

**ANNUAL
REPORT 2021**



**STREDOSLOVENSKÁ
ENERGETIKA**



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INTRODUCTION BY THE DIRECTOR GENERAL



Dear business partners, customers, shareholders and colleagues,

Indeed, it is no exaggeration to say that the energetic year 2021 was a turbulent one. At the beginning, we all hoped that the Covid-19 pandemic had afflicted us enough and that life, not just the energetic one, would gradually return to normal. After the partial recovery of the world economy and the lifting of measures, demand for energy raw materials has indeed started to grow significantly. Due to a number of factors, the price of electricity and gas rose continuously throughout the year and reached historical highs.

However, price increases have been significant since the beginning of the year, which has had a major impact on our customers' behavior. They abandoned their long-standing buying strategies and postponed buying decisions to the end of the year, which ultimately proved to be an un-

fortunate decision. In fact, at the end of 2021, the base band for 2022 was selling several times higher than the year before.

The extreme increase in energy prices towards the end of the year eventually caused the collapse of several alternative energy suppliers. This fact has significantly changed the balance of power on the Slovak energy market and put traditional suppliers in a very difficult situation. SSE has become the supplier of last resort for almost 50,000 consumption points. Households, small businesses as well as those from the B2B segment were left without their energy supplier from one day to the next. This resulted in an extremely heavy strain on all our contact points and our colleagues who handled the whole process. Despite this, we have been successful in providing a seamless supply of electricity to these customers. My big thanks to all the employees who were part of the whole SLR process and gave their full attention and their full working capacity to fulfilling the customer requirements.

However, despite the ongoing measures, we still managed to meet our customers at least partially in person in 2021. We organized several customer seminars and continued the concept of online business breakfasts. The limitations of face-to-face meetings and consultations have

challenged us to be even closer to our customers. That's why we have developed our digital channels so that customers can conveniently handle their requests. Households have a new SSE Customer eZone, including a mobile app, to fully handle all their requests and get the information they need. In 2022, we will make the same service available also to entrepreneurs. Other projects we want to implement are focused on process automation, the use of modern platforms as well as efficiency improvements. For new products, we also focus on the possibility of electronic contracting and tools for effective customer feedback.

At SSE, we are still very much aware of the importance of protecting nature and the environment. That is why in spring we launched a new service Green Energy from SSE, thanks to which our customers can draw electricity produced exclusively from renewable energy sources in Slovakia. Thanks to this project we also supported the Rescue Station and the eco-centre in Závrivá, to which we donated EUR 1 for each activated Green Energy service from SSE. Our part is not only nature conservation but also supporting various organizations and charity projects. During the year we organized two charitable collections. The first in spring went to the Diocesan Charity in Žilina. It helped people within the Žilina, Kysuce and

Čadčany districts. The second, autumn collection was intended for the Spiš Catholic Charity in Liptovský Mikuláš. Toys and board games delighted children from low-income families throughout the Liptov district.

Despite an extremely challenging year, my thanks go to our business partners and customers. Our constant endeavour is to be the first choice as an expert partner in solving our customers' complex energetic challenges of all kinds. The situation on the energy market is currently influenced mainly by the uncertainty regarding energy supplies due to the conflict in Ukraine. However, as a strong energy company, SSE is continuously strategically strengthening its position in the non-commodity segment, in addition to the traditional commodities of electricity and natural gas. We are ready to participate in the transformation of the whole society and the creation of a greener and more sustainable future by implementing appropriately selected projects with high added value for the quality of life in the Slovak Republic and the EU.

JUDr. Zdeněk Schraml
Director General



ABOUT THE COMPANY

BASIC DATA ABOUT THE COMPANY

Stredoslovenská energetika, a. s., CRN 51 865 467, based at Pri Rajčianke 8591/4B, Žilina 010 47 (hereinafter referred to as "SSE") is registered in the Commercial Register of the District Court of Žilina, Section Sa, Insert No: 10956/L.

The company SSE was established on 19 July 2018 and entered into the Commercial Register on 3 August 2018 under the business name Stredoslovenská energetika Obchod, a. s. with effect from 1 January 2019, the company acquired by contribution the part of the business relating to all matters related mainly to the purchase and sale of electricity and gas, energy efficient solutions as well as the sale of non-commodity products, etc., from its parent company Stredoslovenská energetika Holding, a.s. (until 31 December 2018 under the business name Stredoslovenská energetika, a. s.). Together with the acquired contribution of part of the business, SSE acquired with effect from 1 January 2019 its current business name.

In 2021, SSE mainly provided its customers with electricity supply, gas supply and related complex services.

SCOPE OF BUSINESS

In 2021, SSE operated on the basis of allowances issued by the Regulatory Office for Network Industries in the following main activities:

- electricity supply,
- gas supply.

In addition to the above activities, SSE was engaged in other activities on the basis of issued trade and other licenses, in particular:

- providing energy services with guaranteed energy savings,
- the provision of energy support services,
- the performance of the activities of an energy auditor,
- financial intermediation – performance of the activity of a tied financial agent in the insurance or reinsurance sector.

SHAREHOLDING STRUCTURE

The sole shareholder of Stredoslovenská energetika, a. s. is Stredoslovenská energetika Holding, a.s., which owns 100% of its shares

The joint stock company is registered in the Commercial Register of the District Court of Žilina, section Sa, insert No: 10956/L, date of entry 3 August 2018.

IDENTIFICATION DATA

Stredoslovenská energetika, a. s.
Pri Rajčianke 8591/4B
010 47 Žilina

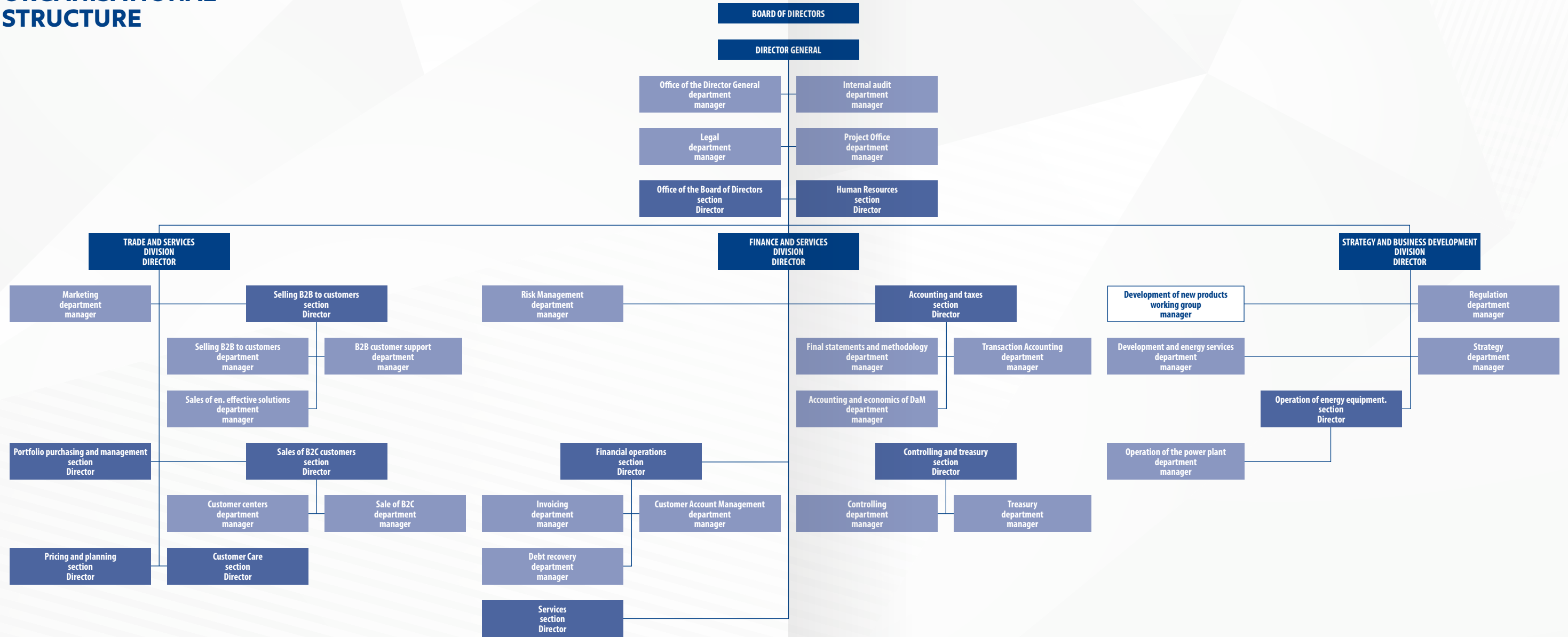
CRN: 51 865 467
VAT ID: SK 2120814575
TIN: 2120814575
Bank details
VÚB, a. s. Žilina
IBAN: SK91 0200 0000 0000 0070 2432
SWIFT: SUBASKBX

041/519 1111
041/519 2575

sse@sse.sk
www.sse.sk



ORGANISATIONAL STRUCTURE



COMPANY MANAGEMENT TILL 31 DECEMBER 2021

BOARD OF DIRECTORS:

Mgr. Petr Sekanina	Chairman
Ing. Tomáš Gažúr	Vice-President
Ing. Michal Uherčík	Member
Ing. Jiří Feist	Member
Ing. Petr Tomášek	Member

SUPERVISORY BOARD:

JUDr. Jozef Pajer	Chairman
Ing. Jozef Antošík	Vice-President
Ing. Tomáš Husár	Member
Mgr. Miroslav Procháska	Member
Ing. Marián Smorada, PhD.	Member
Ing. Slavomír Božoň	Member
Peter Sňahničan	Member elected by the staff
Mgr. Elena Martoníková	Member elected by the staff
Mgr. Juraj Kadaši	Member elected by the staff

EXECUTIVE LEADERSHIP:

JUDr. Zdeněk Schraml	Director General
Mgr. Szilárd Mangult	Head of Sales and Services
Ing. Peter Ďurmek	Head of Finance and Services
Mgr. Ivan Weiss	Head of Strategy and Business Development



TRADE AND SERVICES

The year 2021 was an extreme year in terms of developments in the energy commodities market. During and especially at the end of the period, there was an unprecedented rise in electricity and gas prices, which was caused by a combination of negative phenomena that directly and indirectly influenced prices. And it was turbulent not only in terms of the societal situation, but also because of the earthquake in the energy market. As a consequence, several alternative energy suppliers in Slovakia have ceased their activities. Which meant that some customers were left without a supplier and fell into the SLR (supplier of last resort) mode. Or they had to contract with a new supplier at the time of the highest prices. It is therefore extremely important that SSE has remained a stable partner for our customers and has been able to deliver quality customer service.

COMPANY ACTIVITIES

SALES TO B2B CUSTOMERS

After the partial recovery of the world economy after the Covid-19 pandemic and lifting of measures, demand for energy raw materials has indeed started to grow significantly. Coupled with increasing demand from China, natural disasters in Australia and related coal shortages, gas supply constraints from Russia, enforcement of the European Green Deal and other factors, the price of electricity and gas rose continuously throughout the year without significant adjustments.

As the rise in energy commodity prices was unnatural and many customers were expecting a correction during the year, they waited to purchase and execute tranches for 2022. They were abandoning their long-standing buying strategies and postponing buying decisions to the end of the year. In addition to the factors mentioned above, the rising price of electricity and gas was also influenced by the increasing demand that accumulated towards the end of the year. However, the opposite trend has emerged in the price development. At the end of the year, the CAL22 baseband was trading several times higher than it was at the same time in 2020. As a consequence of the market panic, some customers have shifted their commodity purchases into the year of consumption through intra-year products or the SPOT products.

From the supplier's point of view, customer contracts with the StepOn Spot product were again the most

efficient and fair, where part of the off-take curve is covered traditionally by the forward purchase, but a certain percentage of the volume is retained by the customer for short-term replenishment according to the actual need. At the same time, with high market volatility, low liquidity, uncertainty and instability, almost all contractual conditions had to be tightened. It is in such turbulent developments that financial strength, vendor stability, a conservative approach in covering purchases for its portfolio and breadth of product portfolio have become important. Customers have also appreciated our responsive approach in dealing with the critical situation in purchasing products for 2022, by offering products that responded to the sharp rise in prices and keeping them closely informed about what is happening on the commodities market. It was the intensive communication with the customer and assistance with the timing of the purchase that helped some customers to minimize the impact of the increased prices. We have also made some significant acquisitions and, even in difficult times, our approach has enabled us to grow the B2B segment by almost 30%.

During the year, our main activity was securing electricity and gas sales for the 2022 delivery years. Customer meetings could partially, after two years, move from the online space to the physical one. We organized several customer seminars and continued the concept of online business breakfasts. Demand for guarantees of origin has continued to grow, although their availability on the market is continuously decreasing. In the

B2B segment, it remains crucial for us to continue to be a reliable, stable, broadly product-oriented partner for every customer. The customer rewards us for this with their loyalty.

In the field of energy efficiency, we understand the need to respond to tough challenges. We are pleased to have been able to implement several dozen projects with our customers from different sectors of the economy, including public administration, in the years since the European Union adopted its first climate and energy package. At a time of unprecedented price increases for energy commodities, as a traditional electricity supplier, we are more aware than ever of how important it is for companies to focus on energy efficiency, and how important our role is in this process. With our energy efficiency project services, we strive to provide our customers with comprehensive solutions that can increase the interest in renewable energy from the customers themselves.

Sales of energy-efficient solutions started again during the year. New products have been introduced and the focus has shifted to renewables. The installation of photovoltaic systems or solar panels is becoming more and more popular nowadays. This is mainly due to the increasing efficiency of the technologies and, with rising electricity prices, the diminishing returns of such solutions. Therefore, the year 2021 was typically characterized by photovoltaic projects, lighting retrofits and heating sources. Successful projects were again supported by the media.

SALES TO B2C CUSTOMERS

As a consequence of the price rises, we have seen a number of electricity and gas suppliers cease trading, with SSE fulfilling its role as the supplier of last resort for almost 50,000 customers who were left without a supplier from one day to the next. We have successfully fulfilled our responsibility to ensure a smooth supply of electricity to these customers. Even though it meant an extreme strain on all our human capacity to handle the whole process. Despite the best efforts and dedication of our frontline staff, for which we are very grateful, the constraints of the pandemic as well as the SLR guarantee had a significant negative impact on the availability of our customer channels. We have experienced negative impacts in our customer care and also in our business development activities.

Despite unfavorable external factors, we have been able to meet our strategic objectives – stabilizing our existing customer portfolio, increasing our market share in gas supply and strengthening our position in delivering energy efficient solutions to both households and small and medium-sized businesses.

In terms of new acquisitions, we have been successful, despite the difficult situation, with a particular increase in the number of customers taking gas from SSE and appreciating the benefits of dual supply of these commodities. We also saw a significant increase in the acquisition of business

customers in the electricity supply.

In the area of energy efficient solutions, we have focused in particular on the competitiveness of our offer to customers, which has been successfully reflected in the number of projects implemented using renewable energy sources, especially photovoltaics. We see the growing demand for energy efficiency technologies as an opportunity to offer our expertise, professionalism and experience to achieve savings and more efficient use of energy on the part of our customers, who clearly appreciate the cost savings but also the positive impact of such solutions on the environment.

For households, in addition to the successful ongoing consulting and implementation of photovoltaic installations, heat pumps and solar panels on a turnkey basis, we have brought several new products and offers. We have successfully launched SSE's new Green Energy service, through which customers can secure green electricity produced from renewable sources for their household. In terms of social responsibility, we used part of the Green Energy revenues from SSE to support regional environmental projects. We recognize the importance of taking proactive steps to mitigate the climate crisis and are committed to delivering new services and solutions that can contribute to it. That is why in the area of e-mobility, in addition to building charging infrastructure, we have also made the charging of electric vehicles itself more advantageous with a special electricity price.

In the second year of the pandemic, we were prepared for periods when we could not be as close to our customers as we wanted to be, as we were forced to close our customer centres to the public. Also during this period, despite the difficult situation, our employees at the branches offered customers service, advice, sales of commodity and non-commodity products by phone or electronically. Even under this influence, we have continued to develop our digital channels so that our customers are able to comfortably handle their requests regardless of the various constraints we have experienced during the year. Beginning this year, households have a new SSE Customer eZone, including a mobile app, to fully handle all their requests and get the information they need.

The reduced availability of our contact points, mainly due to customers of bankrupt suppliers that we had to take care of, has slightly slowed us down in implementing changes aimed at increasing satisfaction and positive customer experience. Nevertheless, we have launched a systematic energy advisory on selected consumption parameters for households, in which we always provide customers with recommendations for changes that will bring them immediate financial savings after the billing. A positive customer experience remains one of our priorities and we want to bring it to our customers with every interaction. Simplicity, speed and clarity are the attributes we are improving to enhance the quality of our customer service.

CUSTOMER SERVICE

At the beginning of the year, we managed to implement a system for regular customer satisfaction surveys. Customers are our key factor for growth and retention in the energy market. We therefore felt it was important to know their opinion and level of satisfaction with our services. In the first months of operation, we have received more than 15 thousand feedback messages from our customers, with 93% satisfaction with the service and 95% satisfaction with the customer service, which is very positive in relation to the market benchmark of 85%. The positive customer experience is also confirmed by the KPMG survey, where Stredoslovenská energetika ranked 1st in the energy sector in 2021.

The feedback our customers leave us is of great importance to our company. Through it, we are improving the customer experience and adjusting our processes so that customers have a quick path to the information they need and increasing the speed of processing their request. Also, thanks to our new SSE eZone, our customers can comfortably enter their requirements online, easily check their annual consumption and pay their energy bills and deposits online

PRICING AND PLANNING

The consequences of the energy crisis in the last months of 2021 have also significantly affected pricing processes. We have proactively expanded our commodity product offering to include flexible products with spot market purchases as well as intra-year forward market purchases. We have also made flexible products available to smaller corporate customers, who have shown increased interest in these products. The extreme price volatility and low liquidity at the end of the year required intensive coordination between buying and selling in the bidding process to eliminate losses. The shortening of the period of validity of the offers as well as the suspension of the submission of offers was only a consequence of the exceptional situation on the markets. The unprecedented rise in commodity prices has led to the need to reassess risks and the configuration of contractual terms, particularly for flexible electricity and gas supply products. Strict adherence to the rules for risk elimination during the energy crisis was one of the preconditions for coping with the negative financial impact.

During the year, preparatory work started on the specification of requirements for a new IT pricing system. Greater emphasis was placed on the B2C segment, setting up automated workflows, as well as the new design of commodity products for B2B. A qualitative shift in reporting

will be brought about by building new data analytics in the Microsoft Power BI environment.

The change in the hedging strategy for B2C electricity sales, which we implemented during the year, had a significantly positive impact. The positive experience has encouraged us to take a more proactive approach to sales hedging for the B2C segment, with the aim of creating a proactive link between buying and selling electricity.

The new project "Customer Service System" required our active participation and involvement in the areas of energy data exchange and management. The transition of Slovakia Energy customers to the SLR mode required an extraordinary deployment in the area of data exchange with the distribution system operator.

PORTFOLIO PURCHASING AND MANAGEMENT

SSE is a long-term participant in the liberalized energy market in Slovakia and a traditional trader/supplier of energy commodities for end customers. A liberalized energy market increases the competitive environment of which our company is a part, and for this reason we need to respond flexibly to the changing environment, market conditions and demands.

While 2020 was marked by a massive fall in consumption and commodity prices in energy markets, 2021 showed the fragile line between the EU's ambitious environmental targets and its readiness to achieve them. Factors such as the economic recovery and the associated increase in consumption, an exceptionally long winter, below-average production from renewable sources and high dependence on fossil fuel supplies from Russia contributed to an unprecedented increase in commodity prices, especially at the end of the year.

The start of the year was marked by a spate of cold weather on the spot markets with numerous snowfalls. This has contributed to a rapid decline in gas storage in Western Europe, which by the end of February had reached only 40% of capacity. On the other hand, significant warming and snowmelt in the Balkans have contributed to a rise in the levels of watercourses and reservoirs that largely supply the region with electricity.

The volatile production from renewable sources during the coming spring, in March and especially April, increased the share of fossil fuels in the German energy mix and thus logically supported the rise in the price of emission allowances. Allowances sometimes reached the level of 40 to EUR 50/t practically within a few days. There were also first analyses saying that the price of allowances could reach EUR 100/t by

the end of the year. Unusually cold weather in April completely decimated natural gas supplies. Before the start of the storage season, the average storage capacity in Europe was only 30%. Compared to the previous year, their occupancy rate was 35% lower.

The revival of global trade associated with the vaccination campaign against the Covid-19 pandemic has brought hope for a rapid recovery of economies. However, the damage caused by the pandemic was mainly reflected in the lack of production capacity in Asia, or in the huge increase in the cost of transporting goods internationally. The accident of the container ship Ever Given in the Suez Canal, which paralyzed shipping between Asia, Europe and North America, was a symbol of this crisis.

In the first half of the year, the Slovak energy sector recorded significant milestones – the launch of new cross-border lines to Hungary, the granting of allowances for the start-up of Unit 3 at the Mochovce Nuclear Power Plant and the successful implementation of the "Interim market coupling! project, which linked the spot markets in Slovakia, the Czech Republic, Hungary and Romania with the German, Austrian and Polish trading zones, thus contributing to an even more efficient use of cross-border capacities in the region.

While in the first half of the year electricity prices on the forward

markets were, with few exceptions, rising continuously in small steps, during the summer and early autumn panic began to spread on the markets. This is mainly due to the still low natural gas stocks, the renewed safety shutdowns of nuclear power plants in France, or the unclear dates for the launch of the just completed Nord Stream 2 pipeline. Contracts for delivery for the coming winter months or quarters grew rocket-like, with German CAL22 reaching above the EUR 100/MWh level for the first time in mid-September. The first real panic hit the markets in the first week of October. The annual forward in electricity during one day saw as much as EUR 60 movements with a peak at EUR 180/MWh. The contract for Q1 2022 has surpassed the EUR 300/MWh threshold. A number of alternative suppliers in virtually all of Europe were no longer able to cover their positions and were forced out of the market.

The markets were partially reassured by Gazprom's promise to increase gas supplies to the EU. However, most of its storage tanks still remained only minimally filled. However, the peak of the market panic did not occur until practically the very end of the year. The cold weather in December brought an extreme surge in demand and spot prices reached previously unimaginable levels. The baseload price peaked at EUR 420/MWh with hourly peaks of over EUR 600/MWh. The same situation was of course on the forward market, CAL22 in electricity

was up to 335 €/MWh, in Q1 2022 up to 440 €/MWh.

The year 2021 was thus undoubtedly the most extreme year in the history of liberalized electricity and gas markets not only in Slovakia, but practically on the whole continent. Our company also faced this fact, as it is a traditional energy supplier in Central Slovakia and performs the function of a supplier of last resort. Several alternative energy suppliers in Slovakia, for the reasons described above, gradually ceased their activities in the autumn. Under the legislation, the regulated end-customer segment (households and small businesses) must be contracted by the supplier of last resort under regulated conditions. With the reality of the extremely high differential between the market and regulated price of electricity and gas, there was enormous economic pressure on all suppliers of last resort, resulting in a substantial loss in the 2021 profit.

Due to the above factors, 2021 was a period for our Company where we were largely unable to implement our stated economic targets. We had to deal with the balancing of the electricity portfolio, and particularly in the second half of the year, the company was confronted with price differentials of traded commodities on the forward and spot markets. At the same time, in autumn, this negative reality was significantly elevated by the impacts resulting from SSE's position as a supplier of last resort.

MARKETING

An important milestone for us was the launch of the new SSE Customer eZone, which our customers can download free of charge as a mobile application or have it available as a classic desktop version. Thanks to the customer zone, our customers get an overview of the annual energy consumption at all their consumption points. They can easily pay their utility bills and deposits online, have them available electronically and can download or archive them at any time. Directly through the customer zone, our customers can solve all their requirements online.

Through the Advice and Tips section on our website, we have been trying to advise not only our customers, but also the general public on energy saving and energy efficiency for several years. We have launched a free advisory campaign for our household customers. We took a detailed look at the tariff they have set at their consumption points and suggested possible adjustments that could save the customer money. We plan to implement a similar campaign for the business segment in the near future.

We are increasingly aware of the importance of protecting nature and the environment, which is why in spring we launched a new Green Energy service from SSE, thanks to which our customers can take electricity produced exclusively from re-

newable energy sources in Slovakia. In addition, as part of the marketing campaign that took place at the end of the year, we also supported the Rescue Station and the Eco-centre in Zázrivá, to which we donated EUR 1 for each activated Green Energy service from SSE.

We are still active on social networks on Facebook and we have also started to communicate more actively through the corporate profile of Stredoslovenská energetika on the LinkedIn social network. Through the social networks we aim to present interesting topics with advice and novelties from the world of energetics.

It is important to take the same responsible approach to children when it comes to energy. Everything that children learn in childhood will be returned to our planet. We need to be reminded together in our daily activities of the importance of saving energy in our homes. At the end of last year, we therefore launched the fourth edition of an interesting educational competition for children with an animated power switch Štukes, which has so far attracted more than 200 schools and a large number of clever children who want to learn how to save energy in their homes. The aim of the competition is to teach our youngest generation in particular how to use energy efficiently and sustainably.

FINANCE AND SERVICES

SSE's financing in 2021 was carried out in accordance with the agreed strategy, respecting the principles of a balance of long-term assets and liabilities, a balance of short-term assets and liabilities and an acceptable level of debt. For short-term financing, the company used group resources in the form of Cash Pooling.

In the area of electricity and gas billing, the trend of increasing the share of customers using e-invoice and direct debit payment method continues, which increases the comfort of communication and customer service. At the end of the financial year, the volume of electronic invoicing exceeded one third of the total number of invoiced customers, which has a positive impact on the environment as well as on the optimisation of the company's costs.

STRATEGY AND BUSINESS DEVELOPMENT

The year 2021, although still affected by the Covid-19 pandemic, was markedly different from 2020, when the pandemic broke out. One of the biggest factors affecting not only energy markets has been the unexpected growth in demand for goods and services, which has brought with it a significant rise in energy prices as well as rising inflation.

Damaged supply chains, marked by the pandemic, have led to delays in the delivery of many goods.

The unprecedented rise in energy prices in the second half of the year has been the subject of much debate at the political level and the search for solutions to protect consumers from the often several-fold increase in the price of electricity and natural gas. Fortunately, due to the set-up of the price calculation method for regulated customers in Slovakia, the price increase has only minimally affected the segment of vulnerable customers.

Projects aimed at increasing energy efficiency as well as reducing energy costs, for example by investing in in-house production, are coming to the fore. Following the launch of the newly built power line between Slovakia and Hungary, the rules for connecting new sources have been relaxed, leading to a rapid growth in the number of projects in this area.

REGULATION – MARKET SITUATION

The year 2021 is the penultimate year of the 2017–2022 regulatory period, which has been extended by one year compared to the original assumption, mainly due to the ongoing preparations for the implementation of the so-called winter package in the energy legislation.

The legislated nationwide price regulation of both electricity and gas supply to vulnerable customers, i.e. household electricity and gas customers and small businesses, continued to apply.

For 2021, the Regulatory Office for Network Industries (RONI) approved the submitted proposals for price changes in the area of electricity and gas supply, which reflected the decline in commodity prices on wholesale markets, which represented a reduction in the price for electricity supply to households by an average of approximately 8% compared to 2020. In the case of natural gas, there was a drop of up to a quarter in the price for supply due to a more significant drop in the wholesale market price.

In the area of quality regulation, SSE has achieved an improvement in 2021 compared to 2020 in the level of quality standards set by legislation for electricity supply up to 100% and for gas supply up to 99.5%. These values are well above the minimum standard required by the Regulatory Office for Network Industries. The excellent results are due to the continued pursuit of efficiency within the company's processes and the mutual cooperation of the various departments that ensure compliance with quality standards.

A crucial moment that affected the market environment was the departure of several suppliers

from the market and the launch of the SLR supplier institute, which included several hundred thousand customers. The setting of the SLR in the legislation did not correspond to the real risks and impacts arising from it, and this topic has been the subject of a number of meetings between the various state authorities and the affected market participants. However, the implemented changes in the legislation did not address the situation to the necessary extent, which was reflected in the financial burden on suppliers in 2021 and the unfavorable situation continues in 2022.

ENERGY EFFICIENCY PRODUCTS AND SOLUTIONS

During the year, SSE started to offer customers in the household segment green electricity produced from renewable sources – Green Energy from SSE.

The rise in electricity prices, but also the drive for greening and greater self-sufficiency, has led to significant interest from customers in all segments in the development of electricity generation from renewable sources, especially photovoltaic generation.

For households, the Green Households program continued, in which

interested parties can apply for funding to support the use of renewable energy sources. SSE assists its customers in obtaining subsidies.

In addition to the above, we have carried out projects in the following areas:

- **electromobility,**
- **public lighting,**
- **industrial lighting,**
- **compressed air systems,**
- **electric drives and their control,**
- **air-conditioning and ventilation.**

Our key approach is corporate and social responsibility coupled with financial viability.

DIGITISATION

The Covid-19 pandemic has fundamentally accelerated the pace of digitisation across the economy. We moved from our offices to our homes overnight. It has proven extremely important to be equipped for such a transition and to have not only hardware but also information technology ready for remote access. The shift to working from home has also caused significant changes in the shopping behavior and expectations of customers, who have become accustomed to shopping and handling their requirements via their phones, tablets or computers.

SSE recognizes the importance of this area and has prepared its digital transformation strategy during 2021, identifying key areas and projects.

To improve communication with its customers, the company launched a new eZone – a customer web portal – during the year. Other projects we want to implement are focused on process automation, the use of modern platforms as well as efficiency improvements. For new products, we also focus on the possibility of electronic contracting and tools for effective customer feedback.

Digitisation is not a one-off activity but rather a way of approach in order to build a digital society, the main characteristics of which are:

- **strong customer focus,**
- **experimentation and learning,**
- **automation where it makes sense,**
- **active use of available data,**
- **using new ways of working that promote flexibility,**
- **the ability to respond flexibly to customer needs and market behavior,**
- **continuous improvement.**

The digital transformation of a company also has significantly broader implications than just changes in the setup of IT systems or processes. We are also adapting our corporate culture and the way we lead people to achieve transformation. Digital skills are also more important in recruitment and training.

INTERNAL AUDIT

Internal audit provides management with independent information on the safeguarding of significant risks and the functionality of the internal management and control system. It operates according to an approved annual Audit Plan, which is compiled based on the results of risk assessments and management input. The performance of internal audits is governed by the principles of the International Framework for the Professional Practice of Internal Auditing.

The written reports from individual audits document all findings and associated risks, include Internal Audit's recommendations to minimize the identified risk and the corrective actions taken by the responsible staff. The top management of the company is informed about the results of individual audits.

The audits conducted in 2021 reflected the company's strategic objectives, increasing security risks, changes in organizational structure and processes, and risks associated with the provision of non-commodity products. In all audits carried out, auditors also assessed the risk of fraud.

A permanent activity of the Internal Audit is the supervision of the implementation of the measures taken to eliminate the identified risks, which it evaluates on a semi-annual

basis, as well as advice and the position of an independent expert guarantor in the process of ensuring the company's compliance with the requirements of the Cybersecurity Act.

PROJECTS

SSE focuses on its continuous development also through the implementation of several investment projects. The year 2021 was mainly marked by three main projects.

The Digital Transformation Concept development project, carried out in cooperation with an external partner, included the identification of its potential processes, areas and departments. A proposal has been drawn up containing 21 projects aimed primarily at improving the customer experience when interacting with SSE, increasing the level of automation in internal processes, or moving towards electronic processing of customer requests.

The CWP – Customer Web Portal project brought a new web and mobile application eZóna SSE. Their aim is to allow customers to easily and online obtain information about their consumption points, invoices or directly make payments. Currently, the portal is accessible to all customers of the Household segment and its extension to customers from other segments is under preparation.

In the near future, SSE will have to renew its current SAP CRM, SAP ISU and customer service systems. The "Customer Service System" project, whose implementation phase is yet to be completed by SSE, carried out activities related to the acquisition of a suitable main contractor in 2021. The public tender has been closed and the contractor selected. Part of the systems renewal is also the unification of gas and electric customer service, redesign of processes, creation of a 360° view of the customer, its products, services and mutual communication. But also cleaning up data, deploying new functionality, creating a solid foundation for digital transformation and other development initiatives.

INFORMATION SECURITY

Cyber and information security is an ongoing challenge for the electricity sector and other critical infrastructure sectors. The scale and complexity of cyber-attacks is increasing globally, and the range of threat actors is also expanding. Both state and non-state actors currently have very easy access to SW tools that can lead to destructive attacks. Recently, tools based on elements of machine learning and artificial intelligence have become increasingly prevalent in attacks.

Destructive attacks, in their strongest form, could lead to a loss of the company's ability to ensure its core mission of supplying electricity and gas to end customers. They can also lead to the loss of sensitive personal data or data subject to trade secrets and also to the cessation of IT support for critical processes on which communication with customers, solving their requirements, securing revenue for services and therefore generating profit for the company depend.

The level of protection against destructive cyber-attacks in the Slovak Republic was in the recent past left to the responsibility of the shareholders of individual companies, based on a consideration of the level of business risk. Since 2018, the obligation to ensure adequate protection against cyber attacks is established by the Act on Cyber Security No. 69/2018 Coll. SSE is in the position of a so-called basic service operator under this law and therefore pays due attention to the issue of information security. Information security services for SSE are provided by Stredoslovenská distribučná, a. s. as part of the supply of information technology services.

In 2021, a watershed event was the implementation of the first statutorily required cybersecurity audit, the main objective of which was to assess the level of compliance with the requirements of the Cybersecurity Act. SSE successfully managed

the preparation for the audit as well as the audit itself and based on the audit outputs an action plan was proposed to further improve the level of information and cyber security. An audit to be carried out in 2023 will verify whether the objectives of the Action Plan have been met and whether the resilience of society to cyber threats has been further enhanced. Thanks to the implementation of the action plan, the company did not face any critical or serious security incidents in 2021 and successfully dealt with the global threat of the Log4j vulnerability at the end of the year.

04

SOCIAL RESPONSIBILITY

We had all hoped that 2021 would not be as heavily affected by the COVID19 pandemic as the previous year. Unfortunately, the opposite was true. It was even more challenging to organize our traditional volunteer activities. However, because social responsibility is an integral part of our corporate life, even the ongoing restrictions have not been able to stop us completely.

During the whole year we organized 5 blood donation events in cooperation with the National Transfusion Service in Žilina. Nearly 30 litres of the most precious and life-saving liquid from the energy sector workers helped where it was needed most. In spring and autumn we organized charity collections. The first spring one, full of clothes, drugstore products, durable food, older computers and laptops, went to the Diocesan Charity in Žilina. It pleased and helped people within the Žilina, Kysuce and Čadčany districts. The second, autumn collection was intended for the Spiš Catholic Charity in Liptovský Mikuláš. Toys and board games delighted children from low-income families throughout the Liptov district.

As soon as the relaxed arrangements and the weather allowed us to do so, we organized a traditional volunteer activity at the Zázrivá Rescue Station and Eco-center. Our energy helped paint fences, groom aviaries and whatever else needed to be done that day. Our friendly help is not only work-related but traditionally also financial.

We financially supported our partner the civic association Svetielko nádeje (Light of Hope) from Banská Bystrica. During the pandemic, the people of Svetielko launched the New Space for Hope project, through which, with the help of donors, they secured the necessary layout modifications and furnishings of patient rooms and other areas at the children's oncology ward in Banská Bystrica. SSE also contributed a little bit. We have also financially supported one of our most beautiful UNESCO monuments, the Banská Štiavnica Calvary. Our more than 12 years of cooperation is already a tradition and thanks to our support 10 thousand visitors can enjoy the sight of the reconstructed monument every year.

The ongoing pandemic has limited our personal and professional lives. It's in our working DNA to help, so we are always looking for ways to make that help a reality.

INTEGRATED MANAGEMENT SYSTEM

Quality, environment and safety management fulfills the main objectives of the company – to achieve and maintain high quality of services provided to regular and potential customers, to ensure a stable position on the energy market. In doing so, we are concerned with having a positive impact on the environment and eliminating safety risks arising from work and the working environment.

In the eyes of the customer, a certified company is therefore a safe choice, because they know that it adheres to certain quality standards, without which the company would not otherwise have obtained the certificate.

To continuously improve our company's operations, we have an integrated management system in place and certified for the following three areas:

- **Quality Management System in accordance with the requirements of ISO 9001:2015,**
- **Environmental Management System in accordance with the requirements of ISO 14001:2015,**
- **Occupational Health and Safety Management system in accordance with the requirements of ISO 45001:2018.**

In 2021, we successfully completed either a surveillance or certification audit for all three of the above areas.

The scope of the audited activities has been extended to include non-commodity solutions that contribute to reducing electricity consumption and using it more efficiently. The audit reports conclude that no non-conformities were found. On the contrary, the auditors appreciated the strengths of the system.



EMPLOYEES

Stredoslovenská energetika is an employer operating in the region of Central Slovakia, which offers its employees a stable and attractive working environment with opportunities for self-realization, career growth and support in personal as well as professional development.

In 2021, Stredoslovenská energetika had an average of 336 employees (excluding members of the Management Board, Supervisory Board and part-time employees). Of the total, 74% were women and 26% were men. Stredoslovenská energetika is an organization with an average age of 42.04 years, where the average number of years of service per employee in the company was 12.03. Up to 68% of our employees have a university degree.

During 2021, Stredoslovenská energetika recruited up to 33 new employees from the external environment, of which 24% were school graduates.

SSE has long emphasized the development and training of all employee groups in line with the company's current needs and approved strategy. The year 2021 was still

affected by the pandemic situation, so most of the educational activities and workshops continued to take place in an online environment. In addition to mandatory legislative training, we focused on developing critical thinking skills in employees and developing communication and sales skills in customer service employees. Internal training activities were focused on the development of new products and services offered to our customers.

In 2021, we invested more than EUR 81 thousand in employee training and on average each employee of our company spent 5.5 days on training activities.

We are also an attractive employer in terms of promoting work-life balance for employees. Here we offer a number of benefits such as 7.5-hour working hours or extended holiday entitlement of 5 days. We also encourage workplace flexibility, part-time employment and working from home.

We provide a number of allowances to our employees, such as contributions to supplementary pension savings and contributions to pre-school facilities for employees' children. We organize various sports and cultural events for employees and their families, health days for employees and many others. We continue to actively support women on maternity and parental leave. Our employees have the oppor-

tunity to take advantage of better conditions or discounts at various merchants and service providers.



FUTURE

The situation on the energy market is currently influenced mainly by the uncertainty regarding energy supplies due to the conflict in Ukraine. At the European Union level, there are ongoing discussions on setting future strategies, increasing self-sufficiency, in particular, by making greater use of renewable sources, not only for electricity generation, but also, for example, by using renewable gases and hydrogen.

The funds that reach grant applicants through the Recovery and Resilience Plan calls will also significantly shape the energy sector landscape. A substantial part of the available resources is focused on green energy, renewables and, for example, electromobility.

The customer, their satisfaction and SSE's role as a stable partner remain at the heart of our efforts. The aim is to maintain and improve the quality and availability of our services, to provide service and advice. Our constant endeavour is to be the first choice as an expert partner in solving our customers' complex energetic challenges of all kinds.

Discussions regarding the large package of legislative changes in the energy sector in Slovakia should be finalized so that the changes are put into practice during 2022. Given the evolution of energy prices, a de-regulation scenario is not likely for the time being, rather the group of protected customers is expanding. However, new activities in the energy sector, such as aggregation and energy storage, will be incorporated into our legislation, which gives us room to meaningfully expand our product portfolio again and respond more flexibly to market needs in all segments.

As a strong energy company, SSE is continuously strategically strengthening its position in the non-commodity segment, in addition to the traditional commodities of electricity and natural gas. We are ready to participate in the transformation of the society and the creation of a greener and more sustainable future by implementing appropriately selected projects with high added value for the quality of life in the Slovak Republic and the EU.

REPORT ON MANAGEMENT AND ACTIVITIES OF SSE IN 2021

INDIVIDUAL INCOME STATEMENT OF SSE, A. S. (IN THOUSANDS EUR)	2021	2020
Sales	993,742	711,756
Purchase of electricity, gas, distribution and related charges	-976,934	-684,898
Staff costs	-11,395	-11,977
Material consumption and sub-deliveries	-244	-253
Other operating income	88,437	43,292
Other operating costs	-88,384	-44,261
EBITDA	-5,222	13,658
Depreciation and provisions of assets	-3,228	-3,265
Operating profit	-1,994	10,393
Interest income	22	40
Interest expense	-118	-45
Other financial income	-47	-46
Financial income, net	-143	-51
Profit before tax	1,851	10,342
Income tax	-497	-2,504
Profit for the accounting period	1,354	7,839

SSE's individual financial statements for 2021 have been prepared in accordance with the Slovak Financial Accounting Standards under No. MF/18009/2014.

The company's main activity is the supply of electricity and gas mainly in the region of Central Slovakia. Sales from electricity and gas sales accounted for the most significant share of total sales. Another part of the sales was made up of sales from connection and testing fees for electricity customers, sales from services for affiliated companies under SLA (Service Level Agreement) contracts and also sales from energy efficiency projects. Similarly,

the most significant proportion of total costs was for the purchase of electricity and gas.

For the year 2021, the operating economic result expressed as EBITDA amounted to EUR 5.2 million. The company's results were lower than in previous years as well as the plan. This is a decrease of EUR 8.4 million compared to 2020. The significant decline in EBITDA in 2021 was caused by the extreme increase in energy commodity prices at the end of 2021, which had a negative impact on SSE, a. s. due to high commodity purchase prices and also caused a number of suppliers to exit the market. For

a significant part of the customers of these bankrupt companies, SSE, a. s., became a supplier of last resort (SLR). The impact of the takeover and the purchase of electricity for SLR customers was itself significantly loss-making for SSE, a. s. in 2021. After-tax result of EUR 1.4 million is lower by EUR 6.5 million in comparison with 2020.

More detailed financial information is provided in the Independent Auditor's Report on the Separate Financial Statements as at 31/12/2021.

REPORT ON THE ACTIVITIES OF THE SUPERVISORY BOARD OF STREDOSLOVENSKÁ ENERETIKA, A. S., FOR THE YEAR 2021

DURING 2021, THE SUPERVISORY BOARD WAS COMPOSED AS FOLLOWS:

JUDr. Jozef Pajer	Chairman
Ing. Jozef Antošík	Vice-President
Ing. Slavomír Božoň	Member
Ing. Tomáš Husár	Member
Mgr. Miroslav Procháska	Member
Ing. Marián Smorada, PhD.	Member
Peter Šňahničan	Member elected by the staff
Mgr. Elena Martoníková	Member elected by the staff
Mgr. Juraj Kadaši	Member elected by the staff

The Supervisory Board met five times in 2021, with a quorum at each meeting.

In the exercise of its powers under the Company's Articles of Association and the Commercial Code, the Board

(a) approved:

- proposals for the variable remuneration of the members of the Board of Directors for individual periods;
- Report on Activities of the Supervisory Board in 2020;
- Opinion of the Supervisory Board on the Ordinary Separate Financial Statements prepared as at 31 December 2020 in accordance with Slovak Accounting Standards and on the proposal for the distribution of the profit for 2020;
- minutes of the individual meetings of the Supervisory Boards.

(b) noted

- the Company's draft individual annual plan and business plan for 2021;
- individual financial statements in accordance with Slovak Accounting Standards (hereinafter referred to as "SAS") as at 31/12/2020;
- quarterly management accounts comprising the profit and loss account, balance sheet and cash flow statement for the relevant periods;
- written reports to the Supervisory Board on all transactions of SSE Holding Group Companies with Related Parties for the relevant periods;
- a statement by the Executive Board to the members of the Supervisory Board pursuant to Article XII(22)(a)(ii) of the Articles of Association on financial transactions entered into by the Company with Related Parties where

the value of any such transaction individually or a series of related transactions together exceeds the amount of one hundred thousand Euros (EUR 100,000), and transactions of the Company entered into on other than Ordinary Business Terms and Conditions;

- information on the fundamental intentions of the business management of SSE, a. s., as well as information on the expected development of the company's assets, finances and revenues within the meaning of Section 193 of the Commercial Code for the period of 2021.

The Supervisory Board did not request the Board of Directors of the Company to convene an Extraordinary General Meeting during 2021.

There was no increase or decrease in the Company's share capital during 2021.

CONCLUSION:

Throughout the period, the Supervisory Board duly fulfilled its supervisory function within the meaning of the Company's Articles of Association and Section 197 et seq. of the Commercial Code.

The Supervisory Board did not observe any violation of the Articles of Association and applicable laws by the Board of Directors in the performance of the company's business activities.

This report was approved at the meeting of the Supervisory Board of SSE, a. s. held on 12 May 2022.

Žilina, 12 May 2022



JUDr. Jozef Pajer
Chairman of the Supervisory Board
Stredoslovenská energetika, a.s.

PROPOSAL OF THE BOARD OF DIRECTORS OF STREDOSLOVENSKÁ ENERGETIKA, A. S. FOR THE DISTRIBUTION OF PROFIT FOR THE YEAR 2021

Economic result for 2021	EUR 1,353,689.08
Allocation to the legal reserve	EUR 0.00
Contribution to the social fund	EUR 40,000.00
Remuneration for members of the Board of Directors and Supervisory Board	EUR 0.00
Use of profits to offset prior period losses	EUR 0.00
Part of profit or loss retained in equity as result of previous years	EUR 0.00
Share of profit or loss proposed for distribution	EUR 1,313,689.08
Retained profit of prior periods proposed for distribution	EUR 0.00
Proposed dividend payment to shareholders	EUR 1,313,689.08

10

EVENTS OF SPECIAL SIGNIFICANCE OCCURRING AFTER THE END OF THE ACCOUNTING PERIOD FOR WHICH THE ANNUAL REPORT IS DRAWN UP

There have been no events subsequent to 31 December 2021 that require disclosure or recognition in the 2021 Financial Statements other than those disclosed in the Notes to the Financial Statements as of 31 December 2021.

11

COSTS OF RESEARCH AND DEVELOPMENT ACTIVITIES

SSE had no expenditure on R&D activity in 2021.

12

ACQUISITION OF TREASURY SHARES, TEMPORARY WARRANTS, SHARES AND STOCK

The Company did not acquire any treasury shares in 2021.

13

ORGANISATIONAL UNITS OF ACCOUNTING ENTITY ABROAD

The company has no branches abroad.

14

OPINION OF THE SUPERVISORY BOARD OF STREDOSLOVENSKÁ ENERGETIKA, A. S. ON THE ANNUAL FINANCIAL STATEMENTS AS AT 31 DECEMBER 2021 AND ON THE PROPOSAL FOR DISTRIBUTION OF PROFIT FOR 2021

The Supervisory Board of Stredoslovenská energetika, a. s., at its meeting on 12 May 2022, reviewed the company's Annual Financial Statements as at 31 December 2021, drawn up on 14 January 2022, and the Board of Director's proposal for the distribution of the company's profit for 2021.

Based on the above, the Supervisory Board of Stredoslovenská energetika, a. s. recommends to the Ordinary General Meeting of Stredoslovenská energetika, a. s. the following:

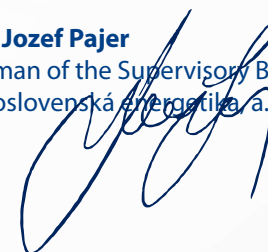
1. to approve the Annual Financial Statements of Stredoslovenská energetika, a. s. as at 31 December 2021;
2. to approve the proposal for the distribution of Stredoslovenská energetika, a. s.'s profit for the year 2021 as follows:

Economic result for 2021	EUR 1,353,689.08
Allocation to the legal reserve	EUR 0.00
Contribution to the social fund	EUR 40,000.00
Remuneration for members of the Board of Directors and Supervisory Board	EUR 0.00
Use of profits to offset prior period losses	EUR 0.00
Part of profit or loss retained in equity as result of previous years	EUR 0.00
Share of profit or loss proposed for distribution	EUR 1,313,689.08
Retained profit of prior periods proposed for distribution	EUR 0.00
Proposed dividend payment to shareholders	EUR 1,313,689.08

The Supervisory Board of Stredoslovenská energetika, a. s. also recommends the Ordinary General Meeting of Stredoslovenská energetika, a. s. to approve the proposal for the distribution of profit for the year 2021.

Žilina, 12 May 2022

JUDr. Jozef Pajer
Chairman of the Supervisory Board
Stredoslovenská energetika, a. s.



Annex 1.

Independent Auditor's Report on the Audit of the Accounts as at 31 December 2021 and the Financial Statements as at 31 December 2021.

