Západoslovenská energetika, a.s.

Annual Report 2011

Individual Part

A company of e·on

Západoslovenská energetika

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1. Company Bodies

The structure of statutory and supervisory bodies of Západoslovenská energetika, a.s. (ZSE) in 2011 was as follows:

1.1 Statutory Body

Board of Directors	
As of December 31, 2011	
Chairman	Konrad Kreuzer (appointed on September 4, 2010)
Vice Chairman	Peter Laco MBA (appointed on March 1, 2011)
	Ján Rusnák (appointed on January 25, 2007, resigned on March 1, 2011)
Members	Andrej Devečka (appointed on October 31, 2009)
	Peter Procházka (appointed on March 1, 2011)
	Stefan Seipl (appointed on September 4, 2010)
	Vladimír Haršányi (appointed on January 25, 2007, resigned on March 1, 2011)

1.2 Supervisory Body

Supervisory Board	
As of December 31, 2011	
Chairman	Rudolf Slezák (appointed on March 1, 2011)
	Milan Chorvátik (appointed on March 24, 2010, resigned on March 1, 2011)
Vice Chairman	Robert Adolf Hienz (appointed on September 19, 2011)
	Dr. Dierk Paskert (appointed on May 29, 2008, resigned on September 19, 2011)
Members	Richard Schwarz (appointed on March 1, 2011)
	Andrea Groszová (appointed on March 1, 2011)
	Marian Dúbrava (appointed on March 1, 2011)
	Karol Nagy (appointed on March 1, 2011)
	Silvia Šmátralová (appointed on April 20, 2011)
	Emil Baxa (appointed on April 20, 2011)
	Silvia Šmátralová (appointed on January 31, 2008, resigned on April 19, 2011)
	Miroslav Franko (appointed on January 31, 2008, resigned on April 19, 2011)
	Kamil Doman (appointed on January 31, 2008, resigned on April 19, 2011)
	Ladislav Jančo (appointed on March 24, 2010, resigned on March 1, 2011)
	Ľuboš Majdán (appointed on March 24, 2010, resigned on March 1, 2011)
	Iveta Pauhofová (appointed on March 24, 2010, resigned on March 1, 2011)
	Andrej Danko (appointed on March 24, 2010, resigned on March 1, 2011)

1.3 Shareholders Structure

The shareholders structure of Západoslovenská energetika, a.s. (hereinafter as ZSE) as of December 31, 2011 was as follows:

Shareholders Structure			
As of December 31, 2011	€ Thousands	Share in Registered Capital	Voting Rights
National Property Fund of the Slovak Republic	100,454	51%	51%
E.ON Slovensko, a.s.	78,788	40%	40%
EBRD, London	17,727	9%	9%

2. A Look into History

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

3. Scope of Business

3.1 Company Profile and Scope of Business

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

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

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

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

Effective as of July 1, 2007, ZSE unbundled selected operations and activities in accordance with the EU Directive No. 2003/54/EC and Energy Act No. 656/2004 Coll. The Company operates under the license granted under Energy Act (energy license). On July 1, 2007 the distribution system operations were transferred to the daughter company ZSE Distribúcia, a.s. and sales and supply activities to the daughter company ZSE Energia, a.s.

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

From July 1, 2007, the Západoslovenská energetika, a.s. provides supporting services for its subsidiaries ZSE Energia, a.s. and ZSE Distribúcia, a.s. as construction works, repair and maintenance services, services for administration and operation of distribution network, customer service activities, accounting, controlling and general administration services. From April 2009 the Company operates as service organization for one of the shareholders of the company – E.ON Slovensko, a.s. and from 1 April 2010 also for subsidiaries Enermont s.r.o., OTC, s.r.o. and other related parties E.ON IT Slovakia spol. s r.o. and E.ON Elektrárne, s.r.o. in area of finance services, planning and controlling, HR services and facility management.

3.2 Main Scope of Business According to the Abstract of the Companies Register:

- Electricity purchase
- Electricity transport
- Electricity distribution
- Maintenance, service, and operation of electrical distribution networks and transformer stations
- Provision of services related to the operation and maintenance of electrical stations and 22kV power lines
- Assembly, repair and maintenance of electrical equipment (both below and above 1,000V)
- Installation of measuring sets and their replacement
- Assembly, maintenance and repair, technical inspection and testing of electrical equipment
- Assembly, maintenance and repair of telecommunications equipment
- Purchase of goods for the resale to end customers (retail)
- Purchase of goods for the resale to other trade licence holders (wholesale)
- Mediation activities under a free trade licence
- Consulting and advisory activities in the electrical energy sector
- Technical inspections and tests of gas equipment
- Technical inspections and tests of pressure equipment
- Technical inspections and tests of lifting equipment
- Consultancy, education, and training in work safety
- Work safety technician
- Fire protection technician
- Lease of machines, devices, equipment and mechanisms
- Repair of machinery, road motor vehicles and bodyworks
- Provision of services related to real estate administration
- Accommodation services, including catering activities in these facilities
- Operation of physical therapy facilities
- Massage services
- Domestic irregular bus transport
- Domestic road freight transport
- Production of LV switchgear
- Informational measurement of physical quantities
- Meter reading under a free trade licence
- Installation of designated metering equipment
- Engineering – investment activities in building industry
- Software provision – sale of complete programs based on contracts with authors
- Computer network administration under a free trade licence
- Activities in waste disposal except the dangerous waste
- Lease of vehicles and movables under a free trade license
- Cleaning of vehicles
- Real estate brokerage and lease
- Procurement activities connected with real estate administration and maintenance
- Lease of real estates with the provision of additional services
- Operation of garages and parking spaces for at least 5 vehicles belonging to other persons than owners or hirers
- Development of documentation and projects for simple buildings, small buildings and changes thereof
- Activities of entrepreneurial, organizational, economic and accounting advisors
- Book-keeping
- Consulting services in management and marketing
- Personnel consultancy excluding personnel leasing
- Administration services
- Economic and wage agenda administration
- Registry administration
- Public procurement
- Operating of warehouses except public warehouses
- Market research and analysis, public opinion research
- Consultancy in information technologies and telecommunications under a free trade license
- Lease of computers, machines and equipment
- Installation, maintenance, repair, administration of computer networks and information technology to the extent of safe voltage
- Storage of documents of non-archive nature
- Lecturing activities under a free trade licence
- Organizational (including technical) of courses, trainings and seminars under a free trade license
- Marketing, advertising and promotion activities
- Activities in the area of public relations
- Organization of cultural, sports and social events under a free trade license
- Provision of publicly available information
- Construction site supervision
- Authorized safety technician
- Safety technology services
- Safety coordination activities
- Realization of simple buildings, small buildings and changes thereof
- Activities of construction-site supervisor
- Computer graphic works under a free trade license
- Water management activities
- Activities in dangerous waste disposal

4. Basic Organizational Structure

From January 1, 2011 to March 31, 2011 the basic organizational structure of ZSE consisted of the following divisions/organizational units:

- Corporate Affairs Division
- Services for Electricity Distribution Division
- Customer Services
- Finance and Internal Services Division
- Internal Audit
- Human Resources Department

From April 1, 2011 to December 31, 2011 the basic organizational structure of ZSE consisted of the following divisions/organizational units:

- Corporate Affairs Division
- Services for Electricity Distribution Division
- Customer Services
- Finance and Internal Services Division
- IT/LDM via SLA
- Internal Audit
- Quality Control Department

All these divisions/organizational units are a part of Západoslovenská energetika, a.s. located on Čulenova 6, 816 47 Bratislava.
The Company's organizational structure consists of four levels of management – division/organizational unit, department, team and coordinators.

As of December 31, 2011, ZSE had five daughter companies:

- 100% equity share in Enermont s.r.o., Business ID: 35 859 423, located at Hraničná 14, 827 14 Bratislava,
- 100% equity share in OTC, s.r.o., Business ID: 36 254 711, located at M. R. Štefánika 85, 920 01 Hlohovec,
- 100% equity share in ZSE prenos, spol. s r.o., Business ID: 35 927 593, located at Čulenova 6, 816 47 Bratislava.

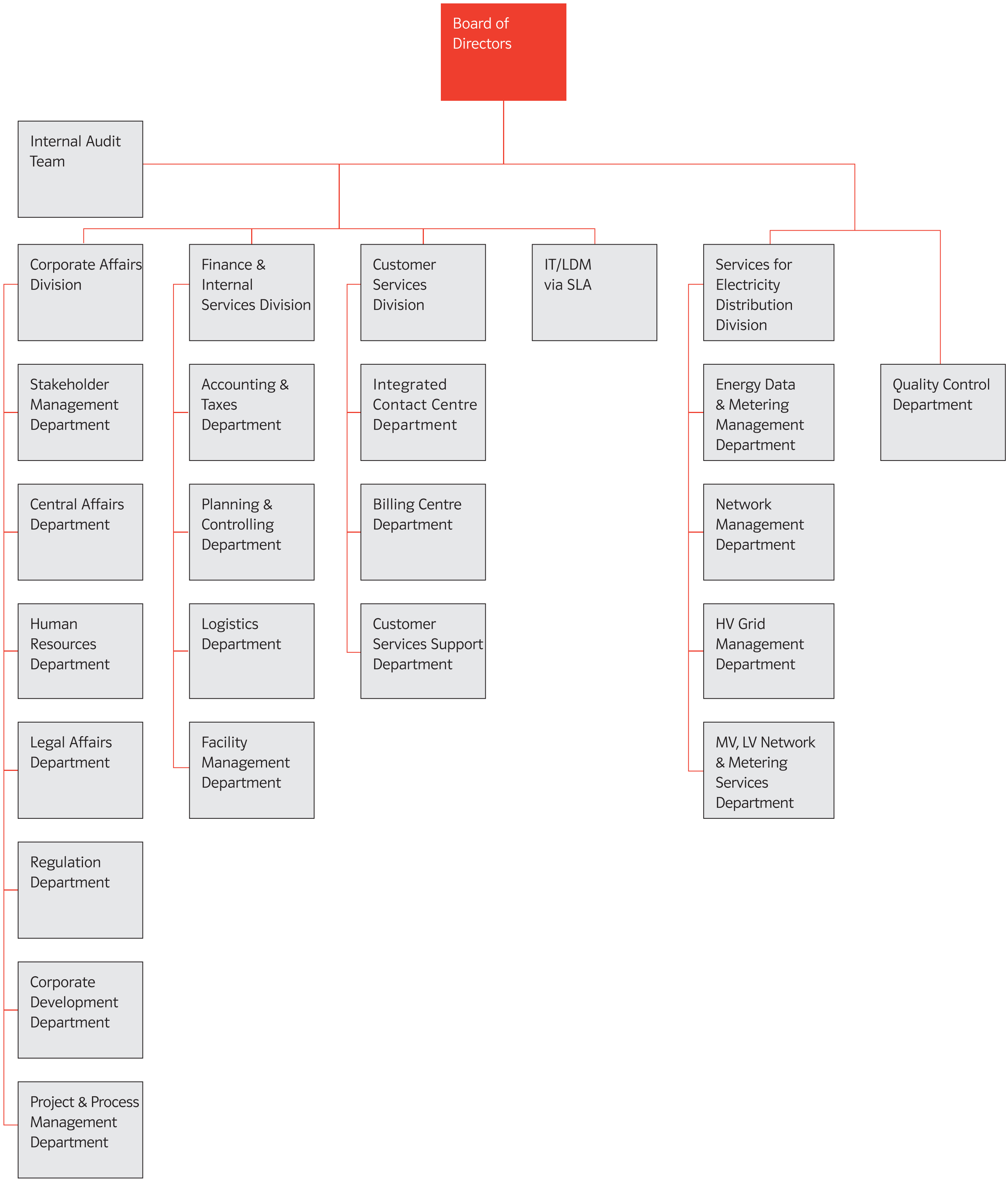
On April 20, 2006 ZSE founded another 100% daughter company called ZSE Distribúcia, a.s., Business ID: 36 361 518, with its headquarters at Čulenova 6, 816 47 Bratislava (incorporated on May 20, 2006). The company was incorporated due to the changes instituted in the Energy Act following the unbundling model that was approved by the ZSE's executive bodies.

On August 18, 2006 ZSE founded another 100% daughter company called ZSE Energia, a.s., Business ID: 36 677 281, with its headquarters at Čulenova 6, 816 47 Bratislava (incorporated on September 22, 2006). The company was incorporated due to the changes instituted in the Energy Act following the unbundling model that was approved by the ZSE's executive bodies.

ZSE owns shares also in the following companies:

- 49% equity share in E.ON IT Slovakia spol. s r.o., Business ID: 31 404 600, located at Čulenova 6, 816 47 Bratislava
- One-third of the shares of SPX, s.r.o., Business ID: 36 427 012, located at Ul. republiky 5, 010 47 Žilina
- 16.67% share in Energotel, a.s., Business ID: 35 785 217, located at Miletičova 7, 821 08 Bratislava
- 12% share in EFR CEE Kft. located at Széchenyi rkp. 8, H-1054 Budapest, Hungary

4.1 Organizational Scheme as of December 31, 2011



5. Employee Structure

As of December 31, 2011, Západoslovenská energetika, a.s. had on average 1,228 employee, of which 25 managers (as of December 31, 2010: on average 1,241 employee, of which 19 managers).

Employee Structure

As of December 31	2011	2010
Increase	**96**	**110**
Of which:		
Transfer due to unbundling	–	–
Free recruitment	85	52
Return from maternity leave	3	4
Transfer within ZSE Group	8	54
Terminated contracts	**119**	**172**
Of which:		
Mutual agreement	50	25
Notice	3	9
Contracts for definite period of time	2	14
Retirement or disability to work	24	29
Death	2	5
Probation period	5	5
Maternity leave	10	9
Restructuring	–	26
Transfer within ZSE Group	23	50
Transfer due to unbundling	–	–
Total	**1,212**	**1,235**

Employee Structure by Gender

As of December 31	2011	%	2010	%
Women	370	30.5	386	31.3
Men	842	69.5	849	68.7
Total	**1,212**	**100.0**	**1,235**	**100.0**

Employee Structure by Education

As of December 31	2011	%	2010	%
Elementary	3	0.2	3	0.2
Secondary vocational	305	25.3	323	26.2
Secondary complete	606	50.0	616	49.9
University	298	24.6	293	23.7
Total	**1,212**	**100.0**	**1,235**	**100.0**

Employee Structure by Age

As of December 31	2011	%	2010	%
Below 20	0	0.0	0	0.0
21-25	17	1.4	18	1.4
26-30	92	7.6	96	7.8
31-35	155	12.8	149	12.1
35-40	181	14.9	193	15.6
41-45	189	15.6	192	15.5
46-50	219	18.0	212	17.2
51-55	168	13.9	189	15.3
56-60	161	13.3	153	12.4
Above 60	30	2.5	33	2.7
Total	**1,212**	**100,0**	**1,235**	**100.0**

6. Economy

In 2011 Západoslovenská energetika, a.s. achieved the profit of € 161,738 thousand with the costs spent in the volume of € 164,920 thousand.

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

Key Figures as of December 31		
€ Thousands	2011	2010
Long-term assets	974,962	973,864
Short-term assets	170,988	181,525
Total assets	**1,145,950**	**1,155,389**
Own equity	991,363	1,024,044
Long-term liabilities	5,447	5,619
Short-term liabilities	149,140	125,726
Total equity and liabilities	**1,145,950**	**1,155,389**
Revenues	172,461	169,385
EBIT (Operating income)	**163,357**	**98,376**
EBITDA	170,513	104,396
Incomes	329,200	262,378
Costs	164,920	163,605
Profit before tax	164,280	98,773
Net profit	**161,738**	**95,809**
Investments	**8,495**	**11,222**
Average number of employees	**1,228**	**1,241**

6.1 Finances

The Company increased value of its free resources in 2011 mainly through short-term deposits and short-term finance assets, achieving the interest income of € 1.171 million.

6.2 Credits

Západoslovenská energetika, a.s. has been granted an overdraft credit line of € 16.60 million by Citibank Slovakia, a.s. and a credit line of € 6.64 million by Tatra banka. Credit lines are also available to the subsidiaries ZSE Energia, a.s., ZSE Distribúcia, a.s. and Enermont s.r.o. and in 2011 they were withdrawn only as bank guarantees.

6.3 Profit To Be Appropriated

The General Meeting of Západoslovenská energetika, a.s. held on May 31, 2011 approved the proposal for the appropriation of profit achieved in 2010. In June 2011 shareholders of the Company, i.e. Slovak National Property Fund, E.ON Slovensko and EBRD London, were paid dividends in the total amount of € 94.419 million. Dividends were paid out in €. For 2010 the dividend per share amounted to € 15.91.

The Extraordinary General Meeting of Západoslovenská energetika, a.s. held on December 19, 2011 approved the proposal for the appropriation of retained profit for extraordinary dividend payments in the total amount of € 100 million as follows: the amount of € 50 million to be paid out by December 31, 2011 and the amount of € 50 million to be paid out by February 28, 2012.

Trade Receivables and Payables		
€ Thousands	2011	2010
Trade receivables and other receivables	31,724	39,630
of which: overdue:	8,682	9,959
Trade and other payables	75,596	22,664
of which: overdue:	2	3

6.4 Investments

The volume of investments of Západoslovenská energetika, a.s. for 2011 totalled to € 8,495 thousand.

Investments in 2011	
€ Thousands	2011
IT, Telecommunications	5,395
Facility Management	1,646
Services for Distribution	1,293
of which: telecommunications	1,095
Logistic	70
Other	91
Total	**8,495**

The Most Important Constructions of Západoslovenská energetika, a.s.	
€ Thousands	2011
PO Dunajská Streda – area revitalisation	736
PO Nitra, Novozámocká – area revitalisation	289
PO Nové Zámky – area revitalisation	298
PO Trnava – area revitalisation	216

Constructions to be continued in 2012:

The Most Important Constructions of Západoslovenská energetika, a.s.	
€ Thousands	2012
POTrnava – area revitalisation	870
PO Dunajská Streda – area revitalisation	800
PO Nitra, Novozámocká – area revitalisation	700

6.5 Outlook for 2012

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

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

6.5.1 Strategic development of ZSE Group

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

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

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

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

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

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

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

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

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

6.7 Important Events after the End of 2011
Establishment of daughter company ZSE Development, s.r.o. In early 2012 OTC, s.r.o., ID No.: 36 254 711, with the registered seat at M. R. Štefánika 85, 920 01 Hlohovec, whose object of the company are activities focused on repairs of distribution transformers and repairs and inspection of measuring devices, was renamed to ZSE Development, s.r.o., ID No.: 36 254 711, with the registered seat at Čulenova 6, 811 09 Bratislava. Západoslovenská energetika owns a 100% share in ZSE Development, s.r.o.

Západoslovenská energetika has paid out on February 27, 2012 the dividends approved by the extraordinary General meeting.

7. The 2011 Activity Report of the Supervisory Board of ZSE

The Report gives account of activities in the following areas:
1. Supervisory Board Members
2. Sessions of the Supervisory Board according to the Plan of Activities
3. Performance of the Plan of Activities of the Supervisory Board in 2011
4. Evaluation of the performance of the Activities of the Board of Directors

7.1 Supervisory Board Members
The Supervisory Board changed its personal set up during the year 2011 and its original members met for the last time at the extraordinary session on February 7, 2011. The National Property Fund in its letter dated January 18, 2011 requested the Managing Board of Directors to convene an extraordinary General Meeting of the Company to remove the Fund´s representatives and replace them with new appointees. The seats of M. Chorvátik, A. Danko, L. Jančo, Ľ. Majdán and I. Pauhofova were thus taken by Rudolf Slezák, Richard Schwarz, Andrea Groszová, Marian Dúbrava and Karol Nagy as of March 1, 2011. Additional change was administered at the post of the Vice Chairman, a nominee of the minority shareholder, E.ON AG. Dierk Paskert was replaced by Robert A. Hienz as of September 19, 2011.

The beginning of 2011 meant also the end of the three-year electoral period for the employee representatives (S. Šmátralová, K. Doman, M. Franko). In the employee elections held on March 23, 2011 two new members received the required number of votes – Silvia Šmátralová and Emil Baxa. They assumed their mandate as of April 20, 2011. The election of the third employee representative was unsuccessful despite the additional two rounds of voting (April 13, and September 27, 2011), since none of the candidates had received enough votes. The position remained empty and the Board´s sessions were meeting with only eight members.

7.2 Sessions of the Supervisory Board according to the Plan of Activities
Supervisory Board conducted its overseeing role in line with the approved plan of activities. There were four regular sessions and one extraordinary session held on Februray 7, 2011 convened for the approval of the postponed decision regarding the Company´s Strategic plan of 2011 and for the period of 2011 – 2013. The session reviewed the plans for relocation of the Company´s Headquarter Office as well. The approved plan of activities was amended in accordance with the wishes of the Supervisory Board members and/or individual consultations with the management.

7.3 Performance of the Plan of Activities of the Supervisory Board in 2011

The year 2011 was marked by the implementation of new organizational structure of the Company and conclusions of the CIS Project, which represented the most substantial upgrade of customer information software since the unbundling process in 2007.

Management of receivables, preparation for the entry onto the retail gas market and struggle with competitors and their practices of door-todoor sales of electricity were an important part of the meetings of Supervisory Board. High quality of measures adopted by the Company in the area of environmental protection and health and labor safety were demonstrated to the members in quarterly environmental and HSE reports. The data results placed the Company among the leaders within the whole E.ON Group. On a regular basis the Supervisory Board reviewed receivables policy, consultancy services provided to the Company and financial security framework extended by the mother company to cover electricity purchases by ZSE Energia.

First session of the Supervisory Board on March 28, was the first session with new personal set up of the Board. Mr. Rudolf Slezak was elected the Chairman by seven votes. The Board reviewed the financial statements for 2010, report by independent auditor and submitted the proposal for division of profit of the Company for 2010 to the General Meeting. The activity report of the Board in 2010 was also formally approved.

Second session dated June 20, reviewd the quarterly results and on top of the regular agenda reviewed also the fulfilment of commitments stemming from the Collective Agreement for the year 2010.

The Fall session on September 26, 2011 elected Mr. Robert A. Hienz as Vice Chairman of the Board. The regular topics of the session were expanded by the review and approval of restructuring of the daughter company OTC and by steps leading to more effective operations of network and electrometer services.

The main agenda of the concluding session held on December 13 was the approval of the Company investment plan for 2012 and Strategic Plan for the period of 2012 – 2014. Members of the Board reviewed also the various aspects of ZSE Energia´s entry onto the gas market and the report on brand support activities in the region (sponsorships and community investment).

Among the regular topics of its agenda the Supervisory Board reviewed the contracts concluded according to the Art. 3.9 of the Shareholder Agreement (contracts between ZSE and daughter companies of E.ON), consultancy and advisory services contracts. Situation in receivables as mentioned previously was also an integral part of regular reportings in 2011.

7.4 Board of Directors Activities Performance Assessment

Managing Board of Directors and new members of Supervisory Board came to a common understanding of new requirements for information and reporting about the Company´s operations through a mutual dialogue. The supervisory role of the Sujpervisory Board was conducted also via individual meetings of its members with the Company representatives. The Supervisory Board states that the Managing Board of Directors of the Company as well as the management of the daughter companies have continued the policy of careful evaluation opportunities and foresight of the previous period. The result is materialized in figures higher than expected in the business plan. The Supervisory Board thus wishes to express its appreciation to the Managing Board of Directors of the mother company, all daughter companies and thank for the job well done also to all employees of the holding.

Bratislava, March 27, 2012

Rudolf Slezák, signed in person
Chairman of the Supervisory Board of ZSE

7.5 Appropriation of Profit for 2011

On May 31, 2012, the General Assembly of Západoslovenská energetika approved the proposal for profit distribution:

Proposal for the Appropriation of Profit of ZSE for 2011	
Approved by the General Assembly on May 31, 2012	€
Net profit	161,738,000
Net profit for distribution	**161,738,000**
Contribution to social fund	1,387,963
Dividends	160,350,037
Total distribution of profit	**161,738,000**

8. Corporate Responsibility

8.1 Strategy of Corporate Responsibility in ZSE

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

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

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

In September we allocated a week for the event called „Days of ZSE Volunteers" where mainly the employees outside Bratislava dedicated their time and efforts to voluntary activities. At the time before Christmas employees of Západoslovenská energetika fulfilled wishes of children from Children´s Homes and took care of clients in the society „Better World". The number of employees taking part in such activities rises every year – in the year 2011 there were more than 230 people participating in voluntary work, many of them were active in several events during the year.

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

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

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

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

8.2 Customer Services

Market liberalisation and emerging possibilities are increasingly getting into the minds of not only private businesses, but also of households. From customer services point of view, the year 2011 was the year during which we experienced a more intensive growth of administrative work caused mainly by consumers` switch of electricity suppliers. Customer servicesprocessed such requirements on a quarterly basis, while the number of customers, which had chosen to switch, was gradually growing.

The last year meant also strengthening work with customer data with a focus on retention of its customer portfolio. Apart from administrative work connected with the acquisition of new customers and the customers that have chosen to use the services of a different trader, there were mainly the activities associated with the active contacting of final consumers provided with a business proposal during individual campaigns. We may note that the achieved results complied with the set objectives and criteria

The entire second half of 2011 was even more demanding because the implementation of a new version of the customer information system SAP was nearing to its end after several years of work, particularly on SAP-ISU and SAP-CRM modules, having a substantial impact on customer services and the billing of final customers. Implementation was associated with service interruptions in July and several shorter restrictions in providing services in June, August – October 2011. This situation caused an extension of the usual period for settlement of customer`s requirements. The intention was to eliminate this problem in a maximum possible extent in order to annually meet the quality standards related to customer services as established by the Regulatory Office of Network Industries, which we successfully completed.

A larger emphasis was given to the final annual billing and subsequent financial statements for 2011, since they were made by a newly implemented information system for the first time. Thanks to the maximum efforts of all experts and operational staff these activities were duly accomplished in a corresponding quality.

8.3 Protection of the Environment

The environmental protection ranks among the top priorities of ZSE. We constantly make efforts to protect and improve the quality of the environment by taking preventive measures while performing all kinds of activities by our employees and in all premises and facilities of ZSE.

While operating the facilities of ZSE Group, we give ongoing attention to the protection of soil and water, nature and landscape and last, but not least, to the protection of air. By implementing ecological projects we use pro-active approach to the protection of avifauna and the prevention from soil and water contamination.

An overview of ZSE`s investments into ecological projects and maintenance of facilities in the year 2011:

Ecological Projects	
2011	€ Thousands
Costs of Západoslovenská energetika, a.s. incurred by ecological operation and maintenance of facilities of ZSE Group including waste treatment	1,352
Customized production of Západoslovenská energetika, a.s. in ecological projects for ZSE Distribúcia, a.s. in 2011	408

As regards the protection of underground water and soil the investments were made to improve environmental performance of transformer stands of electrical substations in order to eliminate any risks of underground water contamination. A special attention was paid to the impact of noise, originating from our facilities, on population in the residential zone and to taking noise abatement measures.

In 2011 we put in life another project dealing with the protection of avifauna entitled LIFE09 NAT/HU/000384 „The Protection of Saker Falcon". The project is a follow up of LIFE06 and continues to protect the globally endangered species. In the project we committed ourselves to equip at least 850 electric posts (about 80km of high voltage lines) with protective devices. Moreover, the improvement of environmental performance continued beyond the framework of LIFE projects, since we equipped more than 450 electric post (almost 41km of of high voltage lines) with protective console case.

Our company has introduced thorough separation of waste originating from administrative activities and during the year 2010 we separated from municipal waste more than 4.9t of plastic, 14.1t of paper and 0.3t of glass that were taken for recycling.

Attention is given to the maintenance of the equipment filled with SF_6 gas which belongs among fluorinated greenhouse gases. Zapadoslovenska energetika, a.s. is a holder of the Professional Competence Certificate allowing the manipulation with fluorinated greenhouse gases which fill some of the energy installations. Our employees, who are the holders of such Certificate, renewed their Professional Competence Certificates which allow them to work with SF_6 gas. The obligations arising out of the Act on Fluorinated Greenhouse Gases are also met in connection with the operation of air conditioning systems in ZSE Group premises.

All the environmental achievements in 2011 are in accordance with the approved document „The Policy of Occupational Health and Safety and the Environmental Protection in Západoslovenská energetika, a.s.", aiming to eliminate any significant impacts on the environment under ISO 14001.

The company has committed to raise the environmental awareness of its employees by providing regular information in the form of articles, reports, news and data relating to the environment. Moreover, we allow our employees to participate in the environmental activities organised by ZSE Group. Traditionally we commemorate the World Earth Day In April we traditionally celebrated the Earth World Day by holding the competition „The Best Idea". The main theme of the competition was the project called Energy Experience that was trying to explain to students of primary schools energy and environmental issues in a simple and entertaining manner. The culmination of this event was the official launching of the publication „Energy Experience" by Mr. Stefan Seipl, the managing director and a member of the Board of Directors of Západoslovenská energetika, a.s.

8.4 Occupational Health and Safety

At the beginning of 2011 the company`s responsibility with respect to occupational health and safety (hereinafter referred to as „OHS") was transferred under E.ON AG. The Safety Management Index was changed to the Safety Improvement Plan (SIP) which covers health care, management of suppliers, visible leadership and implementation of HS standards. The instructions related to implementation of the Safety Improvement Plan are included in the operational procedure No. 6.121.14. An indicator TRIF comb determined by E.ON AG at a value of 3.0 is recorded separately and, besides recording the data on internal employees, it also contains the data on suppliers. The overall assessment of SIP within the E.ON AG achieved a value of 120%, which is the highest achieved value in the entire company.

Implementating HS standards was proceeded by the GAP analysis, involving all heads of ZSE Group divisions. The results were subsequently forwarded to HSE E.ON AG and became part of the assessment of SIP fulfillment.

In February 2011 the 2011 annual auditing plan of Západoslovenská energetika, a.s. was submitted to Jour Fix. Under this plan 6 audit-days had to be made in selected teams and operational units. As of May 15, 2011 the person authorised for SIM ceased to perform internal audits in Západoslovenská energetika, a.s., which was due to the need of making modifications in the internal auditing system, as well as the management of individual SIM processes. By the given date 3 audit-days had been performed.

The first supervisory audit was conducted in joint stock company Západoslovenská energetika on November 21 – November 23, 2011. The audit reports were sent to management representatives of the specific companies and the respective persons involved in the supervisory audit.

The actions were taken to meet the requirements under SIM in relation to the identified incompliances and measures contributing to resolving the identified opportunities of improvement including deadlines and responsible persons as part of the „Action Plan".

The Action Plan was provided to the Certification Company 3EC as a respond to the outputs of the supervisory audit and it will also be used in 2012 as the background document for the second supervisory audit. These and related activities were organised and provided in a tight co-operation with the persons in charge of the systems in above-mentioned companies.

In September and October the teams responsible for occupational health and safety, protective work equipment and the environment, in co-operation with an HR team, organised trainings on SIM for all employees, which were followed up by the testing of the knowledge acquired. The training session also included the training on procedures in the event of an ecological accident. The training was running simultaneously with the repeated training of employees regarding the regulations on OHS and protective work equipment.

The partial commissions made up of the employees from the team of OHS and protective work equipment, working health service and representatives of the employees responsible for safety completed the joint inspections of OHS in the workplaces of Západoslovenská energetika, a.s., ZSE Distribúcia, a.s. and ZSE Energia, a.s. The joint inspections of OHS were made in compliance with the approved OHS inspection schedule for the year 2011.

The main commission elaborated the final report on joint OHS inspections by the set deadline, i.e. November 15, 2011. All employees were subsequently informed on the results of such inspections by their heads of divisions.

Another training of workers in charge of safety was organised in June. Based on proposal by trade unions 37 employees were appointed to be responsible for occupational safety in Západoslovenská energetika, a.s. E.ON AG is launching a new central system of monitoring and reporting injuries and ecological accidents called Prevent. The initial trainings have been organised for the employees of the environmental team, OHS and protective work equipment team and crisis management team. The monthly reporting of ecological events has been introduced, including the ranking of a degree of threat or the environmental pollution under the E.ON AG requirements.

For the purpose of statistical data this year we are making the Safety Pyramid including the values of data of suppliers. For this reason there has been established the ZSE Unsafe Condition Line on the intranet. Recording and maintenance of such line are done by the protective work equipment and OHS teams.

Západoslovenská energetika, a.s. has bought eight defibrillators, thus belonging among those companies which quickly and reliably give a chance for survival in case of heart stroke and other cardiac complications. Because of an easy-to-use operation using such devices will be possible for all the company employees helping people in need in our premises. By means of the website defibriluj.sk it is also possible to use such life saving equipment for the public.

In 2011 the OHS commission held one session, dealing mainly with the issues relating to occupational injuries and fire safety, technical conditions of employees working at heights, joint OHS inspections and care about employees working on remote workplaces or alone.

In 2011 Západoslovenská energetika, a.s. recorded two registered occupational injuries and one recorded. In the following period there was no fatal occupational injury or registered occupational disease in Západoslovenská energetika, a.s.

In the monitored period employees of sub-contractors worked 920,785 hours at workplaces and facilites owned by ZSE Group. The employees of sub-contractors experienced two occupational injuries at that time (TRIF = 2.2).

In 2011 ZSE registered four occupational injuries. In the monitored period there was neither fatal work accident nor occupational disease in ZSE:

Statistical Indicators of Occupational Injuries in 2009, 2010 and 2011

	Number of registered occupational injuries			Lost calendar days due to ROI			Average number of employees		
Year	2009	2010	2011	2009	2010	2011	2009	2010	2011
ZSE	0	4	2	0	570	60	1,311	1,241	1,228

LTIF (Lost time injury frequency) in 2011: 0.82 TRIF (Total recordable incidents) in 2011: 1.24

Note:
ROI – registered occupational injury
LTIF – the number of occupational injuries per one million of hours worked in the monitored period in ZSE
TRIF – the number of accidents included in LTIF, fatalities, accidents without any lost calendar days, which required medical attendance and cases where work could be done only to limited extent per one million of hours worked in the monitored period in ZSE

9. Separate Financial Statements for the Year Ended December 31, 2011

Separate Financial Statements for the Year Ended December 31, 2011 Prepared in Accordance with International Financial Reporting Standards (IFRS) as Adopted by European Union

Translation note:
This version of the accompanying financial statements is a translation from the original, which was prepared in Slovak. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the financial statements takes precedence over this translation.

Separate Statement of Financial Position at 31 December 2011

prepared in accordance with IFRS as adopted by the European Union

Separate Statement of Financial Position			
All amounts are in thousands of Euro unless stated otherwise		As at 31 December	
	Note	2011	2010
ASSETS			
Non-current assets			
Property, plant and equipment	4	40,477	40,670
Intangible assets	5	15,550	14,120
Investments in subsidiaries and associates	6	918,399	918,399
Deferred income tax asset	15	536	675
		974,962	**973,864**
Current assets			
Inventories	8	1,388	1,726
Trade and other receivables	10	31,724	39,630
Receivables from cash pooling	14	7,130	–
Current income tax receivables		428	865
Other financial asset	11	10,000	–
Cash and cash equivalents	11	120,318	139,304
		170,988	**181,525**
Total assets		**1,145,950**	**1,155,389**
EQUITY AND LIABILITIES			
Share capital and reserves			
Share capital	12	196,969	196,969
Legal reserve fund	12	39,421	39,421
Other funds	12	45,467	45,467
Retained earnings	12	709,506	742,187
Total equity		**991,363**	**1,024,044**
Non-current liabilities			
Pension and other provisions for liabilities and charges	16	5,447	5,619
		5,447	**5,619**
Current liabilities			
Trade and other payables	13	75,596	22,664
Liabilities from cash pooling	14	72,188	101,807
Pension and other provisions for liabilities and charges	16	1,356	1,255
		149,140	**125,726**
Total liabilities		**154,587**	**131,345**
Total equity and liabilities		**1,145,950**	**1,155,389**

These financial statements have been approved for issue by the Board of Directors on 21 March 2012.

Ing. Andrej Devečka
Member of the Board
of Directors

Ing. Peter Procházka
Member of the Board
of Directors

Separate Statement of Comprehensive Income for the Year Ended 31 December 2011

prepared in accordance with IFRS as adopted by the European Union

Separate Statement of Comprehensive Income			
All amounts are in thousands of Euro unless stated otherwise		Year ended 31 December	
	Note	2011	2010
Revenues	17	172,461	169,385
Cost of sales	18	(88,880)	(86,652)
Gross profit		**83,581**	**82,733**
Operating expenses	19	(75,792)	(76,711)
Dividend income	20	152,172	88,427
Other operating income		3,396	3,927
Profit from operations		**163,357**	**98,376**
Finance costs			
Interest income		1,171	639
Interest expense		(248)	(242)
Net Finance cost		**923**	**397**
Profit before tax		**164,280**	**98,773**
Income tax expense	21	(2,542)	(2,964)
Profit for the year		**161,738**	**95,809**
Other comprehensive income		–	–
Total comprehensive income		**161,738**	**95,809**
Earnings per share (expressed in EUR per share)			
– basic	25	27.253	16.144
– diluted	25	27.253	16.144

Separate Statement of Changes in Shareholders' Equity for the Year Ended 31 December 2011

prepared in accordance with IFRS as adopted by the European Union

Separate Statement of Changes in Shareholders' Equity

All amounts are in thousands of Euro unless stated otherwise

	Share capital	Legal reserve fund	Other funds	Retained earnings	Total
Balance at 1 January 2010	**196,969**	**39,421**	**45,467**	**752,780**	**1,034,637**
Comprehensive income					
Profit for the year	–	–	–	95,809	95,809
Total comprehensive income for 2010	–	–	–	**95,809**	**95,809**
Transaction with owners					
Dividends (Note 12)	–	–	–	(106,402)	(106,402)
Transaction with owners	–	–	–	**(106,402)**	**(106,402)**
Balance at 31 December 2010	**196,969**	**39,421**	**45,467**	**742,187**	**1,024,044**
Comprehensive income					
Profit for the year	–	–	–	161,738	161,738
Total comprehensive income for 2011	–	–	–	**161,738**	**161,738**
Transaction with owners					
Dividends (Note 12)	–	–	–	(194,419)	(194,419)
Transaction with owners	–	–	–	**(194,419)**	**(194,419)**
Balance at 31 December 2011	**196,969**	**39,421**	**45,467**	**709,506**	**991,363**

Separate Cash Flow Statement for the Year Ended 31 December 2011

prepared in accordance with IFRS as adopted by the European Union

Separate Cash Flow Statement

All amounts are in thousands of Euro unless stated otherwise		Year ended 31 December	
	Note	2011	2010
Cash flows from operating activities			
Cash generated from operations	24	(7,604)	72,026
Interest paid		–	(62)
Interest received		994	639
Income tax paid		(1,966)	(4,699)
Net cash from operating activities		**(8,576)**	**67,904**
Cash flows from investing activities			
Purchase of property, equipment and intangibles		(8,495)	(11,222)
Acquisition of short-term investment	11	(10,000)	–
Proceeds from sale of property and equipment		332	165
Dividend received	20	152,172	88,427
Net cash used in investing activities		**134,009**	**77,370**
Cash flows from financing activities			
Dividends paid	12	(144,419)	(106,402)
Net cash used in financing activities		**(144,419)**	**(106,402)**
Net increase /(decrease) in cash and cash equivalents		**(18,986)**	**38,872**
Cash and cash equivalents at beginning of year	**11**	**139,304**	**100,432**
Cash and cash equivalents at end of year	**11**	**120,318**	**139,304**

10. Notes to the Separate Financial Statements

Notes to the Separate Financial Statements at 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.

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

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

On 5 September 2002 the National Property Fund of Slovak Republic sold 49% of total share capital of ZSE to E.ON Energie AG, Germany. On 16 December 2003 E.ON Energie AG transferred 9% of total share capital of ZSE to European Bank for Reconstruction and Development.

As required by directive of European Union 2003/54/ES and by Energy Law No. 656/2004 Coll. the Company implemented legal unbundling of distribution network from 1 July 2007 onwards. Until 1 July 2007 the Company provided electricity distribution and supply services primarily in the Western Slovakia region. Its operations are governed by the terms of its license granted under the Energy Law ("the Energy Licence"). As at 1 July 2007 the electricity distribution business has been contributed into the subsidiary ZSE Distribúcia, a.s. and the supply service has been contributed into the subsidiary ZSE Energia, a.s.

From 1 July 2007, the Company provides supporting services for its subsidiaries ZSE Energia, a.s. and ZSE Distribúcia, a.s. as construction works, repair and maintenance services, services for administration and operation of distribution network, customer service activities, accounting, controlling and general administration services. From April 2009 the Company operates as service organization for one of the shareholders of the company – E.ON Slovensko, a.s. and from 1 April 2010 also for subsidiaries Enermont, s.r.o., OTC s.r.o. and other related parties E.ON IT Slovakia, s.r.o. and E.ON Elektrárne, s.r.o. in area of finance services, planning and controlling, HR services and facility management.

Throughout these financial statements, ZSE is referred to as "Company".

The structure of the Company's shareholders at 31 December 2011 and 2010 was as follows:

The Structure of the Company's Shareholders

All amounts are in thousands of Euro unless stated otherwise

	Absolute amount in thousands Euros	Interest in share capital in %	Voting rights
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%**

Until 27 May 2008 40% of shares of Západoslovenská energetika, a.s. were owned by E.ON Energie AG. On 27 May 2008 E.ON Energie AG has contributed these shares to its 100% subsidiary E.ON Slovensko, a.s. as a contribution in kind to settle the share capital increase of E.ON Slovensko, a.s.

The National Property Fund of the Slovak Republic, based in Bratislava, owns a 51% shareholding in Company's registered capital. E.ON Slovensko, a.s. which owns a 40% shareholding in the Company's registered capital is consolidated as a 100% subsidiary by E.ON Energie AG, Munich, Germany. E.ON Energie AG is a subsidiary of E.ON AG, based in Düsseldorf, Germany. E.ON AG prepares the consolidated financial statements for all group companies of the consolidation group and acts as a direct consolidating company. Effectively, ZSE is consolidated by E.ON AG using equity method of consolidation.

The Company is not a shareholder with unlimited liability in other accounting entities.

The members of the statutory bodies during the year ended 31 December 2011 and 31 December 2010 were as follows:

Board of Directors

	As at 31 December 2011	As at 31 December 2010
Chairman:	Konrad Kreuzer	Konrad Kreuzer
Vice Chairman:	Ing. Peter Laco, MBA (appointed on 1 March 2011)	
	Ing. Ján Rusnák (resigned on 1 March 2011)	Ing. Ján Rusnák
Members:	Ing. Andrej Devečka	Ing. Andrej Devečka
		Dietrich Max Fey (resigned on 4 September 2010)
	Dr. Stefan Seipl	Dr. Stefan Seipl (appointed on 4 September 2010)
	Ing. Peter Procházka (appointed on 1 March 2011)	
	Ing. Vladimír Haršányi (resigned on 1 March 2011)	Ing. Vladimír Haršányi

Supervisory Board

	As at 31 December 2011	As at 31 December 2010
Chairman:	Ing. Rudolf Slezák (appointed on 1 March 2011)	
	Ing. Milan Chorvátik (resigned on 1 March 2011)	Ing. Milan Chorvátik
Members:	Silvia Šmátralová	Silvia Šmátralová
	Ing. Marián Dúbrava (appointed on 1 March 2011)	
	JUDr. Andrea Groszová (appointed on 1 March 2011)	
	JUDr. Karol Nagy (appointed on 1 March 2011)	
	JUDr. Richard Schwarz (appointed on 1 March 2011)	
	Ing. Emil Baxa (appointed on 20 April 2011)	
	Robert Adolf Hienz (appointed on 19 September 2011)	
	JUDr. Ladislav Jančo (resigned on 1 March 2011)	JUDr. Ladislav Jančo
	JUDr. Andrej Danko (resigned on 1 March 2011)	JUDr. Andrej Danko
	Ing. Ľuboš Majdán (resigned on 1 March 2011)	Ing. Ľuboš Majdán
	Ing. Iveta Pauhofová, PhD. (resigned on 1 March 2011)	Ing. Iveta Pauhofová, PhD.
	Ing. Kamil Doman (resigned on 19 April 2011)	Ing. Kamil Doman
	Miroslav Franko (resigned on 19 April 2011)	Miroslav Franko
	Dr. Dierk Paskert (resigned on 19 September 2011)	Dr. Dierk Paskert

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

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

The Company employed 1,228 staff on average during 2011, of which 25 were management (2010: 1,241 employees on average, of which 19 were management).

Registered address of the Company:
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 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 certain companies to prepare separate financial statements for the year ended 31 December 2011 in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

The Company's financial statements at 31 December 2011 have been prepared as ordinary financial statements under § 17 Sec. 6 of the Slovak Act No. 431/ 2002 Coll. as amended ("Accounting Act") for the accounting period from 1 January 2011 to 31 December 2011.

The separate financial statements have been prepared in compliance with International Financial Reporting Standards as adopted by European Union ("IFRS"). The Company applies all IFRS and interpretations issued by International Accounting Standards Board (herein after "IASB") as adopted by European Union, which were in force as of 31 December 2011.

The separate financial statements have been prepared under the historical cost convention, as modified by the revaluation of the available for sale investments and financial liabilities at fair value.

The separate financial statements were prepared on accrual basis and under the going concern principle.

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 prepared and 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 financial statements in conformity with IFRS as adopted by EU requires the use of certain critical estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

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

These separate financial statements have been prepared in addition to the consolidated financial statements of the Group Západoslovenská energetika, a.s. The separate financial statements should be read in conjunction with the consolidated financial statements to obtain a complete understanding of the Company's results and financial position.

2.1.2 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the by the Company during the year ended 31 December 2011

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2011 that would be expected to have a material impact on the Company. The following new standards and interpretations became effective for the Company from 1 January 2011:

Amendments to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. As a result of the revised standard, the Company now also discloses contractual commitments to purchase and sell goods or services to its related parties and provided disclosures of only individually significant transactions with government-related entities. These amendments to the standard have been endorsed by the EU on 19 July 2010.

Improvements to International Financial Reporting Standards (issued in May 2010 and effective for annual periods beginning on or after 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on the acquiree's share-based payment arrangements that were not replaced, or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date, and not the amount obtained during the reporting period; IAS 1 was amended to clarify the requirements for the presentation and content of the statement of changes in equity (this amendment was adopted previously by the Company in its prior year's financial statements); IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The above amendments resulted in additional or revised disclosures, but had no material impact on measurement or recognition of transactions and balances reported in these financial statements. The financial effect of collateral required to be disclosed by the amendments to IFRS 7 is presented in these financial statements by disclosing collateral values separately for (i) those financial assets where collateral and other credit enhancements are equal to, or exceed, carrying value of the asset ("over-collateralised assets") and (ii) those financial assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets"). The improvements have been endorsed by EU on 18 February 2011.

Amendment IFRIC 14, IAS 19, The limit on the defined benefit assets, minimum funding requirement and their interaction relating to prepayments of minimum funding requirements (effective for annual periods beginning on or after 1 January 2011). The amendment is applied when an accounting unit is liable to the minimum pension plan funding requirement, and pays advances on contributions to the pension plan. The amendment clarifies when an entity may recognize this advance as an asset. This amendment has been endorsed by the EU on 19 July 2010. IFRIC 14 is not relevant for the Company's operations.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This interpretation clarifies the IFRS requirements for when an entity settles its liabilities with its own shares, and requires the issued shares to be measured at fair value. This amendment has been endorsed by the EU on 23 July 2010. IFRIC 19 is not relevant for the Company's operations.

Other revised standards and interpretations effective for the current period – Classification of Rights Issues – amendments to IAS 32, Financial Instruments: Presentation; and amendments to IFRS 1, First-time adoption of IFRS, did not have any impact on these financial statements.

b) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2011 and not early adopted

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2012 or later, and which the Company has not early adopted.

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

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.

The Company is currently assessing the impact of the standard on its financial statements. This standard has not been endorsed yet by the EU.

IFRS 10, Consolidated Financial Statements, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces all of the guidance on control and consolidation in IAS 27, Consolidated and Separate Financial Statements and SIC-12, Consolidation – Special-purpose Entities. IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. This standard will have no impact on the Company's separate financial statement. This standard has not been endorsed yet by the EU.

IFRS 11, Joint Arrangements, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces IAS 31, Interests in Joint Ventures and SIC-13, Jointly Controlled Entities – Non-Monetary Contributions by Venturers. Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. This standard will have no impact on the Company's separate financial statements. This standard has not been endorsed yet by the EU.

IFRS 12, Disclosure of Interests in Other Entities, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28, Investments in associates. IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Company is currently assessing the impact of the new standard on its financial statements. This standard has not been endorsed yet by the EU.

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 Company is currently assessing the impact of the new standard on its financial statements. This standard has not been endorsed yet by the EU.

IAS 27, Separate Financial Statements, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013), was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements. The Company is currently assessing the impact of the amended standard on its financial statements. This amendment has not been endorsed yet by the EU.

IAS 28, Investments in Associates and Joint Ventures, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013). The amendments to IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The Company is currently assessing the impact of the amended standard on its financial statements. This amendment has not been endorsed yet by the EU.

Transfers of Financial Assets, Amendments to IFRS 7, Financial Instruments: Disclosures, (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 Company is currently assessing the impact of the amended standard on disclosures in its financial statements. This amendment has been endorsed by the EU on 22 November 2011.

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 Company expects the amended standard to change presentation of its financial statements, but have no impact on measurement of transactions and balances. This amendment has not been endorsed yet by the EU.

Amendments to IAS 19, Employee Benefits, (issued in June 2011, effective for periods beginning on or after 1 January 2013), makes significant 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 Company is currently assessing the impact of the amended standard on disclosures in its financial statements. This amendment has not been endorsed yet by the EU.

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, will not have any impact on these financial statements. The amendment to IAS 12, Income Taxes, which introduces a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, will not have any impact on these financial statements. IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine, considers when and how to account for the benefits arising from the stripping activity in mining industry. None of these standards and interpretations have been endorsed by the EU yet.

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

2.2 Subsidiaries and Associates

(i) Subsidiaries
Subsidiaries are all entities (including special purpose entities) over which the Company 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 Company controls another entity.

Investments in subsidiaries are carried at cost in these separate financial statements. The cost is represented by the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire the subsidiaries at the time of their acquisition. Impairment losses are recognized using an allowance account. Allowances are recognized based on the present value of estimated future cash flows.

(ii) Associates
Associates are all entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in associates are carried at cost in these separate financial statements. The cost is represented by the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire the associates at the time of their acquisition. Impairment losses are recognized using an allowance account. Allowances are recognized based on the present value of estimated future cash flows.

2.3 Foreign currency translation

(i) Functional and presentation currency
Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). As of 1 January 2009, Slovakia adopted the Euro as the single legal tender in the country.

These financial statements are presented in EUR, which is the Company's functional and presentation currency in 2011 and 2010.

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

2.4 Property, plant and equipment

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

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

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

The most significant part of property, plant and equipment is represented by office buildings, fixtures and fittings and equipment.

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

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

The Estimated Useful Lives	Useful lives in years
Buildings and halls	30 – 50 years
Building sites	40 years
Machinery	4 – 20 years
Fixtures, fittings and equipment	4 – 30 years
Vehicles	4 – 15 years
Other assets	4 – 30 years

The residual value of an asset is the estimated amount that the Company 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 Company expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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

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

2.5 Intangible assets

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

Costs associated with maintaining computer software programmes are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognized as intangible assets when the following criteria are met:
- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

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

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

2.6 Impairment of non-current non-financial assets

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

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

2.7 Financial assets

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

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

The Company has not recorded any financial assets at fair value through profit and loss in the financial years 2011 and 2010.

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

The Company's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet (notes 2.12 and 2.13).

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

Reconciliation of these categories of financial assets with the statement of financial position classes is presented in Note 7.

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

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

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

Gains or losses arising from changes in the fair value of the „available for sale financial assets" are recognised in equity in the period in which they arise and are recycled to the income statement upon disposal or impairment.

The Company has not recorded any available-for-sale financial assets in the financial years 2011 and 2010.

The Company assesses at each year-end date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the income statement. Impairment testing of the receivables is described in note 2.12.

2.8 Financial liabilities

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

Management determines the classification of its financial liabilities at initial recognition and re-evaluates this designation at every reporting date. When a financial liability is recognised initially, the Company 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 Company measures all financial liabilities at amortised cost using the effective interest method.
The gain or loss from financial liabilities is recognized

in the income statement when the financial liability is derecognized and through the amortization process.

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

2.9 Leases

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

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

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

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

The Company has no finance leases in the financial years 2011 and 2010.

2.10 Inventories

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

2.11 Construction contracts

The Company is involved on an ongoing basis in construction contracts related mostly to the construction of distribution network for its subsidiary ZSE Distribúcia, a.s..

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

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

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

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

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

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

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

2.12 Trade receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, net of provision for impairment. Revenue recognition policy is described in Note 2.24.

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

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

2.13 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method. Restricted balances are excluded from cash and cash equivalents for the purposes of the cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the balance sheet date are included in non-current assets.

2.14 Share capital

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

2.15 Dividends

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

2.16 Legal reserve fund

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

2.17 Other funds

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

2.18 Trade payables

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

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

2.19 Taxation

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

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Dividend income is generally not subject to income taxes in the Slovak Republic.

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

(ii) Current income tax
The current income tax charge is calculated on the basis

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

2.20 Grants and contributions

Grants from the government and other similar contributions are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions.

Government grants and similar contributions relating to acquisition of property and equipment are accounted by setting up the grant as deferred income, which is recognized as other income over the life of depreciable asset. Government grants relating to operating expenses are deferred and recognized in the income statement over the period necessary to match them with the costs they are intended to compensate.

The Company has not recorded any grants and contributions during financial years 2011 a 2010.

2.21 Borrowings

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

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

2.22 Provisions / Contingent liabilities

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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

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

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

2.23 Employee benefits

The Company 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 Company 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 year 2011 to 2013 the Company is obliged to pay its employees on retirement or disability the average of their monthly salary (2010: average of their monthly salary). Additionally, if the employees decide to resign exactly at the date of retirement, the Company is obliged to pay its employees additional 6 multiples of their average monthly salary (2010: 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 Company also pays certain life and work jubilees bonuses.

a) Life jubilee benefits are paid by the Company in the amount of 1,700 EUR to each employee at the age of 50 under the condition that employee worked at least 10 years of continuous work for the Company.

b) Work jubilee bonuses (long-term service bonuses) paid by the Company are dependent on the number of year of service for the Company and equals to the following amounts:

10 years	EUR 366
20 years	EUR 664
30 years	EUR 830
35 years	EUR 996

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

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to income when incurred.

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

The Company 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 Company made contributions amounting to 35.2% (2010: 35.2%) of gross salaries up to a monthly salary ceiling, which is defined by the relevant law, to such schemes, together with contributions by employees of a further 13.4% (2010: 13.4%). The cost of these payments is charged to the income statement 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 Company makes contributions to the supplementary scheme amounting to 3% (2010: 3%) from the total of monthly tariff wage.

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

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

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

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.

2.24 Revenue recognition

The Company provides supporting services for its subsidiaries ZSE Energia, a.s. and ZSE Distribúcia, a.s. as construction works, repair and maintenance services, services for administration and operation of distribution network, customer service activities, accounting, controlling and general administration services. These services except for construction works, repair and maintenance services are provided also to the other subsidiaries Enermont, s.r.o., OTC, s.r.o. and to the shareholder E.ON Slovensko, a.s. as well as other related parties, E.ON IT Slovakia, s.r.o. and E.ON Elektrárne, s.r.o.

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

The Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Company and specific criteria will be met for each of the Company'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.

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

The Company sells raw material and spare parts to its subsidiaries for the purpose of repair, maintenance and upgrade of the network. Sale of material is recognized when the Company has delivered the material to the subsidiary and there is no unfulfilled obligation that could affect the subsidiary's acceptance of the material.

Revenue from construction contracts is recognized using the percentage of completion method. Refer to Note 2.11.

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

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

3. Financial Risk Management

3.1 Financial risk factors

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

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

(i) Market risk

(a) Foreign exchange risk
The Company operates mainly in the domestic market, and most of its sales, purchases and short-term deposits are denominated in Euro. The Company was exposed to foreign currency risk relating to purchases from certain suppliers, primarily with respect to the Euro. This risk has been eliminated due to adoption of Euro in the Slovak Republic as the single legal tender from 1 January 2009.
Management does not consider foreign exchange risk as a significant exposure to the Company's operations as it has only small volume of transactions in other currency than Euro.

(b) Price risk
The Company is not exposed to significant price risk, as it does not invest in equities. The Company has subsidiaries which are carried at cost according to IAS 27 as it is described in Note 2.2. IFRS 7 does not mandate price risk, including sensitivity disclosures, relating to subsidiaries carried at cost.

(c) Cash flow and fair value interest rate risk
As the Company has no significant interest earning assets other than short-term bank deposits and cash at bank accounts as of 31 December 2011 and 2010, 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 2011, if the interest rates on short-term bank deposits would be higher/lower by 1% with all other variables constant, post-tax profit for the year would have been EUR 33 thousand (At 31 December 2010: EUR 162 thousand) higher or lower mainly as a result of higher/lower interest income on short term bank deposits.

At 31 December 2011, if the interest rates on short term bonds would be higher/lower by 1% with all other variables constant, post-tax profit for the year would have been EUR 38 thousand (At 31 December 2010: EUR 0 thousand) higher or lower mainly as a result of higher/lower interest income on short term bonds.

The Company had neither bank borrowings nor other similar instruments during the financial year 2011 and 2010.

(ii) Credit risk

The Company 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 Company'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 and deposits with banks and financial institutions and trade receivables. From 1 July 2007 after legal unbundling, ZSE Distribúcia, a.s. and ZSE Energia, a.s. are the main customers of the Company.

In order to eliminate the credit risk related to bank accounts and financial instruments, the Company enters into transactions only with banks and financial institutions that have a high independent rating.

The table below shows the credit limit and balance of the major counterparties at the end of the reporting period:

Credit Limit and Balance of the Major Counterparties

All amounts are in thousands of Euro unless stated otherwise

	Counterparty Rating *	31 december 2011		31 december 2010	
		Credit limit	Balance	Credit limit	Balance
Banks rated	A1		5,195		54,297
Banks rated**	A2	n/a	101,932	n/a	74,934
Banks rated	A		23,191		10,073
			130,318		**139,304**

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

The Company is exposed to a concentration of credit risk for Trade and other receivables, which is analyzed in Note 10. The collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Company beyond the provisions already recorded.

(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 Company's Treasury aims to maintain flexibility in funding by keeping committed credit lines available.

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

The Company 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 Company; and
2) expected future cash outflows securing operation of the Company and leading to settlement of all liabilities of the Company, 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 Company to make term deposits.

The table below places the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows:

Contractual Undiscounted Cash Flows

All amounts are in thousands of Euro unless stated otherwise	Less than one year
As at 31 December 2011	
Trade payables and other payables excluding liabilities not fully under IFRS 7 (Note 13)	66,512
Liabilities from cash pooling (Note 14)	72,188
	138,700
As at 31 December 2010	
Trade payables and other payables excluding liabilities not fully under IFRS 7 (Note 13)	14,453
Liabilities from cash pooling (Note 14)	101,807
	116,260

3.2 Capital risk management

The Company's objectives when managing capital are to safeguard the Company'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 Company's management manages capital reported under IFRS amounting to, as at 31 December 2011, EUR 991,363 thousand (31 December 2010: EUR 1,024,044 thousand).

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

The Company's management considers the most relevant indicator of capital management to be the return on capital employed (ROCE), to the 31 December 2011 calculated in amount of 16.5% (to the 31 December 2010: 9.6%). Management expect return on capital employed to be higher than cost of capital.

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 Company for similar financial instruments.

4. Property, Plant and Equipment

Property, Plant and Equipment

All amounts are in thousands of Euro unless stated otherwise

	Land	Buildings, halls and building sites	Machinery, fixtures, fittings and equipment, vehicles and other assets	Capital work in progress including advances (CIP)	Total
As at 1 January 2010					
Cost	4,430	31,576	33,298	8,104	77,408
Accumulated depreciation including impairment charge	–	(11,283)	(27,201)	–	(38,484)
Net book value	**4,430**	**20,293**	**6,097**	**8,104**	**38,924**
Year ended 31 December 2010					
Additions	–	–	–	5,099	5,099
Transfers	–	5,939	2,979	(8,918)	–
Depreciation charge (Note 19)	–	(834)	(2,459)	–	(3,293)
Disposals	(3)	(4)	(53)	–	(60)
Closing net book value	**4,427**	**25,394**	**6,564**	**4,285**	**40,670**
As at 31 December 2010					
Cost	4,427	37,478	32,531	4,285	78,721
Accumulated depreciation including impairment charge	–	(12,084)	(25,967)	–	(38,051)
Net book value	**4,427**	**25,394**	**6,564**	**4,285**	**40,670**
Year ended 31 December 2011					
Additions	–	–	–	3,098	3,098
Transfers	31	3,299	1,213	(4,543)	–
Depreciation charge (Note 19)	–	(977)	(2,212)	–	(3,189)
Disposals	–	(14)	(88)	–	(102)
Closing net book value	**4,458**	**27,702**	**5,477**	**2,840**	**40,477**
As at 31 December 2011					
Cost	4,458	40,665	30,952	2,840	78,915
Accumulated depreciation including impairment charge	–	(12,963)	(25,475)	–	(38,438)
Net book value	**4,458**	**27,702**	**5,477**	**2,840**	**40,477**

At 31 December 2011 and at 31 December 2010 the Company did not lease any fixed assets leased as finance lease (where Company is the lessee).

At 31 December 2011 and 2010 no property, plant and equipment was collaterized or pledged.

Non-current tangible assets are insured in Ergon Insurance Limited against damages caused by natural disasters and water from exchange up to the amount of EUR 210,600 thousand for buildings and building parts and up to amount of EUR 30,878 thousand for the machinery, equipment, fixture, fittings and other assets (2010: EUR 210,600 thousand and 30,878 thousand respectively).

5. Intangible Assets

Intangible Assets			
All amounts are in thousands of Euro unless stated otherwise			
	Computer software and other	Assets not yet available for use	Total
At 1 January 2010			
Cost	27,743	1,730	29,473
Accumulated depreciation and impairment	(18,693)	–	(18,693)
Net book value	**9,050**	**1,730**	**10,780**
Year ended 31 December 2010			
Additions	–	6,123	6,123
Transfers	996	(996)	–
Disposals	(56)	–	(56)
Amortisation charge (Note 19)	(2,727)	–	(2,727)
Closing net book value	**7,263**	**6,857**	**14,120**
At 31 December 2010			
Cost	28,593	6,857	35,450
Accumulated depreciation and impairment	(21,330)	–	(21,330)
Net book value	**7,263**	**6,857**	**14,120**
Year ended 31 December 2011			
Additions	–	5,397	5,397
Transfers	10,877	(10,877)	–
Disposals	–	–	–
Amortisation charge (Note 19)	(3,967)	–	(3,967)
Closing net book value	**14,173**	**1,377**	**15,550**
At 31 December 2011			
Cost	39,470	1,377	40,847
Accumulated depreciation and impairment	(25,297)	–	(25,297)
Net book value	**14,173**	**1,377**	**15,550**

Assets not yet available for use comprise mostly of acquisition of additional software for upgrade and improvement of functionality of the customer and network information system. Assets are expected to be finalized and available for use in 2012.

6. Investment in Subsidiaries and Associates

Investments in Subsidiaries and Associates

All amounts are in thousands of Euro unless stated otherwise	2011	2010
At the beginning of the year	918,399	918,399
Additions	–	–
Disposals	–	–
At end of the year	918,399	918,399

Investments in Subsidiaries and Associates

All amounts are in thousands of Euro unless stated otherwise

Name	Country of incorporation	% Ownership interest and voting rights held	Activities	Amount of investment at 31 December 2011	Amount of investment at 31 December 2010
Enermont, s.r.o.	Slovak Republic	100%	Construction	2,200	2,200
OTC s.r.o.	Slovak Republic	100%	Meters calibration	564	564
ZSE Energia, a.s.	Slovak Republic	100%	Purchase and sale of electricity	6,725	6,725
ZSE Distribúcia, a.s.	Slovak Republic	100%	Distribution of electricity	907,368	907,368
Investment in subsidiaries				**916,857**	**916,857**
E.ON IT Slovakia, s.r.o.	Slovak Republic	49%	IT services	1,105	1,105
Investment in associates				**1,105**	**1,105**
Other				437	437
Total				**918,399**	**918,399**

Investments in Subsidiaries and Associates

All amounts are in thousands of Euro unless stated otherwise

	Assets	Liabilities	Revenues	Profit	% Interest held
2011*					
Enermont s.r.o.	34,411	7,264	51,494	5,747	100%
OTC, s.r.o.	4,469	465	2,122	130	100%
ZSE Energia, a.s.	156,972	118,473	912,477	28,569	100%
ZSE Distribúcia, a.s.	971,623	203,727	531,667	70,251	100%
E.ON IT Slovakia spol. s r.o.	6,676	2,746	20,941	695	49%
2010					
Enermont s.r.o.	40,853	11,199	61,880	8,253	100%
OTC, s.r.o.	4,999	587	2,842	538	100%
ZSE Energia, a.s.	143,996	108,954	916,599	25,112	100%
ZSE Distribúcia, a.s.	1,001,476	185,288	460,127	65,255	100%
E.ON IT Slovakia spol. s r.o.	6,905	3,670	24,613	825	49%

*) As at the date of authorisation of these separate financial statements for issue, the audited financial statements of all subsidiaries for the year ended 31 December 2011 were not available. The table is prepared based on preliminary non-audited financial statements for the year then ended.

7. Financial Instruments by Category

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

Loans and Receivables

All amounts are in thousands of Euro unless stated otherwise

Assets as per balance sheet	Loans and receivables	Total
As at 31 December 2011		
Trade and other receivables (Note 10)	12,370	**12,370**
Amounts due from customers for contract work (Note 9, 10)	18,559	**18,559**
Other receivables and other accrued income (Note 10)	502	**502**
Cash and cash equivalents (Note 11)	120,318	**120,318**
Other financial assets (Note 11)	10,000	**10,000**
Receivables from cash-pooling (Note 14)	7,130	**7,130**
Total	**168,879**	**168,879**
As at 31 December 2010		
Trade and other receivables (Note 10)	16,058	**16,058**
Amounts due from customers for contract work (Note 9, 10)	23,026	**23,026**
Other receivables and other accrued income (Note 10)	384	**384**
Cash and cash equivalents (Note 11)	139,304	**139,304**
Total	**178,772**	**178,772**

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 2011		
Trade payables (Note 13)	16,512	**16,512**
Dividends payable (Note 13)	50,000	**50,000**
Liabilities from cash-pooling (Note 14)	72,188	**72,188**
Total	**138,700**	**138,700**
As at 31 December 2010		
Trade payables (Note 13)	14,453	**14,453**
Liabilities from cash-pooling (Note 14)	101,807	**101,807**
Total	**116,260**	**116,260**

8. Inventories

Materials and Spare Parts		
All amounts are in thousands of Euro unless stated otherwise	As at 31 December	
	2011	2010
Materials and spare parts	1,388	1,726
Total inventories	**1,388**	**1,726**

The inventory items are shown after provision for slow-moving materials of EUR 15 thousand (31 December 2010: EUR 15 thousand).

Movements in provision for slow-moving items for year ended 31 December 2011 are presented below:

Materials and Spare Parts				
All amounts are in thousands of Euro unless stated otherwise				
	At 1 January 2011	Set-up	Release	At 31 December 2011
Materials and spare parts	15	–	–	15
Total	**15**	–	–	**15**

The cost of inventories recognized as expense and included in 'Cost of sales' (Note 18) amounted to EUR 18,743 thousand (2010: EUR 21,974 thousand).

9. Amounts due from / due to Customers for Contract Work

Amounts due from / due to Customers for Contract Work		
All amounts are in thousands of Euro unless stated otherwise	As at 31 December	
	2011	2010
The aggregate costs incurred and recognised profits (less recognised losses) to date	81,713	51,837
Less: Progress billings	(63,154)	(28,811)
Total	**18,559**	**23,026**
Amounts due from customers for contract work (Note 10)	18,559	23,026
Total	**18,559**	**23,026**

The contract revenue recognised as revenue in the year ended 31 December 2011 amounted to EUR 58,998 thousand (2010: EUR 50,855 thousand); (Note 17).

Amounts due from customers for contract works are all with related parties.

10. Trade and Other Receivables

Trade and Other Receivables All amounts are in thousands of Euro unless stated otherwise	As at 31 December 2011	2010
Trade receivables not yet due	305	360
Individually impaired trade receivables	8,682	9,959
Less: Provision for impairment of receivables	(8,621)	(9,907)
Trade receivables – net	366	412
Receivables to subsidiaries not yet due	12,004	15,646
Receivables to subsidiaries past due but not impaired	–	–
Receivables to subsidiaries – total (Note 26)	12,004	15,646
Subtotal (Note 7)	**12,370**	**16,058**
Amounts due from customers to contract work (Note 7, 9)	18,559	23,026
	18,559	**23,026**
Prepayments	293	162
Other receivables and other accrued income (Note 7)	502	384
Total trade and other receivables	**31,724**	**39,630**

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 2011	2010
Receivables within due date	31,663	39,578
Overdue receivables	8,682	9,959
Less: Provision for impairment of receivables	(8,621)	(9,907)
Total trade and other receivables	**31,724**	**39,630**

As of 31 December 2011, trade receivables of EUR 8,682 thousand (2010: EUR 9,959 thousand) were impaired and provided for. The amount of the provision was EUR 8,621 thousand as of 31 December 2011 (2010: EUR 9,907 thousand). The individually impaired receivables mainly relate to customers, which are in difficult economic situations. It was assessed that a portion of these impaired 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 2011	2010
1 to 30 days	64	19
31 to 60 days	4	42
61 to 90 days	1	2
91 to 120 days	2	8
121 to 180 days	1	4
181 to 360 days	24	11
Over 360 days	8,586	9,873
Total individually impaired receivables	**8,682**	**9,959**

The movements in the provision for impairment of trade receivables are recognized in the Statement of comprehensive income under Other operating income. Movements are presented below:

The Movements in the Provision for Impairment of Trade Receivables		
All amounts are in thousands of Euro unless stated otherwise	2011	2010
At the beginning of the year	9,907	12,436
Additional provision for receivables impairment	254	161
Unused amounts reversed	(415)	(198)
Receivables written off during the year as uncollectible	(1,125)	(2,492)
At end of the year	8,621	9,907

The release of bad debt provisions in 2011 and 2010 was caused by previously unexpected payment of receivables that were originally provided for. 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 for other receivables is calculated based on ageing analysis of individual receivables and the type of the customer.

The Release of Bad Debt Provisions		
All amounts are in thousands of Euro unless stated otherwise	As at 31 December	
	2011	2010
Receivables against ZSE Distribúcia, a.s.	11,495	13,175
Receivables against ZSE Energia, a.s.	–	120
Enermont s.r.o., Bratislava	465	2,317
OTC s.r.o.	44	34
	12,004	**15,646**
Receivables to subsidiaries not yet due	12,004	15,646
Receivables past due but not impaired	–	–
Receivables to subsidiaries (Note 26)	**12,004**	**15,646**

As of 31 December 2011, no receivables to subsidiaries were past due or impaired (at 31 December 2010: EUR 0 thousand).

The carrying amounts of trade and other receivables as of 31 December 2011 and 2010 are not substantially different from their fair value. The maximum exposure to credit risk is limited by the carrying value of receivables. As of 31 December 2011 and 2010, there is a significant concentration of credit risk with respect of receivables to associates and subsidiaries towards ZSE Distribúcia, a.s., Enermont, s.r.o. and ZSE Energia, a.s. The Company manages this exposure through cash-pooling agreement with its subsidiaries. (Note 14).

The carrying amounts of all the Company's trade and other receivables are denominated in EUR.

The Company does not hold any collateral as security of the receivables.

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

11. Cash and Cash Equivalents and Other Financial Assets

Cash and Cash Equivalents and Other Financial Assets		
All amounts are in thousands of Euro unless stated otherwise	As at 31 December	
	2011	2010
Cash at bank and in hand	120,185	139,171
Short term bank deposits	133	133
Total (Note 7)	**120,318**	**139,304**

The effective interest rate on short term bank deposits was 1.09% (in the year ended 31 December 2010: 0.57%) and these deposits have an average maturity of 6 days (in the year ended 31 December 2010: 33 days). As at 31 December 2011 the restricted cash amounted to EUR 133 thousand (as at 31 December 2010: EUR 133 thousand).

The cash and short-term deposits are kept by the Company in 4 banks (2010: 5 banks). The credit quality of cash in the bank and bank deposits can be assessed by external credit ratings (Moody's and Fitch's) at 31 December 2011:

Credit Quality of Cash		
All amounts are in thousands of Euro unless stated otherwise	As at 31 December	
	2011	2010
Cash at bank		
Banks rates – A1 (Moody's)	5,195	54,297
Banks rates – A2 (Moody's)	91,799	74,801
Banks rates – A (Fitch's)	23,191	10,073
	120,185	**139,171**
Short-term bank deposits		
Banks rates – A2 (Moody's)	133	133
	133	**133**
Total cash in the bank and short-term bank deposits	**120,318**	**139,304**

All balances are neither past due nor impaired.

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

12. Shareholders' Equity

The total authorized number of ordinary shares is 5,934,594 shares with a par value of EUR 33.19 per share. All authorized shares are issued and fully paid in. The Company does not have any equity subscribed but not recorded in the Commercial Register.

No changes in share capital of the Company occurred during the year 2011 and year 2010.

As at 31 December 2011 the total number of 3,026,643 shares (51%) are owned by the National Property Fund of the Slovak Republic, 2,373,838 shares (40%) are owned by E. ON Slovensko, a.s. and 534,113 shares (9%) are owned by European Bank for Reconstruction and Development.

Legal reserve fund is obligatorily created from profit of the Company in accordance with the Slovak Commercial Code, paragraph 67. The minimum prescribed creation of the Legal reserve fund is specified in paragraph 217 of the Commercial Code and it defines that the Company is obliged to create legal reserve fund in the amount of 10% of its share capital at the time of the incorporation of the Company. This amount must be increased annually by at least 10% from net profit, until the Legal reserve fund achieves 20% of the share capital, which was already fulfilled by the Company. Use of this fund is restricted under the Commercial Code only to cover losses of the Company and it is not a distributable reserve. Legal reserve fund amounted to EUR 39,421 thousand as at 31 December 2011 (as at 31 December 2010: EUR 39,421 thousand).

Other funds include a regional development fund which has been set up based on the agreement of Company's Shareholders in 2004 and distribution network recovery fund set up based on the agreement of Company's Shareholders and by initiative of Ministry of Economy of Slovak Republic in 2005, which amounts to

EUR 12,481 thousand and EUR 9,958 thousand respectively as at 31 December 2011 (at 31 December 2010: EUR 12,481 thousand and EUR 9,958 thousand). The investment base fund was set up in 2006 and which amounts to EUR 23,028 thousand as at 31 December 2011 (at 31 December 2010: EUR 23,028 thousand). The usage of these funds is limited to the defined purposes.

General Meeting held on 31 May 2011 approved the statutory financial statements for previous accounting period and the distribution of 2010 profit amounting to EUR 95,809 thousand as follows:

Appropriation to the social fund	EUR 1,390 thousands
Dividends	EUR 94,419 thousands

The Extraordinary General Meeting held on 19 December 2011 approved additional payment of dividends amounting to EUR 100,000 thousand, out of which EUR 50,000 thousand was paid during the year 2011, the remaining EUR 50,000 thousand shall be paid out till 28 February 2012 (note 13, 27).

Dividend per share represents EUR 32.76 for the year ended 31 December 2011 (2010: EUR 17.93 per share).

The accumulated profits of the Company at 31 December 2011 available for profit distribution amounted to EUR 709,506 thousand (2010: EUR 742,187 thousand). The Decision on the use of the 2011 profit of EUR 161,738 thousand will be made by the General Meeting.

13. Trade and Other Payables

Trade and Other Payables		
All amounts are in thousands of Euro unless stated otherwise	As at 31 December	
	2011	2010
Trade payables (Note 7)	16,512	14,453
Dividends payable (Note 12)	50,000	–
	66,512	**14,453**
Other payables and accrued expenses		
Payables to employees	1,254	1,279
Social security	773	714
Accrued personnel expenses	3,667	2,984
Other accrued liabilities	1,752	1,208
VAT payable	922	1,228
Other payables	716	798
	9,084	**8,211**
	75,596	**22,664**

Out of the total payables at 31 December 2011, overdue payables are EUR 2 thousand (at 31 December 2010: EUR 3 thousand).

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

The carrying value of payables is denominated in the following currencies:

The Carrying Value of Payables		
All amounts are in thousands of Euro unless stated otherwise	As at 31 December	
	2011	2010
EUR	75,594	22,663
CZK	2	1
Total trade and other payables	**75,596**	**22,664**

Social fund

Appropriations to and withdrawals from the social fund during the accounting period are shown in the following table:

Social Fund		
All amounts are in thousands of Euro unless stated otherwise	As at 31 December	
	2011	2010
Opening balance at 1 January	–	96
Appropriations expensed	1,483	1,543
Usage	(1,412)	(1,639)
Closing balance at 31 December	**71**	**–**

14. Receivables and Liabilities from Cash Pooling

Receivables from Cash Pooling		
All amounts are in thousands of Euro unless stated otherwise	As at 31 December	
	2011	2010
Receivables from cash pooling (Note 7, 26)	7,130	–
Total	**7,130**	**–**

Liabilities from Cash Pooling		
All amounts are in thousands of Euro unless stated otherwise	As at 31 December	
	2011	2010
Liabilities from cash pooling (Note 7)	72,188	101,807
Total	**72,188**	**101,807**

The Company has concluded with its subsidiaries and associate a cash-pooling agreement. Based on this agreement the available cash is managed by the Company. If the case of additional financing needs the cash from the cash pool of the Company is made available to subsidiaries and associate. In this case the Company discloses a receivable against the member of the cash-pool.

The fair value of the cash-pooling receivables and liabilities approximates the carrying value of the financial receivables and liabilities.

Receivables from cash pooling relate to subsidiary ZSE Distribúcia, a.s.:

Receivables from Cash Pooling		
All amounts are in thousands of Euro unless stated otherwise	As at 31 December	
	2011	2010
ZSE Distribúcia, a.s. (Note 26)	7,130	–
Total	**7,130**	**–**

Liabilities from cash pooling relate to following subsidiaries and associate:

Liabilities from Cash Pooling		
All amounts are in thousands of Euro unless stated otherwise	As at 31 December	
	2011	2010
ZSE Distribúcia, a.s.	–	55,458
ZSE Energia, a.s.	48,191	27,867
Enermont s.r.o.	18,034	14,577
OTC, s.r.o	2,743	3,591
E.ON IT Slovakia spol. s r.o.	3,220	314
Total liabilities from cash pooling (Note 26)	**72,188**	**101,807**

15. Deferred Income Taxes

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

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

The offset amounts are as follows:

Deferred Income Taxes

All amounts are in thousands of Euro unless stated otherwise	As at 31 December	
	2011	2010
Deferred tax asset:		
to be recovered after more than 12 months	1,170	1,300
to be recovered within 12 months	928	734
	2,098	**2,034**
Deferred tax liability:		
to be recovered after more than 12 months	(1,391)	(1,060)
to be recovered within 12 months	(171)	(299)
	(1,562)	**(1,359)**
Total deferred tax asset	**536**	**675**

The movement in deferred tax assets and liabilities during the year is as follows:

The Movement in Deferred Tax Assets and Liabilities

All amounts are in thousands of Euro unless stated otherwise	As at 1 January 2011	(Charged) / credited to the profit or loss	As at 31 December 2011
Accelerated tax depreciation	(1,348)	(214)	(1,562)
Pension liability and similar provisions	1,173	(13)	1,160
Other provisions and accrued expenses	845	(4)	841
Provisions against bad debts	16	81	97
Other	(11)	11	–
Total	**675**	**(139)**	**536**

The Movement in Deferred Tax Assets and Liabilities

All amounts are in thousands of Euro unless stated otherwise	As at 1 January 2010	(Charged) / credited to the profit or loss	As at 31 December 2010
Accelerated tax depreciation	(1,064)	(284)	(1,348)
Pension liability and similar provisions	1,173	–	1,173
Other provisions and accrued expenses	440	405	845
Provisions against bad debts	138	(122)	16
Other	–	(11)	(11)
Total	**687**	**(12)**	**675**

16. Pension and Other Provisions for Liabilities and Charges

Pension and Other Provisions for Liabilities and Charges

All amounts are in thousands of Euro unless stated otherwise

	Pensions and other staff benefits (a)	Litigation (b)	Total
As at 1 January 2011	**6,174**	**700**	**6,874**
Additional provisions	578	–	578
Used/paid during year	(305)	–	(305)
Reversal on unused provisions	(344)	–	(344)
As at 31 December 2011	**6,103**	**700**	**6,803**

Pension and Other Provisions for Liabilities and Charges

All amounts are in thousands of Euro unless stated otherwise

Analysis of total provisions	As at 31 December 2011	2010
Non-current	5,447	5,619
Current	1,356	1,255
	6,803	6,874

(a) Pension and other staff benefits

(i) post employment benefits

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

Post Employment Benefits

All amounts are in thousands of Euro unless stated otherwise

	As at 31 December 2011	2010
Present value of unfunded retirement obligations	5,097	5,019
Liability in the balance sheet	**5,097**	**5,019**

The amounts recognised in the profit or loss are as follows:

The Amounts Recognised in the Profit or Loss

All amounts are in thousands of Euro unless stated otherwise

	Year ended 31 December 2011	2010
Current service cost	243	345
Actuarial gain	(208)	(301)
Interest expense	199	180
	234	**224**

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 2011	2010
Present value of unfunded retirement obligations at beginning of the year	5,019	5,019
Current service cost	243	345
Interest expense	199	180
Paid	(156)	(224)
Actuarial gains	(208)	(301)
Present value of unfunded retirement obligations at the end of the year	**5,097**	**5,019**

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	
An average number of employees at 31 December 2011	1,228
Percentage of employees, who will terminate their employment with ZSE prior to retirement (withdrawal rate)	approximately 2.89% p.a.
Expected salary increases short-term	4.6%
Expected salary increases long-term	4.1%
Discount rate	3,61%

The Principal Actuarial Assumptions and Data to Determine the Pension Liability	
All amounts are in thousands of Euro unless stated otherwise	
An average number of employees at 31 December 2010	1,241
Percentage of employees, who will terminate their employment with ZSE prior to retirement (withdrawal rate)	approximately 1.87% p.a.
Expected salary increases short-term	4.6%
Expected salary increases long-term	4.1%
Discount rate	4.02%

(ii) other long-term benefits (life and work jubilee bonuses)

Other Long-Term Benefits		
All amounts are in thousands of Euro unless stated otherwise	As at 31 December	
	2011	2010
Present value of unfunded obligations	1,006	1,155
Liability in the balance sheet	**1,006**	**1,155**

The amounts recognised in the profit or loss are as follows:

The Amounts Recognised in the Profit or Loss		
All amounts are in thousands of Euro unless stated otherwise	Year ended 31 December	
	2011	2010
Current service cost	90	87
Recognised actuarial gains	(136)	(4)
Interest expense	46	39
Total charge, included in staff costs	**–**	**122**

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	2011	2010
Present value of the obligation at beginning of the year	1,155	1,155
Current service cost	90	87
Interest expense	46	39
Paid	(149)	(122)
Actuarial gains	(136)	(4)
Present value of unfunded retirement obligations at the end of the year	**1,006**	**1,155**

(b) Provision for litigation

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

17. Revenues

Revenues include the following:

Revenues		
All amounts are in thousands of Euro unless stated otherwise	Year ended 31 December	
	2011	2010
Services provided to subsidiaries and to the shareholder	100,331	98,311
Revenue from construction work (Note 9)	58,998	50,855
Revenue from sale of electrometers and other material to subsidiaries	10,644	17,475
Other revenue	2,488	2,744
	172,461	**169,385**

18. Cost of Sales

The following amounts have been charged to cost of sales:

Cost of Sales		
All amounts are in thousands of Euro unless stated otherwise	Year ended 31 December	
	2011	2010
Cost of construction works for subsidiaries	52,877	46,488
Repair and maintenance services for subsidiaries	16,061	17,389
Cost of electrometers and material sold to subsidiaries	10,045	13,359
Cost of equipment and spare parts	8,698	8,615
Other	1,199	801
	88,880	**86,652**

19. Operating Expenses

Operating Expenses		
All amounts are in thousands of Euro unless stated otherwise	Year ended 31 December	
	2011	2010
Wages and salaries	21,124	20,502
Pension costs – defined contribution plans	3,584	3,175
Other social costs	8,330	8,003
	33,038	**31,680**
IT maintenance fees	12,454	14,663
Depreciation (Note 4)	3,189	3,293
Amortisation (Note 5)	3,967	2,727
Rental costs	3,919	3,283
Other repairs and maintenance	2,265	3,015
Advisory services	2,615	2,731
Other operating expenses	1,532	2,595
Call center services	2,460	1,999
Post and telecommunication costs	2,386	1,307
Security services	1,327	1,252
Advertising	922	1,105
Energotel services	606	836
GIS services	260	686
Travel expenses	528	583
Repairs and maintenance of electrical network related assets	383	294
Audit of financial statements	98	124
Other non-audit services	43	–
Other purchased services	3,800	4,538
	75,792	**76,711**

20. Dividend Income

Dividend income related to dividend distribution from subsidiaries and associate.

Dividend Income		
All amounts are in thousands of Euro unless stated otherwise	Year ended 31 December	
	2011	2010
ZSE Distribúcia, a.s.	118,543	51,546
ZSE Energia, a.s.	25,009	27,689
Enermont s.r.o.	8,005	7,447
OTC, s.r.o.	522	1,243
E.ON IT Slovakia spol. s r.o.	–	379
Other	93	123
	152,172	**88,427**

21. Income Tax Expense

The 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	
	2011	2010
Income before tax	164,280	98,773
Theoretical income tax related to current period at 19%	31,213	18,767
Dividend income not subject to tax	(28,913)	(16,802)
Income tax related to prior periods	(104)	86
Tax relating to the provision for receivables	–	288
Other tax non-deductible items	346	625
Income tax expense for the period	**2,542**	**2,964**
The tax charge for the period comprises:		
Deferred tax charge/(credit) (Note 15)	139	12
Tax charge in respect of current period	2,507	2,866
Income tax related to prior periods	(104)	86
	2,542	**2,964**

22. Contingencies

Taxation

Due to the fact that Slovak tax law contains certain provisions allowing for more than one interpretation, as well as the practice, developed in the generally unstable environment by the tax authority of making arbitrary judgements on business activities, Management's interpretation of the Company's business activities may not coincide with the interpretation of these activities by the tax authorities. The fiscal years from 2006 through to 2011 remain open to tax inspection.

23. Commitments

(i) Capital commitments

Projected capital investments in individual years are presented in the following table:

Projected Capital Investments	
All amounts are in thousands of Euro unless stated otherwise	
Years	Year ended 31 December 2011
2012	22,679
2013	21,260
2014	20,782
2015	20,000
Total	**84,721**

The contract liability of the Company to the 31 December 2011 to purchase of non-current assets is in amount of EUR 19,813 thousand (2010: EUR 43 thousand).

(ii) Operating lease commitments – the Company as lessee

The operating lease payments amounted to 3,919 thousand of EUR (2010: EUR 3,283 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:

Minimum Lease Payments under Non-Cancellable Operating Leases		
All amounts are in thousands of Euro unless stated otherwise	Year ended 31 December	
	2011	2010
No later than one year	3,471	4,192
Later than one year and no later than five years	4,749	8,834
Later than five years	695	2,477
	8,915	**15,503**

24. Cash Generated from Operations

Cash Generated from Operations			
All amounts are in thousands of Euro unless stated otherwise		Year ended 31 December	
	Note	2011	2010
Profit before tax		164,280	98,773
Adjustments for:			
Depreciation	4, 19	3,189	3,293
Amortisation	5, 19	3,967	2,727
Profit on sale of property and equipment		(230)	(49)
Interest income		(1,171)	(639)
Interest expense		248	242
Dividend income	20	(152,172)	(88,427)
Net movements in provisions	16	(71)	700
Changes in working capital:			
Inventories	8	338	(50)
Trade and other receivables		8,083	2,370
Receivables/Liabilities from cash pooling	14	(36,749)	53,892
Trade and other payables		2,684	(806)
Cash generated from operations		**(7,604)**	**72,026**

Cash Generated from Operations		
All amounts are in thousands of Euro unless stated otherwise	Year ended 31 December	
	2011	2010
Net book value of sold asset (Note 4, 5)	102	116
Profit on sale of property and equipment	230	49
Proceeds from sale of property and equipment	**332**	**165**

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	2011	2010
Profit for the year	161,738	95,809
Weighted average number of ordinary shares in issue (Note 12)	5,934,594	5,934,594
Basic earnings per share (EUR per share)	27.253	16.144

(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 2011 and 2010, 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
The Slovak Republic represented by National Property Fund
E.ON Slovensko, a.s.

(ii) Entities under common control with E.ON Slovensko, a.s. (members of E.ON Group)
- E.ON Energie AG
- E.ON Czech republic
- E.ON Energie Human Res. Int. Munich,
- E.ON Risk Consulting Munich
- E.ON Energie BSC, Munich
- E.ON Hungaria ZRT
- E.ON Bulgaria EAD
- E.ON Romania SRL
- E.ON Kernkraft GmbH
- E.ON Energy Tradung SE
- E.ON IT Hannover
- E.ON Elektrárne

(iii) Subsidiaries
- ZSE Distribúcia, a.s.
- ZSE Energia, a.s.
- Enermont s.r.o.
- OTC, s.r.o.

(iv) Associates
- E.ON IT Slovakia spol. s r.o.
- EFR CEE Kft.
- Energotel, a.s.

(v) Government related entities
The Slovak Government influences the financial and operating policy decisions of the Company through its ownership of 51% of the shares of the Company 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 Company ("Government related entities").

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

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

Related Party Transactions

All amounts are in thousands of Euro unless stated otherwise	Year ended 31 December 2011	2010
Payment of dividends to related parties*)		
(i) Shareholders		
National Property Fund (NPF)	73,654	54,265
E.ON Slovensko, a.s.	57,768	42,561
Payment of dividends to other shareholders	12,997	9,576
	144,419	**106,402**

*) The Company has declared distribution of dividends amounting to EUR 194,419 thousand (Note 12). As of 31 December 2011, EUR 50,000 thousand, were disclosed as dividends payable (Note 13, Note 27).

Related Party Transactions – Sales		
All amounts are in thousands of Euro unless stated otherwise	Year ended 31 December	
	2011	2010
(i) Shareholders		
E.ON Slovensko, a.s.	1,047	569
	1,047	**569**
(ii) Entities under common control of E.ON Group		
E.ON Elektrárne s.r.o.	68	–
E.ON Energie Human Resources Munich	46	–
Bioplyn Ladzany, s.r.o	3	–
Bioplyn Cetín, s.r.o	4	–
Bioplyn Hont, s.r.o	2	–
E.ON Energie AG	9	–
E.ON Energie, BSC, Munich	–	82
E.ON Bulgaria EAD	–	7
E.ON Česká republika	–	28
	132	**117**
(iii) Subsidiaries		
ZSE Energia, a.s.	13,665	13,846
ZSE Distribúcia, a.s.*)	156,158	146,212
OTC, s.r.o., Hlohovec	537	421
Enermont s.r.o., Bratislava	5,045	8,728
	175,405	**169,207**
(iv) Associates		
E.ON IT Slovakia, s.r.o.	232	236
Energotel, a.s., Bratislava	1,187	1,406
	1,419	**1,642**
(v) Government related entities		
Total	**725**	**767**
Total	**178,728**	**172,302**
*) This amount represents total billings towards ZSE Distribúcia, a.s. which also includes deferred revenues amounting to EUR 4,157 thousand from construction work.		

The Company´s sales related mainly to supporting services provided to subsidiaries and construction works to ZSE Distribúcia. The services sold to the subsidiaries and the shareholder are provided based on service level agreements concluded for indefinite time period with cancellation notice of 3 months. The amount of services to be provided by the Company under such arrangements in 2012 is expected to be on the same level as in year 2011.

There are no other sales commitments with related parties as of 31 December 2011 other than disclosed above.

Related Party Transactions – Purchases		
All amounts are in thousands of Euro unless stated otherwise	Year ended 31 December	
	2011	2010
(i) Shareholders		
E.ON Slovensko, a.s.	10	31
	10	**31**
(ii) Entities under common control of E.ON Group		
E.ON Energie AG	–	9
E.ON AG	40	–
E.ON Energie Human Resources Munich	1,063	903
E.ON Risk Consulting, Munich	40	43
E.ON Netz GmbH	2	–
E.ON Bulgaria EAD	1	–
E.ON Elektrárne s.r.o.	6	–
	1,152	**955**
(iii) Subsidiaries		
ZSE Energia, a.s.	996	824
ZSE Distribúcia, a.s.	1,065	1,087
Enermont s.r.o., Bratislava	43,739	41,361
OTC, s.r.o., Hlohovec	1,763	2,378
	47,563	**45,650**
(iv) Associates		
EFR CEE Kft.	288	230
E.ON IT Slovakia spol. s r.o.	18,122	21,158
Energotel, a.s., Bratislava	1,437	1,638
	19,847	**23,026**
(v) Government related entities		
Total	**501**	**341**
(vi) Taxes		
Income tax (Note 21)	2,403	2,952
Property and motor vehicle tax	156	157
	2,559	**3,109**
Total	**71,632**	**73,112**

The Company purchased material and equipment from Enermont s.r.o. relating to construction works during the periods and purchases from E.ON IT related to IT services and acquisition of intangible assets. The services from Enermont, s.r.o. are provided based on short-term contracts concluded for indefinite period with cancellation notice of 3 months. The services from E.ON IT Slovakia spol. s r.o. are provided based on frame contract concluded for indefinite period with cancellation notice of 12 months. The amounts of services to be provided to the Company under such arrangements are expected in 2012 to be on the same level as in year 2011.

There are no other purchase commitments with related parties as of 31 December 2011 other than disclosed above.

Related Party Transactions – Receivables

All amounts are in thousands of Euro unless stated otherwise	As at 31 December	
	2011	2010
(i) Shareholders		
E.ON Slovensko, a.s.	42	8
	42	**8**
(ii) Entities under common control of E.ON Group		
E.ON Bulgaria	–	27
E.ON Energie AG	16	7
E.ON Elektrárne s.r.o.	–	4
E.ON IT GmbH Hannover	–	17
	16	**55**
(iii) Subsidiaries		
ZSE Energia, a.s. (Note 10)	–	120
ZSE Distribúcia, a.s. – trade receivables (Note 10)	11,495	13,175
ZSE Distribúcia, a.s. – amounts from customers from contract work (Note 9,10)	18,559	23,026
ZSE Distribúcia, a.s. – receivable from cash-pooling (Note 14)	7,130	–
Enermont s.r.o., Bratislava (Note 10)	465	2,317
OTC, s.r.o., Hlohovec (Note 10)	44	34
	37,693	**38,672**
(iv) Associates		
E.ON IT Slovakia spol. s r.o.	15	4
Energotel, a.s., Bratislava	116	137
	131	**141**
(v) Government related entities		
Total	**71**	**70**
(vi) Taxes		
Income tax receivable	428	865
	428	**865**
Total	**38,381**	**39,811**

Related Party Transactions – Payables		
All amounts are in thousands of Euro unless stated otherwise	As at 31 December	
	2011	2010
(i) Shareholders – trade payables		
E.ON Slovensko, a.s.	12	36
	12	**36**
(ii) 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 of E.ON Group		
E.ON Energie AG	–	6
E.ON Energie Human Resources Munich	1,052	–
E.ON AG	36	–
E.ON Elektrárne s.r.o.	2	–
E.ON Risk Consulting GmbH	15	16
	1,105	**22**
(iii) Subsidiaries		
ZSE Energia, a.s. – trade payables	855	76
ZSE Energia, a.s – cash-pooling payables (Note 14)	48,191	27,867
ZSE Distribúcia, a.s. – trade payables	–	17
ZSE Distribúcia, a.s. – cash-pooling payables (Note 14)	–	55,458
Enermont s.r.o., Bratislava – trade payables	2,586	3,168
Enermont s.r.o., Bratislava – cash-pooling payables (Note 14)	18,034	14, 577
OTC, s.r.o., Hlohovec – trade payables	778	3,455
OTC, s.r.o., Hlohovec – cash-pooling payables (Note 14)	2,743	3,591
	73,187	**108,209**
(iv) Associates		
E.ON IT Slovakia – trade payables	1,809	–
E.ON IT Slovakia – cash-pooling payables (Note 14)	3,220	314
Energotel, a.s., Bratislava	474	53
	5,503	**367**
(v) Government related entities		
Total	**79**	**66**
(vi) Taxes		
VAT tax payable (Note 13)	922	1,228
	922	**1,228**
Total	**130,808**	**109,928**

(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	
	2011	2010
Board of directors and key management personnel		
Salaries and short-term employee benefits	811	809
Pension costs – defined contribution plans	56	51
Total	**867**	**860**
Supervisory board		
Salaries and short-term employee benefits	99	145
Pension costs – defined contribution plans	32	9
Total	**131**	**154**

27. Events After the End of the Reporting Period

After 31 December 2011 following matters occurred:
- On 4 February OTC, s.r.o. has been renamed to ZSE Development, s.r.o. and changed its registered address to Čulenova 6, Bratislava.
- The Company has paid out on 27 February 2012 the dividends approved by the extraordinary General meeting (Note 12).

After 31 December 2011, no other significant events have occurred that would require recognition or disclosure in the 2011 financial statements.

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

Ing. Peter Procházka
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. Božena Čapičíková
Written record of member of entity responsible
for accounting

11. Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying separate financial statements of Západoslovenská energetika, a.s., which comprise the statement of financial position at 31 December 2011 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the separate financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 separate financial statements present fairly, in all material respects, the financial position of Západoslovenská energetika, a.s. at 31 December 2011, its financial performance, and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

PricewaterhouseCoopers Slovensko, s.r.o.
SKAU licence No.: 161

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

Ing. Eva Petrýdesová
SKAU licence No.: 934

21 March 2012

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

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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.

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ZSE 06/2012