

2 July 2024 – Neuss, Germany

### Rating Action / Update:

**Creditreform Rating has affirmed the unsolicited corporate issuer rating of Západoslovenská energetika, a.s., at A- / L2. The outlook has been changed to positive from stable**

Creditreform Rating (CRA) has confirmed the unsolicited, public corporate issuer rating of Západoslovenská energetika, a.s., as well as the unsolicited corporate issue rating of long-term local currency senior unsecured notes issued by Západoslovenská energetika, a.s. at A-. The outlook has been changed to positive from stable. The unsolicited short-term rating has been set to L2 (high level of liquidity).

### Current relevant factors for the rating

The following considerations were of specific relevance for the rating assessment:

- + Overall stabilization of energy prices in 2023
- + Východoslovenská energetika (VSE) has become part of the consolidated financial statements of ZSE with effect from 23 November 2023
- + Substantial compensation amount supported the operating result in 2023
- + Overall positive effects for balance sheet structure due to integration of VSE with strengthened equity and moderate growth in joint debt
- + Strengthening of key financials anticipated after the full-year contribution of VSE
- + Expected increase in efficiency and profitability, strengthening of market position resulting from integration
- Only one month contribution of VSE impair the results of financial figures analysis for 2023
- Substantial portion of revenues in 2023 (compensation) have non-recurring character

### ESG-criteria:

CRA generally takes ESG factors (environment, social and governance) into account within its rating decisions. In the case of ZSE we have not identified any ESG factors with significant influence.

As a distribution company we believe that the Group plays an important role in the decarbonization of the energy market by integrating the increasing amount of renewables into the Slovakian power grid. The Company assigned a strategic priority to contributing to the transition to a sustainable and emission-free society, and has adopted the Sustainability Development Goals (SDG) of the UN and the guidelines of the European Green Deal as essential components of its operations.

Among other measures, the Group has committed itself to reducing its scope 1 and scope 2 emissions by 75% by 2030, and to achieving complete scope 1 and 2 neutrality by 2040. Scope 3 emissions are to be completely neutralized by 2050, as aligned with the plans of the EU.

The specific measures that have been taken to achieve these goals include increasing green energy sources in the Company's product mix and own activities, digitalization of customer ser-

### Analysts

Elena Damijan  
Lead Analyst  
E.Damijan@creditreform-rating.de

Christina Sauerwein  
Co-Analyst  
C.Sauerwein@creditreform-rating.de

Neuss, Germany

**ESG factors** are factors related to environment, social issues, and, governance. For more information, please see the section "Regulatory requirements". CRA generally takes ESG relevant factors into account, when assessing the rating object and discloses them when they have a significant influence on the creditworthiness of the rating object, leading to a change in the rating result or the outlook.

vices and own processes, modernization of distribution facilities (ACON and Danube InGrid projects), improvement of the energy efficiency of the Company's buildings, development of charging point infrastructure for e-vehicles, initiating and taking part in numerous nature and biodiversity conservation projects. Through its ZSE Foundation, the Company engages in different cultural, social and educational projects.

Overall, we consider the environmental, social and governmental aspects of the ZSE activities to be average compared to its peers.

A general valid description of Creditreform Rating AG, as well as a valid description of corporate ratings for understanding and assessing ESG factors in the context of the credit rating process, can be found [here](#).

## Rating result

The current unsolicited corporate issuer rating of **A-** attests Západoslovenská Energetika, a.s. with a high level of creditworthiness, representing a low default risk.

Západoslovenská Energetika, a.s. is of strategic importance for the Slovak Republic as its electricity distribution grid operator in the western and - since the integration with VSE - in the eastern region of the country. The Company has strengthened its market position, controlling approximately 70% of distributed power after integration. ZSE benefits from a stable and supportive regulatory framework, generating more than 80% of its EBITDA in a regulated environment, resulting in solid and predictable cash flows.

In line with our assessment, the results of key financial ratios analysis improved in the 2023 financial year following the stabilization of energy prices, with a resulting decrease in working capital requirements and substantial additional revenues from the compensation mechanism included in the regulatory framework. The balance sheet structure benefited from the consolidation of ZSE and VSE, which was completed in November 2023, in particular from strengthened equity and a modest increase in debt on the part of the new entity. Further improvement of the key financial figures is likely in the future based on the full-year consolidation of VSE and the Company's stronger earnings capacity after the expected realization of synergies and scale effects. Nevertheless, we do not assume compensation earnings on the level of 2023. According to historical data, the volume of joint investments of ZSE and VSE, as well as their dividend payments so far, are commensurate with their joint earnings capacity. We expect the similar situation in the current regulatory period and do not anticipate substantial increase in debt in the short term. The overall persistently subdued economic sentiment and geopolitical tensions could have a negative effect on the Company's current development.

Given the fact that the Slovak Republic (CRA unsolicited sovereign rating **A+ / negative** as of 22 September 2023) owns 51% of the Company's shares, and based on our rating methodology for government-related companies, as well as the systemic importance of the Group for the Slovak Republic, we assume that the Slovak government would be willing to support the Company in meeting any extraordinary financial shortfalls, which results in an uplift by one notch from the stand-alone rating of the Company.

## Outlook

The one-year outlook for the unsolicited corporate issuer rating of Západoslovenská Energetika, a.s. (ZSE) is **positive**. Taking into consideration the strengthened market position and expected scale and synergy effects, we expect a strengthening of the Company's joint earnings and profitability. The full-year contribution of VSE to the operating results of the Group beginning with the current fiscal year has an additional positive effect on our estimated key financials after the integration.

Please note:

The scenarios are based on information available at the time of the rating. Within the forecast horizon, circumstances may occur that could lead to a change of the rating out of the indicated range.

### Best-case scenario: A

In our best-case scenario for one year, we assume a corporate issuer rating of A. Taking into consideration the integration of ZSE and VSE, their joint earning capacity improves substantially, following the anticipated realization of scale effects and optimization of corporate structure and processes, leading to an improvement of the results of our key financial figures analysis. A trigger for a rating improvement could be an improved sovereign rating of the Slovak Republic. However, with a view to the negative outlook of the sovereign rating of the country (CRA rating **A+ / negative** as of 22 September 2023), we consider this scenario unlikely.

### Worst-case scenario: BBB+

In our worst-case scenario for one year, we assume a corporate issuer rating of BBB+. This could be the case if the Company substantially increases its capital expenditure while simultaneously increasing its debt, or in the event of substantial disruptions in its earnings. Moreover, a negative change in the sovereign rating of Slovak Republic could cause a rating downgrade of the Company.

## Business development and outlook

The 2023 fiscal year was marked by heightened energy prices resulting from persisting geopolitical tensions, especially the war in Ukraine and the Near East conflict, as well as overall elevated interest rates and an inflationary environment with ensuing subdued economic sentiment in Europe. The consolidation of ZSE and Východoslovenská energetika Holding a.s. (VSEH), 100% shareholder of the major DSO in the eastern region of Slovakia, was completed on 23 November 2023. 100% of the shares of VSEH were contributed into ZSE, resulting in VSEH becoming a subsidiary of ZSE and, subsequently, VSEH subsidiaries, specifically Východoslovenská distribučná, a.s. and Východoslovenská energetika a.s. Accordingly, the customer base connection points increased to 1.9 million from 1.2 million. We view the integration of the two companies as positive, and see potential for positive effects as a result, e.g., optimized management structure, synergies from shared services, a consolidated customer base and integrated sourcing.

The development of the Company's financial figures compared with 2022 reflects the effects of the consolidation of VSE from November 2023, e.g., the earnings structure includes only one full month of operation as an integrated entity. Some financial figures improved as compared with 2022, after the consolidation of VSE, due to stronger equity following the investment of its shares into ZSE, as well as a moderate increase in total debt compared with the amount of contributed assets. We expect a further improvement in the results of our financial figures analysis for the next fiscal year based on the new earnings structure with a full year of integrated operations.

Table 1: Financials of ZSE | Source: ZSE's Annual report for the year 2023

Západoslovenská Energetika, a.s. Selected key figures of the financial statement analysis Basis: consolidated financial statements of 31.12. (Group)	CRA standardized figures <sup>1</sup>	
	2022	2023
Sales (EUR million)	1,682	2,322
EBITDA (EUR million)	255	428
EBIT (EUR million)	190	350
EAT (EUR million)	131	253
EAT after transfer (EUR million)	131	253
Total assets (EUR million)	1,647	2,768
Equity ratio (%)	23.78	37.93
Capital lock-up period (days)	32.73	34.55
Short-term capital lock-up (%)	29.56	11.34
Net total debt / EBITDA adj. (factor)	4.80	3.43
Ratio of interest expenses to total debt (%)	1.41	1.26
Return on Investment (%)	9.03	9.67

Total revenue from electricity and other related revenue, as well as revenue from natural gas, increased by 14.8% to EUR 1,858 million (2022: EUR 1,618 million), of which EUR 563 million (2022: 529 million) was distribution fees. Revenues in 2023 include the compensation mechanism for exceptional expenses in the previous years (EUR 464 million; 2022: EUR 63 million). From the beginning of 2023, according to the new legislation approved at the end of the year 2022 by the Government of the Slovak Republic, the Ministry of Economy of the Slovak Republic compensated the difference between the sales price and the tariff prices provided by the legislation. Additionally, the Group received compensation to cover the higher expenses for purchase of electricity consumed in its own buildings. Following the effects from the compensation mechanism, the stabilization of energy prices, smaller amounts of energy losses, and the commissioning of the combined power plant near Malženice after repair works, EBITDA saw a 68% surge to EUR 428 million. According to the Company, approximately 86% of its EBITDA from continuing activities in the 2023 fiscal year (87% in 2022) were generated from sales to customers subject to regulation. The annual result nearly doubled, with EUR 253 million (2022: 131 million).

The financing structure has improved overall since the integration of VSE due to its strengthened equity base, with an equity ratio of 37.93% (2022: 23.78%), and as a result of a moderate extension in debt by 37% (EUR 1,718 million vs. EUR 1,255 million), compared to the increase in CRA's total assets by 68% (EUR 2,768 million vs. 1,647 million). The Group's main financing sources remain bonds and bank loans. In April 2023, due to uncertain capital market conditions, ZSE prematurely repaid the EUR 315 million bond due in October 2023 and refinanced it with a long-term bank loan with ČSOB and UniCredit Bank in the total amount of EUR 237.5 million. Accordingly, the borrowings as of 31 December 2023 increased to EUR 512 million (2022: EUR 129 mil-

<sup>1</sup> For analytical purposes, CRA adjusted the original values in the financial statements in the context of its financial ratio analysis. For example, when calculating the analytical equity ratio, deferred tax assets, goodwill (entirely or partly), and internally-generated intangible assets are subtracted from the original equity, whilst deferred tax liabilities are added. Net total debt takes all balance sheet liabilities into account. Therefore, the key financial figures shown often deviate from the original values of the company.

lion), of which EUR 427 million are long-term borrowings (2022: EUR 6 million). After the repayment of bonds in April 2023, the Company has bonds of EUR 315 million due in March 2028. Despite VSE's only partial contribution to the earnings, the CRA's net total debt / EBITDA adj. improved to 3.43x (2022: 4.80x). However, we expect a stabilization of this parameter on a slightly higher level due to the one-off positive effect of the compensation in 2023, which we do not expect in the near future.

The sixth regulatory period has come into force for the period of 2023-2027. According to RONI, the new regulatory framework is aimed at stimulating investment and creating conditions for the effective implementation of EU energy policies, in particular the promotion of renewable energy sources, reducing greenhouse gas emissions, and increasing energy efficiency<sup>2</sup>. According to publicly available information, and in line with European legislation, the new tariff system provides the possibility to recover costs incurred by transmission and distribution, ensuring reasonable profitability for network operators. Any possible deficits which could occur on the network operator's side are furthermore subject to compensation in accordance with the new tariff framework.

In the years before the integration, ZSE's EBITDA amounted on average to EUR 250 million, while VSE's EBITDA was slightly above EUR 100 million on average. With a view to this, we expect an average EBITDA for integrated activities of at least EUR 350 million p.a. for the current regulatory period, which is a solid basis for financing future investments in upgrade and development of infrastructure in both Western and Eastern Slovakia. Joint investments in 2023 amounted to EUR 210 million, which we take as a reference value for future investments. Thus, the expected earnings capacity should be sufficient to cover future capex and dividend payments. Accordingly, we do not anticipate a substantial increase in debt in the course of the implementation of the joint strategy after the integration. Based on the publicly available information and historical financial data of both DSOs, we expect to see a further improvement in the key financials beginning with 2024, resulting from operational optimization and scale effects, as well as from the full-year contribution of VSE to the joint earnings, leading to an improved rating assessment.

## Further ratings

Based on the long-term issuer rating and taking into account our liquidity analysis, the short-term rating of the ZSE was set at L2 (standard mapping), which corresponds to a good liquidity assessment for one year.

The rating objects of the issue rating are exclusively the long-term senior unsecured issues, denominated in euro, issued by Západoslovenská energetika, a.s., which are included in the list of ECB-eligible marketable assets.

We have provided the long-term local currency senior unsecured notes issued by Západoslovenská energetika, a.s. with an unsolicited rating of **A- / positive**. The rating is based on the (respective) corporate issuer rating.

Long-term local currency senior unsecured notes issued by Západoslovenská energetika, a.s. and the above-mentioned subsidiaries, which have similar conditions to the current EMTN programme, denominated in euro and included in the list of ECB-eligible marketable assets, generally receive the same ratings as the current LT LC senior unsecured notes issued under the EMTN programme. Notes issued in any currency other than euro, or other types of debt instruments,

---

<sup>2</sup> Regulatory Office for Network Industries (RONI) 2021 Annual Report

have not yet been rated by CRA. For a list of all currently valid ratings and additional information, please consult the website of Creditreform Rating AG.

Table 2: Overview of CRA Ratings | Source: CRA

Rating Category	Details	
	Date of rating committee	Rating
Západoslovenská energetika, a.s.	02.07.2024	A- / positive / L2
Long-term Local Currency (LC) Senior Unsecured Notes issued by Západoslovenská energetika, a.s.	02.07.2024	A- / positive
Other	--	n.r.

## Appendix

### Rating history

The rating history is available under the following [link](#).

Table 3: Corporate Issuer Rating of Západoslovenská energetika, a.s.

Event	Rating created	Publication date	Monitoring until	Result
Initial rating	17 February 2022	21.02.2022	Withdrawal of the rating	A- / stable

Table 4: LT LC Senior Unsecured Issues issued by Západoslovenská energetika, a.s.

Event	Rating created	Publication date	Monitoring until	Result
Initial rating	17 February 2022	21.02.2022	Withdrawal of the rating	A- / stable

Table 5: Short-term issuer rating of Západoslovenská energetika, a.s.

Event	Rating created	Publication date	Monitoring until	Result
Initial rating	4 September 2023	<a href="http://www.creditreform-rating.de">www.creditreform-rating.de</a>	Withdrawal of the rating	L2

### Regulatory requirements

The rating<sup>3</sup> was not endorsed by Creditreform Rating AG (Article 4 (3) of the CRA-Regulation).

The present rating is, in the regulatory sense, an unsolicited rating that is public/private. The analysis was carried out on a voluntary basis by Creditreform Rating AG, which was not commissioned by the Issuer or any other third party to prepare the present rating.

The rating is based on the analysis of published information and on internal evaluation methods for the assessment of companies and issues. The rating object was informed of the intention of creating or updating an unsolicited rating before the rating was determined.

The rating object participated in the creation of the rating as follows:

With Rated Entity or Related Third Party Participation	No
With access to Internal Documents	No
With Access to Management	No

A management meeting did not take place within the framework of the rating process.

The documents submitted and information gathered were sufficient to meet the requirements of Creditreform Rating AG's rating methodologies.

<sup>3</sup> In these regulatory requirements the term "rating" is used in relation to all ratings issued by Creditreform Rating AG in connection to this report. This may concern several companies and their various issues.

The rating was conducted based on the following rating methodologies and the basic document.

Rating methodology	Version number	Date
<a href="#">Corporate Ratings</a>	2.4	July 2022
<a href="#">Corporate Short-Term Ratings</a>	1.0	June 2023
<a href="#">Government-related Companies</a>	1.1	May 2023
<a href="#">Non-financial Corporate Issue Ratings</a>	2.0	March 2024
<a href="#">Rating Criteria and Definitions</a>	1.3	January 2018

The documents contain a description of the rating categories and a definition of default.

The rating was carried out by the following analysts:

Name	Function	Mail-Address
Elena Damijan	Lead-analyst	E.Damijan@creditreform-rating.de
Christina Sauerwein	Analyst	C.Sauerwein@creditreform-rating.de

The rating was approved by the following person (person approving credit ratings, PAC):

Name	Function	Mail-Address
Tobias Stroetges	PAC	T.Stroetges@creditreform-rating.de

On 2 July 2024, the analysts presented the rating to the rating committee and the rating was determined. The rating result was communicated to the company on 2 July 2024. There has not been a subsequent change to the rating.

The rating will be monitored until Creditreform Rating AG withdraws the rating. The rating can be adjusted as part of the monitoring, if crucial assessment parameters change.

In 2011, Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on this registration, Creditreform Rating AG is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

### ESG-factors

You can find out whether ESG factors were relevant to the rating in the upper section of this rating report "Relevant rating factors".

A general valid description for Creditreform Rating AG, as well as a valid description of corporate ratings for understanding and assessing ESG factors in the context of the credit rating process, can be found [here](#).

### Conflict of interests

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or in approving credit ratings and rating outlooks.

Creditreform Rating AG ensures that the provision of ancillary services does not present conflicts of interest with its credit rating activities and discloses in the final rating reports any ancillary services provided for the rated entity or any related third party. The following ancillary services were provided for the rating entity or for third parties associated with the rated entity:

No ancillary services in the regulatory sense were carried out for this rating object.

For the complete list of provided rating and credit service ancillaries please refer to the Creditreform Rating AG's [website](#).

#### Rules on the presentation of credit ratings and rating outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our "Rating Committee Policy", all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, Creditreform Rating AG has used following substantially material sources:

##### Corporate issuer rating:

1. Annual report
2. Website
3. Internet research

##### Corporate issue rating:

1. Corporate issuer rating incl. information used for the corporate issuer rating
2. Documents on issues / instruments

There are no other attributes and limitations of the credit rating or rating outlook other than those displayed on the Creditreform Rating AG website. Furthermore, Creditreform Rating AG considers as satisfactory the quality and extent of information available on the rated entity. With respect to the rated entity, Creditreform Rating AG regarded available historical data as sufficient.

Between the time of disclosure of the credit rating to the rated entity and the public disclosure, no amendments were made to the credit rating.

The Basic Data Information Card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In cases where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating report and indicates how the different methodologies or other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings and best-case scenario credit ratings are explained.

The date at which the credit rating was initially released for distribution and the date when it was last updated, including any rating outlooks, is indicated clearly and prominently in the Basic Data Information Card as a “rating action”; initial release is indicated as “initial rating”, other updates are indicated as an “update”, “upgrade” or “downgrade”, “not rated”, “confirmed”, “selective default” or “default”.

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within the Basic Data Information Card.

In accordance with Article 11 (2) EU-Regulation (EC) No 1060/2009, a registered or certified credit rating agency shall make available, in a central repository established by ESMA, information on its historical performance data including the rating transition frequency and information about credit ratings issued in the past and on their changes. Requested data are available at the [ESMA website](#).

An explanatory statement of the meaning of Creditreform Rating AG’s default rates are available in the credit rating methodologies disclosed on the website.

### Disclaimer

Any rating performed by Creditreform Rating AG is subject to the Creditreform Rating AG Code of Conduct, which has been published on the web pages of Creditreform Rating AG. In this Code of Conduct, Creditreform Rating AG commits itself – systematically and with due diligence – to establish its independent and objective opinion as to the sustainability, risks and opportunities concerning the enterprise or the issue under review.

Future events are uncertain, and forecasts are necessarily based on assessments and assumptions. This rating is therefore no statement of fact, but an opinion. For this reason, Creditreform Rating AG cannot be held liable for the consequences of decisions made on the basis of any of their ratings. Neither should these ratings be construed as recommendations for investors, buyers or sellers. They should only be used by market participants (entrepreneurs, bankers, investors etc.) as one factor among others when arriving at corporate or investment decisions. Ratings are not meant to be used as substitutes for one's own research, inquiries and assessments.

We have assumed that the documents and information made available to us by the client are complete and accurate and that the copies provided to us represent the full and unchanged contents of the original documents. Creditreform Rating AG assumes no responsibility for the true and fair representation of the original information.

This report is protected by copyright. Any commercial use is prohibited without prior written permission from Creditreform Rating AG. Only the full report may be published in order to prevent distortion of the report's overall assessment. Excerpts may only be used with the express consent of Creditreform Rating AG. Publication of the report without the consent of Creditreform Rating AG is prohibited. Only ratings published on the Creditreform Rating AG web pages remain valid.

Creditreform Rating AG

### Contact information

Creditreform Rating AG

Europadamm 2-6  
D-41460 Neuss

Phone: +49 (0) 2131 / 109-626  
Telefax: +49 (0) 2131 / 109-627

E-Mail: [info@creditreform-rating.de](mailto:info@creditreform-rating.de)  
Web: [www.creditreform-rating.de](http://www.creditreform-rating.de)

CEO: Dr. Michael Munsch  
Chairman of the Board: Michael Bruns

HR Neuss B 10522