more information see Note 2.1.

The change in tax rate is described in Note 22.

in EUR thousand	As at 31 December 2023	As at 31 December 2022	As at 1 January 2022
Deferred tax asset	1,201	5,375	5,238
Deferred tax liability	(57,150)	(59,187)	(60,532)
Total	**(55,949)**	**(53,812)**	**(55,294)**

Reconciliation of movements in deferred tax assets and liabilities during the year is as follows:

in EUR thousand	At 1 January 2022	(Charged)/ credited to the profit or loss	At 31 December 2022
Difference between tax base and carrying amount of property	(58,644)	1,212	(57,432)
Right-of-use assets	(884)	74	(810)
Lease liabilities	769	(88)	681
Provisions on bad debts	130	342	472
Provision for other liabilities and charges	3,335	(58)	3,277
Total	**(55,294)**	**1,482**	**(53,812)**

in EUR thousand	At 1 January 2023	(Charged)/ credited to the profit or loss	At 31 December 2023
Difference between tax base and carrying amount of property	(57,432)	1,044	(56,388)
Right-of-use assets	(810)	48	(762)
Lease liabilities	681	(53)	628
Provisions on bad debts	472	(65)	407
Provision for other liabilities and charges	3,277	(3,091)	166
Total	**(53,812)**	**(2,117)**	**(55,949)**

17. Employee benefits

The following amounts have been recognized with respect of the defined benefit pension plan in the financial statements:

in EUR thousand	As at 31 December 2023	2022
Statement of Financial Position obligation for:		
Present value of recognized unfunded retirement obligations	6,175	5,361
Jubilee awards	174	190
Liability in the Statement of Financial Position	**6,349**	**5,551**

in EUR thousand	2023	2022
Profit or Loss charge included in operating profit		
Current service cost	303	351
Interest cost	157	67
Past service cost	-	(18)
Total (credit)/ charge, included in staff costs	**460**	**400**

in EUR thousand	2023	2022
Re-measurements for:		
Defined pension benefits	1,110	68
Total re-measurements	**1,110**	**68**

Movements during the year related to defined benefit pension plan are as follows:

in EUR thousand	Present value of obligation
As at 1 January 2022	**5,308**
Current service cost	351
Past service cost	(18)
Interest cost	67
	5,708
Re-measurements:	
- Loss from change in finance assumptions	(423)
- Gain from adjustments to reality	491
	68
Payments from plan	(225)
As at 31 December 2022	**5,551**

in EUR thousand	**Present value of obligation**
As at 1 January 2023	**5,551**
Current service cost	303
Past service cost	-
Interest cost	157
	6,011
Re-measurements:	
- Loss from change in finance assumptions	424
- Loss from adjustments to reality	686
	1,110
Payments from plan	(772)
As at 31 December 2023	**6,349**

Assumptions used in the calculations of provision for the defined benefit plan are as follows:

Year 2023	
Number of employees with entitlement to the benefit	1,038
Expected salary increases	5.00%
Discount rate	3.70%

Year 2022	
Number of employees with entitlement to the benefit	1,034
Expected salary increases	4.00%
Discount rate	3.25%

Sensitivity analysis of liability for employee benefits to key inputs is stated in following table (in EUR thousand). The Company does not expect a materially different change in employee obligation due to the change in fluctuation or other parameter, in comparison to the previous year.

Description of change of parameter	**Liability as at 31 December 2023**	**Change in comparison with basic scenario**	**Change in comparison with basic scenario in %**
Basic scenario	**6,349**		
Increase in salaries +0.25% compared to principal assumptions	6,509	160	2.5%
Decrease in salaries -0.25% compared to principal assumptions	6,195	(155)	(2.4%)
Discount rate +0.5% compared to principal assumptions	6,039	(311)	(4.9%)
Discount rate -0.5% compared to principal assumptions	6,686	337	5.3%

Description of change of parameter	Liability as at 31 December 2022	Change in comparison with basic scenario	Change in comparison with basic scenario in %
Basic scenario	**5,551**		
Increase in salaries +0.25% compared to principal assumptions	5,684	133	2.4%
Decrease in salaries -0.25% compared to principal assumptions	5,424	(128)	(2.3%)
Discount rate +0.5% compared to principal assumptions	5,294	(258)	(4.6%)
Discount rate -0.5% compared to principal assumptions	5,830	278	5.0%

Amounts paid for defined contribution pension plans:

in EUR thousand	2023	2022
Defined contribution pension plan	4,179	3,656
	4,179	**3,656**

18. Provisions

Analysis of provisions:

in EUR thousand	As at 31 December 2023	2022
Current provisions (legal claims and restructuring)	3,803	19,255
Total	**3,803**	**19,255**

Movements during the year related to provision for other liabilities and charges are as follows:

in EUR thousand	Restructuring provision	Legal claims	Total
At 1 January 2023	**41**	**19,214**	**19,255**
Provisions creation	41	175	216
Unused amounts released	-	(14,494)	(14,494)
Provision discounted	-	-	-
Used/paid during year	(41)	(1,133)	(1,174)
At 31 December 2023	**41**	**3,762**	**3,803**

in EUR thousand	Restructuring provision	Legal claims	Total
At 1 January 2022	**41**	**19,570**	**19,611**
Provisions creation	41	-	41
Unused amounts released	-	(100)	(100)
Provision discounted	-	-	-
Used/paid during year	(41)	(256)	(297)
At 31 December 2022	**41**	**19,214**	**19,255**

Restructuring provision

In accordance with long-term plans in 2023, the Company creates a provision for restructuring costs in the amount of EUR 41 thousand (2022: EUR 41 thousand).

Provision for legal claims

The provision includes amounts related to certain legal claims against the Company. In cooperation with the internal legal department and external independent lawyers the management of the Company evaluated and the overall risk, the status of legal matters in this regard at the balance sheet dates, and reassessed provision recognized which, in their opinion, reflects the best estimate of the expected outflow of economic benefits, taking into the account similar legal cases in Slovakia considering the probability of the outcome. Depending on future court rulings, the actual amount of the out-flow of economic benefits may vary significantly from the expected amount. The Company has concluded that proceedings in these litigations and potential lawsuits are, or will be, subject to appeals and will probably be resolved by the Supreme Court of the Slovak Republic. Thus, the outflow of significant financial funds will likely increase in the medium or long term.

Lawsuits with electricity producers – electricity production from renewable energy sources (OZE) and combined production of electricity and heat (KVET)

The Company has set up provisions of EUR 3,762 thousand (2022: EUR 14,385 thousand). These provisions comprise the following:

- provisions for lawsuits with electricity producers related to an additional payment within the supporting scheme for electricity production from renewable energy sources (OZE) and combined production of electricity and heat (KVET) cover the risk of outstanding litigations and rulings of the courts against the Company;
- provisions for lawsuits with electricity producers related to the G-tariff (tariff for connection of electricity producers to distribution grid) cover the combination of risk in relation to the amounts claimed and to related potentially claimed amounts for the period from 2017 to 2018.

Provisions were continuosly disolved due to terminated court proceedings.

19. Revenues from contracts with customers

The Company derives revenue from the transfer of services over time. Further details are as follows:

in EUR thousand	**2023**	**2022**
Revenues for distribution of electricity and reserved capacity of OZE / KVET producers	192,188	189,554
Revenues from connection fees	2,905	2,719
Revenues from non-commodity products and services	3,098	7,524
Other revenues	-	293
Total revenues from contracts with customers	**198,191**	**200,090**

Contract liabilities

The Company recognizes contract liabilities from connection fees and advances received. Contract liability from connection fees is amortized over 20 years in accordance with useful lives or related property, plant and equipment.

The Company has recognized the following contract liabilities related to contracts with customers:

in EUR thousand	2023	2022
Current contract liabilities		
Connection fees	3,003	2,792
Advances received	19,389	13,876
Non-current contract liabilities		
Connection fees	31,116	30,311

Revenues recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities and how much relates to performance obligations that were satisfied in a prior year.

in EUR thousand	2023	2022
Revenues recognised that was included in the contract liability balance at the beginning of the period:		
Connection fees	2,904	2,719
Total revenues recognised in relation to contract liabilities	**2,904**	**2,719**

20. Profit from operations

The following amounts have been charged or credited in arriving at profit from operations:

in EUR thousand	2023	2022
Revenues from contracts with customers (Note 19)	**198,191**	**200,090**
Own work capitalized	**9,220**	**8,606**
Electricity purchase for losses	(80,640)	(47,812)
Transmission	(26,408)	(25,984)
Total	**(107,048)**	**(73,796)**
Material consumption	**(11,184)**	**(8,865)**
Employee benefit expense		
Wages and salaries	(27,861)	(23,219)
Social security costs excl. retirement fund	(5,627)	(4,948)
Defined contribution pension plan (Note 17)	(4,179)	(3,656)
Other staff costs	(311)	(1,255)
Total employee benefit expense	**(37,978)**	**(33,078)**
Services		
Repairs and maintenance of electric grid related assets	(2,582)	(2,200)
Costs from other Service Level Agreements within the ZSE group (Finance, HR, legal and other services)	(12,809)	(12,859)
Protection of property	(470)	(428)
Short-term and low-value leases	(349)	(332)
Assurance services provided by auditor	(120)	(84)
Travel cost	(343)	(240)
External works on grid provided by third parties	(6,713)	(5,916)
IT and telecommunication charges	(2,206)	(2,094)
Other services	(3,290)	(2,982)
Total services	**(28,882)**	**(27,135)**
Depreciation expense (Note 5)	(45,645)	(45,436)
Amortization expense (Note 7)	(4,523)	(4,363)
Amortisation of right-of-use assets (Note 6)	(317)	(301)
Total depreciation and amortisation expense	**(50,485)**	**(50,100)**
Net impairment losses on financial and contract assets (Note 3.1)	**(45)**	**(1,452)**
Gain / (Loss) on disposal of property, plant and equipment	**109**	**152**
Taxes and fees	(556)	(589)
Decrease / (Increase) in provisions for other liabilities and charges	14,318	356
Gain / (Loss) on sale of inventory	470	360
Compensations received (Note 2.19)	107,138	24,836
Other income	2,623	2,158
Other expense	(1,197)	(1,954)
Other operating income / (expenses):	**122,796**	**25,167**
Profit from operations	**94,694**	**39,589**

Renewable energy support scheme as per legislation should compensate distribution companies in Slovakia for net losses or net gains incurred as a result of this scheme in certain year in two years' time. Net annual deficit combines the effect of correction mechanism compensating the Company for gain or loss incurred two years ago and the effect of current gain or loss from the scheme.

21. Finance income and costs

in EUR thousand	2023	2022
Bank borrowings	(3,523)	(1,933)
Finance lease liabilities (Note 6)	(25)	(3)
Provisions: unwinding of discount	(157)	(67)
Amount capitalised in accordance with IAS 23	706	276
Finance income / (costs)	**(2,999)**	**(1,727)**

Capitalized borrowing costs

The capitalization rate used to determine the amount of borrowing costs to be capitalized is the weighted average interest rate applicable to the Company's general borrowings during the year, in this case 2.55% (2022: 0.98%).

22. Income tax expense

in EUR thousand	2023	2022
Current tax expense charge / (credit) in profit or loss, of which:	19,934	10,685
- *special levy from regulated industries*	*3,685*	*1,558*
Deferred tax expense charge / (credit) in profit or loss (Note 16)	2,145	(1,482)
Total	**22,079**	**9,203**

The reconciliation between the reported income tax cost and the theoretical amount that would arise using the standard tax rates is as follows:

in EUR thousand	2023	2022
Profit before tax	91,695	37,848
Income tax calculated at a tax rate of 21% (2022: 21%)	19,256	7,948
Tax effects of:		
- Expenses not deductible for tax purposes	143	80
- Impact of special levy on tax	2,911	1,231
- Other	(231)	(56)
Tax charge	**22,079**	9,203
Effective tax rate	**24.08%**	**24.32%**

The corporate income tax rate applicable for the year 2023 is 21% and there has been no change after the balance sheet date (2022: 21%).

The Company pays a special levy that is relevant for regulated business. The amount of the special levy of the regulated entity for 2023 was calculated and paid in accordance with the relevant law as follows: the levy is based on the company's profit or loss reported in the company's financial statements multiplied by a coefficient calculated as the ratio of revenues from regulated activities to total revenues. In 2023, the Company reported a coefficient of 0.97 (0.97 for 2022). The amount of the monthly levy is calculated as the product of the levy rate and the levy base. In 2023 the monthly levy rate was 0.00363 (0.00363 in 2022). The special levy is a deductible expense for the purposes of applying the income tax payable.

Under standard conditions, 21% would be the rate applied on temporary differences to calculate deferred tax position in the Statement of Financial Position. However, as special levy is de facto tax, the size of the uplift to 21% tax rate should be determined by projecting the special levy payments for future periods. The Company performed this projection resulting into adjusted tax rate of 24.34% applied for deferred tax determination for the year end 2023 (2022: 24.34%).

The uplift is applied to that part of the temporary differences that relates to the difference between values recognized under the Slovak Accounting Standards and values recognized under IFRS. This approach was applied first in year 2022. For more information see Note 2.1.

23. Cash generated from operations

in EUR thousand	2023	2022
Profit before tax	**91,695**	**37,804**
Adjustments for:		
Depreciation expense (Note 5)	45,645	45,436
Amortization expense (Note 7)	4,523	4,364
Amortisation of right-of-use assets (Note 6)	317	300
Change in provisions (Note 17, 18)	(15,764)	(181)
Change in contract liabilities from connection fees and deferred connection fees (Note 19)	1,001	705
Change in deferred income from non-current assets acquired for no consideration	44	(116)
Change in bad debt allowances (Note 3.1)	(33)	1,453
(Gain) / loss on sale of property and equipment (Note 20)	(109)	(152)
Interest expense (Note 21)	2,999	1,727
Payments for short-term and low-value leases	349	303
Shortages and damages (Note 5)	28	652
Income from assets acquired for free (relocated assets and inventory surplus assets)	(460)	(392)
Other non-cash transactions	314	(98)
Changes in working capital:		
Inventories (Note 9)	782	(4,197)
Trade and other receivables (Note 3.1)	48,091	(55,913)
Other non-financial assets (Note 11)	9	1,278
Trade and other payables (Note 13)	2,400	(6,838)
Other non-financial liabilities (Note 15)	683	7,065
Contract liabilities - advances from customers	5,527	11,037
Cash generated from operations	**188,041**	**44,237**

24. Contingencies

Taxation

Tax legislation in Slovakia which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Company. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged by tax authorities. Slovak tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax challengeable counterparties. Management is not aware of any circumstances that may give rise to future material expenses in this respect.

Legal cases

As mentioned in Note 18, contingent liabilities result from potentially unfavourable results of legal case mentioned in Note 18 as there is uncertainty how courts will interpret the facts and legal positions of various involved parties differ. Management has assessed the probability of the outcome which is reflected in the provision for legal cases as management's best estimate and has disclosed the contingent liabilities in Note 18.

25. Commitments

Capital Commitments

As at 31 December 2023 the Company has contracted approximately EUR 17,500 thousand of the capital commitments related to property, plant and equipment (2022: EUR 15,300 thousand). The Company does not have any material non-cancellable future operating lease commitments.

26. Related party transactions

Related parties are divided into following categories:

a) Parent company
- Západoslovenská energetika, a.s.(ZSE) – parent company (from 23 November 2023)

b) Entities under control of E.ON group, that were not part of VSEH group (till 22 November 2023)
- E.ON SE
- innogy SE

c) Entities controlled by government or where government has significant influence

Routine trading transactions with the Slovak government including its departments and agencies and transactions between state-controlled entities, which are providers of public utilities, services, for which the standard terms and conditions have been applied and which do not represent a significant portion of a type of transaction.

d) Entities under control of ZSE Group
- Východoslovenská energetika Holding a.s. (VSE H), from 23 November 2023
- Východoslovenská energetika a.s. (VSE), from 24 November 2023
- VSE Call centrum, s.r.o. (VSE CC), subsidiary of VSE H
- VSE Ekoenergia, s.r.o. (VSE EE), subsidiary of VSE H
- VSE Solutions s.r.o. (VSOL), subsidiary of VSE
- Nadácia VSE, subsidiary of VSE H
- Západoslovenská distribučná, a.s., from 23 November 2023
- ZSE Energia, a.s., from 23 November 2023
-

e) Key management personnel of the Company
- members of the Board of Directors
- members of Supervisory Board

The related party transactions were made on an arm's length basis.

The nature of relationship with related parties where the Company carried out significant transactions or had significant balances as at 31 December 2023 and 31 December 2022 with, are described below.

a) Parent company

Transactions with parent company VSE H (until 22 November 2023) are stated in the following table:

in EUR thousand	January to November 2023	Year 2022
Revenues from sales of services	169	76
Other	59	101
Services	(11,751)	(12,811)
Interest expense	(1,782)	(234)
Other	(483)	(397)
Dividends paid (Note 12)	(28,595)	(27,175)

Balances with parent company VSE H (until 22 November 2023) are stated in the following table:

	As at 31 December	
in EUR thousand	2023	2022
Trade receivables (gross)	-	73
Cash pooling (payable) / receivable (Note 2.10)	-	(30,848)
Trade and other payables (Note 8, Note 13)	-	(2,072)

Balances with company VSE H as at December 31,2023 are presented in d) Entities under control of ZSE Group.

Transactions with parent company ZSE (from 23 November 2023) are stated in the following table:

in EUR thousand	December 2023	Year 2022
Services	(8)	-

Balances with parent company ZSE (from 23 November 2023) are stated in the following table:

	As at 31 December	
in EUR thousand	2023	2022
Trade receivables (gross)	-	-
Trade and other payables (Note 8, Note 13)	(8)	-

b) Entities under control of E.ON group*, that were not part of VSEH group (till 22 November 2023)*

Transactions with entities under control of E.ON Group*, that were not part of VSEH group (till 22 November 2023)* are stated in the following table:

in EUR thousand	2023	2022
Purchases	(18)	(23)

Balances with entities under control of E.ON Group*, that were not part of VSEH group (till 22 November 2023)* are stated in the following table:

	As at 31 December	
in EUR thousand	2023	2022
Trade receivables (gross)	-	21
Trade and other payables	-	(43)

c) Entities controlled by government or where government has significant influence

The Company performs collectively significant transactions with entities controlled by government or where government has significant influence. These transactions are represented by:

in EUR thousand	2023	2022
Distribution services provided to electricity traders	46,694	45,678
Revenues from support services OKTE*	-	40
Correction of TPS losses through OKTE**	-	24,836
Revenues from other services	17	1
Transmission fee	(26,409)	(25,984)
Services	(419)	(327)

* OKTE - Organizátor krátkodobého trhu s elektrinou

** URSO decision as at 29. 12. 2022, for more detailed information, see Note 2.19

Distribution services were sold mainly to Slovenské Elektrárne, a.s. ,Slovenský plynárenský priemysel, a. s. and Stredoslovenská energetika, a.s.

Transmission fee relates to Slovenská elektrizačná prenosová sústava, a.s.

Transactions amounts comprise also ZSE Energia until 23 November 2023.

Balances with entities controlled by government or where government has significant influence are stated in the following table:

	As at 31 December	
in EUR thousand	2023	2022
Trade receivables (gross)	2,896	31,107
Trade and other payables	(1,462)	(1,324)

The Company received a guarantee in amount of EUR 2,340 thousand from Slovenský plynárenský priemysel, a. s.

d) Entities under control of ZSE Group

Transactions with entities under control of VSE H Group (until 23 November 2023) are stated in the following table:

in EUR thousand	January to November 2023	Year 2022
Distribution of electricity	100,236	118,562
Revenues from sales of services	360	266
Purchase of electricity for losses	(74,442)	(48,433)
Purchase of electricity for own consumption	-	(6)
Purchase of services and other	(50)	(108)

Balances with entities under control of VSE H Group (until 23 November 2023) are stated in the following table:

	As at 31 December	
in EUR thousand	2023	2022
Trade receivables (gross)	-	29,263
Trade and other payables	-	(45)

Transactions with entities under control of ZSE Group (from 24 November 2023) are stated in the following table:

in EUR thousand	December 2023
Distribution of electricity	11,517
Purchase of electricity for losses	(6,683)
Purchase of services and other	(1,067)

Balances with entities under control of ZSE Group are stated in the following table:

	As at 31 December	
in EUR thousand	2023	2022
Trade receivables (gross)	9,234	-
Trade and other payables	(9,230)	-
Cash pooling payable (Note 2.10)	(58,005)	-

e) Key management personnel of the Company

Transactions with key management personnel of the entity are stated in the following table:

	2023		2022	
in EUR thousand	**Board of directors**	**Supervisory board**	**Board of directors**	**Supervisory board**
Short-term employee benefits	207	127	137	130
Total	**207**	**127**	**137**	**130**

27. Events after the reporting period

There has been no event after the reporting period that should be disclosed in these notes prepared in accordance with IFRS as adopted by EU.