Západoslovenská energetika, a.s.

Annual Report 2012

Consolidated Part

Contents

1. Company Bodies

The structure of statutory and supervisory bodies of Západoslovenská energetika, a.s. (hereinafter as "the Company", "ZSE") in 2012 were as follows:

1.1 Statutory Body

Board of Directors	
As of December 31, 2012	
Chairman	Konrad Kreuzer (appointed on September 4, 2010)
Vice Chairman	Peter Adamec (appointed on June 1, 2012)
	Peter Laco MBA (appointed on March 1, 2011, resigned on May 31, 2012)
Members	Andrej Devečka (appointed on October 31, 2009)
	Jochen Kley (appointed on June 1, 2012)
	Ján Rusnák (appointed on June 1, 2012)
	Peter Procházka (appointed on March 1, 2011, resigned on May 31, 2012)
	Stefan Seipl (appointed on September 4, 2010, resigned on May 31, 2012)

1.2 Supervisory Body

Supervisory Board	
As of December 31, 2012	
Chairman	Milan Chorvátik (appointed on August 3, 2012)
	Rudolf Slezák (appointed on March 1, 2011, resigned on August 3, 2012)
Vice Chairman	Robert Adolf Hienz (appointed on September 19, 2011)
Members	Peter Hanulík (appointed on August 3, 2012)
	Marek Hargaš (appointed on August 3, 2012)
	Boris Hradecký (appointed on August 3, 2012)
	Libor Samec (appointed on August 3, 2012)
	Robert Polakovič (appointed on November 21, 2012)
	Silvia Šmátralová (appointed on April 20, 2011)
	Emil Baxa (appointed on April 20, 2011)
	Richard Schwarz (appointed on March 1, 2011, resigned on August 3, 2012)
	Andrea Groszová (appointed on March 1, 2011, resigned on August 3, 2012)
	Marian Dúbrava (appointed on March 1, 2011, resigned on August 3, 2012)
	Karol Nagy (appointed on March 1, 2011, resigned on August 3, 2012)

1.3 Shareholders Structure

The shareholders structure of Západoslovenská energetika, a.s. as of December 31, 2012 was as follows:

Shareholders Structure			
As of December 31, 2012	Absolute Value in € Thousand	Share in Registered Capital	Voting Rights
National Property Fund of the Slovak Republic	100,454	51%	51%
E.ON Slovensko, a.s.	76,818	39%	39%
E.ON Energie AG	19,697	10%	10%

2. A Look into History

September 30, 1901
The municipal power plant in Bratislava started operation. On the Main Square and Promenade, the first electric street lamps were switched on.
December 20, 1921
First General Meeting of Západoslovenská Elektrárna, úč. spol was held.
June 1, 1922
Západoslovenská Elektrárna, úč. spol registered as a legal entity.
February 11, 1942
Západoslovenská Elektrárna, úč. spol put into operation the first 100kV line between Trnava and Bratislava, together with 100/22kV terminals.
December 7, 1952
The first 110kV international connection between Nové Zámky and Kisigmand (Hungary) was put into operation.
June 11, 1970
ZSE's VHV network was connected to the 400kV national transmission system thus making electricity supply more reliable.
September 3, 1990
Západoslovenské energetické závody was declared an independent state company.
November 1, 2001
After 55 years, ZSE became a joint-stock company again.
June 13, 2002
Representatives of the Slovak government and the German E.ON Energie Group based in Munich signed an agreement on transferring a 49% share in ZSE to E.ON Energie at a price of EUR 330 million.
September 5, 2002
The 49% share in ZSE was transferred to E.ON Energie AG.
November 19, 2003
The European Bank for Reconstruction and Development (EBRD) and E.ON Energie signed an agreement on selling a 9% share in ZSE.
December 16, 2003
The 9% share of E.ON Energie AG in ZSE was transferred to the EBRD.
April 1, 2004
ZSE harmonised its graphics with the graphic design of E.ON Energie and added the text "člen skupiny E.ON" (Member of the E.ON Group) to its logo.
July 1, 2007
Date of the ZSE's legal unbundling. Transfer of distribution system operations to the daughter company ZSE Distribúcia, a.s. and business activities to the daughter company ZSE Energia, a.s. Západoslovenská energetika, a.s. is the 100% owner of newly established daughter companies. This is the date of ZSE Group establishing.
May 27, 2008
E.ON Energie AG (Munich) transfers the 40% share in ZSE to its fully owned daughter company E.ON Slovensko, a.s.

3. Scope of Business

3.1 Company Profile and Scope of Business

Západoslovenská energetika, a.s. ("Company", "ZSE"), Business ID 35 823 551, registered office at Čulenova 6, 816 47 Bratislava, was established on October 15, 2001 and registered with the Companies Register on November 1, 2001. The Company is registered with the Companies Register of the District Court Bratislava I, Section: Sa, entry No.: 2852/B.

The Company was incorporated by the Letter of Incorporation on October 15, 2001 in accordance with the Government resolution No. 4278/2001-1000-010 of June 20, 2001 on the privatisation of Západoslovenské energetické závody, š.p. which was dissolved without liquidation by the resolution No. 96/2001 of the Minister of Economy of the Slovak Republic No. 4278/2001-1000-010. All assets, rights, duties and obligation (including those unknown) except for rights under the § 16 of Act No. 92/1991 Coll. were transferred to the National Property Fund who on November 1, 2001 put the assets of the state company to the following joint-stock companies: Západoslovenská energetika, a.s. Bratislava, Bratislavská teplárenská, a.s. Bratislava and Trnavská teplárenská, a.s. Trnava.

On September 5, 2002 National Property Fund sold a 49% interest in equity of ZSE to E.ON Energie AG (Germany). On December 16, 2003 E.ON Energie transferred its 9% interest on equity to the European Bank for Reconstruction and Development (EBRD).

On July 1, 2003, based on the resolution of the General Assembly of the Company held on June 27, 2003, ZSE sold the following parts of the business: the divisions of construction and information technologies and the centre for transformers repair and electrometers calibration verification.

Effective as of July 1, 2007, ZSE unbundled selected operations and activities in accordance with the EU Directive No. 2003/54/EC and Energy Act No. 656/2004 Coll. The Company operates under the license granted under Energy Act (energy license). On July 1, 2007 the distribution system operations were transferred to the daughter company Západoslovenská distribučná, a.s. (until December 31, 2012: ZSE Distribúcia, a.s.) and sales and supply activities to the daughter company ZSE Energia, a.s. Both daughter companies are included in this consolidated financial statement using the method of complete consolidation.

Západoslovenská energetika, a.s. together with its daughter companies Západoslovenská distribučná, a.s. (until December 31, 2012: ZSE Distribúcia, a.s.), ZSE Energia, a.s. and Enermont s.r.o. are in consolidated annual report referred to as the "ZSE Group" or "the Group".

The ZSE Group provides services connected with distribution and supply of electric power mostly in the Western Slovakia region. The ZSE Group has no own electricity generation facilities except small hydroelectric power plants. Certain aspects of relations between the ZSE Group and its consumers, including price-making for services provided to selected groups of customers, are regulated by the national regulator RONI (Regulatory Office for Network Industries).

E.ON Energie AG owned 40% share in Západoslovenská energetika, a.s. until May 27, 2008 when it transferred this share into the fully owned daughter company E.ON Slovensko, a.s. as an in-kind contribution in order to increase the registered capital of E.ON Slovensko, a.s.

There were following changes in the structure of the Company's shareholders during 2012: The transfer of 534,113 shares representing 9% of the Company's share capital held previously by EBRD London to E.ON Energie AG, Munich, Germany came into force as at 21 August 2012. The General meeting held on 19 December 2012 approved the transfer of 59,346 shares representing 1% of the Company's share capital held by E.ON Slovensko, a.s. to E.ON Energie AG, Munich, Germany. The transfer of shares was concluded on 13 December 2012.

Neither Západoslovenská energetika, a.s. nor its daughter companies are unlimited companies within other consolidation entities.

4. Employees Structure

As of December 31, 2012 the ZSE Group (Západoslovenská energetika, a.s., Západoslovenská distribučná, a.s., ZSE Energia, a.s. and Enermont s.r.o.) had on average 1,856 employees, of which 30 managers (as of December 31, 2011: on average 1,808 employees, of which 50 managers).

ZSE Group Employees Structure

As of December 31	2012	2011
Increase	**214**	**162**
Of which:		
Transfer due to unbundling	–	–
Free recruitment	131	128
Return from maternity leave	9	5
Transfer within ZSE Group	74	29
Terminated contracts	**138**	**177**
Of which:		
Mutual agreement	29	73
Notice	14	12
Contracts for definite period of time	2	4
Retirement or disability to work	34	26
Death	6	3
Probation period	13	6
Maternity leave	19	15
Breach of working discipline	1	–
Helth reasons	8	8
Transfer within ZSE Group	12	30
Transfer due to unbundling	–	–
Total	**1,860**	**1,784**

Employees Structure by Gender

As of December 31	2012	Share (%)	2011	Share (%)
Women	504	27.1	461	25.8
Men	1,356	72.9	1,323	74.2
Total	**1,860**	**100.00**	**1,784**	**100.0**

Employees Structure by Education				
As of December 31	2012	Share (%)	2011	Share (%)
Elementary	8	0.4	8	0.4
Secondary vocational	506	27.2	488	27.4
Secondary complete	851	45.8	822	46.1
University	495	26.6	466	26.1
Total	**1,860**	**100.00**	**1,784**	**100.0**

Employees Structure by Age				
As of December 31	2012	Share (%)	2011	Share (%)
Below 20	1	0.1	–	–
21-25	25	1.3	36	2.0
26-30	150	8.1	142	8.0
31-35	225	12.1	214	12.0
35-40	248	13.3	242	13.7
41-45	282	15.2	284	15.9
46-50	353	19.0	319	17.8
51-55	276	14.8	273	15.3
56-60	248	13.3	227	12.7
Above 60	52	2.8	47	2.6
Total	**1,860**	**100.0**	**1,784**	**100.0**

5. Structure of Sources and Use of Electric Power

Structure of Electric Power Sources				
MWh	As of Dec. 31, 2012	Share (%)	As of Dec. 31, 2011	Share (%)
Own	3,970	0.06	5,230	0.07
Supplied	7,212,439	99.94	7,289,144	99.93
Total	**7,216,409**	**100.00**	**7,294,374**	**100.00**

Structure of Electric Power Distribution				
MWh	As of Dec. 31, 2012	Share (%)	As of Dec. 31, 2011	Share (%)
Commercial consumers – Wholesale	5,048,111	58.79	5,069,471	59.36
Commercial consumers – Retail	1,311,724	15.28	1,326,738	15.54
Residential consumers – Retail	2,227,140	25.93	2,143,532	25.10

Structure of Electric Power Supply				
MWh	As of Dec. 31, 2012	Share (%)	As of Dec. 31, 2011	Share (%)
Commercial consumers – Wholesale	3,972,592	55.05	4,164,489	57.09
Commercial consumers – Retail	1,197,020	16.59	1,050,687	14.41
Residential consumers – Retail	2,046,797	28.36	2,078,311	28.49
Other	–	–	887	0.01

Consumed Supply of Electric Power (GWh)			
Year	Total	Of which Wholesale	Of which Retail
2012	7,216	3,973	3,243
2011	7,294	4,165	3,129

Distribution of Electric Power (GWh)			
Year	Total	Of which Wholesale	Of which Retail
2012	8,587	5,048	3,539
2011	8,540	5,070	3,470

6. Economy

In 2012 ZSE Group (Západoslovenská energetika, a.s., Západoslovenská distribučná, a.s., ZSE Energia, a.s. and Enermont s.r.o.) achieved the profit of € 123,100 thousand with the costs spent in the volume of € 881,169 thousand.

Key figures of ZSE Group according to the International Financial Reporting Standards (IFRS) as adopted by European Union:

Key Figures as of December 31		
€ Thousand	2012	2011
Non-current assets	635,199	585,220
Current assets	140,093	253,742
Total assets	**775,292**	**838,962**
Own equity	497,666	536,797
Non-current liabilities	94,590	83,443
Current liabilities	183,036	218,722
Total equity and liabilities	**775,292**	**838,962**
Revenues	1,029,987	975,986
EBIT (Operating income)	**156,994**	**172,117**
EBITDA	198,484	211,077
Incomes	1,038,610	985,360
Costs	881,169	811,269
Profit before tax	157,441	174,091
Net profit	**123,100**	**139,817**
Other comprehensive income	(482)	(86)
Total comprehensive income	**122,618**	**139,731**
Average number of employees	**1,856**	**1,808**

Data on revenues and costs for electricity distribution are indicated in the table:

Indicators of Západoslovenská distribučná, a.s.		
As of December 31	2012	2011
Volume of electricity distributed (GWh)	8,587	8,540
Revenues for electricity distributed (€ Thousand)	541,344	534,340
Costs for electricity distributed (€ Thousand)	314,014	288,031
Area covered (km^2)	14,928	14,928
110 kV lines HV (km)	2,824	2,824
22 kV lines MV (km)	13,336	13,136
0.4 kV lines LV (km)	20,860	20,685
Number of take-off points	1,074,256	1,069,026
Note: HV – high voltage, MV – medium voltage, LV – low volatge		

Data on revenues and costs are indicated in the table for electricity supply to customers:

Indicators of ZSE Energia, a.s.		
As of December 31	2012	2011
Volume of electricity sold (GWh)	7,216	7,294
Revenues of electricity supplied (€ Thousand)	469,163	464,467
Volume of electricity purchased (GWh)	7,212	7,289
Volume of electricity generated (GWh)	4	5.2
Costs for the purchase of electricity (€ Thousand)	418,677	412,265
Number of take-off points	966,740	1,002,997

Data on revenues and costs are indicated according to the balance method:

Indicators of ZSE Group		
As of December 31	2012	2011
Volume of electricity sold (GWh)	7,216	7,294
Volume of electricity distributed (GWh)	8,587	8,540
Revenues from the sale and distribution of electricity (€ Thousand)	1,010,507	998,807
Volume of electricity purchased (GWh)	7,212	7,289
Volume of electricity generated (GWh)	4	5.2
Costs for the purchase and distribution of electricity (€ Thousand)	732,691	700,296

6.1 Profit To Be Appropriated

The General Meeting of Západoslovenská energetika, a.s. held on May 31, 2012 approved the proposal for the appropriation of profit achieved in 2011. In June and September 2012 shareholders of the Company, i.e. Slovak National Property Fund, E.ON Slovensko, a.s. and EBRD London, were paid dividends in the total amount of € 160.35 million. Dividends were paid out in Euro. For 2011 the dividend per share amounted to € 27.02.

The remaining part of extraordinary dividend in amount of € 50 milion aprooved by the General meeting of the Company on December 19, 2011 was paid-out to the Company's shareholders on February 27, 2012.

6.2 Outlook for 2013

6.2.1 Západoslovenská energetika, a.s.

Západoslovenská energetika, a.s. will continue to fulfill its function of a service company for daughter companies ZSE Energia, a.s. and Západoslovenská distribučná, a.s. as well as the functional platform for sharing services (e.g. human resources, facility management, logistics, etc.) with the daughter company Enermont s.r.o. and with the companies which are being operated in Slovakia or those that will be established in the future by the minor shareholder Západoslovenskej energetiky, a.s., E.ON Slovensko, a.s. and its parent company E.ON Energie AG.

Západoslovenská energetika, a.s. has made long term efforts to improve efficiency of services provided, mainly due to intensifying pressure of a market competition and simultaneously social demand for providing high quality, modern and affordable customer services. Such requirements will be realised under the conditions of a liberalised electricity market. At the same time, it will face competitive pressures imposed by the current economic situation in Slovakia.

A. Strategic development of ZSE Group

In 2011 the strategic process was outlined as a result of which ZSE Group shareholders established strategic objectives of ZSE Group for the upcoming period. The outcome of such process is the setting of strategic development tracks in a period of 2012 – 2015.

Západoslovenská energetika, a.s. outlined the strategic development for a period of 2012 – 2015 with an aim to support the core business including electricity distribution, electricity sales and decentralised generation, the strategies of which are functionally decentralised in daughter companies.

The main goal of the distribution system operator is to ensure safe and reliable operation of the distribution system, to rise the attitude to customers when linking consumers and producers, development of asset management or promotion of effective processes and operation of the distribution system.

Regarding electricity sales, one of the areas of interest is delivery of two commodities for the mass segment, which means household electricity and gas supplies along with provision of related high quality services.

The Company is planning to build new DG plants, thus contributing to meeting the renewable energy target, which accounts for a 14% share in Slovakia's total consumption until the year 2020.

A new strategic orientation will allow the Company to achieve a more intensified development, when spending capital effectively, and to face challenges arising out of the macro-economic and market conditions.

B. Development of the Company in the field of innovations

Electromobility

One of the development priorities of ZSE Group is promotion of electromobility through implementing pilot and innovative projects. In this regard, a surely attractive activity appears to be the VIBRATe project between Vienna and Bratislava, in which our Company is one of the main partners. The project objective is to transfer the benefits of pure and energy efficient electromobility into everyday life and to increase public awareness in this area. The project will be dealing with the setting of possibilities of the electromobility complex system on a cross-border level, ranging from the construction of first charging stations, through testing the operation of vehicles, demonstration of electromobility in public transport, to the running of charging stations, consumption monitoring and the payment system.

Competence Centre

The Competence Centre is a scientific research project and a platform for cooperation between academic and industrial partners in the energy industry with a focus given to smart networks. This project was approved for co-funding from the EU funds in 2011, with the official start date on August 1, 2011. The allocation of responsibilities and the main work started from the beginning of 2012. The Competence Centre is the external project in which several ZSE Group employees will be involved.

6.2.2 Západoslovenská distribučná, a.s.

In 2013 Západoslovenská distribučná, a.s. plans to execute the following strategic constructions and activities:

- Development of a new T402 transformer (350 MVA) in the Stupava substation;
- Continuation in the development of 110/22 kV substation in Myjava;
- Development of a double 110 kV power line No. 8825 Senica – Myjava;
- Continuation in development of 2 x 110 kV power line Nové Mesto n/V. – Horná Streda, G branch;
- Modernisation of 110/22 kV substation in Holíč;
- Modernisation of 110/22 kV substation in Dubnica;
- Installation of 22 kV power lines in Nové Mesto n/V. – Rakoľuby and Stupava – Malacky;
- Replacement of 100 pieces section disconnecting switches on the 22 kV level, amounting to total € 700,000;
- MV network automation amounting to € 2,303 mil.;
- Making constructions and devices more environmentally friendly, approx. € 0.398 mil.

Západoslovenská distribučná, a.s. is not an isolated entity in the economic system of the Slovak Republic. It is sensitive to changes in the behaviour of both enterprises and households. In 2012 there was a significant decrease of requests for connection, which is the reason why the related part of the 2013 investment plan and overall investment plan was reduced to € 72.5 milion. This amount of investment plan is still higher than the yearly plan of depreciations. Positive is that some parts of the 2013 investment plan were strengthened, e.g. renewal and development of HV, MV, LV and network automation. SmartGrid is gaining importance. The main goal and plan of Západoslovenská distribučná, a.s. is to, by right direction, make progress and achieve better quality of electricity distribution for the benefit of all society. This aim is to be reached not only by pro-customer orientation and improving quality of distribution services, but also through the response to constantly higher and more efficient goals of the legislation and regulation framework. The aims of Západoslovenská distribučná, a.s. are:

- to equip 35% of MV power lines with SmartGrids system in 2013;
- to equip all MV power lines with SmartGrids system by 2020;
- to have electricity supply renewed in case of blackout within three minutes to 50% of customers by 2020.

In 2013 Západoslovenská distribučná, a.s. will have to undergo a great deal of work with new organisation structure in compliance with new legislation.

In 2013 there will be a re-certification audit because in 2010 the management committed themselves with regard to the integrated management of environment and occupational health and safety. After a difficult preparation the firm gained the ISO 14001:2004 and OHSAS 18001:2007 certificates which have been renewed every year based on the results of supervisory audits.

6.2.3 ZSE Energia, a.s.

ZSE Energia, a.s. is facing also in 2013 to become a complex energy supplier for its consumers and to meet their demand by providing respective services. As a result of re-regulation of small-scale companies at the beginning of 2013 we are expecting reduction of competitive pressure in the sector of small enterprises. In the residential sector price-cap regulation is expected for the upcoming period, however, this will not hinder any extension of the activities provided by competitors in this sector.

From the point of view of the organic growth of the market we are anticipating the development being similar to the one in 2012 and the continuity in the launched production programmes of strategic players in the Slovak industry. A slight damping in the economic activities is assumed in Slovakia caused by the economic problems in some European countries.

As regards the financial management we can foresee a slight deterioration in the payment discipline, mainly in the sector of small and medium enterprises which might be affected by the crisis and the expected damping in the economic growth.

ZSE Energia, a.s. will continue to put a large emphasis on more effective in-house processes, especially customer services performance and selling channels. These activities are also motivated by the feedback received from clients based on the regular studies of customers' satisfaction.

6.2.4 Enermont s.r.o.

In the next year Enermont s.r.o. is going to continue to build and strengthen their own brands, particularly on the external market. We will continue to provide services to the parent company Západoslovenská energetika, a.s. where we mainly provide reconstruction, repair and maintenance on all types of electrical installations, repairs and disposal of transformers and testing of electrical equipment.

We believe in the end of downturn in construction activity in Slovakia and the possibility of developing our activities in relation to our parent company, as well as on the external market.

One of the main tasks for 2013 is to increased emphasis on safety and health at work.

6.3 Risks and Uncertainties

6.3.1 Západoslovenská energetika, a.s.

Západoslovenská energetika, a.s. being in the role of the service centre for subsidiaries of ZSE Group and the companies established by the minor shareholder of Západoslovenská energetika, a.s. (E.ON Slovensko, a.s.) and its parent company E.ON Energie AG (customer services, financial services, accounting, controlling, occupational health and safety, HR, general administrative services, etc.), will be exposed, from the risk management perspective, mainly to challenges arising from the macro-economic conditions as well as the market and internal changes in the company.

6.3.2 Západoslovenská distribučná, a.s.

The 2012 legislative changes did not concern in comparison to the previous years only parts of energy and regulation legal requirements. New acts were approved. Act No. 251/2012 Z. z. on Energy and Amendments to Certain Acts (hereinafter only as the "Energy Act") and Act No. 250/2012 Z. z. on Regulation in Network Industries (hereinafter only as the "Act on Regulation") became effective as of 1 September 2012. The said acts started the long overdue transposition (the original due date was 3 March 2011) of the Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in electricity, which and repealing Directive 2003/54/EC, in the Slovak legal system.

The initial problem for the energy market participants, including Západoslovenská distribučná, a.s. was short time period from the date of adoption of the new acts (31 July 2012) until the date of their effectiveness (1 September 2012) intended for familiarization with provisions of the new legal requirements regulating basic rights and obligations, as well as the status of distribution system operator.

The new Energy Act brought about many changes. The most notable of them being stronger protection of electricity consumers and vulnerable electricity household customers. Under new provisions, the DSO is obliged to maintain a list of vulnerable customers in households which are connected to its network, in the scope defined by the Energy Act. The DSO must inform such vulnerable customers in writing about every planned restriction or interruption of the energy distribution into their supply points. It can only proceed with the restriction or interruption after the vulnerable customer confirmed the receipt of such information. It is also obliged to enable communication between vulnerable customers and the DSO itself in order to report outages.

The new Energy Act specified the planned restriction or interruption of the electricity distribution. The start and duration of such planned restriction or interruption of the electricity distribution must be announced at least 15 days before via usual local channels and via the DSO's website.

A new obligation for the DSO is to make reasonable effort to prevent damage caused by restriction or interruption of the electricity distribution to customers.

A peremptory provision of the Energy Act defines the obligation for Západoslovenská distribučná, a.s. to connect energy facilities or electricity supply equipment to the distribution network within 5 working days, provided that all technical conditions and business terms and conditions for such connection are met. It must be noted that after 1 September 2012 there were some issues with the application of the Energy Act's new provision which explicitly defines the obligation to conclude contract on connection with the owner of the electricity supply equipment or energy facility.

The original Energy Act effective until 1 September 2012 (Act No. 656/2004 Z. z. on Energy and Amendments to Certain Acts, as amended) comprised provisions about ensuring independence of distribution system operation within a vertically integrated enterprise. However, the growing European tendency introduced a stricter regime and new measures and obligations for Západoslovenská distribučná, a.s. in order to ensure independence of the company acting as the DSO within a vertically integrated enterprise. These measures or obligations stated in the new Energy Act and Act on Regulation may be summarized as follows:

- obligation to have sources, including human, technical, material and financial, necessary for operation, maintenance and development of the distribution system;
- persons responsible for distribution system operation must not have direct or mediated equity share in the undertaking of other entity which is a part of the same integrated company as the DSO itself and must not receive profit share or other kinds of consideration;
- rewards of persons responsible for the distribution system operation must not in any way depend on economic results of other entities than the DSO itself;
- obligation to appoint a compliance officer to ensure compliance with Section 32(4) to (8) of the new Energy Act by 1 January 2013;
- obligation to act in a way so that the company cannot be confused with the energy supplier or energy producer that are a part of the same vertically integrated enterprise;
- obligation to submit to ÚRSO (Regulatory Office for Network Industries) each contract concluded between Západoslovenská distribučná, a.s. and other entity that is a part of the same vertically integrated company within 15 days after is conclusion;
- obligation to submit to ÚRSO (Regulatory Office for Network Industries) for approval each service level agreement or changes thereto by means of which Západoslovenská distribučná, a.s. ensures performance of regulated activities, if such agreement is concluded with an entity that is part of the same vertically integrated enterprise and if such SLA is worth than

€ 100,000. Such agreement or its change is invalid without prior approval of ÚRSO. However, ÚRSO will only approve SLA if the terms and conditions of such agreement or change thereto comply with usual terms and conditions in normal business relations, otherwise it will not approve such SLA.

Following new primary energy legislation the Regulatory Council adopted Addendum 2 to the Regulatory Policy for 2012 – 2016, emphasising, inter alia, regulation of quality. Quality standards have been the focus of ÚRSO but also Západoslovenská distribučná, a.s. Thanks to continual improvement process, quality indicators improved YoY in the following areas:

- ″Distribution of electricity, provided that all technical and business terms and conditions of the DSO are met″: The Company has reached significant improvement. In 2009, out of 23,235 cases the standard was not met in 11.60%, while in 2012, out of 17,859 cases this number amounted to 0.16%;
- ″Renewal of electricity distribution after interruption upon the electricity supplier's request″: There is an improvement. In 2009, out of 14,990 cases the quality standards were not met in 2.08%, while in 2012, out of 19,109 cases this number amounted to 0.04%;
- In 2012 the ″Renewal of electricity distribution after unplanned interruption due to distribution system malfunction″ improved several times. This is proved by the fact that out of 2,724,169 incidents only in 2,671 cases (0.10%) the standard was not met, while in 2009, out of 4,576,746 incidents the standard was not met in 84,131 cases (1.84%).

The only shortcoming in this area is the fact that, despite primary expectations, the year 2012 was not finished in quality standard uniform reporting regime according to regulations, since new Decree No. 275/2012 Coll. of the Regulatory Office for Network Industries establishing electricity transmission, distribution and supply quality standard came into effect on 15 September 2012.

With the trend set and interest of Západoslovenská distribučná, a.s. in sustained improvement of electricity distribution quality and related services, automatic compensation payments for the failure to comply with quality standards, which were introduced by law, should not pose risk.

6.3.3 ZSE Energia, a.s.

Each and every year the situation in the market gets more dynamic. To date, majority of the suppliers have two commodities in their portfolio, offering both electricity and gas supplies. The main uncertainty and risk for ZSE Energia, a.s. comes from the entry of the dominant gas supplier SPP in the electricity market, and from the expected extended activities of SE Predaj and ČEZ, which might be reflected negatively in the decreased number of customers during 2013. There is also a risk of the higher loss of customers as a result of deregulation of small and medium enterprises and respective price rise.

A possible ongoing decline in the industrial production will have a direct and immediate impact on electricity demand by Company customers and subsequently on their payment discipline.

6.3.4 Enermont s.r.o.

In the past two years there has been a significant decline in construction activity, which results in a reduced demand for our services. In case of further stagnation of development activities or downturn of renewable energy constructions, demand shortfall for the connection of such sources would occure, which would result in further decreased of the activity on the external market.

6.4 Important Events After the End of 2012

6.4.1 Západoslovenská energetika, a.s.

Západoslovenská energetika, a.s. is not aware of any significant facts occurring after the end of 2012.

6.4.2 Západoslovenská distribučná, a.s.

Performing provisions of Section 32(10) of new Act on Energy, the title ″ZSE Distribúcia, a.s.″ was changed to ″Západoslovenská distribučná, a.s.″ as at 1 January 2013.

Based on the prior consent of the Regulatory Office for Network Industries with the appointment of the person obliged to ensure compliance of the distribution system operator granted to Západoslovenská distribučná, a.s., on 20 March 2013 Západoslovenská distribučná, a.s. appointed, by the decision of the Regulatory Office for Network Industries No. 0005/2013/L-PS, Ing. Mária Nováková, leader ES Operation Evaluation of Západoslovenská distribučná, a.s. Compliance Officer.

6.4.3 ZSE Energia, a.s.

ZSE Energia, a.s. is not aware of any significant facts occurring after the end of 2012.

6.4.4 Enermont s.r.o.

Enermont s.r.o. is not aware of any significant facts occurring after the end of 2012.

6.5 Proposal for 2012 Profit Appropriation

On March 19, 2013 the Board of Directors of Západoslovenská energetika, a.s. acknowledged the proposal for 2012 profit appropriation and recommended the Supervisory Board of Západoslovenská energetika, a.s. to negotiate about it:

Proposal for the Appropriation of Profit of ZSE for 2012	
Acknowledged by the Board of Directors on March 19, 2013	In €
Net profit	**104,008,000**
Contribution to social fund	1,196,574
Dividends	77,811,426
Transfer to Retained earnings from previous years	25,000,000
Total appropriation of profit	**104,008,000**

7. Corporate Responsibility

7.1 Strategy of Corporate Responsibility in ZSE Group

Západoslovenská energetika, a.s. ranks among the leaders of corporate responsibility in Slovakia and through its Foundation it thoughtfully supports social, cultural, environmental, sports and health-related projects implemented in the region of Western Slovakia.

In 2004 Západoslovenská energetika, a.s. acted as a founding member of Business Leaders Forum, an informal association of companies, that strives to promote the principles of corporate responsibility. One of our goals is to help to protect the environment and by means of various projects to contribute to the protection of natural beauties and landscape.

Even at the time when the consequences of the economic crises show, to what extent Slovak companies perform in a responsible manner, we can claim that we belong to those complying with our commitments. Every year we try to influence our surroundings not only by means of partnerships, but mainly by efforts and involvement of employees in voluntary activities such as donating blood, collecting clothing for various organisations. Furthermore, our employees take part in the project called Our Bratislava organised in co-operation with Pontis Foundation and in many other voluntary activities. They do all this in their working or leisure time. Together with the Pontis Foundation and Slovak Scouting we also undertake the project called Disenchanting of Castles which has been since its very beginning aimed to help castle ruins. Slovak scouts and employees of Západoslovenská energetika, a.s. carry out voluntary work, the result of which are the clean premises of the castles of Branč, Dobrá Voda and Korlát. As a patron of the project we won the prize for corporate philantropy and corporate responsibility Via Bona in the category of the Prize for Courage to Support Innovative Project seven years ago.

Západoslovenská energetika, a.s. regularly evaluates the effects of its business activities on the environment, the society and the country which we live in and work for. This is also done using an effective tool of measuring donation provided by the methodology Communal Investment Standard.

On the occasion of the awards to companies for their activities and voluntary schemes Západoslovenská energetika, a.s. has been awarded the main prize for large-scale companies at the Forum of Corporate Philanthropy. Employee Volunteering Award Slovakia has been received for the Best Idea Project. This project has become an inseparable part of the Earth World Day at ZSE Company which is held on April 22 on an annual basis. The project covering a wide range of activities helps young people, students, put their ideas and projects into practice. At the same time, they are taught to think environmentally, since the projects are obviously created in harmony with nature and permanently sustainable development. The prize gives an opportunity for both large and small businesses to become visible, thus presenting their work beyond traditional business framework.

Corporate responsibility is primarily a way of our thinking that we apply on a day-to day running of the business. It also represents the underlying inner values of the Group. Through taking actions and promoting specific projects aimed at developing and helping the community we demonstrate our pro-social orientation and we believe that these actions are beneficial for our society as well as ourselves.

Corporate responsibility is part of our everyday decisions and business strategies. The aim is to ensure the dissemination of benefits acquired from the processes and business results to the widest possible community of people. Corporate responsibility has a direct impact on emploees' loyalty, reduction of fluctuation rate and increase in productivity. It involves performance of the Group not only within the energy sector, but also in relation to local communities and the environment. We consider it essential to motivate people to actions thereby making the world we live in a better place.

7.2 Protection of the Environment

Protecting the environment is among the top priorities of ZSE Group. We make continuing efforts to protect and improve the quality of the environment by taking preventive measures while our employees carry out different activities in all the premises and facilities owned by ZSE Group.

We pay constant attention to the protection of soil and water, nature and landscape and last, but not least, to the protection of atmosphere. By implementing ecological projects we take a pro-active approach to the protection of avifauna and the prevention of soil and water contamination.

An overview of ZSE Group's investments made into ecological projects in 2012:

Ecological Projects	
2012	€ Thousand
Investment capital of Západoslovenská distribučná, a.s.	308
Costs for ecological operation, maintenance and repair of equipment in ZSE Group, including waste processing	1,848

As regards the protection of underground water and soil the investments were made into the ecological improvement of transformer stands of electric substations in order to eliminate any risks associated with contamination of underground water, the construction of storage facilities as well as removal of contamination that had been revealed during the reconstruction of a building in Piešťany.

As regards the protection of nature and landscape the investments were made into the installation of protective console cases on high voltage lines in the protected bird territories. We implemented the project aimed at avifauna entitled EU LIFE09 NAT/H/000384 „The Protection of Saker Falcon". All these activities are aimed to eliminate any risks of mortality of protected species of birds caused by their sitting on the poles of electric power lines. In 2012 more than 804 poles of electric power lines were equipped with protective console cases, which is almost 74 km of high voltage lines. As a partner in the project entitled „Conservation of Falco Cherrug in the Carpatian Basin" we were awarded with the prize „Best LIFE Nature Projects".

In 2012 we recorded another negative impact on the bird population which was bird collision with power lines. The year 2012 was a breakthrough year for energy companies. Our Company namely used the bird flight diverter for the first time in Slovakia to prevent any bird collision with power lines. The first diverters were installed on the power lines with the length of 1,100 m near the town of Piešťany. This event was also attended by the representatives of the environmental organisations and mass media.

External interference into the distribution transformer in a village of Kolta caused oil leakage into the ground. This event was classified as an extraordinary threat to underground water sources and therefore it was reported and subsequently investigated by the Slovak Environmental Inspection. The measures were taken to prevent any further oil leakage into the wider surroundings of the transformer station. During the inspection the Slovak Environmental Inspection came to conclusion that the measures taken were sufficient.

Our Company has introduced the thorough separation of waste originating from administrative activities and during the year 2012 we separated from municipal waste more than 3,2 t of plastic and 7,2 t of paper that were collected for the purpose of recycling. 995,78 t of scrap material was collected for recovery as a result of the thorough separation of waste material produced from repairs of power installations and construction works. In 2012 the Company made maximum efforts to utilise 80% of the total amount of waste production.

Attention is given to the maintenance of the equipment filled with SF_6 gas which belongs to fluorinated greenhouse gases. Zapadoslovenska energetika, a.s. is a holder of the Certificate on Expert Competence allowing the manipulation with fluorinated greenhouse gases which fill some of the energy installations. Our employees are the holders of the Certificate on Expert Competence The obligations arising out of the Act on Fluorinated Greenhouse Gases are also fulfilled in relation to the operation of air conditioning systems in the ZSE Group premises.

In accordance with the company commitment to raise the environmental awareness of its employees we aspire to provide regular information by means of articles, reports and data on the environment. The Company also provides an opportunity to participate in the environmental activities organised by ZSE Group. Traditionally, the Earth Day – the Green Academy, was held in April in the venue of Design Factory. In 2012 the event hosted Mr. Pavol Barabáš who gave a fascinating talk on his travels. An inseparable part of this day was also the event called „The Best Idea" in which students of secondary schools presented their remarkable ideas on utilising renewable energy sources.

All the results achieved in the course of 2012 are in compliance with the approved documents „The Policy of Protection of Occupational Health and the Environment of Západoslovenská energetika, a.s., ZSE Energia, a.s. and Západoslovenská distribučná, a.s.", as well as with „The Policy of Integrated Management System of Enermont s.r.o." with the aim to cut down the significant impacts on the environment under ISO 14001.

7.3 Occupational Health and Safety

Last year's Safety Improvement Plan was extended for the year 2012 with the area of the environment, and for this reason it was renamed to The Plan of Safety Improvement and Occupational Health Protection and the Environment (HSE IP). This plan is a binding part of the annual targets in the area of occupational health and safety (hereinafter referred to as „OHS") and the environment in E.ON concern and its purpose is to create and strengthen the culture of safety and the environmental protection as well as to improve the results. The performance conditions are included in Work Procedure No. 6.BOZP.14 (6.121.14).

TRIF combine is a self-reported indicator whose value was determined at 2.6 in 2012 in E.ON AG. Apart from the data on internal employees the indicator also includes the data of suppliers. The indicator achieved the value of 1.4 in the monitoring period.

From the beginning of the year the data subject to TRIF combine has been reported to HSE E.ON AG headquarters, by means of SW application Prevent!

In June GRIDS application was introduced as a tool used for collecting quantitative and qualitative indicators (KPI) and for reporting any incidents occurring within the entire E.ON Group. The data collection and incident reporting are made for ZSE Group on a monthly basis.

The OHS Committee had only one meeting which was held in June. The following topics were discussed – occupational accidents and fire, Safety Pyramid, SIM internal audits and preventive health check-ups in relation to work.

The internal managing documentation dealing with the OHS issues has been updated due to the changes arising out of the measures taken to examine any fatal occupational injury and out of the E.ON AG requirements.

In November and December a number of employees responsible for safety issues participated in the training course. Based on the Trade Unions 36 representatives of safety employees were appointed in ZSE.

In 2012 ZSE Company made investments worth about 650,000 € to deal with OHS issues, including personal and preventive work equipment, legislative training courses aimed at OHS issues and preventive health check-ups. Out of this amount, ZSE made the spending worth about 425,600 €.

In 2012 there were four occupational injuries registered in Západoslovenská energetika, a.s. and its daughter companies. In 2012 there was one fatal occupational accident in the ZSE Group. No occupational disease was registered in the monitoring period.

In 2012 state inspection authorities in charge of occupational safety and health care made no inspections in ZSE.

In 2012 subcontructors spent **1,129,258** hours working at the workplaces or on-site of the ZSE Group. In the respective period no occupational injury occurred on the side of sub-contractors (TRIF = 0.0).

Statistical Indicators of Occupational Injuries in 2010, 2011 and 2012

	No. of ROI			Lost calendar days due to ROI			Average number of employees		
Year	2010	2011	2012	2010	2011	2012	2010	2011	2012
ZSE Group	4	4	4	570	99	107	1,887	1,880	1,872

LTIF (Lost Time Injury Frequency) in 2012: 0.9
TRIF (Total Recordable Incidents Frequency) in 2012: 1.9
$TRIF_{comb}$ (TRIF combined with TRIF suppliers) in 2012: 1.4

Note:

ROI – registered occupational injury

LTIF – number of occupational injuries per one million of hours worked in the monitored period in ZSE Group

TRI – number of accidents included in LTIF, fatalities, accidents without any lost calendar days, which required medical attendance and cases where work could be done only to limited extent per 1 one million of hours worked in the monitored period in ZSE Group

$TRIF_{comb}$ – the number of incidents involving ZSE Group employees and sub-contractors performing work at the workplace/ facility of ZSE Group per one millon of hours worked out in the monitored period

8. Consolidated Financial Statements for the Year Ended 31 December 2012

Consolidated Balance Sheet at 31 December 2012

prepared in accordance with IFRS as adopted by the European Union

Consolidated Balance Sheet at 31 December 2012			
All amounts are in thousands of Euro unless stated otherwise		As at 31 December	
	Note	2012	2011
ASSETS			
Non-current assets			
Property, plant and equipment	6	619,794	567,408
Intangible assets	7	13,007	15,574
Other		2,398	2,238
		635,199	**585,220**
Current assets			
Inventories	9	4,019	1,388
Trade and other receivables	10	110,892	117,645
Current income tax receivables		3,465	–
Other financial asset	11	–	10,000
Cash and cash equivalents	11	21,717	124,709
		140,093	**253,742**
Total assets		**775,292**	**838,962**
EQUITY AND LIABILITIES			
Share capital and reserves			
Share capital	12	196,969	196,969
Legal reserve fund	12	39,421	39,421
Other funds	12	45,467	45,467
Other reserves		(1,124)	(86)
Retained earnings		216,933	255,026
Total equity		**497,666**	**536,797**
Non-current liabilities			
Pension and other provisions for liabilities and charges	16	10,121	7,421
Deferred revenues	13	73,296	69,627
Deferred income tax liabilities	15	11,173	6,395
		94,590	**83,443**
Current liabilities			
Trade and other payables	14	165,410	216,916
Current income tax payables		–	364
Pension and other provisions for liabilities and charges	16	1,338	1,442
Bank overdrafts	11	16,288	–
		183,036	**218,722**
Total liabilities		**277,626**	**302,165**
Total equity and liabilities		**775,292**	**838,962**

These consolidated financial statements have been approved for issue by the Board of Directors on 19 March 2013.

Ing. Andrej Devečka
Member of the Board of Directors

Jochen Kley
Member of the Board of Directors

Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2012

prepared in accordance with IFRS as adopted by the European Union

Consolidated Statement of Comprehensive Income

All amounts are in thousands of Euro unless stated otherwise

	Note	Year ended 31 December 2012	2011*) restated
Revenues	17	1,029,987	975,986
Purchase of electricity, gas and related fees	18	(735,045)	(670,723)
Employee benefits expense	19	(53,178)	(49,918)
Depreciation and amortisation	19	(41,490)	(38,960)
Other operating expenses	19	(51,076)	(51,374)
Other operating income		7,796	7,106
Profit from operations		**156,994**	**172,117**
Finance income			
Interest income		827	2,268
Interest expense		(380)	(294)
Net finance income		**447**	**1,974**
Profit before tax		**157,441**	**174,091**
Income tax expense	20	(34,341)	(34,274)
Net profit		**123,100**	**139,817**
Other comprehensive income	15, 16	(482)	(86)
Total comprehensive income		**122,618**	**139,731**
Earnings per share (expressed in EUR per share)			
– basic	24	20.743	23.560
– diluted	24	20.743	23.560

*) As described in Note 2.1.2.b) the Group has early adopted IAS 19 revised, the comparative figures for the year ended 31 December 2011 have been restated in accordance with IAS 8.

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2012

prepared in accordance with IFRS as adopted by the European Union

Consolidated Statement of Changes in Equity

All amounts are in thousands of Euro unless stated otherwise

	Share capital	Legal reserve fund	Other funds	Other reserves**)	Retained earnings	Total
Balance at 1 January 2011	**196,969**	**39,421**	**45,467**	**–**	**309,628**	**591,485**
Comprehensive income						
Profit for the year (restated*)	–	–	–	–	139,817	139,817
Other comprehensive income (restated*)	–	–	–	(86)	–	(86)
Total comprehensive income for year 2011	–	–	–	(86)	**139,817**	**139,731**
Transaction with owners						
Dividends	–	–	–	–	(194,419)	(194,419)
	–	**–**	**–**	**–**	**(194,419)**	**(194,419)**
Balance at 31 December 2011	**196,969**	**39,421**	**45,467**	**(86)**	**255,026**	**536,797**
Comprehensive income						
Profit for the year	–	–	–	–	123,100	123,100
Other comprehensive income	–	–	–	(482)	–	(482)
Total comprehensive income for year 2012	–	–	–	(482)	**123,100**	**122,618**
Transaction with owners						
Dividends (Note 12)	–	–	–	–	(160,350)	(160,350)
	–	–	–	–	**(160,350)**	**(160,350)**
Other	–	–	–	(556)	(843)	**(1,399)**
Balance at 31 December 2012	**196,969**	**39,421**	**45,467**	**(1,124)**	**216,933**	**497,666**

*) As described in Note 2.1.2.b) the Group has early adopted IAS 19 revised, the comparative figures for the year ended 31 December 2011 have been restated in accordance with IAS 8.
**) Other reserves include actuarial gains / (losses) on post-employment benefit obligations net of tax.

Consolidated Cash Flow Statement for the Year Ended 31 December 2012

prepared in accordance with IFRS as adopted by the European Union

Consolidated Cash Flow Statement			
All amounts are in thousands of Euro unless stated otherwise		Year ended 31 December	
	Note	2012	2011
Cash flows from operating activities			
Cash generated from operations	21	194,638	216,004
Interest received		1,004	2,091
Interest paid		(50)	-
Income tax paid		(33,378)	(28,498)
Net cash from operating activities		**162,214**	**189,597**
Cash flows from investing activities			
Purchase of property and equipment and intangibles		(82,516)	(71,735)
Acquisition of short-term investment	11	(20,000)	(10,000)
Proceeds from sale of short-term investment		30,000	-
Acquisition of other assets		(160)	-
Dividends received		1,050	614
Proceeds from sale of property and equipment	21	482	1,595
Net cash used in investing activities		**(71,144)**	**(79,526)**
Cash flows from financing activities			
Dividends paid	25	(210,350)	(144,419)
Net cash used in financing activities		**(210,350)**	**(144,419)**
Net decrease in cash and cash equivalents		**(119,280)**	**(34,348)**
Cash and cash equivalents at beginning of year	**11**	**124,576**	**158,924**
Cash and cash equivalents at end of year	**11**	**5,296**	**124,576**

9. Notes to the Consolidated Financial Statements

Notes to the Consolidated Financial Statements prepared at 31 December 2012
prepared in accordance with IFRS as adopted by the European Union

1. General Information

Západoslovenská energetika, a.s. ("the Company", „ZSE"), in its current legal form as a joint stock company, was established on 15 October 2001 and incorporated on 1 November 2001 into the Commercial register.

The Company is one of the three successors of Západoslovenské energetické závody, štátny podnik, a state owned entity. At 31 October 2001, this state enterprise was wound up without liquidation based on the resolution No. 96/2001 of the Slovak Minister of Economy. One day later, its assets and liabilities were transferred to the National Property Fund ("NPF") of the Slovak Republic in accordance with the privatisation project. On 1 November 2001, the NPF contributed them to the following joint-stock companies: Západoslovenská energetika, a.s., Bratislavská teplárenská, a.s., and Trnavská teplárenská, a.s.

The assets and liabilities were recorded by the successor companies at historic carrying amounts as reported by the Západoslovenské energetické závody, štátny podnik as at 31 October 2001.

On 5 September 2002 the National Property Fund of Slovak Republic sold 49% of total share capital of ZSE to E.ON Energie AG, Germany. On 16 December 2003 E.ON Energie AG transferred 9% of total share capital of ZSE to European Bank for Reconstruction and Development. On 27 May 2008 E.ON Energie AG has contributed these shares to its 100% subsidiary E.ON Slovensko, a.s. as a contribution in kind to settle the share capital increase of E.ON Slovensko, a.s.

The Group provides electricity distribution and supply services primarily in the Western Slovakia region. The Group does not have own electricity generation facilities other than several small hydroelectric plants. The Regulatory Office of Network Industries of the Slovak Republic ("ÚRSO") regulates certain aspects of the Group's relationships with its customers, including the pricing of electricity and services provided to certain of the Group's customers. Since 2012, the Group also provides supply of gas.

As required by the directive of European Union 2003/54/ES and by Energy Law No. 656/2004 Coll. the Company implemented legal unbundling of distribution network from 1 July 2007 onwards. Its operations are governed by the terms of its license granted under the Energy Law ("the Energy Licence"). As at 1 July 2007 the electricity distribution has been unbundled into the subsidiary Západoslovenská distribučná, a.s. (till 31 December 2012: ZSE Distribúcia, a.s., Note 5) and the supply service has been unbundled into the subsidiary ZSE Energia, a.s. Both subsidiaries are fully consolidated in these consolidated financial statements.

Throughout these consolidated financial statements, ZSE together with its subsidiaries is referred to as "Group" (refer to Note 5).

There were following changes in the shareholders' structure of the parent Company during 2012. The transfer of 534,113 shares representing 9% of the Company´s share capital held previously by EBRD London to E.ON Energie AG, Munich, Germany came into force on 21 August 2012. The General meeting held on 19 December 2012 approved the transfer of 59,346 shares representing 1% of the Company's share capital held by E.ON Slovensko, a.s. to E.ON Energie AG, Munich, Germany. The transfer of shares was concluded on 13 December 2012.

The structure of the Company's shareholders at 31 December 2012 was as follows:

The structure of the Company's shareholders at 31 December 2012

All amounts are in thousands of Euro unless stated otherwise

	Absolute amount in thousands Euro	Interest in share capital in %	Voting rights in %
National Property Fund (NPF)	100,454	51	51
E.ON Slovensko, a.s.	76,818	39	39
E.ON Energie AG	19,697	10	10
Total	**196,969**	**100**	**100**

The structure of the Company's shareholders at 31 December 2011 was as follows:

The structure of the Company's shareholders at 31 December 2011

All amounts are in thousands of Euro unless stated otherwise

	Absolute amount in thousands Euro	Interest in share capital in %	Voting rights in %
National Property Fund (NPF)	100,454	51	51
E.ON Slovensko, a.s.	78,788	40	40
EBRD, London	17,727	9	9
Total	**196,969**	**100**	**100**

The National Property Fund of the Slovak Republic, based in Bratislava, owns a 51% shareholding in Company's registered capital.

E.ON Slovensko, a.s. which currently owns a 39% shareholding in the Company's registered capital is consolidated as a 100% subsidiary by E.ON Energie AG, Munich, Germany. E.ON Energie AG is a subsidiary of E.ON SE, based in Düsseldorf, Germany. E.ON SE prepares the consolidated financial statements for all group companies of the consolidation group and acts as a direct consolidating company. Effectively, ZSE is consolidated by E.ON SE using equity method of consolidation.

The members of the statutory bodies during the year ended 31 December 2012 and 31 December 2011 were as follows:

Board of Directors

	As at 31 December 2012	As at 31 December 2011
Chairman	Konrad Kreuzer	Konrad Kreuzer
Vice Chairman	Ing. Peter Adamec, PhD. (appointed on 1 June 2012)	
	Ing. Peter Laco, MBA (resigned on 31 May 2012)	Ing. Peter Laco, MBA
Members	Ing. Andrej Devečka	Ing. Andrej Devečka
	Jochen Kley (appointed on 1 June 2012)	
	Dr. Stefan Seipl (resigned on 31 May 2012)	Dr. Stefan Seipl
	Ing. Ján Rusnák (appointed on 1 June 2012)	
	Ing. Peter Procházka (resigned on 31 May 2012)	Ing. Peter Procházka

Supervisory Board

	As at 31 December 2012	As at 31 December 2011
Chairman	Ing. Milan Chorvátik (appointed on 3 August 2012)	
	Ing. Rudolf Slezák (resigned on 3 August 2012)	Ing. Rudolf Slezák
Vice Chairman	Robert Adolf Hienz	
Members	Silvia Šmátralová	Silvia Šmátralová
	Ing. Emil Baxa	Ing. Emil Baxa
	Ing. Peter Hanulík (appointed on 3 August 2012)	Robert Adolf Hienz
	Ing. Marek Hargaš (appointed on 3 August 2012)	
	Ing. Boris Hradecký (appointed on 3 August 2012)	
	JUDr. Libor Samec (appointed on 3 August 2012)	
	Robert Polakovič (appointed on 21 November 2012)	
	Ing. Marián Dúbrava (resigned on 3 August 2012)	Ing. Marián Dúbrava
	JUDr. Andrea Groszová (resigned on 3 August 2012)	JUDr. Andrea Groszová
	JUDr. Karol Nagy (resigned on 3 August 2012)	JUDr. Karol Nagy
	JUDr. Richard Schwarz (resigned on 3 August 2012)	JUDr. Richard Schwarz

Neither Západoslovenská energetika, a.s. nor its subsidiaries are shareholders with unlimited liability in other accounting entities.

As part of the sale of 49% of shares to E.ON Energie AG, the National Property Fund of Slovakia and E.ON Energie AG have entered into a shareholders' agreement which sets out the areas of responsibility and decision making for the Board of Directors and for the Supervisory Board of the Company as well as the rules for nomination of members of the boards. The majority of the members of the Board of Directors are nominated by E.ON Energie AG. The National Property Fund appoints the majority of the Supervisory Board. The Supervisory Board has extensive competences, among others to act as the supreme controlling body of the Company and to approve significant transactions of the Company.

According to the Company's statutes the Supervisory Board shall have 9 members, two thirds of the members are appointed by the General Meeting of the Company and one third is elected by the Company's employees. As of 31 December 2011, the employees have not appointed the last member of the Supervisory Board.

The Group employed 1,856 staff on average during 2012, of which 30 were management (2011: 1,808 employees on average, of which 50 were management).

Registered address:

Čulenova 6
816 47 Bratislava
Slovak Republic

Identification number (IČO) of the Company is: 35 823 551
Tax identification number (IČ DPH) of the Company is: SK2020285256

2. Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are described below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The Act on Accounting of the Slovak republic No. 431/2002 Coll. as amended requires the Group to prepare consolidated financial statements for the year ended 31 December 2012 in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

The Group's consolidated financial statements at 31 December 2012 have been prepared as ordinary consolidated financial statements in accordance with the Slovak Act No. 431/ 2002 Coll. ("Accounting Act") for the accounting period from 1 January 2012 to 31 December 2012.

The consolidated financial statements have been prepared in compliance with International Financial Reporting Standards as adopted by European Union ("IFRS"). The Group applies all IFRS and interpretations issued by International Accounting Standards Board (herein after "IASB") as adopted by European Union, which were in force as of 31 December 2012.

The consolidated financial statements were prepared on accrual basis and under the going concern principle. The consolidated financial statements have been prepared under the historical cost convention.

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

The preparation of consolidated financial statements in conformity with IFRS as adopted by EU requires the use of certain critical estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement of complexity, or areas where assumptions and estimates are significant for the financial statements are disclosed in Note 4.

These consolidated financial statements are prepared in thousands of Euro ("EUR").

2.1.2 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group for the first time during the year ended 31 December 2012

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that would be expected to have a material impact on the Group. The following new standards and interpretations became effective for the Group from 1 January 2012:

"Disclosures—Transfers of Financial Assets" – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The standard requires these new disclosures to be presented in a separate note. During the periods presented no such transactions occurred, accordingly no additional disclosures are presented.

Other revised standards and interpretations: The amendments to IFRS 1 "First-time adoption of IFRS", relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, did not have any impact on these financial statements. The amendment to IAS 12 "Income taxes", which introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, did not have a material impact on these financial statements. These amendments have been endorsed by EU on 11 December 2012.

(b) New standards, amendments and interpretations issued and early adopted by the Group during the year ended 31 December 2012

In the current year, the Group has applied **Amendments to IAS 19, Employee Benefits, (issued in June 2011, endorsed by the EU on 5 June 2012)** in advance of their effective date of 1 January 2013. The Group has applied IAS 19 revised retrospectively in accordance with transitional provisions as set out in IAS 19. These transitional provisions do not have impact on the future periods. The opening balance sheet for the earliest comparative period (1 January 2011) is not presented as the retrospective change in the accounting policy has no material effect on balance sheet as at 1 January 2011 and 31 December 2011.

The amendments to IAS 19 represent mostly changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) re-measurements in other comprehensive income.

The impact on the Statement of comprehensive income is as follows:

The Impact on the Statement of Comprehensive Income

All amounts are in thousands of Euro unless stated otherwise

Year ended 31 December 2011	As reported	Adoption of IAS 19 revised	Restated
Other social costs (Note 19)	(12,506)	106	(12,400)
Income tax expense (Note 15, 20)	(34,254)	(20)	(34,274)
Profit for the year	**139,731**	**86**	**139,817**
Other comprehensive income			
Actuarial loss on post-employment benefit obligations net of tax	-	(86)	(86)
Total comprehensive income	**139,731**	**-**	**139,731**

The adoption of IAS 19 revised had no material impact on cash flow from operating, investing and financing activities for the year ended 31 December 2011.

(c) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2012 and not early adopted by the Group

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2013 or later, and which the Group has not early adopted.

IFRS 9, Financial Instruments, Part 1: Classification and Measurement. IFRS 9 (effective for annual periods beginning on or after 1 January 2015). IFRS 9 was issued in November 2009, relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities. Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. The Group is currently assessing the impact of the standard on its financial statements. This standard has not been endorsed yet by the EU.

IFRS 10, Consolidated Financial Statements, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces all of the guidance on control and consolidation in IAS 27, Consolidated and Separate Financial Statements and SIC-12, Consolidation – Special-purpose Entities. IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Group is currently assessing the impact of the standard on its financial statements. This standard has been endorsed by the EU on 11 December 2012.

IFRS 11, Joint Arrangements, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces IAS 31, Interests in Joint Ventures and SIC-13, Jointly Controlled Entities – Non-Monetary Contributions by Venturers. Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The Group is currently assessing the impact of the standard on its financial statements. This standard has been endorsed by the EU on 11 December 2012.

IFRS 12, Disclosure of Interests in Other Entities, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28, Investments in associates. IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Group is currently assessing the impact of the standard on its financial statements. This standard has been endorsed by the EU on 11 December 2012.

IFRS 13, Fair Value Measurement, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Group is currently assessing the impact of the standard on its financial statements. This standard has been endorsed by the EU on 11 December 2012.

IAS 27, Separate Financial Statements, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013), was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements. This standard will have no impact on the Group's financial statements. This standard has been endorsed by the EU on 11 December 2012.

IAS 28, Investments in Associates and Joint Ventures, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013). The amendments to IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The Group is currently assessing the impact of the standard on its financial statements. This standard has been endorsed by the EU on 11 December 2012.

Amendments to IAS 1, Presentation of Financial Statements, (issued in June 2011, effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'Statement of profit or loss and other comprehensive income'. The Group expects the amended standard to change presentation of its financial statements, but have no impact on measurement of transactions and balances. This standard has been endorsed by the EU on 5 June 2012.

"Disclosures – Offsetting Financial Assets and Financial Liabilities" – Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. This standard has been endorsed by the EU on 13 December 2012.

"Offsetting Financial Assets and Financial Liabilities" – Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. This standard has been endorsed by the EU on 13 December 2012.

Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning on or after 1 January 2013). The improvements consist of changes to five standards. IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS 23 "Borrowing costs", retrospectively by first-time adopters. IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements. IAS 16 was amended to clarify that servicing equipment that is used for more than one period is classified as property, plant and equipment rather than inventory. IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12. IAS 34 was amended to bring its requirements in line with IFRS 8. IAS 34 will require disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to chief operating decision maker and there has been a material change in those measures since the last annual financial statements. These amendments have not been endorsed yet by the EU.

Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 (issued in June 2012 and effective for annual periods beginning on or after 1 January 2013). The amendments clarify the transition guidance in IFRS 10 "Consolidated Financial Statements". Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2012 for a calendar year-end entity that adopts IFRS 10 in 2013) is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities", by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period. Further, the amendments will remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied. The Group is currently assessing the impact of the amendments on its financial statements. These amendments have not been endorsed yet by the EU.

Amendments to IFRS 1 "First-time adoption of International Financial Reporting Standards – Government Loans" (issued in March 2012 and effective for annual periods beginning on or after 1 January 2013). The amendments, dealing with loans received from governments at a below market rate of interest, give first-time adopters of IFRSs relief from full retrospective application of IFRSs when accounting for these loans on transition. This will give first-time adopters the same relief as existing preparers. This amendment is not relevant for the Group. These amendments have not been endorsed yet by the EU.

Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment entities (issued on 31 October 2012 and effective for annual periods beginning on or after 1 January 2014). The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary. The Group is currently assessing the impact of the standard on its financial statements. These amendments have not been endorsed yet by the EU.

Other revised standards and interpretations: IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine, considers when and how to account for the benefits arising from the stripping activity in mining industry (endorsed by the EU on 11 December 2012). This standard will have no impact on the Group's financial statements.

Unless otherwise stated above, the new standards and interpretations are not expected to have a material effect on the financial statements of the Group.

2.2 Consolidation

(i) Subsidiaries
Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Acquisition-related costs are expensed as incurred. Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 Foreign currency translation

(i) Functional and presentation currency
Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').

These financial statements are presented in thousands of Euro, which is the Group's functional and presentation currency in 2012 and 2011.

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

2.4 Property, plant and equipment

All property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

(i) Cost
Cost includes expenditure that is directly attributable to the acquisition of the items, including borrowing costs incurred from the date of acquisition until the date the item becomes available for use.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

The most significant part of property, plant and equipment is represented by the network. Network included mainly network constructions, power lines, pylons, switching stations and other equipment.

(ii) Depreciation
The depreciation of property, plant and equipment starts in the month when the property, plant and equipment is available for use. Property, plant and equipment are depreciated in line with the approved depreciation plan using the straight-line method. Monthly depreciation charge is determined as the difference between acquisition costs and residual value, divided by estimated useful life of the property, plant and equipment. Land and assets under construction are not depreciated.

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

The Estimated Useful Lives	Useful lives in years
Buildings and halls	30 - 50 years
Building sites	40 years
Machinery	4 - 20 years
Power lines, switching stations and similar equipment	4 - 30 years
Vehicles	4 - 15 years
Other assets	4 - 30 years

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.6).

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

Items that are retired or otherwise disposed of are eliminated from the balance sheet, along with the corresponding accumulated depreciation. Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognized net in the income statement.

2.5 Intangible assets

Intangible assets are initially measured at cost. Intangible assets are recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the Group, and the cost of the asset can be measured reliably. After initial recognition, the intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Borrowing costs are capitalized during the period from acquisition until the asset becomes available for intended use. The Group does not have intangible assets with indefinite useful lives. Intangible assets are amortized on the straight-line basis over their useful lives, not exceeding a period of 4 years.

Costs associated with maintaining computer software programmes are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognized as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads. Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

Computer software development costs recognized as assets are amortised over their estimated useful lives, which does not exceeds four years.

2.6 Impairment of non-current non-financial assets

Assets that have an indefinite useful life and intangible assets not yet available for use are not subject to amortization and are tested for impairment annually. Land, construction in progress and assets that are subject to depreciation or amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are individually identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that were impaired are reviewed for possible reversal of the impairment at each reporting date.

2.7 Financial assets

The Group classifies its financial assets according to IAS 39 "Financial Instruments: Recognition and Measurement" in the following categories: financial assets at fair value through profit or loss, available-for sale financial assets and loans and receivables. The classification depends on the purpose for which the financial assets were acquired, whether they are quoted in an active market and on management intentions.

(i) Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading. Assets in this category are classified as current assets.

The Group has not recorded any financial assets at fair value through profit and loss in the financial years 2012 and 2011.

(ii) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the statement of financial position (Notes 2.11 and 2.13).

(iii) Available-for-sale financial assets
Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the end of the reporting period.

Reconciliation of these categories of financial assets with the balance sheet classes is presented in Note 8.

Purchases and sales of financial assets are recognized on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit and loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the profit and loss. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the profit and loss in the period in which they arise.

Gains or losses arising from changes in the fair value of the available-for-sale financial assets are recognised in other comprehensive income in the period in which they arise and are reclassified to profit or loss upon disposal or impairment.

The Group has not recorded any available-for-sale financial assets in the financial years 2012 and 2011.

The Group assesses at each year-end date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is reclassified from other comprehensive income to profit or loss. Impairment testing of the receivables is described in note 2.11.

2.8 Financial liabilities

The Group classifies its financial liabilities to subsidiaries according to IAS 39 "Financial Instruments: Recognition and Measurement". The classification depends on the contractual provisions of the instrument and the intentions with which management entered into the contract.

Management determines the classification of its financial liabilities at initial recognition and re-evaluates this designation at every reporting date. When a financial liability is recognised initially, the Group measures it at its fair value net of transaction costs that are directly attributable to the origination of the financial liability.

After initial recognition, the Group measures all financial liabilities at amortised cost using the effective interest method. The gain or loss from financial liabilities is recognized in the income statement when the financial liability is derecognized and through the amortization process.

Financial liability (or a part of a financial liability) is removed from the Group's statement of financial position when, and only when it is extinguished – i.e. when the obligation specified in the contract is discharged or cancelled or expires.

2.9 Leases

IAS 17 defines a lease as being an agreement whereby the lessor conveys to the lessee in return for a payment, or series of payments, the right to use the asset for an agreed period of time.

(i) Operating leases
Leases, in which a significant portion of the risks and rewards of the ownership are retained by the lessor, are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(ii) Finance lease
Leases of property, plant and equipment, where the Group has substantially all the risks and rewards of the ownership of the asset, are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest element of the finance cost is charged to the profit and loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

2.10 Inventories

Inventories are stated at the lower of cost and net realizable value. Weighted average method is used for the measurement of cost of inventories. The cost of material includes purchase price and directly attributable acquisition costs, such as customs duties or transportation costs. Net realizable value is the estimated selling price in the ordinary course of business, less cost of completion and selling expenses.

2.11 Trade receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, net of provision for impairment. Revenue recognition policy is described in Note 2.25.

A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, default or delinquency in payments (more than 1 month overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the income statement within "other operating expenses".

When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against "other operating income" in the income statement.

2.12 Construction contracts

The Group is involved on an ongoing basis in construction contracts related mostly to third parties.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognized over the period of the contract. Contract costs are recognised as expenses by reference to the stage of completion of the contract activity at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Variations in contract work, claims and incentive payments are included in contract revenue to the extent that may have been agreed with the customer and are capable of being reliably measured.

The Group uses the 'percentage-of-completion method' to determine the appropriate amount to recognize in a given period. The stage of completion is measured by reference to the contract costs incurred at the end of the reporting period as a percentage of total estimated costs for each contract.

Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are disclosed as inventories, prepayments or other assets depending on their nature.

The Group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognized profits (less recognized losses) exceed progress billings. Progress billings not yet paid by customers and retentions are included within 'trade and other receivables'.

The Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognized profits (less recognized losses).

2.13 Cash and cash equivalents

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

In the statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. In the balance sheet, bank overdrafts are shown within borrowings in current liabilities.

Cash and cash equivalents are carried at amortised cost using the effective interest method. Restricted balances are excluded from cash and cash equivalents for the purposes of the cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the balance sheet date are included in non-current assets.

2.14 Share capital

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

2.15 Dividend distribution

Dividends are disclosed in the consolidated financial statements when they are proposed before the end of the reporting period or proposed or declared after the end of the reporting period, but before the separate financial statements are authorised for issue. Dividends are recognised as a liability and deducted from equity at the end of the reporting period only if they are declared before or on the end of the reporting period.

2.16 Legal reserve fund

The legal reserve fund is set up in accordance with the Commercial Code. Contributions to the legal reserve fund of the Group were made at 10% of net income of the Company, up to 20% of the share capital. Such funds are not distributable and may only be used to increase share capital or to cover losses.

2.17 Other funds

The Group has set up additional funds from profits to reserve funding for future capital expenditure as allowed by the Commercial Code and Articles of Association. The allocations to these funds have been approved by the General meeting of Shareholders. Such funds are not distributable unless otherwise decided by shareholders.

2.18 Other reserves

The other reserves comprise of re-measurement component of defined pensions plans, which are actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in calculation of pension obligations. The balances are included net of tax.

2.19 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using effective interest method.

2.20 Taxation

(i) Deferred tax

Deferred income tax is recognized using the balance sheet liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination and the transaction, when initially recorded, affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized, or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Dividend income is currently not subject to income taxes in the Slovak Republic.

The Group offsets deferred tax assets and deferred tax liabilities where the Group has a legally enforceable right to set off current tax assets against current tax liabilities and these relate to income taxes levied by the same taxation authority.

(ii) Current income tax
The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. It is calculated on the basis of the profit/(loss) before taxes that has been adjusted for tax-deductible and tax-non-deductible items due to permanent and temporary differences between accounting and taxable profit. The current tax liability is stated net of corporate income tax advances that the Group paid during the year. If corporate income tax advances paid during the year exceed the tax liability for the period, the Group records a tax receivable.

(iii) Special levy on business in regulated industries
Since 1 September 2012, the Group is obliged to pay the special levy on business in regulated industries, which includes the energy sector. The levy is payable, if the revenues from regulated activities achieve at least 50% of the total revenues of the individual companies of the Group for the respective accounting period. The Group's obligation to pay the levy arises when the profit before tax for the accounting period is at least EUR 3 million. The levy rate is 4.356% per annum, i.e. 1.452% for the period from September to December 2012. The levy is calculated as the multiple of the given rate and the levy base exceeding EUR 3 million. The Group has disclosed the special levy on business in regulated industries, in accordance with IAS 12 as part of the income tax expense.

2.21 Contributions related to acquisition of property and equipment

The Group and its predecessor have over time received contributions for construction of the electricity distribution network, in particular for new municipal connections and networks. Certain customers of the Group contributed towards the cost of their connection.

Customer contributions are recognized at their fair value where there is a reasonable assurance that the contribution will be received.

Customer contributions relating to acquisition of property and equipment have been accounted by setting up the grant as deferred revenue, which is recognized as other revenue over the life of depreciable asset. Both fixed assets and deferred revenue are recorded at fair values at acquisition.

2.22 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are carried at amortized cost using the effective interest method. Interest costs on borrowings to finance the construction of property, plant and equipment are capitalized based on cost of the qualifying assets, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.23 Provisions / Contingent liabilities

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are not recognized for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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

Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed in the notes to the consolidated financial statements, unless the possibility of an outflow of resources embodying the economic benefits is remote.

2.24 Employee benefits
The Group has both defined benefit and defined contribution plans.

(i) Pension obligations
A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

(ii) Unfunded defined benefit pension plans
According to the contract with the Trade Unions for the years 2011 to 2013 the Group is obliged to pay its employees on retirement or disability the average of their

monthly salary (2011: average of their monthly salary). Additionally, if the employees decide to resign exactly at the date of retirement, the Group is obliged to pay its employees additional 6 multiples of their average monthly salary (2011: 6 multiples of their average monthly salary).

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

The Group also pays certain life and work jubilees bonuses.

a) Life jubilee benefits are paid by the Group in the amount of 1,700 EUR to each employee at the age of 50 under the condition that employee worked at least 10 years of continuous work for the Group.
b) Work jubilee bonuses (long-term service bonuses) paid by the Group are dependent on the number of years of service for the Group and equal to the following amounts:

10 years	EUR 366
20 years	EUR 664
30 years	EUR 830
35 years	EUR 996
40 years (valid since 1 January 2013)	EUR 1,150

The defined benefit obligation is calculated annually by independent actuaries using the Projected Unit Credit Method. The present value of the defined benefit obligation is determined (a) by discounting the estimated future cash outflows using interest rates of government bonds which have terms to maturity approximating the terms of the related pension liability and (b) then attributing the calculated present value to the periods of service based on the plan's benefit formula.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise (Note 2.1.2b). Past service costs are recognized immediately in expenses.

(iii) Defined contribution pension plans
The Group contributes to the government and private defined contribution pension plans.

The Group makes contributions to the government health, retirement benefit, accidental and guarantee insurance and unemployment schemes at the statutory rates in force during the year, based on gross salary payments. Throughout the year, the Group made contributions amounting to 35.2% (2011: 35.2%) of gross salaries up to a monthly salary cap, which is defined by the relevant law, to such schemes, together with contributions by employees of a further 13.4% (2011: 13.4%). The cost of these payments is charged to the profit and loss in the same period as the related salary cost.

In addition, with respect to employees who have chosen to participate in a supplementary pension scheme, the Group makes contributions to the supplementary scheme amounting to 3% (2011: 3%) from the total of monthly tariff wage.

(iv) Termination benefits
Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to their present value.

(v) Profit sharing and bonus plans
A liability for employee benefits in the form of profit sharing and bonus plans is recognized within other payables when there is no realistic alternative but to settle the liability and at least one of the following conditions is met:

- there is a formal plan and the amounts to be paid are determined; or
- past practice has created a valid expectation by employees that they will receive a bonus/profit sharing and the amount can be determined.

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

2.25 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, estimated returns, rebates and discounts.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and specific criteria will be met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved.

(i) Revenue from sale and distribution of electricity
Revenue from sale and distribution of electricity is recognized when the electricity is delivered to the customer. Consumption to wholesale customers is metered and billed on monthly basis.

Consumption of the retail customers in the segment of small businesses was metered during December 2012 and subsequently billed on the annual basis from 1 January till 31 December.

Consumption of the retail customers in households segment is metered and billed on annual basis and the Group split its household customer base to twelve billing cycles. The billing of electricity supplied in 2012 for all twelve billing cycles will be completed in December 2013. For calculation of the total supply to the retail customers the Group uses an estimate of network losses, which are incurred in the distribution system and the regularly measured amounts of overall electricity purchases, sales to the Group's wholesale customers and small businesses and its own consumption. Network losses are included in the cost of purchased electricity.

Revenue from sale of electricity on the spot market, settlement of variations in consumption and cross – border profile recharges represent mainly revenues from sale of electricity purchased on short-term market for regular customers due to unexpected short-term deviation in their consumption diagrams and revenue from fees paid by the regular customers for deviating from the planned consumption curve. All these revenues realised on the spot market are recognized when the electricity is delivered or the contract is fulfilled.

(ii) Connection fees
ZSE receives contribution from the customers to connect them to electricity network – connection fees. Revenue from such contributions is recognized as deferred revenue and is released to revenues over the useful life of the asset (approximately 20 years).

(iii) Sales of services
Sales of services are recognized in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(iv) Dividend income
Dividend income is recognized when the right to receive the payment is established.

(v) Interest income
Interest income is recognized on accrual basis in the period when it is incurred, independent from the actual payments of the interest.

(vi) Contractual penalties
Contractual penalties are recognized as revenue when the cash payment is received as contractual penalties mostly relate to contracts with customers who intended to defraud ZSE and as such are relatively difficult to collect.

(vii) Sales to hospitals
Hospitals pay with significant time delays. The Group recognizes sales to hospitals at estimated fair value of expected cash inflows.

3. Financial risk management

3.1 Financial risk factors

The Group's activities are exposing it to certain of financial risks: market risk (including risk of changes in foreign currency exchange rates and interest rate risk), credit risk and liquidity risk. The Group's principal financial instruments comprise trade receivables and payables, cash and short-term bank deposits. The main purpose of these financial instruments is to raise finance or to invest excess liquidity.

Risk management is carried out under policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as credit risk and the investment of excess liquidity.

(i) Market risk

(a) Foreign exchange risk
The Group operates mainly in the domestic market, and most of its sales, purchases and short-term deposits are denominated in Euro.
Management does not consider foreign exchange risk as a significant exposure to the Group's operations as it has only small volume of transactions in currency other than its functional currency.

(b) Price risk
The Group is not exposed to significant price risk, as it does not invest in equities.

(c) Cash flow and fair value interest rate risk
As the Group has no significant interest earning assets other than short-term bank deposits, short term bonds and cash at bank accounts as of 31 December 2012 and 2011, the cash flows are only to a small extent dependent on the market interest rate fluctuations. The short term bank deposits and short term bonds are denominated at fixed interest rates. At 31 December 2012, if the interest rates on short-term bank deposits would be higher/lower by 1% with all other variables constant, post-tax profit for the year would have been EUR 3 thousand (at 31 December 2011: EUR 55 thousand) higher or lower mainly as a result of higher/lower interest income on short term bank deposits.

At 31 December 2012, the Group did not held any short term bonds or similar instruments. At 31 December 2011, if the interest rates on short term bonds would be higher/lower by 1% with all other variables constant, post-tax profit for the year would have been EUR 38 thousand higher or lower mainly as a result of higher/lower interest income on short term bonds.

The Group had neither bank borrowings except for bank overdrafts during the financial year 2012 and 2011.

(ii) Credit risk

The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's sales of services on credit terms and other transactions with counterparties giving rise to financial assets.

The credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and transactions made.

As for the banks and financial institutions, Group has relationships only with those ones that have high independent rating assessment. If wholesale customers are independently rated, these rating are used. If no independent rating is available, management assesses the credit quality of customer, taking into account its financial position, past experience and other factors. The Group does not set individual risk limits for counterparties. As for the trade receivables, the Group does not have a significant concentration of credit risk mainly due to a large number of diverse customers. The Group uses a system of reminders, which may culminate in a service disconnection, as the prevailing contract enforcement. The collection of receivables could be influenced by economic factors; management believes that there is no significant risk of loss to the Group beyond the provisions already recorded.

The table below shows the credit limit and balance of the major counterparties at the balance sheet date:

Credit Limit and Balance of the Major Counterparties

All amounts are in thousands of Euro unless stated otherwise

	Counterparty Rating *	31 December 2012 Credit limit	31 December 2012 Balance	31 December 2011 Credit limit	31 December 2011 Balance
Banks rated**)	A3		19,258		102,153
Banks rated	Baa	n/a	219	n/a	87
Banks rated	A		1,782		31,514
			21,259		**133,754**
Banks not rated			458		955
			21,717		**134,709**

*) Rating provided by Moody's and Fitch at 31 December 2012
**) Includes also short-term bonds amounting to EUR 10 000 thousand (Note 11) as at 31 December 2011.

(iii) Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Group's Treasury aims to maintain flexibility in funding by keeping committed credit lines available.

The Group regularly monitors its liquidity position and uses overdrafts only in exceptional cases. The Group also uses the advantages of commercial terms between the Group and its suppliers to secure sufficient financing funds to cover its needs. The maturity of supplier's invoices is 60 days, on average.

The Group monitors movements of financial resources in bank accounts on a regular basis. Expected cash flow is prepared as follows:

1) expected future cash inflows from main operation of the Group; and
2) expected future cash outflows securing operation of the Group and leading to settlement of all liabilities of the Group, including tax payables.

A cash flow forecast is prepared weekly. It identifies the immediate need for cash and, if funds are available, it enables the Group to make term deposits.

The table below places the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

The amounts disclosed in the table are the contractual undiscounted cash flows:

Contractual Undiscounted Cash Flows

All amounts are in thousands of Euro unless stated otherwise	Less than one year
At 31 December 2012	
Bank overdrafts (Note 11)	16,288
Trade payables (Note 14)	85,055
Other accrued liabilities (Note 14)	6,123
Other financial liabilities (Note 14)	8,860
	116,326
At 31 December 2011	
Trade payables (Note 14)	79,323
Other accrued liabilities (Note 14)	15,121
Dividends payable (Note 14)	50,000
Other financial liabilities (Note 14)	10,151
	154,595

There were no derivatives used by the Group in 2012 and 2011.

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders, and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. The Group's management manages capital reported under IFRS as equity amounting to, as at 31 December 2012, EUR 497,666 thousand (31 December 2011: EUR 536,797 thousand).

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders or return capital to shareholders.

The Group's management considers the most relevant indicator of capital management to be the return on capital employed (ROCE). Management expect return on capital employed to be higher than cost of capital. As at 31 December 2011 return on capital employed amounted to 31.5% (as at 31 December 2011: 32.0%)

3.3 Fair value estimation

The nominal value of trade receivables, net of impairment provision for bad and doubtful debts and the nominal value of payables, approximates their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. Critical Accounting Estimates and Judgements

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

(i) Unbilled electricity

In 2011, the Group implemented a project of a bi-client customer information system and managed to improve accuracy of the existing system of expected electricity demand (Enersim) through expected electricity demand time curves. Implementation of this system improvement allows for making more accurate estimates of unbilled revenues from delivery and distribution, as described below. Based on this estimates, the Group started billing.

The unbilled revenues from delivery and distribution represent an accounting estimate based on estimated volume of delivered and distributed electricity expressed in MWh for low voltage network and estimated unit price that will be billed in the future. This accounting estimate is based on:

- the estimated volume delivered and distributed to households in technical units (MWh) between the date of the last meter reading and the end of the accounting period;
- the estimated losses in the distribution network; and
- the estimated unit price in EUR/MWh, that will be applied to billing the electricity delivery and distribution in the future. The price is based on actual average tariff prices applicable in a calendar year.

The Group applied the method of estimated network losses. This method is consistent with that applied in prior accounting periods and is based on expert report. Should the estimate of total network losses be lower by 0.1%, ie. 9 GWh, with other parameters being unchanged, the volume of unbilled distribution charges would change by EUR 1,269 thousand (2011: EUR 1,191 thousand) and would be recognised as revenue and an increase of trade receivables. The estimate of unbilled revenues is by EUR 6,345 thousand higher compared to the same period last year.

(ii) Estimated useful life of network

The useful life of network assets was based on accounting estimates described in Note 2.4. If the estimated useful life of network assets had been shorter by 10% than management's estimates at 31 December 2012, the Group would have recognized an additional depreciation of network assets of EUR 3, 967 thousand (2011: EUR 3,887 thousand).

5. Group Structure

The Group structure as of 31 December 2012 has been as follows:

The Group Structure as of 31 December 2012

Name	Country of incorporation	Percentage of shareholding in the ordinary share capital	Principal activities
Západoslovenská distribučná, a.s. (till 31 December 2012: ZSE Distribúcia, a.s.)	Slovakia	100%	Distribution of electricity
ZSE Energia, a.s.	Slovakia	100%	Purchase and supply of electricity
Enermont s.r.o.	Slovakia	100%	Construction works
ZSE Development, s.r.o. (till 3 February 2012: OTC, s.r.o.)	Slovakia	100%	Trading activities
ZSE prenos, s.r.o.	Slovakia	100%	Wholesale and retail

The requirement to legally unbundle the distribution business from other commercial activities of integrated electricity companies has been established by the European Directive 2003/54 on common rules for internal market with electricity. The Directive has been transposed into Slovak legislation by the Act on Energy (656/2004) issued in 2004. The Act prescribed legal unbundling by 30 June 2007 at the latest.

ZSE has started preparatory works for unbundling already in early 2005. At the beginning of 2006 a detailed evaluation of possible unbundling models has been performed based on the following major criteria: full compliance with legislation and regulatory requirements; acceptance of shareholders, stakeholders and general public; minimum disruption to customers; no negative impact on quality of provided service, standard solutions implemented within E.ON Group and implementation feasibility and efficiency.

ZSE has chosen to unbundle distribution through a model of new distribution business subsidiary resulting in transfer of all core activities of distribution to Západoslovenská distribučná, a.s. (till 31 December 2012: ZSE Distribúcia, a.s.). Energy supply business has been transferred to ZSE Energia, a.s. Central services, customer services, network and other services remain in ZSE, which are provided to these subsidiaries.

Enermont s.r.o. was established on 14 April 2003 and incorporated on 10 June 2003 as a company fully owned by ZSE. On 1 July 2003 ZSE transferred to Enermont s.r.o. part of its business relating to construction of electricity distribution structures.

ZSE Development, s.r.o. (till 3 February 2012: OTC, s.r.o.) was established on 14 April 2003 and incorporated incorporated in the Commercial Register on 2 June 2003 as a private company fully owned by ZSE. On 1 July 2003 ZSE transferred to OTC, s.r.o. part of its business relating to calibration of electricity metering equipment. ZSE concluded with its subsidiary ZSE Development, s.r.o. agreement on purchase of part of the business, a separate division "Maintenance of electrometers and metering centre", which became effective on 1 January 2012. Enermont, s.r.o. concluded with the company ZSE Development, s.r.o. agreement on purchase of part of the business, a separate division "Transformers", which became effective on 1 January 2012. ZSE Development, s.r.o. therefore changed its main business activity to trading activities.

ZSE prenos, s.r.o. was established on 9 February 2005 and incorporated incorporated in the Commercial Register on 25 March 2005 as a company fully owned by ZSE. ZSE prenos, s.r.o. is currently dormant.

Západoslovenská distribučná, a.s. (till 31 December 2012: ZSE Distribúcia, a.s.) was established on 20 April 2006 and incorporated in trade register on 20 May 2006 as a company fully owned by ZSE. Since 1 July 2007 the company engages in distribution of electricity in the region of Western Slovakia, when it was unbundled from the Západoslovenská energetika, a.s. Based on decision of the sole shareholder from 19 December 2012, subsidiary ZSE Distribúcia, a.s. was renamed to Západoslovenská distribučná, a.s. effective from 1 January 2013.

ZSE Energia, a.s. was established on 18 August 2006 and incorporated in trade register on 22 September 2006 as a company fully owned by ZSE. Since 1 July 2007 the company engages in supply of electricity mainly in the region of Western Slovakia, when it was unbundled from the Západoslovenská energetika, a.s.

Enermont s.r.o., ZSE Development, s.r.o. (until 3 February 2012: OTC s.r.o.), ZSE prenos, s.r.o., Západoslovenská distribučná, a.s. (till 31 December 2012: ZSE Distribúcia, a.s.) and ZSE Energia, a.s. do not have subsidiaries of their own.

6. Property, Plant and Equipment

Property, Plant and Equipment

All amounts are in thousands of Euro unless stated otherwise

	Land	Buildings and halls, building sites, network assets	Machinery, power lines, switching stations and similar equipment, vehicles and other assets	Capital work in progress including advances (CIP)	Total
At 1 January 2011					
Cost	14,328	527,709	304,358	42,075	888,470
Accumulated depreciation including impairment charge	–	(202,886)	(154,196)	(1,706)	(358,788)
Net book value	**14,328**	**324,823**	**150,162**	**40,369**	**529,682**
Year ended 31 December 2011					
Additions	–	–	–	72,518	72,518
Transfers	1,801	72,794	31,539	(106,134)	–
Depreciation charge (Note 19)	–	(16,274)	(18,707)	–	(34,981)
Disposals (Note 21)	(4)	(426)	(91)	–	(521)
Impairment (charge)/release (Note 19)	–	–	–	710	710
Closing net book value	**16,125**	**380,917**	**162,903**	**7,463**	**567,408**
At 31 December 2011					
Cost	16,125	597,674	327,272	8,459	949,530
Accumulated depreciation including impairment charge	–	(216,757)	(164,369)	(996)	(382,122)
Net book value	**16,125**	**380,917**	**162,903**	**7,463**	**567,408**
Year ended 31 December 2012					
Additions	–	–	–	87,760	87,760
Transfers	1,716	34,504	40,284	(76,504)	–
Depreciation charge (Note 19)	–	(16,870)	(18,836)	–	(35,706)
Disposals (Note 21)	(8)	(2)	(33)	–	(43)
Impairment (charge)/release (Note 19)	–	–	–	375	375
Closing net book value	**17,833**	**398,549**	**184,318**	**19,094**	**619,794**
At 31 December 2012					
Cost	17,833	630,518	362,646	19,715	1,030,712
Accumulated depreciation including impairment charge	–	(231,969)	(178,328)	(621)	(410,918)
Net book value	**17,833**	**398,549**	**184,318**	**19,094**	**619,794**

Impairment charge to Capital work in progress relates to the projects started, where the finalisation of those assets is uncertain.

Property plant and equipment includes the capitalized interest on debt apportioned to the construction period of qualifying assets as part of their cost of acquisition in the cumulative amount of EUR 11,684 thousand (as at 31 December 2011: EUR 11,684 thousand). No borrowing costs were capitalized during 2012 and 2011.

During the year ended 31 December 2012 the Group received from customers fixed assets and cash to finance construction of fixed assets at fair value of EUR 707 thousand (during the year ended 31 December 2011: EUR 6,216 thousand). As at 31 December 2012 the cost and net book value of fixed assets financed through grants and contributions amounts to EUR 62,506 thousand and EUR 31,017 thousand respectively (as at 31 December 2011: EUR 61,799 thousand and EUR 31,962 thousand respectively).

At 31 December 2012 and 2011 no property, plant and equipment was collaterized or pledged. Non-current tangible assets are insured in Ergon Insurance Limited against damages caused by natural disasters and water from exchange up to the amount of EUR 482,200 thousand for buildings and building parts and up to amount of EUR 432,630 thousand for the machinery, equipment, fixture, fittings and other assets (2011: EUR 439,241 thousand and 393,599 thousand respectively).

7. Intangible Assets

Intangible Assets All amounts are in thousands of Euro unless stated otherwise	Computer software and other	Assets not yet available for use	Total
At 1 January 2011			
Cost	28,929	6,857	35,786
Accumulated depreciation including impairment charge	(21,630)	–	(21,630)
Net book value	**7,299**	**6,857**	**14,156**
Year ended 31 December 2011			
Additions	–	5,397	5,397
Transfers	10,879	(10,879)	–
Disposals	–	–	–
Amortisation charge (Note 19)	(3,979)	–	(3,979)
Closing net book value	**14,199**	**1,375**	**15,574**
At 31 December 2011			
Cost	39,808	1,375	41,183
Accumulated depreciation including impairment charge	(25,609)	–	(25,609)
Net book value	**14,199**	**1,375**	**15,574**
Year ended 31 December 2012			
Additions	–	3,217	3,217
Transfers	2,477	(2,477)	–
Amortisation charge (Note 19)	(5,784)	–	(5,784)
Closing net book value	**10,892**	**2,115**	**13,007**
At 31 December 2012			
Cost	42,012	2,115	44,127
Accumulated depreciation including impairment charge	(31,120)	–	(31,120)
Net book value	**10,892**	**2,115**	**13,007**

Assets not yet available for use comprise mostly of acquisition of additional software for upgrade and improvement of functionality of the customer and network information system. Assets are expected to be finalized and available for use in 2013.

8. Financial Instruments by Category

The reconciliation of classes of financial instruments with measurement categories under IAS 39 is as follows:

Loans and Receivables All amounts are in thousands of Euro unless stated otherwise Assets as per balance sheet	Loans and receivables	Total
As at 31 December 2012		
Trade receivables (Note 10)	103,286	**103,286**
Trade receivables towards E.ON Group companies (Note 10)	47	**47**
Amounts due from customers to contract work – third parties (Note 10)	98	**98**
Other receivables and other accrued income (Note 10)	5,770	**5,770**
Cash and cash equivalents (Note 11)	21,717	**21,717**
Total	**130,918**	**130,918**
As at 31 December 2011		
Trade receivables (Note 10)	108,470	**108,470**
Trade receivables towards E.ON Group companies (Note 10)	67	**67**
Amounts due from customers to contract work – third parties (Note 10)	1,028	**1,028**
Other receivables and other accrued income (Note 10)	1,834	**1,834**
Other financial asset (Note 11)	10,000	**10,000**
Cash and cash equivalents (Note 11)	124,709	**124,709**
Total	**246,108**	**246,108**

Other Financial Liabilities – Carried at Amortised Cost

All amounts are in thousands of Euro unless stated otherwise

Liabilities as per balance sheet	Other financial liabilities – carried at amortised cost	Total
As at 31 December 2012		
Bank overdrafts (Note 11)	16,288	**16,288**
Trade payables (Note 14)	85,055	**85,055**
Other accrued liabilities (Note 14)	6,123	**6,123**
Other financial liabilities (Note 14)	8,860	**8,860**
Total	**116,326**	**116,326**
As at 31 December 2011		
Trade payables (Note 14)	79,323	**79,323**
Other accrued liabilities (Note 14)	15,121	**15,121**
Dividends payable (Note 14)	50,000	**50,000**
Other financial liabilities (Note 14)	10,151	**10,151**
Total	**154,595**	**154,595**

9. Inventories

Materials and Spare Parts

All amounts are in thousands of Euro unless stated otherwise	As at 31 December	
	2012	2011
Natural gas	2,394	–
Materials and spare parts	1,625	1,388
Total inventories	**4,019**	**1,388**

The inventory items are shown after provision for slow-moving materials and spare parts of EUR 15 thousand (2011: EUR 15 thousand).

Movements in provision for slow-moving items for year ended 31 December 2012 are presented below:

Materials and Spare Parts

All amounts are in thousands of Euro unless stated otherwise

	At 1 January 2012	Set-up	Release	At 31 December 2012
Materials and spare parts	15	–	–	15
Total	**15**	–	–	**15**

10. Trade and Other Receivables

Trade and Other Receivables All amounts are in thousands of Euro unless stated otherwise	As at 31 December 2012	2011
Trade receivables not yet due	92,436	101,178
Individually impaired trade receivables	40,991	37,394
Less: Provision for impairment of receivables	(30,141)	(30,102)
Trade receivables – net	103,286	108,470
Trade receivables towards E.ON Group companies not yet due and not impaired	47	67
Amounts due from customers to contract work – third parties	98	1,028
Other receivables and other accrued income	5,770	1,834
Total financial assets (Note 8)	**109,201**	**111,399**
Prepayments	1,133	3,858
VAT receivable (Note 25)	–	1,572
Excise tax receivable (Note 25)	558	816
Total trade and other receivables	**110,892**	**117,645**

The structure of trade receivables and other receivables by maturity is shown in the following table:

The Structure of Trade Receivables All amounts are in thousands of Euro unless stated otherwise	As at 31 December 2012	2011
Receivables within due date	100,042	110,353
Overdue receivables	40,991	37,394
Less: Provision for impairment of receivables	(30,141)	(30,102)
Total trade and other receivables	**110,892**	**117,645**

The analysis of trade receivables that are neither past due nor impaired by their credit quality is as follows:

The Structure of Trade Receivables All amounts are in thousands of Euro unless stated otherwise	As at 31 December 2012	2011
Households and individuals	15,226	15,857
Small and medium businesses	26,894	33,978
Large businesses	50,316	51,343
Trade receivables not yet due	**92,436**	**101,178**

As of 31 January 2013 EUR 69,254 thousand out of EUR 98,351 thousand trade and other receivables classified as financial assets were paid.

As of 31 December 2012, Group's trade receivables of EUR 40,991 thousand (31 December 2011: EUR 37,394 thousand) were impaired and provided for. The amount of the provision was EUR 30,141 thousand as of 31 December 2012 (31 December 2011: EUR 30,102 thousand). The individually impaired receivables mainly relate to businesses and individuals, which are in unexpectedly difficult economic situations. It was assessed that a portion of the receivables is expected to be recovered.

The ageing of these receivables is as follows:

The Ageing of Receivables		
All amounts are in thousands of Euro unless stated otherwise	As at 31 December	
	2012	2011
1 to 30 days after due date	6,900	6,501
31 to 60 days after due date	1,916	1,736
61 to 90 days after due date	790	1,182
91 to 120 days after due date	728	680
121 to 180 days after due date	1,900	1,188
181 to 360 days after due date	4,063	2,127
Over 360 days after due date	24,694	23,980
Total individually impaired receivables	**40,991**	**37,394**

The movements in the provision for impairment of trade receivables are presented below:

The Movements in the Provision for Impairment of Trade Receivables		
All amounts are in thousands of Euro unless stated otherwise	2012	2011
At the beginning of the year	30,102	32,474
Additional provision for receivables impairment (Note 19)	2,925	466
Unused amounts reversed (Note 19)	(624)	(534)
Receivables written off during the year as uncollectible	(2,262)	(2,304)
At end of the year	**30,141**	**30,102**

Bad debt provision is calculated in the amount of 100% of the value of individual receivables from companies in bankruptcy and receivables subject to court proceedings. Bad debt provision is calculated based on ageing analysis of individual receivables and the type of the customer.

The Group constructs properties for third parties. Amounts recognised in respect of contracts in progress at the balance sheet date are:

All amounts are in thousands of Euro unless stated otherwise	As at 31 December	
	2012	2011
Costs incurred and recognised profits (less recognised losses) to date	259	2,547
Less progress billings	(161)	(1,519)
Amounts due from/(to) customers for contract work (Note 8)	**98**	**1,028**

Amounts due from customers for contract work are neither past due nor impaired and will be invoiced upon achievement of agreed construction contract milestones.

Amounts due to customers for contract work are expected to be settled by deliveries of construction services.

The carrying amount of trade and other receivables as of 31 December 2012 and 2011 is not substantially different from their fair value. The maximum exposure to credit risk is limited by the carrying value of receivables. There is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers. The carrying amounts of all the Group's trade and other receivables are denominated in EUR. The Group does not hold any collateral as security of the receivables.

No receivables have been pledged in favour of a bank or a pledge. There no other restrictions relating to Group's receivables.

11. Cash and Cash Equivalents

Cash and Cash Equivalents

All amounts are in thousands of Euro unless stated otherwise	As at 31 December	
	2012	2011
Cash at bank and in hand	21,584	124,576
Short term bank deposits	133	133
Total	**21,717**	**124,709**

Cash and cash equivalents included in the cash flow statement are as follows:

Cash and Cash Equivalents Included in the Cash Flow Statement

All amounts are in thousands of Euro unless stated otherwise	As at 31 December	
	2012	2011
Cash at bank and in hand	21,584	124,576
Bank overdrafts (Note 8)	(16,288)	–
Total	**5,296**	**124,576**

The effective interest rate on short term bank deposits was 0.57% (year ended 31 December 2011: 0.80%) and these deposits have an average maturity of 10 days (year ended 31 December 2011: 11 days). As at 31 December 2012 the restricted cash amounted to EUR 133 thousand (as at 31 December 2011: EUR 133 thousand) and was excluded from cash and cash equivalents for the purposes of the cash flow statement.

The cash and short-term deposits are kept by the Group in 7 banks. The credit quality of cash in the bank and bank deposits can be assessed by external credit ratings (Moody's and Fitch) at 31 December 2012:

Credit Quality of Cash

All amounts are in thousands of Euro unless stated otherwise	As at 31 December	
	2012	2011
Cash at bank		
Banks rated – A3 (Moody's)	19,125	92,020
Banks rated – Baa (Moody's)	219	87
Banks rated – A (Fitch)	1,782	31,514
Not rated banks	456	955
	21,582	**124,576**
Short-term bank deposits		
Banks rated – A3 (Moody's)	133	133
	133	**133**
Other		
Stamps	2	–
	2	–
Total cash in the bank and short-term bank deposits	**21,717**	**124,709**

These balances are neither past due nor impaired.

Other financial assets at 31 December 2011

Other financial assets represent short-term bonds amounting to EUR 10,000 thousand issued by Tatra-Leasing, s.r.o. which is a member of Tatrabanka Group (Moody's rating A2). Bonds were acquired in February 2011 at par with fixed interest rate of 2% p.a. Bonds were repaid on 2 January 2012.

12. Shareholders' Equity

The total authorized number of ordinary shares of the parent company of the Group ("the Company") is 5,934,594 shares with a par value of EUR 33.19 per share, representing the share capital of EUR 196,969 thousand. All authorized shares are issued and fully paid in. The Company does not have any shares capital subscribed but not recorded in the Commercial Register.

No changes in share capital of the Company occurred during the year 2012 and year 2011.

As described in the Note 1, the structure of shareholders of the Company changed during 2012. As at 31 December 2012 the total number of 3,026,643 shares (51%) is owned by the National Property Fund of the Slovak Republic; 2,314,492 shares (39%) are owned by E. ON Slovensko, a.s. and 593,459 (10%) shares are owned by E.ON Energie AG, Munich, Germany.

Legal reserve fund is obligatorily created from profit of the Company in accordance with the Slovak Commercial Code, paragraph 67. The minimum prescribed creation of the Legal reserve fund is specified in paragraph 217 of the Commercial Code and it defines that the Company is obliged to create legal reserve fund in the amount of 10% of its share capital at the time of the incorporation of the Company. This amount must be increased annually by at least 10% from net profit, until the Legal reserve fund achieves 20% of the share capital. Use of this fund is restricted under the Commercial Code only to cover losses of the Company and it is not a distributable reserve. Legal reserve fund amounted to EUR 39,421 thousand as at 31 December 2012 (as at 31 December 2011: EUR 39,421 thousand).

Other funds include a regional development fund which has been set up based on the agreement of the Company's Shareholders in 2004 and distribution network recovery fund set up based on the agreement of Company's Shareholders and by initiative of Ministry of Economy of Slovak Republic in 2005, which amounts to EUR 12,463 thousand and EUR 9,958 thousand respectively as at 31 December 2012 (at 31 December 2011: EUR 12,463 thousand and EUR 9,958 thousand). The investment base fund was set up in 2006 and which amounts to EUR 23,046 thousand as at 31 December 2012 (at 31 December 2011: EUR 23,046 thousand). The usage of these funds is limited to the defined purposes.

General Meeting held on 31 May 2012 approved the statutory financial statements for previous accounting period and the distribution of 2011 profit amounting to EUR 161,738 thousand as follows:

Appropriation to the social fund EUR 1,388 thousands
Dividends EUR 160,350 thousands

Dividend per share represents EUR 27.02 for the year ended 31 December 2012 (2011: EUR 32.76 per share).

The distributable retained earnings of the Company at 31 December 2012 amounted to EUR 651,846 thousand (EUR 709,227 thousand). Decision on the use of the 2012 profit of EUR 104,008 thousand will be made by the General Meeting. As at the date of authorisation of these consolidated financial statements for issue, the Board of Directors has not yet proposed the distribution of the 2012 profit.

13. Deferred Revenues

Deferred Revenues		
All amounts are in thousands of Euro unless stated otherwise	As at 31 December	
	2012	2011
Non current		
Contributions – long-term portion (a)	36,676	37,647
Connection fee – long-term portion	36,620	31,980
	73,296	69,627
Current (Note 14)		
Contributions – current portion (a)	1,958	1,912
Connection fee – short-term portion	1,927	1,683
	3,885	**3,595**

(a) Contributions are paid primarily by customers for capital expenditures made on their behalf, and access network assets transferred to the Company by its customers free of charge. The contributions are non-refundable and are recognized in revenue in line with depreciation lives of the related assets.

14. Trade and Other Payables

Trade and Other Payables		
All amounts are in thousands of Euro unless stated otherwise	As at 31 December	
	2012	2011
Trade payables	85,055	79,323
Other accrued liabilities	6,123	15,121
Dividends payable (Note 25)	–	50,000
Other financial liabilities	8,860	10,151
Financial liabilities (Note 8)	**100,038**	**154,595**
Other payables and accrued expenses		
Deferred revenues – capital expenditure grant (Note 13)	1,958	1,912
Deferred revenues – connection fee (Note 13)	1,927	1,683
Deferred revenues – unbilled electricity	31,689	29,854
Payables to employees	2,111	1,907
Social security	1,238	1,181
Accrued personnel expenses	7,485	5,797
Advance payments	14,121	16,795
VAT payable (Note 25)	3,686	–
Other payables	1,157	3,192
	65,372	**62,321**
Total	**165,410**	**216,916**

Out of the total payables at 31 December 2012, overdue trade payables are EUR 1,660 thousand (at 31 December 2011: EUR 367 thousand). All other payables are within due date.

The fair value of trade payables and of other accrued liabilities is not significantly different from their carrying amount.

The carrying value of payables is denominated mostly in Euro.

15. Deferred Income Taxes

Deferred income taxes are calculated on temporary differences under the balance sheet liability method using a principal tax rate of 23% (2011: 19%).

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax asset against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The deferred tax liability can be analysed as follows:

Deferred Income Taxes		
All amounts are in thousands of Euro unless stated otherwise	As at 31 December	
	2012	2011
Deferred tax asset:		
– to be recovered after more than 12 months	(2,328)	(1,410)
– to be recovered within 12 months	(4,144)	(3,484)
	(6,472)	**(4,894)**
Deferred tax liability:		
– to be recovered after more than 12 months	12,306	5,662
– to be recovered within 12 months	5,339	5,627
	17,645	**11,289**
Total deferred tax liability	**11,173**	**6,395**

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

The Movement in Deferred Tax Assets and Liabilities

All amounts are in thousands of Euro unless stated otherwise

	As at 1 January 2012	Credited / (charged) to profit and loss	Credited to other comprehensive income	As at 31 December 2012
Property, plant and equipment	11,248	6,397	–	17,645
Pension liability and other liabilities	(2,892)	(1,209)	(14)	(4,115)
Provisions against bad debts	(2,002)	(355)	–	(2,357)
Other	41	(41)	–	–
Total	**6,395**	**4,792**	**(14)**	**11,173**

The Movement in Deferred Tax Assets and Liabilities

All amounts are in thousands of Euro unless stated otherwise

	As at 1 January 2011	Credited / (charged) to profit and loss	Credited to other comprehensive income	As at 31 December 2011
Property, plant and equipment	7,022	4,226	–	11,248
Pension liability and other liabilities	(2,173)	(699)	(20)	(2,892)
Provisions against bad debts	(2,477)	475	–	(2,002)
Other	95	(54)	–	41
Total	**2,467**	**3,948**	**(20)**	**6,395**

16. Pension and Other Provisions for Liabilities and Charges

Pension and Other Provisions for Liabilities and Charges

All amounts are in thousands of Euro unless stated otherwise

	Pensions and other staff benefits (a)	Litigation (b)	Total
At 1 January 2012	**8,163**	**700**	**8,863**
Additional provisions	2,804	–	2,804
Used / paid during year	(208)	–	(208)
Reversal on unused provisions	–	–	–
At 31 December 2012	**10,759**	**700**	**11,459**

Pension and Other Provisions for Liabilities and Charges

All amounts are in thousands of Euro unless stated otherwise	As at 31 December	
Analysis of total provisions	2012	2011
Non-current	10,121	7,421
Current	1,338	1,442
	11,459	8,863

(a) Pension and other staff benefits

The following amounts have been recognized with respect of the defined benefit pension plan and other long-term benefits:

(i) post employment benefits

Post Employment Benefits

All amounts are in thousands of Euro unless stated otherwise	As at 31 December	
	2012	2011
Present value of unfunded retirement obligations	8,781	6,585
Liability in the balance sheet	**8,781**	**6,585**

The amounts recognised in profit and loss are as follows:

The Amounts Recognised in Profit and Loss		
All amounts are in thousands of Euro unless stated otherwise	Year ended 31 December	
	2012	2011
Current service cost	453	313
Interest expense	271	243
Total	**724**	**556**

Movements in the present value of defined benefit obligation are:

Movements in the Present Value of Defined Benefit Obligation		
All amounts are in thousands of Euro unless stated otherwise	As at 31 December	
	2012	2011
Present value of unfunded retirement obligations at beginning of the year	6,585	6,160
Current service cost	453	313
Interest expense	271	243
Paid	(208)	(156)
Other	1,070	-
Actuarial losses	610	25
Present value of unfunded retirement obligations at the end of the year	**8 781**	**6,585**

The principal actuarial assumptions and data to determine the pension liability were as follows:

The Principal Actuarial Assumptions and Data to Determine the Pension Liability	
All amounts are in thousands of Euro unless stated otherwise	
Average number of employees at 31 December 2012	1,856
Percentage of employees, who will terminate their employment with the Group prior to retirement (staff turnover)	4.38% p.a.
Expected salary increases short-term	4.0% p.a.
Expected salary increases long-term	4.5% p.a.
Discount rate	3.1% p.a.

The Principal Actuarial Assumptions and Data to Determine the Pension Liability	
All amounts are in thousands of Euro unless stated otherwise	
Average number of employees at 31 December 2011	1,808
Percentage of employees, who will terminate their employment with the Group prior to retirement (staff turnover)	Approximately 2.89 % p.a
Expected salary increases short-term	4.6% p.a.
Expected salary increases long-term	4.1% p.a.
Discount rate	3.6 % p.a.

(ii) other long-term benefits (life and work awards)

Other Long-Term Benefits		
All amounts are in thousands of Euro unless stated otherwise	As at 31 December	
	2012	2011
Present value of unfunded obligations	1,978	1,578
Liability in the balance sheet	**1,978**	**1,578**

The amounts recognised in profit and loss are as follows:

The Amounts Recognised in Profit and Loss		
All amounts are in thousands of Euro unless stated otherwise	Year ended 31 December	
	2012	2011
Current service cost	126	306
Interest expense	59	51
Total charge/(credit), included in costs	**185**	**357**

Movements in the present value of defined benefit obligation are:

Movements in the Present Value of Defined Benefit Obligation		
All amounts are in thousands of Euro unless stated otherwise	As at 31 December	
	2012	2011
Present value of the obligation at beginning of the year	1,578	1,289
Current service cost	126	306
Interest expense	59	51
Paid	–	(149)
Other	329	–
Actuarial (gain)/loss	(114)	81
Present value of unfunded retirement obligations at the end of the year	**1,978**	**1,578**

Movements in the Present Value of Defined Benefit Obligation		
All amounts are in thousands of Euro unless stated otherwise	As at 31 December	
Remeasurement component – actuarial (gain)/loss recognized in other comprehensive income	2012	2011
– on post employment benefits,	610	25
– on other long-term benefits	(114)	81
Total	**496**	**106**

(b) Provision for litigation

Provision for litigation relates to the legal case with supplier's employee, who suffered a serious work accident during the work for the Group. The provision was set up in the amount of the assumed compensation quantified by Group's lawyer.

17. Revenues

Revenues include the following:

Revenues		
All amounts are in thousands of Euro unless stated otherwise	Year ended 31 December	
	2012	2011
Electricity sales:		
Sales of electricity to industrial and commercial customers	674,189	653,098
Sales of electricity to residential customers	304,370	290,703
Other	1,397	1,054
Other revenue:		
Sales of gas	1,788	–
Revenues for connection works and testing fees	3,171	2,411
Revenue for construction work	3,782	7,932
Other	41,290	20,788
	1,029,987	**975,986**

Group provides access to the distribution network at regulated prices. Slovakia has implemented the European Union electricity market directive, which resulted in a complete liberalization of the market, whereby all customers including households, became eligible to buy electricity in open market from 1 July 2007.

18. Purchases of Electricity, Gas and Related Fees

The following amounts have been charged to purchases of electricity, gas and related fees:

Cost of Sales

All amounts are in thousands of Euro unless stated otherwise	Year ended 31 December 2012	2011
Purchases of electricity from:		
Slovenské elektrárne ("SE") (Note 25)	208,737	236,177
Other domestic electricity producers and traders	267,179	227,499
Imports from abroad related to an electricity island	191	4
Purchases on the spot market	32,693	19,499
Electricity transmission fees (including system access and ancillary service charges)	221,468	178,677
Other including cost of purchased gas	4,777	8,867
	735,045	**670,723**

19. Operating Expenses

Operating Expenses

All amounts are in thousands of Euro unless stated otherwise	Year ended 31 December 2012	2011
Employee benefit costs		
Wages and salaries	35,176	32,174
Pension costs – defined contribution plans	5,719	5,344
Other social costs	12,283	12,400
	53,178	**49,918**
Depreciation and amortisation		
Depreciation (Note 6)	35,706	34,981
Amortisation (Note 7)	5,784	3,979
	41,490	**38,960**

Operating Expenses

All amounts are in thousands of Euro unless stated otherwise	Year ended 31 December 2012	2011
Repairs and maintenance of electrical network related assets	7,371	11,433
IT maintenance fees	12,343	12,115
Advisory services	3,234	3,527
Rental costs	3,829	4,113
Other repairs and maintenance	1,251	2,221
Advertising	2,333	1,679
Call centre services	2,924	2,460
Post and telecommunication costs	2,927	2,312
Security services	1,181	1,138
Energotel services	598	606
GIS services	295	260
External services	567	483
Travel expenses	762	713
Audit of financial statements	227	232
Tax consultancy	–	3
Other non-audit services	21	63
Other services	8,538	7,333
Bad debt expense (Note 10)	2,301	(68)
Impairment of non-current assets (Note 6)	(375)	(710)
Other operating expenses	749	1,461
	51,076	**51,374**

20. Income Tax Expense

A reconciliation between the reported income tax charge and the theoretical amount that would arise using the statutory tax rates is as follows:

Income Tax Expense		
All amounts are in thousands of Euro unless stated otherwise	Year ended 31 December	
	2012	2011
Income before tax	157,441	174,091
Theoretical income tax related to current period at 19%	29,914	33,077
Income tax related to prior periods	357	(97)
Effect of change of the tax rate to 23% (2011: 19%)	1,943	-
Special levy on business in regulated industries	1,573	-
Other tax non-deductible items	554	1,294
Income tax expense for the period	**34,341**	**34,274**
The tax charge for the period comprises:		
Deferred tax charge/ (credit) (Note 15)	4,792	3,948
Current tax charge in respect of current period	27,619	30,423
Special levy on business in regulated industries	1,573	-
Income tax related to prior periods	357	(97)
Income tax expense for the period	**34,341**	**34,274**

21. Cash Generated from Operations

Cash Generated from Operations			
All amounts are in thousands of Euro unless stated otherwise		Year ended 31 December	
	Note	2012	2011
Profit before tax		157,441	174,091
Adjustments for:			
Depreciation	6, 19	35,706	34,981
Amortisation	7, 19	5,784	3,979
Impairment (release)/charge	6, 19	(375)	(710)
Loss/(Gain) on sale of property and equipment		(439)	(1,074)
Interest income		(827)	(2,268)
Interest expense		380	294
Dividend income		(1,050)	(614)
Net movements in provisions and deferred revenues		5,439	7,842
Other non-cash transactions		(1,399)	-
Changes in working capital			
Inventories	9	(2,631)	338
Trade and other receivables		6,576	(22,837)
Trade and other payables		(9,967)	21,982
Cash generated from operations		**194,638**	**216,004**

Cash Generated from Operations		
All amounts are in thousands of Euro unless stated otherwise	Year ended 31 December	
	2012	2011
Net book amount of disposals (Note 6)	43	521
Gain/(Loss) on disposal of property, plant and equipment	439	1,074
Proceeds from disposals	**482**	**1,595**

22. Contingencies

Taxation

Due to the fact that Slovak tax law contains certain provisions allowing for more than one interpretation, as well as the practice, developed in the generally unstable environment by the tax authority of making arbitrary judgements on business activities, Management's interpretation of the Company's business activities may not coincide with the interpretation of these activities by the tax authorities. The fiscal years from 2008 through to 2012 remain open to tax inspection.

23. Commitments

(i) Capital commitments

At 31 December 2012, the Group concluded contracts for the purchase of non-current assets totalling EUR 2,542 thousand which will become effective after this date (2011: EUR 19,813 thousand).

(ii) Operating lease commitments – the Group as lessee

The operating lease payments amounted to EUR 3,829 thousand (2011: EUR 4,113 thousand). These lease payments are recorded as expenses on a straight-line basis over the lease term.

The future aggregate minimum lease payments under non-cancellable operating leases are due as follows:

Operating Lease Commitments – The Group as Lessee

All amounts are in thousands of Euro unless stated otherwise	Year ended 31 December	
	2012	2011
No later than one year	3,477	2,651
Later than one year and no later than five years	5,246	4,749
Later than five years	35	695
	8,758	**8,095**

24. Earnings per Share

(i) Basic

Basic earnings per share are calculated by dividing the profit by the weighted average number of ordinary shares in issue during the year.

Earnings per share are calculated as follows:

Basic Earnings per Share

All amounts are in thousands of Euro unless stated otherwise	2012	2011
Profit for the year	123,100	139,817
Weighted average number of ordinary shares in issue	5,934,594	5,934,594
Basic earnings per share (EUR per share)	**20.743**	**23.560**

(ii) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Company has no potential ordinary shares as of 31 December 2012 and 2011, and diluted earnings per share are the same as basic earnings per share.

25. Related Party Transactions

During the periods presented in these financial statements, the Company had transactions with following related parties:

(i) Shareholders

- Slovak Republic represented by National Property Fund
- E.ON Slovensko, a.s.
- E.ON Energie AG (since 13 December 2012)

(ii) Entities under common control of the shareholder E.ON Slovensko, a.s. and E.ON SE Group

- E.ON Bayern AG
- E.ON SE
- E.ON Česká republika
- E.ON Elektrárne, s.r.o.E.ON Energie AG
- E.ON Energie, a.s., České Budějovice

- E.ON Energy Trading SE, Bratislava
- E.ON Energy Trading SE, Düsseldorf
- E.ON Energie Human Resources International GmbH, Munich
- E.ON Inhouse Consulting GmbH, Munich
- E.ON Risk Consulting, Germany
- Bioplyn Cetín, s.r.o.
- Bioplyn Ladzany, s.r.o.
- Bioplyn Hont, s.r.o.

(iii) Government related entities

The Slovak Government influences the financial and operating policy decisions of the Group through its ownership of 51% of the shares of the Group by the National Property Fund of the Slovak Republic subject to arrangements agreed in the Shareholders Agreement. Therefore the Slovak Government and the companies controlled, jointly controlled or significantly influenced by the Slovak Government are classified as related parties of the Group ("Government related entities").

The Group also purchases services and goods from Government related entities in the normal course of business.

These consolidated financial statements disclose summarized significant operations with government bodies and entities:

Related Party Transactions		
All amounts are in thousands of Euro unless stated otherwise	Year ended 31 December	
	2012	2011
Payment of dividends to related parties*)		
(i) Shareholders		
National Property Fund (NPF)	107,279	73,654
E.ON Slovensko, a.s.	84,140	57,768
Payment of dividends to other shareholders	18,931	12,997
	210,350	**144,419**

*) The Company has declared distribution of dividends amounting to EUR 194,419 thousand in 2011. As of 31 December 2011, EUR 50,000 thousand, were disclosed as dividends payable (Note 14) and were paid during 2012.

Related Party Transactions – Sales		
All amounts are in thousands of Euro unless stated otherwise	Year ended 31 December	
	2012	2011
(i) Shareholders		
E.ON Slovensko a.s.	913	1,047
	913	**1,047**
(ii) Entities under common control with E.ON Slovensko and E.ON SE Group		
E.ON Elektrárne, s.r.o.	115	166
E.ON Energie Human Resources International GmbH, Munich	25	46
Bioplyn Ladzany s.r.o	–	3
Bioplyn Cetín s.r.o	–	4
Bioplyn Hont s.r.o	1	2
E.ON Energie AG	–	9
E.ON Energy Trading SE	1,721	48
E.ON Energie, a.s. České Budějovice	21	2
E.ON SE	12	–
	1,895	**280**
(iii) Associates and joint ventures		
E.ON IT Slovakia, s.r.o.	488	232
Energotel, a.s. Bratislava	1,101	1,187
	1,589	**1,419**
(iv) Government related entities		
SEPS, a.s.	920	693
OKTE, a.s.	3,460	3,277
Železnice Slovenskej republiky, a.s.	9,597	11,302
Stredoslovenská energetika, a.s.	943	214
Východoslovenská energetika, a.s.	24	21
SVP, š.p.	10	4
Slovenské elektrárne, a.s.	287	391
SPP – distribúcia, a.s.	74	–
	15,315	**15,902**
Total	**19,712**	**18,648**

Related Party Transactions – Purchases and Expenses		
All amounts are in thousands of Euro unless stated otherwise	Year ended 31 December	
	2012	2011
(i) Shareholders		
E.ON Slovensko, a.s.	1	10
	1	**10**
(ii) Entities under common control with E.ON Slovensko and E.ON SE Group		
E.ON SE	–	40
E.ON Česká republika	–	6
E.ON Inhouse Consulting GmbH, Munich	–	100
E.ON Energie Human Resources International GmbH, Munich	758	1,063
E.ON Risk Consulting, Germany	97	101
E.ON Energy Trading SE	35,245	32,389
Bioplyn Cetín, s.r.o.	748	772
E.ON Elektrárne, s.r.o.	10	6
E.ON Bayern AG	7	–
E.ON Energie, a.s. České Budějovice	596	–
	37,461	**34,477**
(iii) Associates and joint ventures		
EFR CEE Kft.	294	288
E.ON IT Slovakia, s.r.o. – IT services	16,748	18,122
SPX, s.r.o.	6	6
Energotel, a.s., Bratislava	1,817	1,437
	18,865	**19,853**
(iv) Government related entities		
Slovenské elektrárne, a.s., Bratislava (Note 18) – purchase of electricity	208,737	236,177
Slovenské elektrárne, a.s., Bratislava – other purchases	7,718	–
SEPS, a.s. – transmission services	153,549	145,999
OKTE, a.s.	19,785	19,200
Stredoslovenská energetika, a.s. – purchase of electricity	805	6,073
Stredoslovenská energetika Distribúcia, a.s. – distribution cost	17,068	6,990
Východoslovenská energetika, a.s.	289	73
Východoslovenská distribučná, a.s – distribution cost	19,832	9,095
SVP, š.p.	990	947
Bratislavská teplárenská, a.s.	6,263	7,496
SE Predaj, s.r.o.	4,739	6,472
Slovenský plynárenský priemysel, a.s.	521	–
SPP – distribúcia, a.s.	312	–
	440,608	**438,522**
(v) Taxes		
Income tax (Note 20)	29,549	30,326
Property and motor vehicle tax	582	544
	30,131	**30,870**
Total	**527,066**	**523,732**

The Group purchased from E.ON IT, s.r.o. IT services and acquisition of intangible assets. The services from E.ON IT, s.r.o. are provided based on frame contract concluded for indefinite period with cancellation notice of 12 months. The amounts of services to be provided to the Group under such arrangements are expected in 2013 to be on the same level as in year 2012.

There are no other purchase or sales commitments with related parties as of 31 December 2012 other than disclosed above.

Related Party Transactions – Receivables

All amounts are in thousands of Euro unless stated otherwise	As at 31 December	
	2012	2011
(i) Shareholders		
E.ON Slovensko, a.s.	46	42
	46	**42**
(ii) Entities under common control with E.ON Slovensko and E.ON SE Group		
E.ON Energie AG	–	16
E.ON IT Hannover	3	–
E.ON Elektrárne, s.r.o.	1	40
E.ON SE	12	–
E.ON Energy Trading SE	274	3
E.ON Energie, a.s. České Budějovice	5	–
	295	**59**
(iii) Associates and joint ventures		
E.ON IT Slovakia, s.r.o.	47	15
Energotel, a.s., Bratislava	107	116
	154	**131**
(iv) Government related entities		
SEPS, a.s.	–	5
OKTE, a.s.	604	528
Stredoslovenská energetika, a.s.	24	14
Železnice Slovenskej republiky, a.s.	636	2,220
Slovenské elektrárne, a.s., Bratislava	1	24
Slovenský plynárenský priemysel, a.s.	215	–
SPP – distribúcia, a.s.	47	–
Východoslovenská energetika, a.s.	1	–
	1,528	**2,791**
(v) Taxes		
Excise tax receivable (Note 10)	558	816
VAT receivable (Note 10)	–	1,572
Income tax receivable	3,465	–
	4,023	**2,388**
Total	**6,046**	**5,411**

Related Party Transactions – Payables		
All amounts are in thousands of Euro unless stated otherwise	As at 31 December	
	2012	2011
(i) Shareholders – trade payables		
E.ON Slovensko, a.s.	–	12
	–	**12**
Shareholders – dividends payable		
National Property Fund (NPF)	–	25,500
E.ON Slovensko, a.s.	–	20,000
Other shareholders	–	4,500
	–	**50,000**
(ii) Entities under common control with E.ON Slovensko and E.ON SE Group		
E.ON České Budejovice	–	2
Bioplyn Cetín, s.r.o.	113	45
E.ON Bayern AG	–	–
E.ON Energy Trading SE	5,732	2,738
E.ON Energie Human Resources International GmbH, Munich	438	1,052
E.ON Risk Consulting GmbH	–	15
E.ON Energie, a.s., České Budejovice	1	–
	6,284	**3,852**
(iii) Associates and joint ventures		
E.ON IT Slovakia – liabilities from cash-pooling	367	3,220
E.ON IT Slovakia – trade payables	3,387	1,809
Energotel, a.s., Bratislava	504	474
	4,258	**5,503**
(iv) Government related entities		
Slovenské elektrárne, a.s. Bratislava	29,089	24,217
Stredoslovenská energetika, a.s.	472	284
Stredoslovenská energetika Distribúcia, a.s.	304	155
Východoslovenská distribučná, a.s.	840	295
Východoslovenská energetika, a.s.	79	–
SEPS, a.s.	2,746	8,205
SE Predaj, s.r.o.	482	665
SVP, š.p.	196	217
Bratislavská teplárenská, a.s.	219	1,721
Slovenský plynárenský priemysel, a.s.	50	–
SPP – distribúcia, a.s.	101	–
OKTE, a.s.	1,578	–
	36,156	**35,759**
(v) Taxes		
Income tax payable	–	364
VAT tax payable (Note 14)	3,686	–
	3,686	**364**
Total	**50,384**	**95,490**

(vi) Key management personnel of the entity or its parent

- Members of the Board of Directors
- Members of the Supervisory Board
- Divisional directors

Related Party Transactions		
All amounts are in thousands of Euro unless stated otherwise	Year ended 31 December	
	2012	2011
Board of directors and other key management personnel		
Salaries and short-term employee benefits	1,320	1,802
Pension costs – defined contribution plans	184	221
Total	**1,504**	**2,023**
Supervisory board		
Salaries and short-term employee benefits	246	323
Pension costs – defined contribution plans	76	93
Total	**322**	**416**

26. Events After the End of the Reporting Period

After 31 December 2012, no significant events have occurred that would require recognition or disclosure in the 2012 financial statements.

Ing. Andrej Devečka
Member of the Board of Directors
Written record of members of entity´s statutory body

Jochen Kley
Member of the Board of Directors
Written record of members of entity´s statutory body

Ing. Boris Németh
Written record of member of entity responsible for preparation of financial statement

Ing. Katarína Mészárosová
Written record of member of entity responsible for accounting

10. Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders, the Supervisory Board and the Board of Directors of Západoslovenská energetika, a.s.:

We have audited the accompanying consolidated financial statements of Západoslovenská energetika, a.s. and its subsidiaries, which comprise the consolidated balance sheet as at 31 December 2012, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Západoslovenská energetika, a.s. and its subsidiaries as at 31 December 2012 and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

PricewaterhouseCoopers Slovensko, s.r.o.
SKAU licence No.: 161
In Bratislava, 19 March 2013

Slovenská komora audítorov SKAU Č. licencie 161 PricewaterhouseCoopers Slovensko, s.r.o.

Ing. Eva Petrýdesová, FCCA
SKAU licence No.: 934

Our report has been prepared in Slovak and in English languages. In all matters of interpretation of information, views or opinions, the Slovak language version of our report takes precedence over the English language version.

PricewaterhouseCoopers Slovensko, s.r.o., Námestie 1. mája 18, 815 32 Bratislava, Slovak Republic
T: +421 (0) 2 59350 111, F: +421 (0) 2 59350 222, www.pwc.com/sk

The company's ID (IČO) No. 35739347.
Tax Identification No. of PricewaterhouseCoopers Slovensko, s.r.o. (DIČ) 2020270021.
VAT Reg. No. of PricewaterhouseCoopers Slovensko, s.r.o. (IČ DPH) SK2020270021.
Spoločnosť je zapísaná v Obchodnom registri Okresného súdu Bratislava 1, pod vložkou č. 16611/B, oddiel: Sro.
The company is registered in the Commercial Register of Bratislava 1 District Court, ref. No. 16611/B, Section: Sro.

Západoslovenská energetika, a.s. Čulenova 6 SK-816 47 Bratislava 1
T +421-(0)2-50 61 11 11 F +421-(0)2-52 92 53 14
www.skupinazse.sk

ZSE 09/2013