Západoslovenská energetika, a.s.

Annual Report 2012

Individual Part

ZSE

Contents

1. Company Bodies

The structure of Statutory and Supervisory bodies of Západoslovenská energetika, a.s. (hereinafter as "the Company", "ZSE") in 2012 was as follows:

1.1 Statutory Body

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

1.2 Supervisory Body

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

1.3 Shareholders Structure

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

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

2. A Look into History

September 30, 1901
The municipal power plant in Bratislava started operation. On the Main Square and Promenade, the first electric street lamps were switched on.
December 20, 1921
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., 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 Západoslovenská distribučná, a.s. (till December 31, 2012: 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 Západoslovenská distribučná, a.s. (till December 31, 2012: 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., ZSE Development, s.r.o. (till February 3, 2012: 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.

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

3.2 Scope of Business According to the Abstract from 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
- Repairs of designated meters
- Certification of designated meters

4. Basic Organizational Structure

In the period January 1, 2012 – December 31, 2012 the basic organisation structure of the Company 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
- Human Resoiurces Department
- Legal Affairs Department
- Corporate Development Department
- Project & Process Management Department
- Regulation 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, 2012 ZSE had five daughter companies which together with parent company ZSE create ZSE Group:

- 100% equity share in Enermont s.r.o., Business ID: 35 859 423, located at Hraničná 14, 827 14 Bratislava,
- 100% equity share in ZSE Development, s.r.o., Business ID: 36 254 711, located at Čulenova 6, 811 09 Bratislava,
- 100% equity share in ZSE prenos, spol. s r.o., Business ID: 35 927 593, located at Čulenova 6, 816 47 Bratislava.

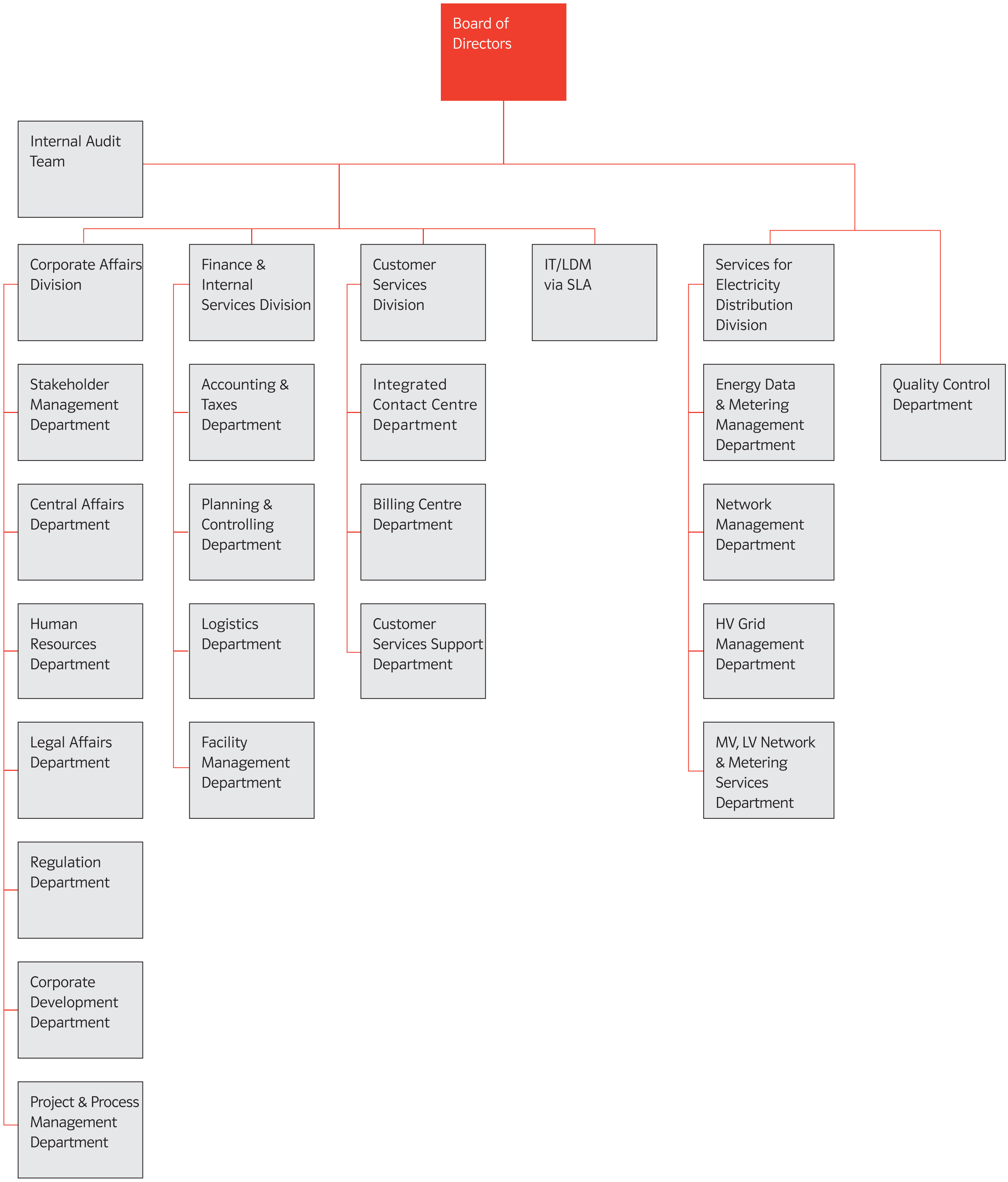
On April 20, 2006 ZSE founded another 100% daughter company called Západoslovenská distribučná, a.s. (till December 31, 2012: ZSE Distribúcia, a.s.), Business ID: 36 361 518, with its headquarters at Čulenova 6, 816 47 Bratislava (incorporated on May 20, 2006). The company was incorporated due to the 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 5, 811 09 Bratislava
- One-third of the shares of SPX, s.r.o., Business ID: 36 427 012, located at Pri Rajčianke 4B, 010 47 Žilina
- 20% 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, 2012



5. Employees Structure

As of December 31, 2012, Západoslovenská energetika, a.s. had on average 1,260 employee, of which 19 managers (as of December 31, 2011: on average 1,228 employee, of which 25 managers).

Employees Structure		
As of December 31	2012	2011
Increase	**140**	**96**
Of which:		
Transfer due to unbundling	–	–
Free recruitment	80	85
Return from maternity leave	7	3
Transfer within ZSE Group	53	8
Terminated contracts	**97**	**119**
Of which:		
Mutual agreement	20	50
Notice	6	3
Contracts for definite period of time	2	2
Retirement or disability to work	21	16
Death	6	2
Probation period	10	5
Maternity leave	16	10
Breach of discipline	1	–
Helth reasons	7	8
Transfer within ZSE Group	8	23
Transfer due to unbundling	–	–
Total	**1,255**	**1,212**

Employees Structure by Gender				
As of December 31	2012	Share (%)	2011	Share (%)
Women	400	31.9	370	30.5
Men	855	68.1	842	69.5
Total	**1,255**	**100.0**	**1,212**	**100.0**

Employees Structure by Education				
As of December 31	2012	Share (%)	2011	Share (%)
Elementary	3	0.2	3	0.2
Secondary vocational	321	25.6	305	25.2
Secondary complete	625	49.8	606	50.0
University	306	24.4	298	24.6
Total	**1,255**	**100.00**	**1,212**	**100.0**

Employees Structure by Age				
As of December 31	2012	Share (%)	2011	Share (%)
Below 20	1	0.1	0	0.0
21-25	10	0.8	17	1.4
26-30	92	7.3	92	7.6
31-35	154	12.3	155	12.8
35-40	182	14.5	181	14.9
41-45	197	15.7	189	15.6
46-50	240	19.1	219	18.0
51-55	179	14.3	168	13.9
56-60	171	13.6	161	13.3
Above 60	29	2.3	30	2.5
Total	**1,255**	**100.0**	**1,212**	**100.0**

6. Economy

In 2012 Západoslovenská energetika, a.s. achieved the profit of € 104,008 thousand with the costs spent in the volume of € 171,976 thousand.

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

Key Figures as of December 31		
€ Thousand	2012	2011
Non-current assets	978,406	974,962
Current assets	79,118	170,988
Total assets	**1,057,524**	**1,145,950**
Equity	933,809	991,363
Non-current liabilities	7,524	5,447
Current liabilities	116,191	149,140
Total equity and liabilities	**1,057,524**	**1,145,950**
Revenues	175,909	172,461
EBIT (Operating income)	**105,449**	**163,013**
EBITDA	114,010	170,513
Incomes	277,742	329,200
Costs	171,976	165,264
Profit before tax	105,766	163,936
Net profit	**104,008**	**161,456**
Other comperhensive income	(61)	279
Total comperhensive income	**103,947**	**161,738**
Investments	**10,570**	**8,495**
Average number of employees	**1,260**	**1,228**

6.1 Finances

The Company increased value of its free resources in 2012 mainly through short-term deposits and short-term finance assets, achieving the interest income of € 0.640 million.

6.2 Credits

Západoslovenská energetika, a.s. has been granted an overdraft credit line of € 16.60 million by Citibank Europe plc. and a credit line of € 30 million by Slovenská sporiteľna, a.s. Credit lines are also available to the subsidiaries ZSE Energia, a.s., Západoslovenská distribučná, a.s., and Enermont s.r.o. and in 2012 they were withdrawn only as bank guarantees and at the December 31, 2012 the cash drowing of the credit line was in amount of €16.29 milion.

6.3 Profit To Be Appropriated

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

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

Trade Receivables and Payables		
€ Thousand	2012	2011
Trade and other receivables	33,474	31,724
of which: overdue:	7,733	8,682
Trade and other payables	25,435	75,596
of which: overdue:	584	2

6.4 Investments

The volume of investments of Západoslovenská energetika, a.s. for 2012 amounted to € 10,570 thousand.

Investments in 2012	
€ Thousand	2012
IT, Telecommunications	2,909
Facility Management	5,469
Services for Distribution	1,815
of which: telecommunications	1,123
Logistic	35
Other	342
Total	**10,570**

The Most Important Constructions of Západoslovenská energetika, a.s.	
€ Thousand	2012
Powerplant Piešťany – preservation of cultural heritage	1,000
PO Dunajská Streda – area revitalisation	927
Reconstruction of Elektrovod Čulenova building	882
PO Trnava – area revitalisation	723

Constructions to be continued in 2013:

The Most Important Constructions of Západoslovenská energetika, a.s.	
€ Thousand	2013
Powerplant Piešťany – preservation of cultural heritage	1,313
PO Nitra, Novozámocká – area revitalisation	790
PO Nové Zámky area revitalisation	700

6.5 Outlook for 2013

Západoslovenská energetika, a.s. will continue to fulfill its function of a service company for daughter companies ZSE Energia, a.s. and Západoslovenská distribučná, a.s., as well as the functional platform for sharing services (e.g. human resources, facility management, logistics, etc.) with the daughter company Enermont s.r.o. and with the companies 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 Energie AG.

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

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 raise 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 started 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 2012

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

7. The 2012 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 2012
4. Evaluation of the performance of the Activities of the Board of Directors

7.1 Supervisory Board Members

The Members of the Supervisory Board have exchanged in two "waves" in 2012. The first change was conducted on the extraordinary Session of the General Assembly on August 2, 2012, when the Chairman of the Supervisory Board, Mr. Rudolf Slezák and Members, Richard Schwarz, Andrea Groszová, Marián Dúbrava and Karol Nagy were withdrawn from their functions. Their places were subsequently and based on the request of the National Property Fund of the Slovak republic taken by Mr. Milan Chorvátik (subsequently appointed as Chairman of the Board on its autumn Session on September 25, 2012), Peter Hanulík, Marek Hargaš, Boris Hradecký and Libor Samec (appointed as Members).

The repeated election of the Employee Representative held on November 19, 2012 resulted in the election of the third, until now unelected, Employee Representative. The newly elected Mr. Robert Polakovič then participated on the last Session of the Supervisory Board held on December 18, 2012.

7.2 Sessions of the Supervisory Board according to the Plan of Activities

The Supervisory Board was carrying out control activity according to the approved plan. Four ordinary Sessions took place according to the Session plan, whereas the Session held in December took part in Modra upon the kind invitation of the new Chairman Mr. Chorvátik and included a visit in the city museum. The approved Agenda of Sessions was supplemented according to the up-to-date requests of the Supervisory Board Members and individual consulting of Members with the Company's management.

7.3 Performance of the Plan of Activities of the Supervisory Board in 2012

In 2012, the ZSE Group celebrated its 90th anniversary and decorated its 15 best employees. The big common celebration in September was a happy event. We anyhow also had sad moments in the Company in 2012, when our colleague suffered fatal injuries. This was the first fatality in four years in the ZSE Group.

Our business activities were influenced by new challenges on the market. These mainly included the transposition of the 3rd energy package into Slovak legislation, continuing unfair practise within the competition by door to door salesmen, receivables management and the entry to the gas market.

The first Session of the Supervisory Board held on March 27, 2012 focused mainly on economic issues – the review of the Financial Statement for 2011, the Independent Auditor's Report and the submission of the Proposal for Distribution of Profit. Formally, also the Report on the Activities for 2011 was approved.

The second Session held on June 21, 2012 focused not only on the economic results in Q1, but also on the performance of obligations from the Collective Agreement concluded for 2011 to 2013.

The election of the new Chairman of the Board of Directors from the new Members was the central point of the autumn Session held on September 25, 2012. Mr. Milan Chorvátik was elected with 7 votes.

The main Agenda of the final Session held on December 18, 2012 was to be the approval of the 2013 – 2015 Strategic Plan and the 2013 ZSE Investment Plan. As anyhow the crucial resolutions of the Regulatory Office for Network Industries with regard to system services and system operation tariffs were not yet published to this date, the Supervisory Board decided to postpone its Resolution to an extraordinary Session held as soon as possible in 2013. The Supervisory Board Members have also discussed market aspects and have acknowledged the Activity Report regarding the support of the ZSE brand in our region (sponsoring and community investments).

Among the constant Agenda issues of all the Supervisory Board Sessions were the contracts concluded under Article 3.9. of the Shareholders' Agreement (the agreements between ZSE a.s. and subsidiaries of the E.ON Group) and the contracts related to provision of advisory and consultancy services, as well as the financial framework for the provision of parent company guarantees to our subsidiary, ZSE Energia, a.s. The Supervisory Board was also continuously presented information about the development of receivables and liabilities throughout the year 2012.

7.4 Board of Directors Activities Performance Assessment

The control function of the Supervisory Board was carried out also through personal meetings of the SB Members with the Company's representatives, as was necessary. The Supervisory Board thus states that the management of the holding, as well as the managements of the subsidiaries have adopted sustainable and conscious business policies, which resulted in the fulfilment and even exceeding of the planned economic results. The Supervisory Board would therefore like to express its acknowledgement to the management of the parent company as well as to the managements of the subsidiaries and the appreciation of the working efforts of all the employees.

Bratislava, on March 4, 2013

Milan Chorvátik, signed in person
Chairman of the Supervisory Board of ZSE

7.5 Appropriation of Profit for 2012

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

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

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 co-operation with Pontis Foundation and in many other voluntary activities. They do all this in their working or leisure time. Together with the Pontis Foundation and Slovak Scouting we also undertake the project called Disenchanting of Castles which has been since its very beginning aimed to help castle ruins. Slovak scouts and employees of Západoslovenská energetika, a.s. carry out voluntary work, the result of which are the clean premises of the castles of Dobrá Voda Čachtice, Ostrý kameň, Korlát, Biely Kameň and Plavecký hrad. 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.

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 Protection of the Environment

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

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

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

Ecological Projects	
2012	€ Thousand
Costs of ecological operation and maintenance of facilities of ZSE Group including waste processing	1,848
Investments into ecological projects made in Západoslovenska energetika, a.s.	239

As regards the environmental protection investments were made into the operation of premises and facilities in compliance with legal requirements with an intention to eliminate any risks of contamination of underground water, soil and air, the construction of appropriate storage space and removal of pollution that had been revealed during the reconstruction of a building in Piešťany.

While taking the bird protection measures for our daughter company Západoslovenská distribučná, a.s. we continued to work on the project of avifauna protection entitled EU LIFE09 NAT/H/000384 „The Protection of Saker Falcon", thereby eliminating a risk of mortality of protected bird species due to sitting on power line poles. In 2012 more than 804 electric poles, i.e. almost 74 km of high voltage lines, were equipped with protective console cases.

Our company has introduced the thorough separation of waste originating from administrative activities and during the year 2012 we separated from municipal waste more than 3.2 t of plastic and 7.2 t of paper that were collected for the purpose of recycling. 995.78 t of scrap material was collected for recovery as a result of the thorough separation of waste material produced from repairs of power installations and construction works. In 2012 the Company put maximum efforts to utilise 80% of the total amount of waste production.

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

All the results achieved in the course of 2012 are in compliance with the approved documents „The Policy of Protection of Occupational Health and the Environment of Západoslovenská energetika, a.s.", with the aim to cut down the significant impacts on the environment under ISO 14001.

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

8.3 Occupational Health and Safety

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

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

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

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

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

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

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

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

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

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

In 2012 subcontructors spent 1,129,258 hours working at the workplaces or on-site of the ZSE Group. In the respective period no occupational injury occurred on the side of sub-contractors (TRIF = 0,0).

Statistical Indicators of Occupational Injuries in 2010, 2011 and 2012

	Number of registered occupational injuries			Lost calendar days due to ROI			Average number of employees		
Year	2010	2011	2012	2010	2011	2012	2010	2011	2012
ZSE	4	2	4	570	60	107	1,241	1,228	1,260

LTIF (Lost time injury frequency) in 2012: 1.4
TRIF (Total recordable incidents) in 2012: 2.8

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 31 December 2012

Separate Financial Statements for the year ended 31 December 2012 prepared in accordance with IFRS as adopted by the 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 Balance Sheet at 31 December 2012

prepared in accordance with IFRS as adopted by the European Union

Separate Balance Sheet at 31 December 2012			
All amounts are in thousands of Euro unless stated otherwise		As at 31 December	
	Note	2012	2011
ASSETS			
Non-current assets			
Property, plant and equipment	4	45,839	40,477
Intangible assets	5	12,911	15,550
Investments in subsidiaries and associates	6	918,559	918,399
Deferred income tax asset	15	1,097	536
		978,406	**974,962**
Current assets			
Inventories	8	1,625	1,388
Trade and other receivables	10	33,474	31,724
Receivables from cash pooling	14	25,511	7,130
Current income tax receivables		467	428
Other financial asset	11	–	10,000
Cash and cash equivalents	11	18,041	120,318
		79,118	**170,988**
Total assets		**1,057,524**	**1,145,950**
EQUITY AND LIABILITIES			
Share capital and reserves			
Share capital	12	196,969	196,969
Legal reserve fund	12	39,421	39,421
Other funds	12	45,467	45,467
Other reserves		106	279
Retained earnings	12	651,846	709,227
Total equity		**933,809**	**991,363**
Non-current liabilities			
Pension and other provisions for liabilities and charges	16	7,524	5,447
		7,524	**5,447**
Current liabilities			
Trade and other payables	13	25,435	75,596
Liabilities from cash pooling	14	73,266	72,188
Pension and other provisions for liabilities and charges	16	1,202	1,356
Bank overdrafts	11	16,288	–
		116,191	**149,140**
Total liabilities		**123,715**	**154,587**
Total equity and liabilities		**1,057,524**	**1,145,950**

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

Ing. Andrej Devečka
Member of the Board of Directors

Jochen Kley
Member of the Board of Directors

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

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	2012	2011*) restated
Revenues	17	175,909	172,461
Cost of sales	18	(89,813)	(88,880)
Gross profit		**86,096**	**83,581**
Operating expenses	19	(81,840)	(76,136)
Dividend income	20	98,167	152,172
Other operating income		3,026	3,396
Profit from operations		**105,449**	**163,013**
Finance costs			
Interest income		640	1,171
Interest expense		(323)	(248)
Net Finance cost		**317**	**923**
Profit before tax		**105,766**	**163,936**
Income tax expense	21	(1,758)	(2,477)
Profit for the year		**104,008**	**161,459**
Other comprehensive income	15,16	(61)	279
Total comprehensive income		**103,947**	**161,738**
Earnings per share (expressed in EUR per share)			
– basic	26	17.525	27.206
– diluted	26	17.525	27.206

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

Separate Statement of Changes in Shareholders' Equity for the Year Ended 31 December 2012

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	Other reserves**)	Retained earnings	Total
Balance at 1 January 2011	**196,969**	**39,421**	**45,467**	**–**	**742,187**	**1,024,044**
Comprehensive income						
Profit for the year (restated*)	–	–	–	–	161,459	161,459
Other comprehensive income (restated*)	–	–	–	279	–	279
Total comprehensive income for 2011	–	–	–	279	**161,459**	**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**	**279**	**709,227**	**991,363**
Comprehensive income						
Profit for the year	–	–	–	–	104,008	104,008
Other comprehensive income	–	–	–	(61)	–	(61)
Total comprehensive income for 2012	–	–	–	(61)	**104,008**	**103,947**
Transaction with owners						
Dividends (Note 12)	–	–	–	–	(160,350)	(160,350)
Transaction with owners	–	–	–	–	**(160,350)**	**(160,350)**
Other	–	–	–	(112)	(1,039)	**(1,151)**
Balance at 31 December 2012	**196,969**	**39,421**	**45,467**	**106**	**651,846**	**933,809**

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

**) Other reserves include actuarial gains / (losses) on post-employment benefit obligations net of tax

Separate Cash Flow Statement for the Year Ended 31 December 2012

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	2012	2011
Cash flows from operating activities			
Cash generated from operations	24	(6,112)	(7,604)
Interest paid		(67)	-
Interest received		640	994
Income tax paid		(2,344)	(1,966)
Net cash from operating activities		**(7,883)**	**(8,576)**
Cash flows from investing activities			
Purchase of property, equipment and intangibles		(7,517)	(8,495)
Proceeds from sale of property and equipment	24	415	332
Acquisition of associate	6	(160)	-
Acquisition of part of the business	25	(1,414)	-
Acquisition of short-term investment		(20,000)	(10,000)
Proceeds from short-term investments		30,000	-
Investment income		177	-
Dividend received	20	98,167	152,172
Net cash used in investing activities		**99,668**	**134,009**
Cash flows from financing activities			
Dividends paid	12, 27	(210,350)	(144,419)
Net cash used in financing activities		**(210,350)**	**(144,419)**
Net (decrease) in cash and cash equivalents		**(118,565)**	**(18,986)**
Cash and cash equivalents at beginning of year	**11**	**120,318**	**139,304**
Cash and cash equivalents at end of year	**11**	**1,753**	**120,318**

10. Notes to the Separate Financial Statements

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

1. General information

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

The Company is one of the three 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. 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.

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 Západoslovenská distribučná, a.s. (till 31 December 2012: ZSE Distribúcia, a.s.; note 6) 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 Západoslovenská distribučná, a.s. (till 31 December 2012: ZSE Distribúcia, a.s.; note 6) 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., ZSE Development, s.r.o. (till 3 February 2012: OTC s.r.o.; note 6) 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 "the Company".

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

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

The Structure of the Company's Shareholders at 31 December 2012

All amounts are in thousands of Euro unless stated otherwise

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

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

The Structure of the Company's Shareholders at 31 December 2011

All amounts are in thousands of Euro unless stated otherwise

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

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

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

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

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

Board of Directors

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

Supervisory Board

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

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 1,260 staff on average during 2012, of which 19 were management (2011: 1,228 employees on average, of which 25 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 2012 in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

The Company's financial statements at 31 December 2012 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 2012 to 31 December 2012.

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 (hereinafter "IASB") as adopted by European Union, which were in force as of 31 December 2012.

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

The preparation of 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 2012

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

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

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

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

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

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

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

The Impact on the Statement of Comprehensive Income

All amounts are in thousands of Euro unless stated otherwise

Year ended 31 December 2011	As reported	Adoption of IAS 19 revised	Restated
Other social costs (Note 19)	(8,330)	(344)	(8,674)
Income tax expense (Note 15, 21)	(2,542)	65	(2,447)
Profit for the year	**161,738**	**(279)**	**161,459**
Other comprehensive income			
Actuarial loss on post-employment benefit obligations net of tax	–	279	279
Total comprehensive income	**161,738**	**–**	**161,738**

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

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

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

IFRS 9 "Financial Instruments Part 1: Classification and Measurement". IFRS 9, issued in November 2009, replaces those parts of IAS 39 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 and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures. Key features of the standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit

or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

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

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. The 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 been endorsed by the EU on 11 December 2012.

IFRS 11, Joint Arrangements, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces IAS 31, Interests in Joint Ventures and SIC-13, Jointly Controlled Entities – Non-Monetary Contributions by Venturers. Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. This standard will have no impact on the Company's separate financial statements. This standard has been endorsed by the EU on 11 December 2012.

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

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

IAS 27, Separate Financial Statements, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013), was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements. The Company is currently assessing the impact of the amended standard on its financial statements. This standard has been endorsed by the EU on 11 December 2012.

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

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

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

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

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

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

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

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

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

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

2.2 Subsidiaries, associates and joint ventures

(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 and joint ventures
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. Jointly controlled entities ("joint ventures") are those in which the Company shares control of the operations with its joint venture partners.

Investments in associates and in joint ventures 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 and joint ventures 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 2012 and 2011.

(ii) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in 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 2012 and 2011.

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

The 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 balance sheet 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 2012 and 2011.

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 balance sheet when, and only when it is extinguished – i.e. when the obligation specified in the contract is discharged or cancelled or expires.

2.9 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 2012 and 2011.

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 Západoslovenská distribučná, a.s. (till 31 December 2012: ZSE Distribúcia, a.s.; Note 6).

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 2.25.

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.

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

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

2.14 Share capital

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

2.15 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 Other reserves

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

2.19 Trade payables

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

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

2.20 Taxation

(i) Deferred tax
Deferred income tax is recognized using the 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.

2.21 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 2012 a 2011.

2.22 Borrowings

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

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

2.23 Provisions / Contingent liabilities

Provisions are recognized when the 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.

2.24 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 (2011: 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 (2011: 6 multiples of their average monthly salary).

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

The 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
40 years (valid since 1 January 2013)	EUR 1,150

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

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

(iii) Defined contribution pension plans

The 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% (2011: 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% (2011: 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% (2011: 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.

2.25 Revenue recognition

The Company provides supporting services for its subsidiaries ZSE Energia, a.s. and Západoslovenská distribučná, a.s. (till 31 December 2012: ZSE Distribúcia, a.s.; Note 6) 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., ZSE Development, s.r.o. (till 3 February 2012: OTC s.r.o.; Note 6) 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, bank overdrafts 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 2012 and 2011, the cash flows are only to a small extent dependent on the market interest rate fluctuations. The short term bank deposits and short term bonds are denominated at fixed interest rates. At 31 December 2012, if the interest rates on short-term bank deposits would be higher/lower by 1% with all other variables constant, post-tax profit for the year would have been EUR 2 thousand (At 31 December 2011: EUR 33 thousand) higher or lower mainly as a result of higher/lower interest income on short term bank deposits.

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

The Company had no bank borrowings during the financial year 2012 and 2011.

(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, Západoslovenská distribučná, a.s. (till 31 December 2012: ZSE Distribúcia, a.s.; Note 6) 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 2012 Credit limit	31 december 2012 Balance	31 december 2011 Credit limit	31 december 2011 Balance
Banks rated**	A3	n/a	18,041	n/a	107,127
Banks rated	A		-		23,191
			18,041		**130,318**

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

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 2012	
Trade payables and other payables excluding liabilities not fully under IFRS 7 (Note 13)	16,389
Bank overdrafts (Note 11)	16,288
Liabilities from cash pooling (Note 14)	73,266
	105,943
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

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 2012, EUR 933,809 thousand (31 December 2011: EUR 991,363 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 2012 calculated in amount of 11.3% (to the 31 December 2011: 16.5%). 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 2011					
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**
Year ended 31 December 2012					
Additions	–	–	–	7,326	7,326
Acquisition of business (Note 25)	–	–	846	–	846
Transfers	–	2,447	2,113	(4,560)	–
Depreciation charge (Note 19)	–	(1,060)	(1,730)	–	(2,790)
Disposals	(8)	(1)	(11)	–	(20)
Closing net book value	**4,450**	**29,088**	**6,695**	**5,606**	**45,839**
As at 31 December 2012					
Cost	4,450	43,070	32,684	5,606	85,810
Accumulated depreciation including impairment charge	–	(13,982)	(25,989)	–	(39,971)
Net book value	**4,450**	**29,088**	**6,695**	**5,606**	**45,839**

At 31 December 2012 and at 31 December 2011 the Company did not lease any fixed assets leased as finance lease (where Company is the lessee).

At 31 December 2012 and 2011 no property, plant and equipment was collateralized 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 208,210 thousand for buildings and building parts and up to amount of EUR 34,537 thousand for the machinery, equipment, fixture, fittings and other assets (2011: 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 2011			
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**
Year ended 31 December 2012			
Additions	–	3,132	3,132
Transfers	2,479	(2,479)	–
Disposals	–	–	–
Amortisation charge (Note 19)	(5,771)	–	(5,771)
Closing net book value	**10,881**	**2,030**	**12,911**
At 31 December 2012			
Cost	41,949	2,030	43,979
Accumulated depreciation and impairment	(31,068)	–	(31,068)
Net book value	**10,881**	**2,030**	**12,911**

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

6. Investment in Subsidiaries and Associates

Investments in Subsidiaries and Associates All amounts are in thousands of Euro unless stated otherwise	2012	2011
At the beginning of the year	918,399	918,399
Additions	160	–
Disposals	–	–
At end of the year	**918,559**	**918,399**

The addition during the year 2012 represents acquisition of additional 22 shares in Energotel, a.s which represents 3.33% of all shares. ZSE previously owned 16.67% of shares; accordingly the ownership interest as at 31 December 2012 represents 20.00% and the Company classified it as joint venture based on the joint control of the financial and operational policies of Energotel through the shareholders agreement together with its other investors.

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	
				2012	2011
Enermont, s.r.o.	Slovak Republic	100%	Construction	2,200	2,200
ZSE Development, s.r.o. [1]	Slovak Republic	100%	Trading activities	564	564
ZSE Energia, a.s.	Slovak Republic	100%	Purchase and sale of electricity	6,725	6,725
Západoslovenská distribučná, a.s. [2]	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**
Energotel, a.s.	Slovak Republic	20%	Data and telecommunication services	525	–
Investment in joint ventures				**525**	**–**
Other				72	437
Total				**918,559**	**918,399**

1) On 4 February 2012, OTC, s.r.o. was renamed to ZSE Development, s.r.o. and changed its registered address to Čulenova 6, Bratislava. As described in Note 25, ZSE purchased part of business of its subsidiary. Accordingly, ZSE Development, s.r.o. changed its main business activities from meters calibrations to trading activities.
2) Based on the decision of sole shareholder from 19 December 2012, the subsidiary ZSE Distribúcia, a.s. was renamed to Západoslovenská distribučná, a.s. effective from 1 January 2013.

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.	35,225	8,345	53,039	5,728	100%
ZSE Development, s.r.o.	4,321	108	2,025	340	100%
ZSE Energia, a.s.	159,658	125,778	911,198	23,951	100%
Západoslovenská distribučná, a.s.	989,822	238,264	550,025	46,761	100%
E.ON IT Slovakia, s.r.o.	5,832	2,927	17,596	496	49%
Energotel, a.s.	15,546	8,768	13,167	1,266	20%
2011					
Enermont, s.r.o.	34,411	7,264	51,494	5,747	100%
ZSE Development, s.r.o.	4,520	516	2,122	130	100%
ZSE Energia, a.s.	156,972	118,473	912,477	28,569	100%
Západoslovenská distribučná, a.s.	971,623	203,727	531,667	70,392	100%
E.ON IT Slovakia, s.r.o.	6,676	2,746	20,941	695	49%

*) As at the date of authorisation of these separate financial statements for issue, the audited financial statements of all subsidiaries, associates and joint ventures for the year ended 31 December 2012 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 2012		
Trade and other receivables (Note 10)	9,347	**9,347**
Amounts due from customers for contract work (Note 9, 10)	23,507	**23,507**
Other receivables and other accrued income (Note 10)	353	**353**
Cash and cash equivalents (Note 11)	18,041	**18,041**
Receivables from cash-pooling (Note 14)	25,511	**25,511**
Total	**76,759**	**76,759**
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**

Other Financial Liabilities – Carried at Amortised Cost		
All amounts are in thousands of Euro unless stated otherwise		
Liabilities as per balance sheet	Other financial liabilities – carried at amortised cost	Total
As at 31 December 2012		
Bank overdrafts (Note 11)	16,288	**16,288**
Trade payables (Note 13)	16,389	**16,389**
Liabilities from cash-pooling (Note 14)	73,266	**73,266**
Total	**105,943**	**105,943**
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**

8. Inventories

Materials and Spare Parts		
All amounts are in thousands of Euro unless stated otherwise	As at 31 December	
	2012	2011
Materials and spare parts	1,625	1,388
Total inventories	**1,625**	**1,388**

The inventory items are shown after provision for slow-moving materials of EUR 15 thousand (31 December 2011: EUR 15 thousand).

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

Materials and Spare Parts				
All amounts are in thousands of Euro unless stated otherwise				
	At 1 January 2012	Set-up	Release	At 31 December 2012
Materials and spare parts	15	–	–	15
Total	**15**	–	–	**15**

The cost of inventories recognized as expense and included in 'Cost of sales' (Note 18) amounted to EUR 17,137 thousand (2011: EUR 18,743 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	
	2012	2011
The aggregate costs incurred and recognised profits (less recognised losses) to date	30,027	26,670
Less: Progress billings	(6,520)	(8,111)
Total	**23,507**	**18,559**
Amounts due from customers for contract work (Note 10)	23,507	18,559
Total	**23,507**	**18,559**

The contract revenue recognised as revenue in the year ended 31 December 2012 amounted to EUR 64,547 thousand (2011: EUR 58,998 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 2012	2011
Trade receivables not yet due	354	305
Individually impaired trade receivables	7,657	8,682
Less: Provision for impairment of receivables	(7,627)	(8,621)
Trade receivables – net	384	366
Receivables to subsidiaries not yet due	8,887	12,004
Receivables to subsidiaries past due but not impaired	76	–
Receivables to subsidiaries – total (Note 27)	8,963	12,004
Subtotal (Note 7)	**9,347**	**12,370**
Amounts due from customers to contract work (Note 7, 9, 27)	23,507	18,559
	23,507	**18,559**
Prepayments	267	293
Other receivables and other accrued income (Note 7)	353	502
Total trade and other receivables	**33,474**	**31,724**

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

The Structure of Trade Receivables

All amounts are in thousands of Euro unless stated otherwise	As at 31 December 2012	2011
Receivables within due date	33,368	31,663
Overdue receivables	7,733	8,682
Less: Provision for impairment of receivables	(7,627)	(8,621)
Total trade and other receivables	**33,474**	**31,724**

As of 31 December 2012, trade receivables of EUR 7,657 thousand (2011: EUR 8,682 thousand) were impaired and provided for. The amount of the provision was EUR 7,627 thousand as of 31 December 2012 (2011: EUR 8,621 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 2012	2011
1 to 30 days	66	64
31 to 60 days	4	4
61 to 90 days	4	1
91 to 120 days	4	2
121 to 180 days	14	1
181 to 360 days	2	24
Over 360 days	7,563	8,586
Total individually impaired receivables	**7,657**	**8,682**

The movements in the provision for impairment of trade receivables are recognized in the Statement of comprehensive income under Other operating expense/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	2012	2011
At the beginning of the year	8,621	9,907
Additional provision for receivables impairment	99	254
Unused amounts reversed	(92)	(415)
Receivables written off during the year as uncollectible	(1,001)	(1,125)
At end of the year	**7,627**	**8,621**

The release of bad debt provisions in 2012 and 2011 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	
	2012	2011
Receivables against Západoslovenská distribučná, a.s. (till 31 December 2012: ZSE Distribúcia, a.s.; Note 6)	8,070	11,495
Receivables against ZSE Energia, a.s.	214	–
Enermont s.r.o., Bratislava	603	465
ZSE Development, s.r.o. (till 3 February 2012: OTC s.r.o.; Note 6)	76	44
	8,963	**12,004**
Receivables to subsidiaries not yet due	8,887	12,004
Receivables past due but not impaired	76	–
Receivables to subsidiaries (Note 27)	**8,963**	**12,004**

As of 31 December 2012, receivables to subsidiaries amounting to 76 thousand EUR were past due (at 31 December 2011: EUR 0 thousand), no receivables to subsidiaries are impaired (at 31 December 2011: EUR 0 thousand).

The carrying amounts of trade and other receivables as of 31 December 2012 and 2011 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 2012 and 2011, there is a significant concentration of credit risk with respect of receivables to associates and subsidiaries towards Západoslovenská distribučná, a.s. (till 31 December 2012: ZSE Distribúcia, a.s.; Note 6).. 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	
	2012	2011
Cash at bank and in hand	17,908	120,185
Short term bank deposits	133	133
Total (Note 7)	**18,041**	**120,318**

Cash and cash equivalents include the following for the purposes of the statement of cash flows:

Cash and Cash Equivalents and Other Financial Assets		
All amounts are in thousands of Euro unless stated otherwise	As at 31 December	
	2012	2011
Cash at bank and in hand	17,908	120,185
Short term bank deposits	133	133
Bank overdrafts (Note 7)	(16,288)	–
Total	**1,753**	**120,318**

The effective interest rate on short term bank deposits was 0.57% (in the year ended 31 December 2011: 1.09%) and these deposits have an average maturity of 10 days (in the year ended 31 December 2011: 6 days). As at 31 December 2012 the restricted cash amounted to EUR 133 thousand (as at 31 December 2011: EUR 133 thousand).

The cash and short-term deposits are kept by the Company in 4 banks (2011: 4 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 2012:

Credit Quality of Cash		
All amounts are in thousands of Euro unless stated otherwise	As at 31 December	
	2012	2011
Cash at bank		
Banks rates – A3 (Moody's)	17,908	96,994
Banks rates – A (Fitch's)	–	23,191
	17,908	**120,185**
Short-term bank deposits		
Banks rates – A3 (Moody's)	133	133
	133	**133**
Total cash in the bank and short-term bank deposits	**18,041**	**120,318**

All balances are neither past due nor impaired.

Other financial assets as at 31 December 2011
Other financial assets represent short-term bonds amounting to EUR 10,000 thousand issued by Tatra-Leasing, s.r.o. which is a member of Tatrabanka Group (Moody's rating A2). Bonds were acquired in February 2011 at par with fixed interest rate of 2% p.a. Bonds were repaid on 2 January 2012.

12. Shareholders' Equity

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

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

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

Legal reserve fund is obligatorily created from profit of the Company in accordance with the Slovak Commercial Code, paragraph 67. The minimum prescribed creation of the Legal reserve fund is specified in paragraph 217 of the Commercial Code and it defines that the Company is obliged to create legal reserve fund in the amount of 10% of its share capital at the time of the incorporation of the Company. This amount must be increased annually by at least 10% from net profit, until the Legal reserve fund achieves 20% of the share capital, 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 2012 (as at 31 December 2011: EUR 39,421 thousand).

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

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

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

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

The accumulated profits of the Company at 31 December 2012 available for profit distribution amounted to EUR 651,846 thousand (2011: EUR 709,227 thousand). The Decision on the use of the 2012 profit of EUR 104,008 thousand will be made by the General Meeting.

13. Trade and Other Payables

Trade and Other Payables

All amounts are in thousands of Euro unless stated otherwise	As at 31 December	
	2012	2011
Trade payables (Note 7)	16,389	16,512
Dividends payable (Note 7, 27)	–	50,000
	16,389	**66,512**
Other payables and accrued expenses		
Payables to employees	1,430	1,254
Social security	817	773
Accrued personnel expenses	4,848	3,667
Other accrued liabilities	735	1,752
VAT payable (Note 27)	678	922
Other payables	538	716
	9,046	**9,084**
	25,435	**75,596**

Out of the total payables at 31 December 2012, overdue payables are EUR 584 thousand (at 31 December 2011: EUR 2 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 Euro.

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	
	2012	2011
Opening balance at 1 January	71	–
Appropriations expensed	1,677	1,483
Usage	(1,618)	(1,412)
Closing balance at 31 December	**130**	**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 2012	2011
Receivables from cash pooling (Note 7, 27)	25,511	7,130
Total	**25,511**	**7,130**

Liabilities from Cash Pooling

All amounts are in thousands of Euro unless stated otherwise	As at 31 December 2012	2011
Liabilities from cash pooling (Note 7)	73,266	72,188
Total	**73,266**	**72,188**

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 Západoslovenská distribučná, a.s. (till 31 December 2012: ZSE Distribúcia, a.s.; Note 6):

Receivables from Cash Pooling

All amounts are in thousands of Euro unless stated otherwise	As at 31 December 2012	2011
Západoslovenská distribučná, a.s. (Note 27)	25,511	7,130
Total	**25,511**	**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 2012	2011
ZSE Energia, a.s.	49,926	48,191
Enermont, s.r.o.	18,747	18,034
ZSE Development, s.r.o. (till 3 February 2012: OTC s.r.o., Note 6)	4,226	2,743
E.ON IT Slovakia, s.r.o.	367	3,220
Total liabilities from cash pooling (Note 27)	**73,266**	**72,188**

15. Deferred Income Taxes

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current 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	
	2012	2011
Deferred tax asset:		
to be recovered after more than 12 months	1,892	1,170
to be recovered within 12 months	1,271	928
	3,163	**2,098**
Deferred tax liability:		
to be recovered after more than 12 months	(1,824)	(1,391)
to be recovered within 12 months	(242)	(171)
	(2,066)	**(1,562)**
Total deferred tax asset	**1,097**	**536**

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 2012	(Charged) / credited to the profit or loss	Charged)/ credited to other comprehensive income	As at 31 December 2012
Accelerated tax depreciation	(1,562)	(504)	–	(2,066)
Pension liability and similar provisions	1,160	672	14	1,846
Other provisions and accrued expenses	841	332	–	1,173
Provisions against bad debts	97	47	–	144
Total	**536**	**547**	**14**	**1,097**

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	Charged)/ credited to other comprehensive income	As at 31 December 2011
Accelerated tax depreciation	(1,348)	(214)	–	(1,562)
Pension liability and similar provisions	1,173	52	(65)	1,160
Other provisions and accrued expenses	845	(4)	–	841
Provisions against bad debts	16	81	–	97
Other	(11)	11	–	–
Total	**675**	**(74)**	**(65)**	**536**

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 2012	**6,103**	**700**	**6,803**
Additional provisions	1,945	–	1,945
Used/paid during year	(22)	–	(22)
Reversal on unused provisions	–	–	–
As at 31 December 2012	**8,026**	**700**	**8,726**

Pension and Other Provisions for Liabilities and Charges		
All amounts are in thousands of Euro unless stated otherwise	As at 31 December	
Analysis of total provisions	2012	2011
Non-current	7,524	5,447
Current	1,202	1,356
	8,726	**6,803**

(a) Pension and other staff benefits

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

(i) post employment benefits

Post Employment Benefits		
All amounts are in thousands of Euro unless stated otherwise	As at 31 December	
	2012	2011
Present value of unfunded retirement obligations	6,812	5,097
Liability in the balance sheet	**6,812**	**5,097**

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	
	2012	2011
Current service cost	383	243
Interest expense	215	199
Total charge	**598**	**442**

Movements in the present value of defined benefit obligation are:

Movements in the Present Value of Defined Benefit Obligation		
All amounts are in thousands of Euro unless stated otherwise	As at 31 December	
	2012	2011
Present value of unfunded retirement obligations at beginning of the year	5,097	5,019
Current service cost	383	243
Interest expense	215	199
Paid	(22)	(156)
Other	961	-
Actuarial (gains)/losses	178	(208)
Present value of unfunded retirement obligations at the end of the year	**6,812**	**5,097**

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 2012	1,260
Percentage of employees, who will terminate their employment with ZSE prior to retirement (withdrawal rate)	4,38%
Expected salary increases short-term	4,0%
Expected salary increases long-term	4,5%
Discount rate	3,1%

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%

(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	
	2012	2011
Present value of unfunded obligations	1,214	1,006
Liability in the balance sheet	**1,214**	**1,006**

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	
	2012	2011
Current service cost	80	90
Interest expense	41	46
Total charge	**121**	**136**

Movements in the present value of defined benefit obligation are:

Movements in the Present Value of Defined Benefit Obligation		
All amounts are in thousands of Euro unless stated otherwise	As at 31 December	
	2012	2011
Present value of the obligation at beginning of the year	1,006	1,155
Current service cost	80	90
Interest expense	41	46
Paid	–	(149)
Other	190	
Actuarial gain	(103)	(136)
Present value of unfunded retirement obligations at the end of the year	**1,214**	**1,006**

Remeasurement		
All amounts are in thousands of Euro unless stated otherwise	Year ended 31 December	
	2012	2011
Remeasurement component – actuarial (gain)/loss recognized in other comprehensive income		
– on post employment benefits,	178	(208)
– on other long-term benefits	(103)	(136)
Total	**75**	**(344)**

(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	
	2012	2011
Services provided to subsidiaries, associates and to the shareholder	97,850	100,331
Revenue from construction work (Note 9)	64,547	58,998
Revenue from sale of electrometers and other material to subsidiaries	11,491	10,644
Other revenue	2,021	2,488
	175,909	**172,461**

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	
	2012	2011
Cost of construction works for subsidiaries	58,447	52,877
Repair and maintenance services for subsidiaries	12,945	16,061
Cost of electrometers and material sold to subsidiaries	11,019	10,045
Cost of equipment and spare parts	6,118	8,698
Other	1,284	1,199
	89,813	**88,880**

19. Operating Expenses

Operating Expenses		
All amounts are in thousands of Euro unless stated otherwise	Year ended 31 December	
	2012	2011
Wages and salaries	23,118	21,124
Pension costs – defined contribution plans	3,816	3,584
Other social costs	8,952	8,674
	35,886	**33,382**
IT maintenance fees	12,753	12,454
Depreciation (Note 4)	2,790	3,189
Amortisation (Note 5)	5,771	3,967
Rental costs	4,822	3,919
Post and telecommunication costs	2,962	2,386
Call center services	2,924	2,460
Advisory services	1,990	2,615
Other repairs and maintenance	1,242	2,265
Other operating expenses	1,654	1,532
Advertising	1,479	922
Security services	1,181	1,327
Energotel services	598	606
Travel expenses	561	528
Repairs and maintenance of electrical network related assets	395	383
GIS services	295	260
Audit of financial statements	98	98
Other non-audit services	21	43
Other purchased services	4,418	3,800
	81,840	**76,136**

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	
	2012	2011
Západoslovenská distribučná, a.s. (till 31 December 2012: ZSE Distribúcia, a.s.; Note 6)	63,106	118,543
ZSE Energia, a.s.	28,505	25,009
Enermont, s.r.o.	5,506	8,005
E.ON IT Slovakia, s.r.o.	734	–
ZSE Development, s.r.o. (till 3 February 2012: OTC s.r.o., Note 6)	130	522
Other	186	93
	98,167	**152,172**

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	
	2012	2011
Income before tax	105,766	163,936
Theoretical income tax related to current period at 19%	20,096	31,148
Dividend income not subject to tax	(18,652)	(28,913)
Income tax related to prior periods	231	(104)
Effect of change of the tax rate to 23% (2011: 19%)	191	–
Effect of not recognized deferred tax asset	(293)	–
Other tax non-deductible items	185	346
Income tax expense for the period	**1,758**	**2,477**
The tax charge for the period comprises:		
Deferred tax charge/(credit) (Note 15)	(547)	74
Tax charge in respect of current period	2,074	2,507
Income tax related to prior periods	231	(104)
	1,758	**2,477**

22. Contingencies

Taxation

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

23. Commitments

(i) Capital commitments

The contract liability of the Company to the 31 December 2012 to purchase of non-current assets is in amount of EUR 2,542 thousand.

(ii) Operating lease commitments – the Company as lessee

The operating lease payments amounted to 4,822 thousand of EUR (2011: EUR 3,919 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	
	2012	2011
No later than one year	3,550	3,471
Later than one year and no later than five years	5,246	4,749
Later than five years	35	695
	8,831	**8,915**

24. Cash Generated from Operations

Cash Generated from Operations

All amounts are in thousands of Euro unless stated otherwise		Year ended 31 December	
	Note	2012	2011
Profit before tax		105,766	163,936
Adjustments for:			
Depreciation	4, 19	2,790	3,189
Amortisation	5, 19	5,771	3,967
Profit on sale of property and equipment		(395)	(230)
Interest income		(640)	(1,171)
Interest expense		323	248
Dividend income	20	(98,167)	(152,172)
Net movements in provisions		1,592	273
Other non-cash item movements		(1,151)	-
Changes in working capital:			
Inventories	8	(237)	338
Trade and other receivables		(1,185)	8,083
Receivables/Liabilities from cash pooling	14	(17,303)	(36,749)
Trade and other payables		(3,276)	2,684
Cash generated from operations		**(6,112)**	**(7,604)**

Cash Generated from Operations

All amounts are in thousands of Euro unless stated otherwise	Year ended 31 December	
	2012	2011
Net book value of sold asset (Note 4, 5)	20	102
Profit on sale of property and equipment	395	230
Proceeds from sale of property and equipment	**415**	**332**

25. Acquisitions

The Company concluded with its subsidiary ZSE Development, s.r.o. (till 3 February 2012: OTC, s.r.o.) agreement on purchase of part of the business, a separate division "Maintenance of electrometers and metering centre", which became effective on 1 January 2012. The agreed purchase consideration amounted to EUR 1,414 thousand.

Recognized Amounts of Acquired Assets and Liabilities as at 1 January 2012	
All amounts are in thousands of Euro unless stated otherwise	
Property, plant and equipment (Note 4)	846
Trade receivables	691
Other assets	51
	1,588
Trade and other payables	(174)
Total identifiable net assets	**1,414**

The purchase price of EUR 1,414 thousand was settled during 2012.

26. Earnings per Share

(i) Basic

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

Earnings per share are calculated as follows:

Basic Earnings per Share		
All amounts are in thousands of Euro unless stated otherwise	2012	2011
Profit for the year	104,008	161,459
Weighted average number of ordinary shares in issue (Note 12)	5,934,594	5,934,594
Basic earnings per share (EUR per share)	17.525	27.206

(ii) Diluted

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

27. 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.
- E.ON Energie AG (since 13 December 2012)

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

(iii) Subsidiaries
- Západoslovenská distribučná, a.s. (till 31 December 2012: ZSE Distribúcia, a.s.; Note 6)
- ZSE Energia, a.s.
- Enermont, s.r.o.
- ZSE Development, s.r.o. (till 3 February 2012: OTC s.r.o., Note 6)

(iv) Associates and joint ventures
- E.ON IT Slovakia, 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").

Routine trading transactions with the Slovak government, including its departments and agencies, and transactions between state-controlled entities, which are providers of public utilities and services, for which standard commercial terms and conditions have been applied, and which do not represent a significant portion of a type of transaction, are excluded from the scope of related party disclosures.

The nature of relationship with related parties with which the Company carried out significant transactions or had significant balances with are described below.

Related Party Transactions

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

*) The Company has declared distribution of dividends in 2011 amounting to EUR 194,419 thousand. As of 31 December 2011, EUR 50,000 thousand, were disclosed as dividends payable (Note 13) and paid out in 2012.

Related Party Transactions – Sales		
All amounts are in thousands of Euro unless stated otherwise	Year ended 31 December	
	2012	2011
(i) Shareholders		
E.ON Slovensko, a.s.	913	1,047
	913	**1,047**
(ii) Entities under common control of E.ON Group		
E.ON Elektrárne, s.r.o.	16	68
E.ON Energie Human Resources International GmbH Munich	25	46
Bioplyn Ladzany s.r.o	2	3
Bioplyn Cetín s.r.o	–	4
Bioplyn Hont s.r.o	1	2
E.ON Energie AG	–	9
E.ON SE	12	–
	56	**132**
(iii) Subsidiaries		
ZSE Energia, a.s.	14,036	13,665
Západoslovenská distribučná, a.s.*)	153,611	156,158
ZSE Development, s.r.o.	92	537
Enermont s.r.o., Bratislava	6,775	5,045
	174,514	**175,405**
(iv) Associates and joint ventures		
E.ON IT Slovakia, s.r.o.	488	232
Energotel, a.s., Bratislava	1,101	1,187
	1,589	**1,419**
(v) Government related entities		
Total	**542**	**725**
Total	**177,614**	**178,728**

*) This amount represents total billings towards Západoslovenská distribučná, a.s., which also includes deferred revenues amounting to EUR 4,948 thousand (2011: EUR 4,157 thousand) from construction work.

The Company´s sales related mainly to supporting services provided to subsidiaries and construction works to Západoslovenská distribučná, a.s. 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 2013 is expected to be on the same level as in year 2012, i.e. EUR 175 million.

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

Related Party Transactions – Purchases

All amounts are in thousands of Euro unless stated otherwise	Year ended 31 December	
	2012	2011
(i) Shareholders		
E.ON Slovensko, a.s.	1	10
	1	**10**
(ii) Entities under common control of E.ON Group		
E.ON SE	–	40
E.ON Energie Human Resources International GmbH Munich	758	1,063
E.ON Risk Consulting, Munich	47	40
E.ON Netz GmbH	–	2
E.ON Bulgaria EAD	–	1
E.ON Elektrárne, s.r.o.	10	6
	815	**1,152**
(iii) Subsidiaries		
ZSE Energia, a.s.	842	996
Západoslovenská distribučná, a.s.	1,057	1,065
Enermont s.r.o., Bratislava	46,491	43,739
ZSE Development, s.r.o.	–	1,763
	48,390	**47,563**
(iv) Associates and joint ventures		
EFR CEE Kft.	294	288
E.ON IT Slovakia, s.r.o.	16,235	18,122
Energotel, a.s., Bratislava	1,817	1,437
	18,346	**19,847**
(v) Government related entities		
Total	**523**	**501**
(vi) Taxes		
Income tax (Note 21)	2,305	2,403
Property and motor vehicle tax	169	156
	2,474	**2,559**
Total	**70,549**	**71,632**

Related Party Transactions – Receivables		
All amounts are in thousands of Euro unless stated otherwise	As at 31 December	
	2012	2011
(i) Shareholders		
E.ON Slovensko, a.s.	46	42
	46	**42**
(ii) Entities under common control of E.ON Group		
E.ON SE	12	–
E.ON Energie AG	–	16
E.ON IT GmbH Hannover	3	–
	15	**16**
(iii) Subsidiaries		
ZSE Energia, a.s. (Note 10)	214	–
Západoslovenská distribučná, a.s. – trade receivables (Note 10)	8,070	11,495
Západoslovenská distribučná, a.s. – amounts from customers from contract work (Note 9,10)	23,507	18,559
Západoslovenská distribučná, a.s. – receivable from cash-pooling (Note 14)	25,511	7,130
Enermont s.r.o., Bratislava (Note 10)	603	465
ZSE Development, s.r.o. (Note 10)	76	44
	57,981	**37,693**
(iv) Associates and joint ventures		
E.ON IT Slovakia, s.r.o.	47	15
Energotel, a.s., Bratislava	107	116
	154	**131**
(v) Government related entities		
Total	**114**	**71**
(vi) Taxes		
Income tax receivable	467	428
	467	**428**
Total	**58,777**	**38,381**

Related Party Transactions – Payables		
All amounts are in thousands of Euro unless stated otherwise	As at 31 December	
	2012	2011
(i) Shareholders – trade payables		
E.ON Slovensko, a.s.	–	12
	–	**12**
(ii) Shareholders – dividends payable (Note 13)		
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 Human Resources International GmbH Munich	438	1,052
E.ON SE	–	36
E.ON Elektrárne, s.r.o.	1	2
E.ON Risk Consulting GmbH	–	15
	439	**1,105**
(iii) Subsidiaries		
ZSE Energia, a.s. – trade payables	122	855
ZSE Energia, a.s – cash-pooling payables (Note 14)	49,926	48,191
Enermont s.r.o., Bratislava – trade payables	2,740	2,586
Enermont s.r.o., Bratislava – cash-pooling payables (Note 14)	18,747	18,034
ZSE Development, s.r.o. – trade payables	–	778
ZSE Development, s.r.o. – cash-pooling payables (Note 14)	4,226	2,743
	75,761	**73,187**
(iv) Associates and joint ventures		
E.ON IT Slovakia – trade payables	3,283	1,809
E.ON IT Slovakia – cash-pooling payables (Note 14)	367	3,220
Energotel, a.s., Bratislava	504	474
	4,154	**5,503**
(v) Government related entities		
Total	**47**	**79**
(vi) Taxes		
VAT tax payable (Note 13)	678	922
	678	**922**
Total	**81,079**	**130,808**

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

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

Related Party Transactions		
All amounts are in thousands of Euro unless stated otherwise	Year ended 31 December	
	2012	2011
Board of directors and key management personnel		
Salaries and short-term employee benefits	411	811
Pension costs – defined contribution plans	52	56
Total	**463**	**867**
Supervisory board		
Salaries and short-term employee benefits	96	99
Pension costs – defined contribution plans	31	32
Total	**127**	**131**

28. Events After the End of the Reporting Period

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

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

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

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

....
Ing. 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 balance sheet of the company standing alone as at 31 December 2012 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. standing alone as at 31 December 2012, 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.

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

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

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

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

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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 09/2013