

Rating object	Rating information	
Západoslovenská Energetika, a.s. Creditreform ID: 400981365 Incorporation: 20 June 2001 Based in: Bratislava, Slovak Republic Main (Industry): Electricity distribution and supply CEO: Markus Kaune	Corporate Issuer Rating: A- / stable	Type: Initial rating Unsolicited Public rating
	LT LC Senior Unsecured Issues,; A- / stable	Other: n.r.
	Rating date: 17 February 2022 Monitoring until: withdrawal of the rating Rating methodology: CRA "Corporate Ratings" CRA "Non-Financial Corporate Issue Ratings" CRA "Government Related Companies" CRA "Rating Criteria and Definitions" Rating history: www.creditreform-rating.de	
<u>Rating objects:</u> Long-term Corporate Issuer Rating: Západoslovenská Energetika, a.s. Long-term Local Currency (LT LC) Senior Unsecured Issues		

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Summary

Company

Západoslovenská Energetika, a.s. (ZSE, Company) is a holding company of the ZSE Group, whose main activities include services related to electricity distribution in the region of western Slovakia, as well as electricity and gas supplies, mainly in the same region. The Group owns the electricity distribution network in western Slovakia with a length of 39,100 km, and is in charge of its maintenance and development. In terms of the number of customers, the Company is the largest power distribution company in the Slovak Republic, followed by two other DSOs whose activities are concentrated in the country's central and eastern parts. ZSE is also the largest Slovak electricity supplier in terms of total volume of electricity sold. In addition, the Company supplies gas, operates two small hydropower plants as well as a steam-gas power plant in western Slovakia with an installed capacity of 430 MW, and is active in the field of electric mobility. In the financial year 2020, with 1,983 employees, the Company distributed 9.4 TWh (2019: 9.8 TWh) and sold 6.7 TWh (2019: 6.4 TWh) of power and supplied 3.0 TWh (2019: 2.8 TWh) of gas. Consolidated revenue amounted to EUR 1,211m (2019: 1,283EURm) and the consolidated annual result was EUR 135.6 million (2019: EUR 119.9 million).

Rating result

The current unsolicited corporate issuer rating of **A-** attests Západoslovenská Energetika, a.s. 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 economically most developed western part of the country and as one of the most important domestic energy suppliers. The Group benefits from a stable and supportive regulatory framework, generating more than 90% of its EBITDA in a regulated environment, bringing solid and predictable cash flows. Despite the overall negative effects of the COVID-19 pandemic, the Company demonstrated stable revenues and proved its strong earnings capacity in the 2020 financial year. The relatively elevated leverage is compensated by sufficient, reliable cash flows and a comfortable financial debt maturity structure. Given the fact that the Slovak Republic (CRA rating **A+ / negative** as of 15 October 2021) 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

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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. is **stable**. Taking into consideration the overall progress towards a sustainable containment of the COVID-19 pandemic, and the generally stable business model of ZSE, we expect a further stable earnings situation in the Company's distribution business and do not expect major negative changes in its supply activities. The fact that the current regulatory period was prolonged until 2022 underpins our assessment.

Reference:

The relevant rating factors (key drivers) mentioned in this section, are predominantly based on internal analyses, evaluations of the rating process, the derived valuations of the analysts participating in the rating and, if applicable, other rating committee members. The fundamental external sources used, are specified in the section "Regulatory requirements" and "Rules on the presentation of credit ratings and rating outlooks".

Excerpts from the financial key figures analysis 2020:

- + Stable revenues despite COVID-19 influence
- + Slightly improved annual profit
- + Improved equity ratio
- Overall improvable equity ratio
- Asset coverage ratio
- Net working capital

General rating factors summarize the key issues that – according to the analysts as per the date of the rating – have a significant or long-term impact on the rating, whether positive (+) or negative (-).

Relevant rating factors

Table 1: Financials | Source: Západoslovenská energetika, a.s. Annual Report 2020, standardized by CRA

Západoslovenská energetika, a.s. Selected key figures of the financial statement analysis Basis: Annual report as of 31.12. (IFRS)	CRA standardized figures ¹	
	2019	2020
Sales (EUR million)	1,283.19	1,210.84
EBITDA (EUR million)	233.97	219.82
EBIT (EUR million)	176.89	156.78
EAT (EUR million)	119.85	135.57
EAT after transfer (EUR million)	119.85	135.57
Total assets (EUR million)	1,243.09	1,315.13
Equity ratio (%)	15.87	18.87
Capital lock-up period (days)	32.55	34.96
Short-term capital lock-up (%)	8.81	9.58
Net total debt / EBITDA adj. (Factor)	4.13	4.53
Ratio of interest expenses to total debt (%)	1.69	1.65
Return on investment (%)	11.06	11.65

General rating factors

- + Strategic importance for the country
- + Government-related company
- + Stable and predictable cash flows
- + Transparent and supportive regulatory framework
- + Natural monopoly as a DSO in the western part of the Slovak Republic
- + Earnings differentiation through engagement in supply business
- + Proven access to financial markets
- + Majority of EBITDA invulnerable to economic fluctuations
- + High market entry barriers (distribution)

¹ 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 considers all balance sheet liabilities. Therefore, the key financial figures shown often deviate from the original values of the company.

- High capital intensity
- Exposure to operational risks
- Exposure to demand and commodity price fluctuation (supply business)
- Dependency on weather and other exogenous conditions
- Limited growth possibilities, regional concentration

Current rating factors

- + Stable revenues and EBITDA despite implications of the COVID-19 pandemic
- + Improved equity ratio in 2020
- Still weak equity ratio
- Relatively generous dividend payments

Prospective rating factors

- + Further stabilization of the economic situation and overall growing demand for power
- + Strengthening of position as the largest power supply company in the Slovak Republic
- + Increase of the market share in gas supply
- + Increase of RAB in the course of grid development as a basis for tariff calculation
- Negative changes in the regulatory framework
- Growing competition in the supply business
- Further increase in leverage due to higher capex

ESG-factors

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

On the basis of the sustainability report and annual report of ZSE and the other documents available to us, we currently assess the risks from ESG factors in relation to the rating object as low.

As a distribution company we believe that the Group plays an important role in the decarbonisation 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 sustainable and emission-free society and adopted the Sustainability Development Goals (SDG) of the UN and the guidelines of the European Green Deal as essential components of its operations.

Inter alia, the Group has committed itself to reduce the scope 1 and scope 2 emissions by 75% by 2030 and to achieve a complete scope 1 and 2 neutrality by 2040. Scope 3 emissions shall be completely neutralized by 2050, as aligned with the plans of EU.

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

Current rating factors are the key factors that, in addition to the underlying rating factors, have an impact on the current rating.

Prospective rating factors are factors and possible events which – according to the analysts as of the date of the rating – would most likely have a stabilizing or positive effect (+) or a weakening or negative effect (-) on future ratings, if they occurred. This is not an exhaustive list of possible future events with potential relevance for future ratings. Circumstances can arise that are not included in the list of prospective factors whose effects are impossible to assess at the time of the rating, either because these effects are uncertain or because the underlying events are deemed unlikely to occur.

ESG factors are factors related to environment, social issues and, governance. For more information, please see the "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.

services and own processes, modernization of distribution facilities (ACON and Danube InGrid projects), improvement of the Company's buildings energy efficiency, development of charging points infrastructure for e-vehicles, initiating and taking part in a range of nature and bio-diversity protecting 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 compared to its peers as average.

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](#).

Best-case scenario: A-

In our best-case scenario for one year, we assume a corporate issuer rating of A-. Taking into consideration the tariff methodology based on price cap mechanism as well as tight competition in the supply business, we believe that a substantial improvement of the Company's earnings situation or financing structure within one year is unlikely. Moreover, we expect a slight deterioration of the Group's financials in connection with the upcoming reclassification of the first series of the bond due in October 2023 to short-term debt. 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 15 October 2021), 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 increased its capital expenditure with a simultaneous considerable increase in debt, or in the event of substantial disruptions in its earnings situation. In addition, a negative change in the sovereign rating of Slovak Republic could cause a rating downgrade of the Company.

Business development and outlook

In the financial year 2020, despite the effects of the COVID-19 pandemic with an overall decrease in energy consumption, the Group generated stable consolidated revenues of EUR 1,211 million (2019: EUR 1,283 million) and an improved annual profit of EUR 135.6 million (2019: EUR 119.9 million).

Table 2: The development of business of Západoslovenská energetika, a.s. (Group) | Source: Annual Report 2020

Západoslovenská energetika, a.s. (Group)				
In million EUR	2019	2020	Δ	Δ %
Sales	1,283.19	1,210.84	-72.35	-5.0
EBITDA	233.97	219.82	-14.15	-6.0
EBIT	176.89	156.78	-20.11	-11.4
EBT	159.58	159.17	-0.41	-0.3
EAT	119.85	135.57	16.02	13.1

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.

The annual result was positively influenced by a government grant for purchases of energy from renewable energy sources, which amounted to EUR 20.5 million and was approved and paid in 2020 in order to cover the 2018 deficit between the amount included in the regulated price of distribution services and the actual support of renewable energy sources in the form of their state mandated purchase price. We consider these revenues extraordinary in our adjusted financial figures.

Both main business segments contributed to the positive development of the Group's financials.

Table 3: The development of Distribution and Supply segments and Group's Total in 2020 (including Generation and Other revenues after consolidation effects) | Source: Annual Report 2020

Západoslovenská energetika, a.s. according to individual corporate divisions						
in million EUR	Distribution		Supply		Total	
	2019	2020	2019	2020	2019	2020
Revenues	490.1	352.7	1,017.0	1,094.4	1,283.2	1,210.8
EBITDA	201.2	196.4	27.3	35.3	234.3	239.8
EBIT	125.2	114.8	24.7	35.6	177.2	176.8
Capex	96.5	100.6	1.3	1.4	108.9	110.0

As a result of COVID-19 pandemic and overall reduced energy consumption, the Group saw a moderate decrease by 4.08% in the volume of electricity distributed, from 9.8 TWh to 9.4 TWh. The more noticeable drop in distribution revenues (by 28%) was caused by the changes in the conditions of invoicing of renewable energy sources activities and transfer of their support from the Group to the state-owned OKTE (organizer of the short-term electricity market). Simultaneously, the related costs were also reduced, so that the decrease in the segment's earnings was marginal. Moreover, the volumes in the Supply segment edged up both in electricity supply with 6.7 TWh (2019: 6.4 TWh) and in gas supply (3.0 TWh vs. 2.8 TWh in 2019). The revenues saw a solid increase of 7% and the segment's EBITDA surged by 29%. A part of the supply business is also subject to regulation. In 2020, the total share of EBITDA from regulated activities in both distribution and supply segments amounted to 92% (2019: 91%).

In 2020, the cash generated from operating activities before taxes and interest amounted to EUR 249.3 million, a slight decrease compared to the previous year (EUR 260,3 million). The dividend payments amounted to EUR 74.1 million (2019: EUR 63.8 million). As in the previous years, the majority of the capital expenditure was allocated to the distribution segment (EUR 100.6 million out of EUR 110 million; 2019: EUR 96.5 million out of EUR 108.9 million). The capex aims at enlarging the distribution grid in line with growing demand from the business side and the need for new connections, also as a result of the integration of renewable energy sources into the grid, on the one hand, and on the other hand maintenance, digitalization and enhancing grid reliability with a minimization of network losses in accordance with quality standards set by the regulator. According to the Group's data the grid expanded from 38,800 km to 39,100 km in 2020 and the number of supply points grew to 1,180,159 from 1,165,554. In the supply segment, the Group increased the number of supply points from 931,836 to 935,326. In this segment, the Group aims to maintain its position as the leading power supplier and to expand in the gas supply business, hence developing synergies and cross-selling possibilities.

Thanks to its sustainable earnings structure, with the majority of cash flows originating from regulated activities and for the most part invulnerable to economic fluctuations, the Group demonstrated an overall positive development in the pandemic year 2020.

Structural risk

The ZSE Group comprises the parent company Západoslovenská Energetika, a.s. and its subsidiaries, the most important of which are:

- Západoslovenská distribučná, a.s., whose core business is electricity distribution
- ZSE Energia, a.s., the main activities of which comprise electricity and gas supply to end consumers

The parent company Západoslovenská Energetika, a.s., with its seat in Bratislava, was incorporated in the Commercial Register on 1 November 2001. The Company, like the other two Slovakian power distribution companies - Stredoslovenská Energetika, a.s. (SSE) in the middle of the country and Východoslovenská Energetika (VSE) in eastern Slovakia - was established after the reorganization of the state enterprise, which originally held all of the assets of the Slovak electricity business.

The share capital of the Company of EUR 196,969,174.86 is composed of 5,934,594 pieces of booked ordinary shares at the nominal value of EUR 33.19 per share. Shares are not publicly traded. The main shareholder is the Slovak Republic represented by the Ministry of Economy of the Slovak Republic with 51% of the shares, and the E.ON Group through E.ON Slovensko, a.s. (39%) and E.ON Beteiligungen GmbH (10%).

The Company is jointly controlled by E.ON and the Slovak government as a result of a shareholders agreement which requires both parties to act jointly to direct the activities that significantly affect the returns of the Company. The governance structure stipulates that the strategic plan has to be approved by representatives of both E.ON and the Slovak government.

The Board of Directors consists of five members, which are appointed by the General Meeting. Three of them are nominated by E.ON and two of them by the Slovak Republic. The director's activities are controlled by the Supervisory Board, consisting of nine members, two thirds of which have to be elected by the General Meeting and one third being representatives of the employees.

Based on publicly available information, we assume sufficiently developed structures with regard to risk management, accounting, and controlling, as well as other administrative and operational areas.

Business risk

The main business areas of the Group are

- Electricity distribution - distribution of electricity using the distribution networks in western Slovakia. The distribution business is regulated and the Group is required to provide access to its network to third parties on terms approved by Regulatory Office for Network Industries (ÚRSO/RONI).
- Electricity and gas supply - supply of electricity and gas to wholesale and retail customers in Slovakia and supply of electricity to wholesale customers abroad. This business is open to competition by other suppliers. Pricing for certain classes of customers in the segment is also regulated by ÚRSO.

The Group produces electricity in two small hydroelectric plants and one gas-fired steam turbine power plant, engages to a small extent in trading activities, and generates some external revenues from projects and engineering activities in investment construction and heat management

for third parties. The holding company provides central services such as accounting, controlling, HR and other services to its subsidiaries.

In its distribution area of western Slovakia, which includes the capital city, Bratislava and approximately half of the Slovak population, the Group has a monopoly position as the sole electricity distributor. The Group is also the country's dominant electricity supplier. The western region covers approximately 15,000 km² (30% of its whole territory) and has approximately 2.5 million inhabitants. ZSE has 1.2 connection points and is thus the biggest of the three Slovakian DSOs, with 0.7 connection points belonging to SSE in the middle of the country and 0.6 connection points to VSE in its eastern part. ZSE is, according to Company's information, the largest electricity supplier in Slovakia in terms of volume supplied, with a market share of approximately 30%. The market share in its gas supply business amounts to 5%.

Certain aspects of the relationship between the ZSE Group and its customers with respect to electricity distribution and electricity and gas supplies, including the pricing of services provided to certain groups of customers, are regulated by the ÚRSO. As a result of regulation in the distribution business and partial regulation of the supply business, approximately 92% (2019: 91%) of the Group's EBITDA and 90% of the Group's EBIT (2019: 90%) in 2020 were generated from sales to customers who are subject to price regulation. The conditions of the regulation mechanism are stipulated for a period of five years. The current regulation period 2017-2021 has been prolonged by one year, until the end of 2022. The regulatory mechanism is a price cap mechanism, which determines a permitted level of revenue, covering operating expenses as well as depreciation and amortization, and including a profit component. The profit component is a function of the RAB (regulation asset base) and WACC (weighted average cost of capital) rate, both of which are approved and determined by ÚRSO. The Group is exposed to risks associated with possible changes in regulation or licensing requirements, which would result in less favorable conditions for the Group and could negatively affect its revenues. The Company is exposed to operational risks which are related to the distribution system operation and management, including failures, unplanned supply disruptions and compliance with applicable laws.

A significant part (over 60%) of revenues from electricity distribution represent connecting fees and do not depend on the volume of electricity consumption. This mitigates the risks resulting from volatility in electricity consumption and makes the Group's key distribution revenues resistant to economic cycles. However, the residual portion of the distribution revenues and its business segment electricity and gas supply are vulnerable to economic cycles. Tight competition in the field of energy supply could put the Group's market share under pressure and force it to make price concessions to customers. The Group is exposed to credit risks, risks of disruptions in gas or power supply, risks connected to price volatility on energy markets, exogenous factors such as hydrology and general climatic conditions.

Overall, we assess the business risk profile of the Group as low due to its earnings structure, the majority of which represents stable and predictable cash flows from regulated business activities. The Group operates in a rather stable regulatory framework, which facilitates reasonable profits and, as far as we can assess, allows in the course of consultations to a certain extent participation in developing regulatory policy with the authorities in charge. Furthermore, the Company is systemically important as the operator of the electricity distribution grid in the most economically developed region of the country with the highest population density and as a large market player in the electricity supply business. For this reason, we assume that the state would provide systemic support to the Group if needed. As far as we can assess, the Group has developed a prudent approach to managing volatility of commodity prices by maintaining a limited open position and has, in our view, an adequate insurance coverage of receivables and against elementary risks.

Financial risk

For analytical purposes, CRA adjusted the original values in the financial statements in the context of the financial ratio analysis.

The total adjusted assets amount increased by EUR 72 million to EUR 1,315 million, primarily due to the increase in fixed assets as a result of investments. The Group's operations are capital intensive, with fixed assets representing over 80% of the consolidated total assets. The Group's business, focused on the distribution of energy, requires a high level of capex in connection with enlargement and maintenance of the power grid to ensure an adequate and reliable infrastructure. We anticipate a further growth of capital intensity due to the Company's investment needs in line with the overall increasing demand for power, and the capex exceeding the depreciation and amortization expenses so far. On the other hand, this will induce the growth of the RAB, which is the basis for the determination of distribution prices.

Adjusted equity increased by 25.8% to EUR 248.2 million (2019: EUR 197.2 million) as of 31 December 2020, mainly due to retained earnings. The adjusted equity ratio also edged up slightly by 3 p.p. to 18.87%. The equity ratio, in our view, has room for improvement and is, at least partly, a result of a rather generous dividend distribution policy. Accordingly, the leverage is also elevated. On the other hand, we do not see this constellation as critical at the moment because of the Company's relatively strong earnings capacity and its ability to deleverage. The Group demonstrates a rather solid adjusted net total debt / EBITDA of 4.53 and adjusted net finance debt / EBITDA of 2.54. The solid earnings capacity of the Group is attested by cash generated from operations before changes in working capital which amounted to EUR 258 million in 2020 (2019: EUR 244 million), which substantially exceeds the yearly capex needs of approximately EUR 110 million and dividend payments of up to EUR 80 million so far.

ZSE's total debt increased by approximately EUR 21 million, mainly due to the increase in short-term debt (by EUR 21 million), especially in provisions for legal proceedings and for the release of CO₂. Legal proceedings emerged mostly in connection with the fact that certain customers contested the fairness and appropriateness of decisions made by the network industry regulator. As of 31 January 2020, there was a slight imbalance in working capital structure, as short-term liabilities, including short-term provisions, were not covered by short-term assets. On the other hand, as of 31 December 2020 the Company had agreements with banks regarding revolving credit facilities amounting to EUR 75 million and overdraft credit facilities amounting to EUR 100 million, both of which had not been drawn, minimizing liquidity risks. The holding company uses cash pooling with subsidiaries to optimize the use of cash balances within the Group.

Net financial debt remained largely stable at EUR 577 million (2019: EUR 578 million). The financial debt consists mainly of liabilities from bonds issued and lease liabilities. The issued bonds (ISIN: XS0979598462) of EUR 315 million are due on 14 October 2023 and carry a coupon of 4.00% p.a. The series two of issued bonds (ISIN: XS1782806357) of EUR 315 million are due on 2 March 2028 and carry a coupon of 1.75% p.a. The bonds are traded on the Irish Stock Exchange, Dublin.

We currently consider the financing structure of the Group as appropriate, taking into consideration the comfortable maturity profile of its financial debt and its net total debt / EBITDA adj. of 4.53, as well as unused credit facilities with banks. However, the probable intensification of investment plans in line with the overall EU trends of expanding renewable energy sources and an overall increase in demand for energy, along with upcoming repayment of the bond due in 2023, could put pressure on the Group's liquidity. On the other hand, we do not see any significant risks in connection with a possible refinancing of the bonds so far.

Issue rating

Issue rating details

The rating objects of this issue rating are exclusively the long-term senior unsecured issues, denominated in euro (LT LC SUI), issued by Západoslovenská Energetika, a.s. (issuer), which are included in the list of ECB-eligible marketable assets. The ECB list of eligible marketable assets can be found on the website of the ECB. The issues have been issued under the EMTN Programme with their latest prospectus from 15 February 2018. This EMTN Programme amounts to EUR 1 billion. The notes under the EMTN Programme are senior unsecured, and rank at least pari passu among themselves and with all other present and future unsecured obligations of the issuer. Additionally, the notes benefit from a negative pledge provision, a change of ownership clause and a cross default mechanism.

Result corporate issue rating

We have provided the debt securities issued by Západoslovenská Energetika, a.s. with a rating of **A-**. The rating is based on the corporate rating of Západoslovenská Energetika, a.s. Other types of debt instruments or issues denominated in other currencies of the issuer have not been rated by CRA. For a list of all currently valid ratings and additional information, please consult the website of Creditreform Rating AG.

The following tables provide an overview of the ratings issued by Creditreform Rating AG in this context, as well as the key features of the EMTN Programme considered here.

Overview

Table 4: Overview of CRA Ratings | Source: CRA

Rating Category	Details	
	Date	Rating
Západoslovenská Energetika, a.s. (Issuer)	17.02.2022	A- / stable
Long-term Local Currency (LC) Senior Unsecured Issues	17.02.2022	A- / stable
Other	--	n.r.

Table 5: Overview of 2018 Euro Medium Note Programme | Source: Base Prospectus dated 15 February 2018

Overview of 2018 EMTN Programme			
Volume	EUR 1,000,000,000	Maturity	Depending on respective bond
Issuer / Guarantor	Západoslovenská Energetika, a.s. (Issuer)	Coupon	Depending on respective bond
Arranger	UniCredit Bank	Currency	Depending on respective bond
Credit enhancement	none	ISIN	Depending on respective bond

All future LT LC senior unsecured notes issued by Západoslovenská Energetika, a.s. which have similar conditions to the current EMTN Programme, denominated in euro and included in the list of ECB-eligible marketable assets will, until further notice, receive the same ratings as the current LT LC senior unsecured notes issued under the EMTN Programme. Notes issued under

the programme in any currency other than euro, or other types of debt instruments, 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. For the time being, other emission classes or programs (such as the Commercial Paper Programme) and issues that do not denominate in euro will not be assessed.

Financial ratio analysis

Table 6: Financial key ratios | Source: Západoslovenská Energetika, a.s. annual report 2020, structured by CRA

Asset structure	2017	2018	2019	2020
Fixed asset intensity (%)	78.71	80.90	79.55	80.53
Asset turnover	--	1.10	1.11	0.96
Asset coverage ratio (%)	10.09	23.70	60.04	60.94
Liquid funds to total assets	9.45	4.08	6.61	6.28
Capital structure				
Equity ratio (%)	6.74	11.61	15.87	18.87
Short-term debt ratio (%)	51.45	20.92	22.66	22.94
Long-term debt ratio (%)	1.20	7.56	31.89	30.20
Capital lock-up period (in days)	6.48	29.78	32.55	34.96
Trade-accounts payable ratio (%)	1.87	8.49	9.21	8.82
Short-term capital lock-up (%)	44.92	7.70	8.81	9.58
Gearing	12.43	7.26	4.89	3.97
Leverage	--	10.78	7.21	5.74
Financial stability				
Cash flow margin (%)	--	12.50	13.73	14.52
Cash flow ROI (%)	--	13.21	14.39	13.57
Total debt / EBITDA adj.	4.68	4.77	4.48	4.91
Net total debt / EBITDA adj.	4.20	4.55	4.13	4.53
ROCE (%)	25.11	21.38	23.53	19.13
Total debt repayment period	--	7.08	3.98	5.16
Profitability				
Gross profit margin (%)	29.05	29.88	27.54	28.34
EBIT interest coverage	7.12	6.46	10.03	8.91
EBITDA interest coverage	9.44	8.55	13.27	12.49
Ratio of personnel costs to total costs (%)	5.87	5.90	5.81	6.47
Ratio of material costs to total costs (%)	71.42	70.59	72.87	72.09
Cost income ratio (%)	87.63	88.18	87.81	88.68
Ratio of interest expenses to total debt (%)	2.24	2.46	1.69	1.65
Return on investment (%)	11.75	11.10	11.06	11.65
Return on equity (%)	--	100.47	73.90	60.87
Net profit margin (%)	9.01	8.48	9.20	11.03
Operating margin (%)	13.87	13.28	13.58	12.75
Liquidity				
Cash ratio (%)	18.37	19.52	29.18	27.39
Quick ratio (%)	39.18	85.76	85.08	82.31
Current ratio (%)	41.39	91.32	90.26	84.89

Appendix

Rating history

The rating history is available under <https://www.creditreform-rating.de/en/ratings/published-ratings.html>.

Table 7: Corporate Issuer Rating of Západoslovenská Energetika, a.s.

Event	Rating created	Publication date	Monitoring until	Result
Initial rating	16.02.2022	www.creditreform-rating.de	Withdrawal of the rating	A- / stable

Table 9: LT LC Senior Unsecured Issues issued by Západoslovenská Energetika, a.s.

Event	Rating created	Publication date	Monitoring until	Result
Initial rating	16.02.2022	www.creditreform-rating.de	Withdrawal of the rating	A- / stable

Regulatory requirements

The rating² 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. 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:

Unsolicited Corporate Issuer / Issue Rating	
With rated entity or related third party participation	Yes
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 and information gathered were sufficient to meet the requirements of Creditreform Rating AG's rating methodologies.

² 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
Corporate Ratings	2.3	29.05.2019
Government-related Companies	1.0	19.04.2017
Non-financial Corporate Issue Ratings	1.0	October 2016
Rating Criteria and Definitions	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
Philip Michaelis	PAC	P.Michaelis@creditreform-rating.de

On 17 February 2022, the analysts presented the rating to the rating committee and the rating was determined. The rating result was communicated to the company on 17 February 2022. 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.

In the event of providing ancillary services to the rated entity, Creditreform Rating AG will disclose all ancillary services in the credit rating report.

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.

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