Západoslovenská energetika, a.s.

# Consolidated Financial Statements for the Years Ended 31 December 2012 and 31 December 2011

# Contents

# 1. Consolidated Financial Statements for the years ended 31 December 2012 and 31 December 2011

Consolidated Financial Statements for the years ended 31 December 2012 and 31 December 2011 prepared in accordance with International Financial Reporting Standards as adopted by the European Union

**Consolidated Balance Sheets at 31 December 2012 and 31 December 2011**
prepared in accordance with IFRS as adopted by the European Union

| Consolidated Balance Sheets | | | |
|---|---|---|---|
| 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 | 7 | 619,794 | 567,408 |
| Intangible assets | 8 | 13,007 | 15,574 |
| Other | | 2,398 | 2,238 |
| | | **635,199** | **585,220** |
| **Current assets** | | | |
| Inventories | 10 | 4,019 | 1,388 |
| Trade and other receivables | 11 | 110,892 | 117,645 |
| Current income tax receivables | | 3,465 | – |
| Other financial asset | 12 | – | 10,000 |
| Cash and cash equivalents | 12 | 21,717 | 124,709 |
| | | **140,093** | **253,742** |
| **Total assets** | | **775,292** | **838,962** |
| EQUITY AND LIABILITIES | | | |
| **Share capital and reserves** | | | |
| Share capital | 13 | 196,969 | 196,969 |
| Legal reserve fund | 13 | 39,421 | 39,421 |
| Other funds | 13 | 45,467 | 45,467 |
| Other reserves | | (1,124) | (86) |
| Retained earnings | 13 | 216,933 | 255,026 |
| **Total equity** | | **497,666** | **536,797** |
| | | | |
| **Non-current liabilities** | | | |
| Pension and other provisions for liabilities and charges | 17 | 10,121 | 7,421 |
| Deferred revenues | 14 | 73,296 | 69,627 |
| Deferred income tax liabilities | 16 | 11,173 | 6,395 |
| | | **94,590** | **83,443** |
| **Current liabilities** | | | |
| Trade and other payables | 15 | 161,525 | 213,321 |
| Current income tax payables | | – | 364 |
| Deferred revenues | 14 | 3,885 | 3,595 |
| Pension and other provisions for liabilities and charges | 17 | 1,338 | 1,442 |
| Bank overdrafts | 12 | 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 17 September 2013.

Marian Rusko
Member of the Board of Directors

Jochen Kley
Member of the Board of Directors

## Consolidated Statements of Comprehensive Income for the Years Ended 31 December 2012 and 31 December 2011

prepared in accordance with IFRS as adopted by the European Union

| Consolidated Statements of Comprehensive Income | | | |
|---|---|---|---|
| All amounts are in thousands of Euro unless stated otherwise | | Year ended 31 December | |
| | Note | 2012 | 2011*) restated |
| Revenues | 18 | 1,029,987 | 975,986 |
| Purchase of electricity, gas and related fees | 19 | (735,045) | (670,723) |
| Employee benefits | 20 | (53,178) | (49,918) |
| Depreciation and amortisation | 20 | (41,490) | (38,960) |
| Other operating expenses | 20 | (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 | 21 | (34,341) | (34,274) |
| | | | |
| **Net profit** | | **123,100** | **139, 817** |
| | | | |
| Remeasurements of pension obligation | 16, 17 | (482) | (86) |
| | | | |
| **Total comprehensive income** | | **122,618** | **139,731** |
| | | | |
| **Earnings per share** (expressed in EUR per share) | | | |
| – basic | 25 | 20.743 | 23.560 |
| – diluted | 25 | 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 Statements of Changes in Equity for the Years Ended 31 December 2012 and 31 December 2011

prepared in accordance with IFRS as adopted by the European Union

### Consolidated Statements 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 remeasurements post-employment benefit obligations net of tax.

## Consolidated Cash Flow Statements for the Years Ended 31 December 2012 and 31 December 2011

prepared in accordance with IFRS as adopted by the European Union

| Consolidated Cash Flow Statements | | | |
|---|---|---|---|
| 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 | 22 | 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 | 12 | (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 | 22 | 482 | 1,595 |
| **Net cash used in investing activities** | | **(71,144)** | **(79,526)** |
| | | | |
| **Cash flows from financing activities** | | | |
| Dividends paid | 26 | (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** | **12** | **124,576** | **158,924** |
| **Cash and cash equivalents at end of year** | **12** | **5,296** | **124,576** |

# 2. Notes to the Consolidated Financial Statements

**Notes to the Consolidated Financial Statements prepared at 31 December 2012 and 31 December 2011**
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 of the District Court Bratislava I.

The Company is one of the three successors of Západoslovenské energetické závody, štátny podnik, a state owned entity. On 31 October 2001, this state enterprise was wound up on a solvent basis, 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 relevant privatisation project. On 1 November 2001, the NPF contributed the assets and liabilities 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 historical carrying amounts as reported by Západoslovenské energetické závody, štátny podnik as at 31 October 2001.

On 5 September 2002, the National Property Fund of the Slovak Republic sold 49% of the outstanding 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 (EBRD). These shares were transferred by EBRD back to E.ON Energie AG on 21 August 2012.

On 27 May 2008, E.ON Energie AG contributed shares representing 40% of ZSE's share capital to its wholly owned subsidiary E.ON Slovensko. At the end of 2012, E.ON Slovensko transferred shares representing 1% of ZSE´s share capital to E.ON Energie AG.

The described transaction resulted in the following structure of the Company's shareholders at 31 December 2012:

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 Group provides electricity distribution and supply services primarily in the Western Slovakia region. At the end of 2011, the Group's supply business commenced offering gas to large industrial customers and since April 2012 to SMEs and households in addition to electricity. The Group also operates two small hydroelectric plants which represents not significant part of total revenues and is engaged in some ancillary activities such as small scale electricity network construction and maintenance related projects for the third parties.

The Regulatory Office of Network Industries ("RONI") regulates certain aspects of the Group's relationships with its customers, including the pricing of electricity and gas and services provided to certain classes of the Group's customers.

As required by the directive of European Union 2003/54/ES and by Energy Law No. 656/2004 Coll., the Company separated its distribution networks and its supply business to separate subsidiaries, Západoslovenská distribučná, a.s. and ZSE Energia, a.s. with effect from 1 July 2007. Further information on the Group structure are provided in Note 5.

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

The National Property Fund of the Slovak Republic, based in Bratislava, owns 51% of the 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 who owns 10% of the Company's shares 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.

The members of the statutory bodies during the years 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 was subsequently amended preparation for the unbundling of distribution and supply to separate legal entities. The current shareholders of the Company are party to the amended Shareholders Agreement which sets out among others the areas of responsibility and decision making for the General Meeting, 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. The National Property Fund appoints the majority of the Supervisory Board. The Supervisory Board has extensive competences in addition to the powers given to it by Slovak corporate law. The Supervisory Bord acts as the supreme controlling body of the Company.

According to the Company's Articles of the Association, the Supervisory Board has 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 Board of Directors and Supervisory Board approve the annual Strategic Plan. The Supervisory Board approves significant transactions at variance with the Strategic Plan. The General Meeting adopts decisions with a qualified majority of two thirds of votes.

As a result of the described structure, the Group is jointly controlled by the Slovak Republic and E.ON Energie AG.

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 the European Union, which were in force as of 31 December 2012.

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

These consolidated financial statements were originally issued on 19 March 2013. The financial statements have been as of 17 September 2013 authorised for issue in the English language. Additionally the Group has expanded and amended certain detailed disclosures, in particular in Notes 1 General information, 2.1.1 Changes in accounting policy and disclosures, 6 Segment reporting, 7 Property, plant and equipment and 18 Revenues.

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 the 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 complexity of judgement, 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").

#### 2.1.1 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 were endorsed by the 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 year 2012, 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 the 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 20) | (12,506) | 106 | (12,400) |
| Income tax expense (Note 16, 21) | (34,254) | (20) | (34,274) |
| **Profit for the year** | **139,731** | **86** | **139,817** |
| Other comprehensive income | | | |
| Remeasurements of pension obligation | – | (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 10, Consolidated Financial Statements, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2014)**, 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 was 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 2014)**, 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 was 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 2014)**, 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 was 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 was 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 2014)**, 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. The Group is currently assessing the impact of the standard on its financial statements. This standard was 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 2014).** 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 was 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 standard does not have a material impact on measurement of transactions and balances. This standard was 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. The Group is currently assessing the impact of the standard on its financial statements. This standard was 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 which 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 the chief operating decision maker and there has been a material change in those measures since the last annual financial statements. The standard does not have a material impact on the Group's financial statements. The Group is currently assessing the impact of the standard on its financial statements. These amendments were endorsed by the EU on 27 March 2013.

**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 2014).** 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 standard on its financial statements. These amendments were endorsed by the EU on 4 April 2013.

**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 the 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 were endorsed by the EU on 4 March 2013.

**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 its 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 yet been endorsed by the EU.

**"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. The Group is currently assessing the impact of the standard on its financial statements. This standard was endorsed by the EU on 13 December 2012.

**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 yet been endorsed by the EU.

**Other revised standards and interpretations:**

**IFRIC 21 – Levies (issued on 20 May 2013 and effective for annual periods beginning 1 January 2014).** The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply to interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional. The Group is currently assessing the impact of the amendments on its financial statements. These amendments have not yet been endorsed by the EU.

**Amendments to IAS 36 – Recoverable amount disclosures for non-financial assets (issued on 29 May 2013 and effective for annual periods beginning 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period).** The amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment. The Group is currently assessing the impact of the amendments on the disclosures in its financial statements. These amendments have not yet been endorsed by the EU.

**Amendments to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting (issued on 27 June 2013 and effective for annual periods beginning 1 January 2014).** The amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated (i.e parties have agreed to replace their original counterparty with a new one) to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. The Group is currently assessing the impact of the standard on its 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**

Subsidiaries are all 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 Segment information**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

### 2.4 Foreign currency translation

**(i) Presentation currency**
These financial statements are presented in thousands of Euro, which was the Group's presentation currency in 2012 and 2011. The functional currency of all entities within the Group is EUR.

**(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 recognised in the profit or loss.

### 2.5 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 recognised 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 derecognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

The most significant part of property, plant and equipment, is represented by the network. The network includes mainly network buildings, 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. The monthly depreciation charge is determined as the difference between acquisition costs and residual value, divided by the 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 |
|---|---|
| Network buildings | 30 – 50 years |
| Office buildings | 30 – 50 years |
| Power lines | 15 – 40 years |
| Switching stations | 4 – 20 years |
| Other network equipment | 4 – 20 years |
| Vehicles | 4 – 15 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 2.7).

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 recognised 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 recognised net in the statement of comprehensive income.

### 2.6 Intangible assets

Intangible assets are initially measured at cost. Intangible assets are recognised 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 amortisation and any accumulated impairment losses.

Borrowing costs are capitalised 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 amortised on the straight-line basis over their useful lives, not exceeding a period of 4 years.

Costs associated with maintaining computer software programs are recognised 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 recognised 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 recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

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

**2.7 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 amortisation and are tested for impairment annually. Land, construction in progress and assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised 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.

**2.8 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 at the intention of management.

**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 balance sheet (Notes 2.12 and 2.14).

Reconciliation of the categories of financial assets with the balance sheet classes is presented in Note 9.

Purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit and loss. Financial assets are initially recognised at fair value and transaction costs are expensed in the profit and loss. Financial assets are derecognised 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.

Loans and receivables are carried at amortised cost using the effective interest method.

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. Impairment testing of the receivables is described in note 2.12.

**2.9 Financial liabilities**

The Group classifies its financial liabilities 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 recognised in the statement of comprehensive income when the financial liability is derecognised and through the amortisation process.

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

**2.10 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.

**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 statement of comprehensive income on a straight-line basis over the period of the lease.

**2.11 Inventories**

Inventories are stated at the lower of cost and net realisable value. The 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 realisable value is the estimated selling price in the ordinary course of business, less cost of completion and selling expenses.

**2.12 Trade receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, net of provision for impairment. Revenue recognition policy is described in Note 2.26.

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, the probability that the debtor will enter bankruptcy or financial reorganisation, 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 recognised in the statement of comprehensive income 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 statement of comprehensive income.

**2.13 Construction contracts**

The Group has an ancilliary business related to construction of energy assets for third parties.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised 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 recognised 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 recognise 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.

On the balance sheet, the group reports the net contract position for each contract as either an asset or a liability. A contract represents an asset where costs incurred plus recognised profits (less recognised losses) exceed progress billings; a contract represents a liability where the opposite is the case.

**2.14 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 include 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.

**2.15 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.

**2.16 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 at the end of the reporting period.

**2.17 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.

**2.18 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.

**2.19 Other reserves**

The other reserves comprise the remeasurement component of defined pensions plans, which are remeasurements of pension obligations arising from experience adjustments and changes in actuarial assumptions in calculation of pension obligations. The balances are included net of tax.

**2.20 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 recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

**2.21 Taxation**

**(i) Deferred tax**

Deferred income tax is recognised 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 nor 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 realised, or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. 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 tax 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 tax 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 tax 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 generally includes licensed distribution of electricity and supply of electricity and gas. The levy is payable, if the revenues from licensed 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 in a full year of operation, 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 accounting profit before tax determined under Slovak GAAP exceeding EUR 3 million. The Group has accounted for the levy as for the profit tax and included it, in accordance with IAS 12, witin the income tax expense.

### 2.22 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 recognised 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 during the process of connection of the customer to the grid are recognised over the life of acquired depreciable asset with the amount not yet recognised in the statement of comprehensive income recorded as deferred revenues within the current and non-current liabilities. Both the fixed assets and deferred revenue are recorded at fair values at acquisition.

### 2.23 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are carried at amortised cost using the effective interest method. Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised 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.

### 2.24 Provisions / Contingent liabilities

Provisions are recognised 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 recognised 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 recognised 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 recognised as interest expense.

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

Contingent liabilities are not recognised 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.

### 2.25 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 an 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 long term service bonuses.

a) Life long term service 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 the employee worked for at least 10 years of continuous service for the Group.
b) Work long term service 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.

Remeasurements of pension obligations arising from experience adjustments and changes in actuarial assumptions are charged or credited in other comprehensive income in the period in which they arise (Note 2.1.2b). Past service costs are recognised 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 the 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 recognised 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.

**2.26 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 recognises 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 the sale and distribution of electricity is recognised when the electricity is delivered to the customer.

Consumption to wholesale customers is metered and billed on a monthly basis. The consumption of retail customers in the segment of small businesses was metered during December 2012 and subsequently billed on an annual basis from 1 January till 31 December.

The consumption of retail customers in the households' segment is metered and billed on an 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 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 the sale of electricity on the spot market and the settlement of variations in consumption and cross – border profile recharges represent mainly revenues from the sale of electricity purchased on the 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 recognised when the electricity is delivered or the contract is fulfilled.

**(ii) Connection fees**
ZSE receives a contribution from their customers to connect them to the electricity network – connection fees. Revenue from such contributions is recognised 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 recognised 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 recognised when the right to receive the payment is established.

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

**(vi) Contractual penalties**
Contractual penalties are recognised 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 recognises 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 financial risks: market risk (including the 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.

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 EUR.

**(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 had been 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 hold any short-term bonds or similar instruments. At 31 December 2011, if the interest rates on short-term bonds had been 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 no 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, the Group has relationships only with those that have a high independent rating assessment. If wholesale customers are independently rated, these ratings are used. If no independent rating is available, management assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The Group does not set individual risk limits for counterparties. As for 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 | | 31 December 2011 | |
|---|---|---|---|---|---|
| | | Credit limit | Balance | Credit limit | 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 12) 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. The 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 month | 1 - 3 months | 3 months to 1 year | 1 - 5 years | Total |
|---|---|---|---|---|---|
| **At 31 December 2012** | | | | | |
| Bank overdrafts (Note 12) | – | – | 16,288 | – | 16,288 |
| Trade payables (Note 15) | 72,749 | 7,578 | 4,728 | – | 85,055 |
| Other accrued liabilities (Note 15) | – | 7 | 6,116 | – | 6,123 |
| Other financial liabilities (Note 15) | 8,860 | – | – | – | 8,860 |
| | **81,609** | **7,585** | **27,132** | **–** | **116,326** |
| **At 31 December 2011** | | | | | |
| Trade payables (Note 15) | 73,424 | 5,899 | – | – | 79,323 |
| Other accrued liabilities (Note 15) | – | 6 | 15,115 | – | 15,121 |
| Dividends payable (Note 15) | – | 50,000 | – | – | 50,000 |
| Other financial liabilities (Note 15) | 10,151 | – | – | – | 10,151 |
| | **83,575** | **55,905** | **15,115** | **–** | **154,595** |

There were no derivatives used by the Group in 2012 or 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 average capital employed (ROACE). Management expects the return on average capital employed to be higher than the cost of capital. The ROACE indicator is calculated as follows: earnings before interests and taxes EBIT / Average Capital Employed.

### 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 new customer information system which contributed to improve accuracy of the existing system of expected electricity demand (Enersim) through expected electricity demand profiles in time. Implementation of this system improvement allows for making more accurate estimates of unbilled revenues from delivery and distribution, as described below. The Group now uses the Enersim demand profile data for the billing purposes.

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 tariffs applicable in a given 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 an expert report. Should the estimate of total network losses be lower by 0.1%, representing 9 GWh of electricity, with other parameters being unchanged, the revenues for commodity and distribution services would increase by EUR 1,269 thousand (2011: EUR 1,191 thousand). 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 2.5 and their carrying values as of 31 December 2012 and 31 December 2011 are disclosed in Note 7. 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 recognised 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 and as of 31 December 2011 was 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 unbundle legally the distribution business from other commercial activities of integrated electricity companies has been established by the European Directive 2003/54 on common rules for the 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 had already started preparatory works for unbundling in early 2005. At the beginning of 2006, a detailed evaluation of possible unbundling models had been performed based on the following major criteria: full compliance with legislation and regulatory requirements; acceptance of shareholders, stakeholders and the 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 the transfer of all core activities of distribution to Západoslovenská distribučná, a.s. (till 31 December 2012: ZSE Distribúcia, a.s.). The energy supply business has been transferred to ZSE Energia, a.s.

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 the 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 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 the calibration of electricity metering equipment.

Effective 1 January 2012, OTC, s.r.o. sold its calibration and metering business bact to ZSE and sold its swithching equipment maintenance business to Enermont and became a dormant company ZSE Development was not consolidated on a full basis in these financial statements on materility grounds but included at cost within other non-current assets.

ZSE prenos, s.r.o. was established on 9 February 2005 and 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 the Trade Register on 20 May 2006 as a company fully owned by ZSE. Since 1 July 2007, the company engages in the distribution of electricity in the region of Western Slovakia. Based on the decision of the sole shareholder from 19 December 2012, the 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 the trade register on 22 September 2006 as a company fully owned by ZSE. Since 1 July 2007, the company engages in the supply of electricity mainly in the region of Western Slovakia.

None of 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. have any subsidiaries of their own.

## 6. Segment reporting

The Group presents segment information for the current and comparative reporting periods in accordance with IFRS 8 Operating segments.

The Group's operating segments are those used by the Board of Directors to manage the Group's business, allocate resources and make strategic decisions. The Group identifies its segments according to the nature of products and services provided by each segment. The Group's operating segments are (i) electricity distribution, (ii) electricity and gas supply and (iii) other activities as described below. The Group's activities are concentrated in Slovakia.

The main indicators used by the Board of Directors in their decision making are earnings before interests, taxes, depreciation and amortisation (EBITDA) and capital expenditure cash outflows. The Board of Directors separately monitor the operating results of the segments to take decisions on how to allocate the resources, to evaluate the effects of the allocation and to evaluate performance.

The types of products and services from which each reportable operating segment derives its operating results are:

**Electricity distribution**
Distribution of electricity using the distribution networks in Western Slovakia. The distribution business is regulated and the Group is required to provide access to its network to third parties on terms approved by RONI.

**Electricity and gas supply**
Supply of electricity and gas to wholesale and retail customers in Slovakia. This business is open to competition by other suppliers. Pricing for certain classes of customers of the segment is regulated by RONI.

As a result of regulation of the distribution business and partial regulation of the supply business approximately 88% during period ended 31 December 2012 (31 December 2011: approximately 87%) of the Group's EBITDA were generated from the sales to customers who are subject to price regulation.

**Other**
Segment Other consists mainly of network construction, maintenance testing and calibration of network elements for the Electricity distribution business. The segment also provides headquarter type functions, as central services, customer services, accounting, controlling, HR, IT and other services, to both supply and distribution businesses. The segment generated also some external revenues from construction and maintenance work related to energy assets for third parties.

Transactions with external parties are reported in a manner consistent with that in the consolidated income statement. Transactions between segments are eliminated upon consolidation.

An analysis of revenues, costs, EBITDA, profit before tax and capital expenditures by individual operating segments in the current and comparative reporting period is provided below:

An Analysis of Revenues, Costs, EBITDA, Profit Before Tax and Capital Expenditures

All amounts are in thousands of Euro unless stated otherwise

| | Distribution | Supply | Other | Eliminations | Total |
|---|---|---|---|---|---|
| 31 December 2012 | | | | | |
| Revenue from external customers | 187,798 | 835,340 | 6,849 | - | 1,029,987 |
| Inter-segment revenues | 362,227 | 75,858 | 200,408 | (638,493) | - |
| | | | | | |
| Purchases of electricity, gas and related fees | (311,388) | (860,761) | (82,211) | 519,315 | (735,045) |
| Employee benefits expenses | (5,281) | (3,943) | (43,972) | 18 | (53,178) |
| Other operating expenses | (83,372) | (18,861) | (71,129) | 122,286 | (51,076) |
| Other operating income | 2,044 | 2,095 | 6,783 | (3,126) | 7,796 |
| **Earnings before interest tax depreciation and amortisation (EBITDA)** | **152,028** | **29,728** | **16,728** | **-** | **198,484** |
| 31 December 2011 | | | | | |
| Revenue from external customers | 137,426 | 827,413 | 11,147 | - | 975,986 |
| Inter-segment revenues | 394,241 | 85,066 | 192,754 | (672,061) | - |
| | | | | | |
| Purchases of electricity, gas and related fees | (283,148) | (859,315) | (79,432) | 551,172 | (670,723) |
| Employee benefits expenses | (4,987) | (3,610) | (41,327) | 6 | (49,918) |
| Other operating expenses | (89,193) | (16,011) | (69,446) | 123,276 | (51,374) |
| Other operating income | 1,854 | 1,559 | 6,086 | (2,393) | 7,106 |
| **Earnings before interest tax depreciation and amortisation (EBITDA)** | **156,193** | **35,102** | **19,782** | **-** | **211,077** |

Reconciliation of Earnings before interest tax depreciation and amortisation (EBITDA) to Profit before tax:

Reconciliation of Earnings Before Interest Tax Depreciation and Amortisation (EBITDA) to Profit Before Tax

| All amounts are in thousands of Euro unless stated otherwise | Year ended 31 December | |
|---|---|---|
| | 2012 | 2011 |
| | Total | Total |
| EBITDA | 198,484 | 211,077 |
| Depreciation and amortisation | (41,490) | (38,960) |
| Interest income | 827 | 2,268 |
| Interest expense | (380) | (294) |
| **Profit before tax** | **157,441** | **174,091** |

Reconciliation of Earnings Before Interest Tax Depreciation and Amortisation (EBITDA) to Profit Before Tax

All amounts are in thousands of Euro unless stated otherwise

| | Distribution | Supply | Other | Total |
|---|---|---|---|---|
| 31 December 2012 | | | | |
| Investments (cash effective) | 72,739 | - | 9,777 | 82,516 |
| 31 December 2011 | | | | |
| Investments (cash effective) | 65,635 | - | 6,100 | 71,735 |

Reconciliation of Investments (cash effective) to Additions to Non-current Assets

All amounts are in thousands of Euro unless stated otherwise

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| **Investments (cash effective)** | **82,516** | **71,735** |
| Assets acquired but not paid for | 11,123 | 8,504 |
| Payments to assets acquired in prior periods | 2,662 | 2,324 |
| **Additions to PP&E and intangibles** | **90,977** | **77,915** |

## 7. Property, Plant and Equipment

Property, Plant and Equipment

All amounts are in thousands of Euro unless stated otherwise

| | Land | Network buildings | Power lines | Switching stations and similar network equipment | Machinery, non-network and admin-istration buildings, vehicles and other assets | Capital work in progress including advances (CIP) | Total |
|---|---|---|---|---|---|---|---|
| At 1 January 2011 | | | | | | | |
| Cost | 14,328 | 48,571 | 418,540 | 226,500 | 118,161 | 62,370 | 888,470 |
| Accumulated depreciation including impairment charge | – | (16,855) | (171,510) | (106,013) | (62,704) | (1,706) | (358,788) |
| **Net book value** | **14,328** | **31,716** | **247,030** | **120,487** | **55,457** | **60,664** | **529,682** |
| Year ended 31 December 2011 | | | | | | | |
| Additions | – | – | – | – | – | 72,518 | 72,518 |
| Transfers | 1,801 | 4,676 | 63,489 | 27,454 | 8,784 | (106,204) | – |
| Depreciation charge (Note 20) | – | (1,331) | (13,033) | (13,300) | (7,317) | – | (34,981) |
| Disposals (Note 22) | (4) | – | – | – | (517) | – | (521) |
| Impairment (charge) / release (Note 20) | – | – | – | – | – | 710 | 710 |
| **Closing net book value** | **16,125** | **35,061** | **297,486** | **134,641** | **56,407** | **27,688** | **567,408** |
| At 31 December 2011 | | | | | | | |
| Cost | 16,125 | 53,103 | 480,934 | 250,440 | 120,244 | 28,684 | 949,530 |
| Accumulated depreciation including impairment charge | – | (18,042) | (183,448) | (115,799) | (63,837) | (996) | (382,122) |
| **Net book value** | **16,125** | **35,061** | **297,486** | **134,641** | **56,407** | **27,688** | **567,408** |
| Year ended 31 December 2012 | | | | | | | |
| Additions | – | – | – | – | – | 87,760 | 87,760 |
| Transfers | 1,716 | 4,986 | 25,625 | 34,508 | 10,028 | (76,862) | – |
| Depreciation charge (Note 20) | – | (1,424) | (13,681) | (14,044) | (6,558) | – | (35,706) |
| Disposals (Note 22) | (8) | – | 0 | – | (35) | – | (43) |
| Impairment (charge) / release (Note 20) | – | – | 0 | – | – | 375 | 375 |
| **Closing net book value** | **17,833** | **38,623** | **309,430** | **155,105** | **59,842** | **38,961** | **619,794** |
| At 31 December 2012 | | | | | | | |
| Cost | 17,833 | 58,066 | 505,488 | 282,144 | 127,599 | 39,582 | 1,030,712 |
| Accumulated depreciation including impairment charge | – | (19,443) | (196,059) | (127,039) | (67,757) | (621) | (410,919) |
| **Net book value** | **17,833** | **38,623** | **309,429** | **155,105** | **59,842** | **38,961** | **619,794** |

The impairment charge to Capital work in progress relates to projects which have been started, where the finalisation of those assets is uncertain.

Property plant and equipment includes the capitalised 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 capitalised during 2012 and 2011.

During the year ended 31 December 2012, the Group received from customers fixed assets and cash to finance the 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 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 were collaterised 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 machinery, equipment, fixtures, fittings and other assets (2011: EUR 439,241 thousand and 393,599 thousand respectively).

## 8. Intangible Assets

| Intangible Assets<br>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 20) | (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 20) | (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 the acquisition of additional software for upgrade and improvement of functionality of the customer and their network information system. Assets are expected to be finalised and available for use in 2013.

## 9. Financial Instruments by Category

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

| Loans and Receivables<br>All amounts are in thousands of Euro unless stated otherwise<br>Assets as per balance sheet | Loans and receivables | Total |
|---|---|---|
| **As at 31 December 2012** | | |
| Trade receivables (Note 11) | 103,286 | **103,286** |
| Trade receivables towards E.ON Group companies (Note 11) | 47 | **47** |
| Amounts due from customers to contract work – third parties (Note 11) | 98 | **98** |
| Other receivables and other accrued income (Note 11) | 5,770 | **5,770** |
| Cash and cash equivalents (Note 12) | 21,717 | **21,717** |
| **Total** | **130,918** | **130,918** |
| **As at 31 December 2011** | | |
| Trade receivables (Note 11) | 108,470 | **108,470** |
| Trade receivables towards E.ON Group companies (Note 11) | 67 | **67** |
| Amounts due from customers to contract work – third parties (Note 11) | 1,028 | **1,028** |
| Other receivables and other accrued income (Note 11) | 1,834 | **1,834** |
| Other financial asset (Note 12) | 10,000 | **10,000** |
| Cash and cash equivalents (Note 12) | 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 12) | 16,288 | **16,288** |
| Trade payables (Note 15) | 85,055 | **85,055** |
| Other accrued liabilities (Note 15) | 6,123 | **6,123** |
| Other financial liabilities (Note 15) | 8,860 | **8,860** |
| **Total** | **116,326** | **116,326** |
| As at 31 December 2011 | | |
| Trade payables (Note 15) | 79,323 | **79,323** |
| Other accrued liabilities (Note 15) | 15,121 | **15,121** |
| Dividends payable (Note 15) | 50,000 | **50,000** |
| Other financial liabilities (Note 15) | 10,151 | **10,151** |
| **Total** | **154,595** | **154,595** |

## 10. 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** |

## 11. 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 |
| from this: Receivables to hospitals | 5,130 | 2,170 |
| Less: Provision for impairment of receivables | (30,141) | (30,102) |
| from this: Provisions for receivables to hospitals | (642) | (353) |
| **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 for contract work – third parties | 98 | 1,028 |
| Other receivables and other accrued income | 5,770 | 1,834 |
| **Total financial assets (Note 9)** | **109,201** | **111,399** |
| | | |
| Prepayments | 1,133 | 3,858 |
| VAT receivable (Note 26) | – | 1,572 |
| Excise tax receivable (Note 26) | 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 |
| from this: Receivables to hospitals | 5,130 | 2,170 |
| Less: Provision for impairment of receivables | (30,141) | (30,102) |
| from this: Provisions for receivables to hospitals | (642) | (353) |
| **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 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 20) | 2,925 | 466 |
| Unused amounts reversed (Note 20) | (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 the 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 9)** | **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 are no other restrictions relating to the Group's receivables.

## 12. 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 9) | (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). The bonds were acquired in February 2011 at par with a fixed interest rate of 2% p.a. The bonds were repaid on 2 January 2012.

## 13. Shareholders' equity

The total authorised number of ordinary shares of the parent company of the Group ("the Company") is 5,934,594 shares (2011: 5,934,594) with a par value of EUR 33.19 per share, representing share capital of EUR 196,969 thousand. All authorised shares are issued and fully paid in. The Company does not have any share capital subscribed but not recorded in the Commercial Register.

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

As described in 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.

A Legal reserve fund is obligatorily created from the 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 a 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. The 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 the Ministry of Economy of the 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 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.

The General Meeting held on 31 May 2012 approved the statutory financial statements for the previous accounting period and the distribution of the 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). The decision on the use of the 2012 profit of EUR 104,008 thousand will be made by the General Meeting.

## 14. 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 (b) | 36,620 | 31,980 |
| | 73,296 | 69,627 |
| Current (Note 14) | | |
| Contributions – current portion (a) | 1,958 | 1,912 |
| Connection fee – short-term portion (b) | 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 recognised in revenue in line with the depreciation lives of the related assets.

(b) Connection fees are paid by customers to connect them to a network. Contribution is recognised as deferred revenue and is released to revenues over the useful life of the asset (approximately 20 years).

## 15. Trade and Other Payables

| Trade and Other Payables | | |
|---|---|---|
| All amounts are in thousands of Euro unless stated otherwise | As at 31 December | |
| | 2012 | 2011 |
| Current trade and other payables | | |
| Trade payables | 85,055 | 79,323 |
| Other accrued liabilities | 6,123 | 15,121 |
| Dividends payable (Note 26) | – | 50,000 |
| Other financial liabilities | 8,860 | 10,151 |
| **Financial liabilities (Note 9)** | **100,038** | **154,595** |
| Other current payables and accrued expenses | | |
| 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 26) | 3,686 | – |
| Other payables | 1,157 | 3,192 |
| | **61,487** | **58,726** |
| **Total** | **161,525** | **213,321** |

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 the 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.

## 16. 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.

As of year-end 2012, Slovak tax legislation was amended based on which the corporate income tax rate increases from 19% to 23%, effective 1 January 2013.

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 liability 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** |

## 17. 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) |
| **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 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. |

| 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. |

**(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 | – |
| Remeasurements of pension obligation | (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 | |
| Remeasurements of pension obligation recognised 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 a supplier's employee, who suffered a serious work accident during work for the Group. The provision was set up in the amount of the assumed compensation quantified by the Group's lawyer.

## 18. Revenues

Tržby zahŕňajú nasledovné položky:

| 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 | 288,124 | 273,862 |
| Sales of electricity to residential customers | 145,649 | 140,586 |
| Distribution charges: | | |
| Sales of electricity to industrial and commercial customers | 416,369 | 390,072 |
| Sales of electricity to residential customers | 165,456 | 156,147 |
| | | |
| 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 | 4,251 | 3,922 |
| | **1,029,987** | **975,986** |

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

## 19. 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 26) | 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 |
| Cost of purchased gas | 1,786 | – |
| Other | 2,991 | 8,867 |
| | **735,045** | **670,723** |

## 20. 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 7) | 35,706 | 34,981 |
| Amortisation (Note 8) | 5,784 | 3,979 |
| | **41,490** | **38,960** |
| Operating expenses | | |
| 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 11) | 2,301 | (68) |
| Impairment of non-current assets (Note 7) | (375) | (710) |
| Other operating expenses | 749 | 1,461 |
| | **51,076** | **51,374** |

## 21. 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 16) | 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** |

## 22. 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 | 7, 20 | 35,706 | 34,981 |
| Amortisation | 8, 20 | 5,784 | 3,979 |
| Impairment (release) / charge | 7, 20 | (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 | 10 | (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 7) | 43 | 521 |
| Gain / (Loss) on disposal of property, plant and equipment | 439 | 1,074 |
| **Proceeds from disposals** | **482** | **1,595** |

## 23. 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 to 2012 remain open to tax inspection.

## 24. 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** |

As at 31 December 2012 and 31 December 2011, the Group leases cars and various premises for business and administrative purposes under operating leasing contracts.

## 25. 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.

## 26. 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 IT Slovakia, spol. s r.o.
- 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 summarised significant operations with government bodies and other non-government 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 a 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 15) 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 – sale of electricity | 1,721 | 48 |
| E.ON Energie, a.s. České Budějovice | 21 | 2 |
| E.ON IT Slovakia, spol. s r.o. | 488 | 232 |
| E.ON SE | 12 | – |
| | **2,384** | **512** |
| (iii) Government related entities | | |
| SEPS, a.s. – sale of electricity | 920 | 693 |
| OKTE, a.s. – deviations | 3,460 | 3,277 |
| Železnice Slovenskej republiky, a.s. – sale of electricity | 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** | **18,611** | **17,461** |

| 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 – purchase of electricity | 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 IT Slovakia, spol. s r.o. – IT services | 16,748 | 18,122 |
| E.ON Energie, a.s. České Budějovice – purchase of gas | 596 | – |
| | **54,209** | **52,599** |
| (iii) Government related entities | | |
| Slovenské elektrárne, a. s., Bratislava (Note 19) – 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. – deviations | 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. – purchase of elektricity | 6,263 | 7,496 |
| SE Predaj, s.r.o. | 4,739 | 6,472 |
| Slovenský plynárenský priemysel, a.s. | 521 | – |
| SPP – distribúcia, a.s. – distribution cost | 312 | – |
| | **440,608** | **438,522** |
| (iv) Taxes | | |
| Income tax (Note 21) | 29,549 | 30,326 |
| Property and motor vehicle tax | 582 | 544 |
| | **30,131** | **30,870** |
| | | |
| **Total** | **524,949** | **522,001** |

The Group purchased from E.ON IT, spol. s r.o. IT services and the acquisition of intangible assets. The services from E.ON IT, spol. s r.o. are provided based on a frame contract concluded for an 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 – sale of electricity | 274 | 3 |
| E.ON Energie, a.s. České Budějovice | 5 | – |
| | **295** | **59** |
| (iii) Government related entities | | |
| SEPS, a.s. – sale of electricity | – | 5 |
| OKTE, a.s. – deviations | 604 | 528 |
| Stredoslovenská energetika, a.s. | 24 | 14 |
| Železnice Slovenskej republiky, a.s. – sale of electricity | 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** |
| (iv) Taxes | | |
| Excise tax receivable (Note 11) | 558 | 816 |
| VAT receivable (Note 11) | – | 1,572 |
| Income tax receivable | 3,465 | – |
| | **4,023** | **2,388** |
| | | |
| **Total** | **5,892** | **5,280** |

| 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 – purchase of electricity | 5,732 | 2,738 |
| E.ON Energie Human Resources International GmbH, Munich | 438 | 1,052 |
| E.ON IT Slovakia – liabilities from cash-pooling | 367 | 3,220 |
| E.ON IT Slovakia – trade payables | 3,387 | 1,809 |
| E.ON Risk Consulting GmbH | – | 15 |
| E.ON Energie, a.s., České Budejovice | 1 | – |
| | **10,038** | **8,881** |
| (iii) Government related entities | | |
| Slovenské elektrárne, a.s. Bratislava – purchase of electricity | 29,089 | 24,217 |
| Stredoslovenská energetika, a.s. – purchase of electricity | 472 | 284 |
| Stredoslovenská energetika Distribúcia, a.s. – distribution cost | 304 | 155 |
| Východoslovenská distribučná, a.s. – distribution cost | 840 | 295 |
| Východoslovenská energetika, a.s. – purchase of electricity | 79 | – |
| SEPS, a.s. – transmission services | 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. – deviations | 1,578 | – |
| | **36,156** | **35,759** |
| (iv) Taxes | | |
| Income tax payable | – | 364 |
| VAT tax payable (Note 15) | 3,686 | – |
| | **3,686** | **364** |
| | | |
| **Total** | **49,880** | **95,016** |

**(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** |

## 27. Events after the end of the reporting period

As of 1 July 2013, Andrej Devečka resigned from the position of member of the Board of Directors. Also as of 1 July 2013, Marian Rusko was appointed to the position of member of the Board of Directors. As of 1 July 2013, Milan Chorvátik resigned from the position of the Supervisory Board Chairman, and also Ľubomír Streicher was appointed to the position of Supervisory Board Member.

**Marian Rusko**
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

# 3. 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 31 December 2011, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### The Board of Directors responsibility for the consolidated financial statements

The Board of Directors are 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 they determine is necessary to enable the preparation of consolidated 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 31 December 2011 and their financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

PricewaterhouseCoopers Slovensko, s.r.o.
SKAU licence No.: 161
Bratislava, 17 September 2013

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

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

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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 6 816 47 Bratislava 1
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ZSE 09/2013