

Západoslovenská energetika, a.s.

**Annual Report ended 31 December 2013 and
Report on Verifying Consistency of Annual
report with the consolidated Financial
Statements**

April 2014



**Report on Verifying Consistency of the Annual Report with the Financial Statements,
as required by § 23 of Act No. 540/2007 Coll.
(Addendum to the Auditor's Report)**

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

We have audited the consolidated financial statements of Západoslovenská energetika, a.s. ("the Company") and its subsidiaries ("the Group") at 31 December 2013, on which we issued Independent Auditor's Report on 24 March 2014 and on which we expressed an unqualified audit opinion as follows:

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Západoslovenská energetika, a.s. and its subsidiaries as at 31 December 2013 and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

In accordance with the Act No. 431/2002 Coll. on Accounting, as amended, we also verified whether accounting information included in the Group's Annual Report at 31 December 2013 is consistent with the Group's audited financial statements referred to above.

The Board of Directors Responsibility for the Group's Annual Report

The Board of Directors are responsible for the preparation, accuracy, and completeness of the Group's Annual Report in accordance with the Slovak Accounting Act.

Auditor's Responsibility for Verifying Consistency of the Group's Annual Report with the Consolidated Financial Statements

Our responsibility is to express an opinion on whether the accounting information presented in the Group's Annual Report is consistent, in all material respects, with the Group's audited financial statements. We conducted the verification in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements, and plan and perform the verification to obtain reasonable assurance whether the accounting information presented in the Group's Annual Report is consistent, in all material respects, with the Group's audited financial statements.

The scope of work includes performing procedures to verify that the accounting information presented in the Group's Annual Report is consistent with the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in the Group's Annual Report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Company's preparation and fair presentation of the Group's Annual Report in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls. We did not verify those data and information in the Group's Annual Report that were not derived from the consolidated financial statements.

We believe that the verification performed provides sufficient and appropriate basis for our opinion.

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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.

Opinion

In our opinion, the accounting information presented in the Group's Annual Report prepared for the year ended on 31 December 2013 is consistent, in all material respects, with the Group's audited financial statements referred to above.



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



Ing. Eva Hupková, FCCA
SKAU licence No.: 672

Bratislava, 22 April 2014

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.

The first part of the paper discusses the importance of understanding the cultural context of the research. It highlights the need for researchers to be sensitive to the values and beliefs of the communities they are studying. This is particularly important in the field of education, where cultural differences can significantly impact learning outcomes.

The second part of the paper focuses on the methodology used in the study. It describes the process of selecting participants, collecting data, and analyzing the results. The authors emphasize the importance of using a mixed-methods approach to capture both quantitative and qualitative data.

The third part of the paper presents the findings of the study. It shows that there are significant differences in learning outcomes between students from different cultural backgrounds. These differences are attributed to a variety of factors, including language barriers, social norms, and access to resources.

The final part of the paper discusses the implications of the findings for education. It suggests that educators should take steps to create a more inclusive learning environment for all students. This can be done by providing additional support for students who are struggling and by incorporating culturally relevant materials into the curriculum.

Západoslovenská energetika, a.s.
2013 Consolidated Annual Report

Bratislava, April 2014

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1. Company Bodies

The structure of statutory and supervisory bodies of Západoslovenská energetika, a. s. (hereinafter as “the Company”, “ZSE”) in 2013 was as follows:

1.1 Statutory Body

Board of Directors	
As of December 31, 2013	
Chairman	Jochen Kley (appointed on December 5, 2013)
	Konrad Kreuzer (appointed on September 4, 2010, resigned on on December 5, 2013)
Vice Chairman	Peter Adamec (appointed on June 1, 2012)
Members	Ján Rusnák (appointed on June 1, 2012)
	Marian Rusko (appointed on July 1, 2013)
	Juraj Krajcár (appointed on December 5, 2013)
	Andrej Devečka (appointed on October 31, 2009, resigned on July 1, 2013)
	Jochen Kley (appointed on June 1, 2012, resigned on on December 5, 2013)

1.2 Supervisory Body

Supervisory Board	
As of December 31, 2013	
Chairman	Ľubomír Streicher (appointed as member on July 1, 2013 and as chairman on September 24, 2013)
	Milan Chorvátik (appointed on August 3, 2012, resigned on July 1, 2013)
Vice Chairman	Lars Lagerkvist (appointed as member on December 5, 2013 and as vice chairman on December 19, 2013)
	Robert Adolf Hienz (appointed on September 19, 2011, resigned on December 5, 2013)
Members	Ing. Peter Hanulík (appointed on August 3, 2012)
	Marek Hargaš (appointed on August 3, 2012)
	Boris Hradecký (appointed on August 3, 2012)
	Libor Samec (appointed on August 3, 2012)
	Robert Polakovič (appointed on November 21, 2012)
	Silvia Šmátralová (appointed on April 20, 2011)
	Emil Baxa (appointed on April 20, 2011)

1.3 Shareholders Structure

The shareholders structure of Západoslovenská energetika, a.s. as of December 31, 2013 was as follows:

Shareholders Structure			
As of December 31, 2013	Absolute Value in € thousand	Share in Registered Capital in %	Voting Rights
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

1.4 Corporate Governance Declaration

The methods and principles of corporate governance are defined in the Articles of Association of the Company that are publicly available by means of the Collection of Documents of respective court – District Court Bratislava I. The Organisational structure of the Company defines the principles of the Company and internal corporate governance. The corporate governance model also includes internal management documentation including the Board Directives, Heads of Divisions Directives, Guidelines and Procedures.

The Organisational structure of the Company also includes the internal audit team that:

- makes assessments of adequacy and effectiveness of the system of internal supervision, financial, operational and information systems, corporate governance processes and the quality of tasks assigned and performed;
- makes identification and assessment of operational risks of the Company by using adequate methodology;
- bears responsibility for making and updating of documentation with the Business Compliance Programme;
- conducts activities relating to verification of the Ethics Code.

The outputs of such activities are re-evaluated on the regular basis and proposals for improvement are put into practice in individual areas of corporate governance.

In 2013 the Company proved the improvement of the system of integrated management (“SIM”) within the recertification audit and adhered to the international standards of ISO 14001 and OH 18001. The certification company identified only strengths and SIM improvements and came to conclusion that SIM is in compliance with the requirements of Standards of ISO 14001 and OHSAS 18001, the requirements arising out of legal regulations and achieves the permanent improvement. The outcome of the audit was the issuance of recommendations made by the certification company advising to continue in the certification process and to issue new certificates valid for the period of upcoming three years.

1.5 Corporate Management Methods and Bodies

The Shareholders shall exercise their rights by means of the General Assembly in accordance with the amendments made in the Articles of Association of the Company as follows:

General Assembly

1. The General Assembly is the supreme body of the Company. It shall take decisions concerning the matters relating to the activities of the corporate regulations which are set forth by the Commercial Code or specific act. A shareholder may exercise their rights in the General Assembly in person or in representation under the written power of attorney. The General Assembly shall summon the Board of Directors unless regulations or the Commercial Code specify otherwise. The Board of Directors has an obligation to summon the General Assembly within a period of two months since the date of submission of tax return to the tax authority.
2. The Board of Directors shall summon the General Assembly by sending an invitation to the General Assembly that must be sent to all shareholders in the form of registered mail directly to the address specified in the list at least 30 days prior to the General Assembly.
3. The General Assembly is usually held in the Company's headquarters, however, it may be held in a different place as well. The sessions are obviously visited by the members of the Board of Directors and the Supervisory Board, or other persons invited.
4. The number of votes of a shareholder is determined by the nominal value of their shares. There is one vote attributed to every € 33.19.
5. An invitation to the General Assembly shall contain all the particulars set out by legal regulations and the information claiming that the documents which will be discussed at the General Assembly will be made available at the Company's headquarters not later than 3 calendar days prior to the General Assembly. The invitation to the General Assembly shall be sent by the Board of Directors to every member of the Supervisory Board to their given address along with the documents intended for the discussions at the General Assembly at least 30 days prior to the General Assembly. If otherwise stated, it is allowed to use the address specified as a place of residence in the extract from the Commercial Register.
6. The General Assembly shall make its decisions with the two-thirds majority of votes of all the shareholders. Any decision made by the General Assembly on the changes of the rights associated with certain type of shares shall require the approval of two-thirds votes of shareholders. For this reason the shareholders being the owners of these shares at the same time shall firstly vote for changes in the rights and after that it is the General Assembly of all the shareholders.
7. The General Assembly shall make decisions on the following corporate affairs:
 - a) Change of regulations;
 - b) Decisions concerning any increase and decrease in share capital, empowering the Board of Directors to raise capital stock in accordance with the Commercial Code and the issuance of bonds;
 - c) Decisions concerning the revocation of the business entity by splitting, merging or transforming to a different form of business partnership or cooperative;
 - d) Decisions concerning the revocation of the business entity by liquidation, appointment of the liquidator, setting reward for the liquidator;
 - e) Election and withdrawal of members of Supervisory Board except for the members of the Supervisory Board elected and withdrawn by employees themselves;

- f) Election and withdrawal of the members of the Board of Directors and appointment of the Board's Chairman and Vice-Chairman;
- g) Approval of ordinary, extraordinary or consolidated financial statements, decisions concerning the profit distribution or loss coverage, including the setting of directors' fees;
- h) Approval of the Annual Report;
- i) Approval of the principles and techniques of negotiations held by the Supervisory Board of the Company;
- j) Approval of the agreement on performance of responsibilities of Board members and their rewarding based upon proposals made by the Board of Directors and the Supervisory Board;
- k) Decisions concerning the changes in rights attributed to different types of shares;
- l) Decisions concerning the approval of the Company Transfer Agreement or the Partial Company Transfer Agreement;
- m) Decisions concerning the changes in the form of shares;
- n) Decisions concerning the approval of transfer of the Company's assets the market value of which exceeds 20% of the Company's turnover in the immediate prior accounting period or the sale of which refers to 20% of Company's employees;
- o) Decisions concerning the beginning or termination of trading with Company's stock at the stock exchange;
- p) Decisions concerning the emission of shares, options or other securities or financial instruments that provide rights for shares or other equity stake in the Company, or the right for their underwriting, or decisions allowing the Company to obtain shares or any equity stakes in the Company;
- q) Approval of share transfer in accordance with regulations;
- r) Appointment and removal of a decision making person (e.g. auditor, managerial advisor);
- s) Approval of proposals rejected by the Supervisory Board in accordance with regulations;
- t) Decision concerning other matters that are subject to the performance of the General Assembly, as stated by law or corporate regulations;
- u) Prior approval of the matters relating to companies Západoslovenská distribučná, a.s. and ZSE Energia, a.s. specified in a more detail in the corporate regulations.

Right and Duties of Shareholders

1. A Company's shareholder may be either Slovak or foreign legal or natural person.
2. By making the entry of the Company or an increase in capital stock in the Commercial Register a share underwriter shall receive the rights of a shareholder thus becoming a partner of the joint stock company corresponding to the shares underwritten.
3. Fundamental rights of a shareholder shall include the right to participate in Company's management activities, in profit sharing and liquidation balance following the dissolution of the Company with liquidation. The right to participate in corporate governance is exercised by a shareholder through their participation and voting at the General Assembly.
4. The rights and obligations of shareholders are defined both in regulations and the Commercial Code.

The Board of Directors

1. The Board of Directors is a statutory body of the Company. It shall act on behalf of the Company against the third persons. The Board shall control the corporate activities and take decisions in all the matters associated with the performance of the Company.
2. The Board consists of five (5) members that are appointed and withdrawn by the General Assembly, whereas the Chairman and Vice-Chairman are elected as well. The service term for board members shall last four (4) years. Any board member shall have the right to give up their position; however, they shall be obliged to report such act to the Board of Directors and Supervisory Board in writing.
3. Unless the number of Board members decreased by half, the Board of Directors shall have the right to appoint substitute members until the time of the nearest General Assembly of the Company.
4. The Board shall be the quorum provided that the majority of board members are present at its meeting. During its meetings the Board of Directors shall make decisions based upon the number greater half in the event of the equal number of votes at the time of voting. The Board members may vote either using this form of communication or writing declaration provided they are not physically present in a place where the largest number of members gathers whereas the place of meeting shall be considered to be such place.
5. A member of the Company's Board of Directors may not be a member of the Board of Directors of the company Západoslovenská distribučná, a.s.

Structure and Performance of the Board of Directors

In 2013 the Board of Directors of the Company worked in the following structure:

Chairman:

Jochen Kley – Board Chairman since December 5, 2013, until December 5, 2013 a member of the Board of Directors

Konrad Kreuzer – Board Chairman until December 5, 2013

Board Vice-Chairman: Ing. Peter Adamec, PhD.

Board members: Ing. Ján Rusnák

Juraj Krajcár since December 5, 2013

Ing. Andrej Devečka until July 1, 2013

Marian Rusko since July 1, 2013

In 2013 the Board of Directors acted and meeting were held in accordance with the corporate regulations.

A control body is represented by the Supervisory Board. Resolutions and tasks assigned to the Supervisory Board by the Board of Directors were accomplished properly. The Supervisory Board regularly conducted monitoring and assessment activities during its meetings.

1.6 Information pursuant to Article 20, Para 7 of the Act No. 431/2002 Coll. on Accounting

a) Capital stock of the Company at the amount of € 196,969,174.86 consists of 5,934,594 pieces of listed equity personal shares in the paper form having the nominal value per share being € 33.19. The shares are publicly tradable. The total amount of capital stock was issued and fully paid out. The Company does not register any underwritten capital stock not recorded in the Commercial Register.

b) The Company's bonds are freely transferable.

c) The following companies enjoy the qualified stake in capital stock (at least 10% stake):

National Property Fund (NPF)	51%
E.ON Slovensko, a.s.	39%
E.ON Energie AG	10%

d) There are no persons exercising special control right among the owners of the Company's bonds.

e) The corporate regulations do not include any provisions on restrictions of voting rights.

f) The Company is not familiar with any agreements among the owners of Company's bonds that might lead to any restrictions as regards the transferability of bonds or restriction of voting rights.

g) The rules governing the appointing and withdrawal of individual members of statutory body and changes in regulations:

Members of the statutory body – Board of Directors shall be elected and withdrawn by the General Assembly. The General Assembly shall have the right to withdraw the Board member at any time. In addition, it shall also appoint the Chairman or Vice-Chairman of the Board of Directors. The service term of board members shall last four (4) year.

The General Assembly shall make decisions concerning the amendment and supplement of regulations provided that it has two thirds majority of votes of all the shareholders. The full wording of the proposed supplements and alternations in regulations shall be available to shareholders in the Company's headquarters within a period of time necessary for calling the General Assembly, as stated by regulations. The Board of Directors shall ensure that every shareholder will obtain such wording when making entry in the attendance sheet. In order to adopt or alter regulations the presence of the notary shall be required to confirm that such decisions is considered to be the change of regulations and the notarial deed shall be made accordingly. If the General Assembly makes decision the consequence of which will be the change in regulations such decision will be considered the change of regulations provided that it was adopted in a manner that by law or regulations requires the adoption of a decision on changing regulations. Following such change the Board of Directors shall make without any undue delay the full wording of regulations and moreover, it shall bear respective responsibility for complete and correct wording.

- h) The powers of the statutory body – the Board of Directors shall be defined in the corporate regulations. The Board of Directors of the Company shall have no right for making decisions concerning the emission of shares or share repurchase.
- i) The Company has no agreements concluded that are binding to change its conditions in relation to potential offer for takeover.
- j) There are no agreements on reimbursement concluded between the Company and the members of its bodies once their service term comes to an end. Reimbursement to Company employees whose employment contract is terminated is subject to the Collective Agreement and internal employment directives.

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 Group based in Munich signed an agreement on transferring a 49% share in ZSE to E.ON Energie AG at a price of € 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 AG 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 AG 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 subsidiary Západoslovenská distribučná, a.s. (till December 31, 2012: ZSE Distribúcia, a.s.) and business activities to the subsidiary ZSE Energia, a.s. Západoslovenská energetika, a.s. is the 100% owner of newly established subsidiaries. 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 subsidiary E.ON Slovensko, a.s.

December 13, 2012

Conclusion of the Company's shares transfer:

- 9% of the Company's share held previously by EBRD London to E.ON Energie AG realized on August 21, 2012,
- 1% of the Company's share held by E.ON Slovensko, a.s. to E.ON Energie AG approved by the General Assembly on December 19, 2012.

October 14, 2013

The Company emitted bonds in the total nominal value of € 630 million.

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 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 center 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. Both daughter companies are included in this consolidated financial statement using the method of complete consolidation.

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

The ZSE Group provides services connected with distribution and supply of electric power mostly in the Western Slovakia region. At the end of 2011, the Company started offering gas to large industrial customers and from April 2012 to small and medium-sized enterprises and households. The ZSE Group has no own electricity generation facilities except small hydroelectric power plants. Certain aspects of relations between the ZSE Group and its customers, including price-making for services provided to selected groups of customers, are regulated by the national regulator RONI (Regulatory Office for Network Industries).

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

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

On October 14, 2013 the Company emitted the securities – listed bearer bonds in the total nominal value of € 630 million that were accepted at the listed regulated stock exchange market in Dublin, Ireland. Bonds were emitted in two series: ISIN XS0979598207 at the value of € 315 million with the maturity period of 5 years and an interest rate of 2.875% p. a. and ISIN XS0979598462 at the value of € 315 million with the maturity period of 10 years and an interest rate of 4% p. a. Interest from bonds is paid out annually.

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

4. Employee Structure

As of December 31, 2013 the ZSE Group had on average 1,846 employees, of which are 40 managers (as of December 31, 2012: on average 1,856 employees, of which are 30 managers).

ZSE Group Employee Structure		
As of December 31	2013	2012
Increase	119	214
Of which:		
Free recruitment	86	131
Return from maternity leave	17	9
Transfer within ZSE Group	16	74
Terminated contracts	153	138
Of which:		
Mutual agreement	65	29
Notice	7	14
Contracts for definite period of time	10	2
Retirement or disability to work	24	34
Death	0	6
Probation period	3	13
Maternity leave	18	19
Breach of working discipline	2	1
Medical reasons	11	8
Transfer within ZSE Group	13	12
Total	1,826	1,860

Employee Structure by Gender				
	As of Dec. 31, 2013	%	As of Dec. 31, 2012	%
Women	483	26.5	504	27.1
Men	1,343	73.5	1,356	72.9
Total	1,826	100.0	1,860	100.0

Employee Structure by Education				
	As of Dec. 31, 2013	%	As of Dec. 31, 2012	%
Elementary	7	0.4	8	0.4
Secondary vocational	470	25.7	506	27.2
Secondary complete	845	46.3	851	45.8
University	504	27.6	495	26.6
Total	1,826	100.0	1,860	100.0

Employee Structure by Age				
	As of Dec. 31, 2013		As of Dec. 31, 2012	
		%		%
Below 20	0	0.0	1	0.1
21-25	22	1.2	25	1.3
26-30	138	7.6	150	8.1
31-35	217	11.9	225	12.1
35-40	248	13.6	248	13.3
41-45	275	15.1	282	15.2
46-50	339	18.5	353	19.0
51-55	272	14.9	276	14.8
56-60	260	14.2	248	13.3
Above 60	55	3.0	52	2.8
Total	1,826	100.0	1,860	100.0

5. Structure of Sources and Use of Electric Power

Structure of Electric Power Sources				
MWh	As of Dec. 31, 2013		As of Dec. 31, 2012	
		%		%
Own	5,588	0.08	3,970	0.06
Supplied	7,005,582	99.92	7,212,439	99.94
Total	7,011,170	100.00	7,216,409	100.00

Structure of Electric Power Distribution				
MWh	As of Dec. 31, 2013		As of Dec. 31, 2012	
		%		%
Commercial consumers - Wholesale	5,244,182	59.63	5,048,111	58.79
Commercial consumers – Retail	1,348,869	15.34	1,311,724	15.28
Residential consumers – Households	2,201,005	25.03	2,227,140	25.93

Structure of Electric Power Supply				
MWh	As of Dec. 31, 2013	%	As of Dec. 31, 2012	%
Commercial consumers - Wholesale	3,997,631	57.02	3,972,592	55.05
Commercial consumers – Retail	1,036,301	14.78	1,197,020	16.59
Residential consumers – Households	1,977,238	28.20	2,046,897	28.36
Other	-	-	-	-

Consumed Supply of Electric Power (GWh)			
Year	Total	Of which Wholesale	Of which Retail
2013	7,011	3,998	3,013
2012	7,217	3,973	3,244

Distribution of Electric Power (GWh)			
Year	Total	Of which Wholesale	Of which Retail
2013	8,794	5,244	3,550
2012	8,587	5,048	3,539

6. Economy

In 2013 ZSE Group achieved the profit of € 102,345 thousand with the costs spent in the volume of € 916,021 thousand.

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

Key Figures as of December 31		
€ Thousand	2013	2012
Non-current assets	669,072	635,199
Current assets	151,896	140,093
Total assets	820,968	775,292
Equity	(96,417)	497,666
Non-current liabilities	730,834	94,590
Current liabilities	185,551	183,036
Total equity and liabilities	820,968	775,292
Revenues	1,036,585	1,029,987
EBIT (Operating income)	140,733	156,994
EBITDA	179,886	198,484
Incomes	1,051,749	1,038,610
Costs	916,021	881,169
Profit before tax	135,728	157,441
Net profit	102,345	123,100
Other comprehensive income	884	(482)
Total comprehensive income	103,229	122,618
Average number of employees	1,846	1,856

Data on revenues for distributed electricity:

Indicators of Západoslovenská distribučná, a.s.		
As of December 31	2013	2012
Volume of electricity distributed (GWh)	8,794	8,587
Revenues for electricity distributed (€ Thousand)	568,951	544,659
Area covered (km ²)	14,928	14,928
110kV lines (km)	2,853	2,824
22kV lines (km)	13,300	13,336
0.4kV lines (km)	21,060	20,860
Number of take-off points	1,082,601	1,074,256

Data on revenues for electricity supply to customers:

Indicators of ZSE Energia, a.s.		
As of December 31	2013	2012
Volume of electricity sold (GWh)	7,011	7,216
Revenues of electricity supplied (€ Thousand)	372,527	421,642
Volume of electricity purchased (GWh)	7,005	7,212
Volume of electricity generated (GWh)	6	4
Number of take-off points	949,448	966,740

Data on revenues of ZSE Group:

Indicators of ZSE Group		
As of December 31	2013	2012
Volume of electricity sold (GWh)	7,011	7,216
Volume of electricity distributed (GWh)	8,794	8,587
Revenues from the sale and distribution of electricity (€ Thousand)*	988,285	1,015,598
Volume of electricity purchased (GWh)	7,005	7,212
Volume of electricity generated (GWh)	6	4

*Revenues include distribution fees from distribution system operators outside of ZSE Group

Data on revenues for gas supply to customers:

Indicators		
As of December 31	2013	2012
Volume of gas sold (GWh)	754	37
Revenues from the supply of gas (€ Thousand)	31,324	1,788
Volume of electricity purchased (GWh)	913	136
Number of business partners	31,960	2,500

6.1 Profit to be Appropriated for 2012

The General Assembly of Západoslovenská energetika, a. s. held on May 30, 2013 approved the proposal for the appropriation of profit achieved in 2012 in amount of € 104,008 thousand. In June 2013 the Company's shareholders - National Property Fund, E.ON Slovensko, a.s. and E.ON Energie AG, were paid dividends from 2012 profit in total amount of € 77,811 thousand. Dividends were paid out in €. At the same time, € 25,000 thousand from 2012 profit were transferred to the Retained earnings from previous years and € 1,197 thousand were allocated as contribution to social fund from profit.

Extraordinary General Assembly of the Company held on November 8, 2013 approved distribution of accumulated retained earnings of the Company for the payment of an extraordinary dividend to

the Company's shareholders in amount of € 619,501 thousand. These dividends were paid during November 2013.

For year 2012 the dividend per share amounted to € 117.50 (2011: € 27.02 per share).

6.2 Outlook for 2014

6.2.1 Západoslovenská energetika, a.s.

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

A. Strategic development of ZSE Group

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

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

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

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

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

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

B. Development of the company in the field of innovations

Electromobility

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

Competence Centre

The Competence Centre is a scientific research project and a platform for 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.

6.2.2 Západoslovenská distribučná, a.s.

In 2014 Západoslovenská distribučná, a.s. plans to make the following strategic constructions or strategic activities:

- The upgrading of the electric network at Trenčín Skalka
- The upgrading of 110/22kV electric network at Pezinok, of the control and information system
- Modification of 110kV transformer Levice, replacement of T403
- Extension of transformation T101 Smolenice
- Electric network Čulenova – the upgrading of electric substation RZ110 kV
- Replacement of conductors and earth cables, V8772, Kráľová-Nové Zámky
- Replacement of the T101 transformer in the electric network at Štúrovo
- Replacement of transformers in the electric network at Petržalka

As of January 1, 2014 ZSE undergoes extensive organisational changes that also have impact on investment planning. Investments by Západoslovenská distribučná, a.s. made in 2014, worth approximately € 70 mil., are reduced by € 3 mil., compared to 2013. This amount of investment plan is approximately equal to a level of depreciations.

Západoslovenská distribučná, a.s. aims to make investments into the development of the distribution system based on the requirements related to safety and reliability of the system, bearing in mind all the requirements arising out of legislation, mainly Act No. 251/2012 Coll. on the Energy Industry in full wording. The other criteria for making investments are the actual technical conditions of the distribution system operated by Západoslovenská distribučná, a.s., the requirements of the clients – consumers with regard to new demand (load increase) as well as the requirements of electricity generators ensuring reliable and high quality electricity distribution.

6.2.3 ZSE Energia, a.s.

In 2014 ZSE Energia, a.s. plans to further develop its portfolio of services and benefits provided to its consumers. A greater attention will be paid mainly to the development of electronic services that will allow customers a convenient interaction with the company from the comfort of their home or company. Last year the company website underwent complete redesigning that substantially simplified its using and made its contents more transparent for the users. In 2014 an emphasis will be paid to the extension of functionalities provided by the website and the customer portfolio.

In addition, the 2014 prices will continue to be subject of state regulation that will be performed by setting cap prices in the segment of small private businesses and households, however, this will not prevent any expansion in the activities carried out by competitors doing business in this segment. Electricity price in the Power Exchange determined for the year 2014 has been continuously decreasing which will be positively reflected in lower prices for electricity supply to final consumers, and primarily in the segment of private business consumers having higher energy demand this will bring more substantial energy cost savings which might make positive contribution to the revival of their business activities. In the long run natural gas maintains a stable price level.

In the upcoming period a stronger inclination is expected towards the extension of the products and benefits portfolio associated with energy supply as well as services from the new areas beyond the energy sector.

In 2014 ZSE Energia, a.s. will make an emphasis on the restructuring of contact points, mainly with regard to providing services to customers and active sale. Also in 2014 ZSE Energia, a.s. will continue to optimise the internal processes based on the active feedback provided by consumers through the regular studies on customer satisfaction.

In household segment, ZSE Energia, a.s. aims at retaining the success of 2013, when we acquired more than a third of all households changing the gas supplier during that year.

In the segment of individual servicing, ZSE Energia, a.s. won several important customers, to whom fixed price and various kinds of flexible price are offered. In 2014 we plan to continue the trend, strengthen our position in the market of gas suppliers and increase its market share.

6.2.4 Enermont s.r.o.

Enermont s.r.o. wishes to continue in the following year in building up and strengthening its own brand, especially with regard to new products to be launched in the market. In order to stabilise the company, the most important action is to offer new products ensuring regular revenues and balanced work burden imposed on as many company workers as possible.

Furthermore, we are planning to provide services connected with the erection of generating plants for the third parties, the operation of transformer stations and the preparation of construction work from the point of view of project designing.

In 2014 a number of significant constructions will be commenced in the region covered by Enermont s.r.o., therefore the company is making plan to utilise fairly intensively its capacities in the projects. In association with business partners Enermont, s.r.o. is planning to bid for the solutions relating to the renovation of public lighting infrastructure and the internet wiring of the selected sites.

One of the 2014 key tasks will be to stabilise the company following the implementation of some organisational changes and to launch new products that will be necessary for the company in the long run.

6.3 Risks and Uncertainties

6.3.1 Západoslovenská energetika, a.s.

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

6.3.2 Západoslovenská distribučná, a.s.

The risk that might have impact on the investment plan of the company is the introduction of SMART metering and unclear legislative requirements relating to its launching and IT projects whose final drawing will be affected by the structure and pace of project implementation. A category of SMART metering is a completely new category; the obligation to use such metering arises out of the EU standards transposed into Slovak Decree of the Ministry of Economy No. 358/2013 Coll. effective from November 15, 2013 regarding the implementation of measuring systems. From the point of view of Západoslovenská distribučná, a.s. there will be 194,000 offtake points affected in four categories. In the upcoming period of 2 years the key action will be to prepare an installation of approximately 25,000 electric meters from the advanced category. At the moment the tendering procedure concerning the purchase of electric

meters and data central processing system is underway. An intention is to have at least two electric meter suppliers in a given category to avoid any dependency merely on the single one; and the recently completed pilot project tested its pros and cons, for instance the accuracy of metering and data communication and so forth.

In 2014 we also expect to finalise the construction and connection of a number of renewable energy based generating units into the distribution system. Due to a large increase in non-regulated generating units in Europe an emphasis will be globally given to power control of generating plants. The initial direction is in the area of active power from frequency based on designed characteristic for individual generating plants. A nature of network voltage considers the possibilities of future active control not only in places of transformers for 110/22kV and more, but also at low voltage level. A substantial impact might have an Amendment of the Act on Renewable Energy Sources, the objective of which is, through the EU subsidising policy, to enable the funding of the construction of small-scale (up to 10 kW) photovoltaic power plants. At the same time, Západoslovenská distribučná, a.s. declared its support and an intention to collaborate in taking the actions with SEPS, a.s. aiming to change the way of awarding permits for the construction of generating stations. SEPS, a.s. plans to designate the size of potential connectable output in generating plants for every nodal area of a respective distribution system.

6.3.3 ZSE Energia, a.s.

Implementation of the 3rd Energy Package made a substantial impact on the organisational structure of ZSE Group which directly affects the functioning of ZSE Energia, a.s.

Last year the market experienced a dynamic development and after a longer stable period we witnessed the re-distribution of assets of several major market players which may significantly impact the future dynamics of the market and a competitive environment. A competitive environment will be more intensively influenced by new trends in energy supplies, primarily in the segment of municipalities and company consumers.

As far as financial management is concerned, there is the risk of slight deterioration of payment discipline, mainly in the segment of small and medium-scale enterprises.

6.3.4 Enermont s.r.o.

During the year the construction market continued to stagnate, however, slight hints of revival were tracked as far as developers projects are concerned. The market suffers from excess capacities in all the areas that leads to a tough competition among the players attempting to win every potential contract. As regards construction of the transportation infrastructure the focus moved to the region of Northern Slovakia where Enermont s.r.o. had had no business activities by that time which means lower potential for the company to win the local tenders. As far as the construction of renewable energy based generating plants are concerned, the smaller number of such plants were

connected to the grid as a result of lesser support from the state. The ending of the subsidy grant programme period allowing to receive funding from the EU funds made a profound impact on the construction activities on the basis of which the number of tenders in this field decreased. Revival of this process is expected to happen before the beginning of a new work period starting from 2014 to 2017.

6.4 Important Events after the End of 2013

6.4.1 Západoslovenská energetika, a.s. and Západoslovenská distribučná, a.s.

As of January 1, 2014 an organisational change was completed after a long term planning that resulted from the transposition of the 3rd Liberalisation Package into Slovak legislation by means of a new Act on the Energy Industry and a new Act on Regulation in Network Industries. Such organisational changes made possible the centralised implementation of the activities related to the operation of the distribution system by shifting the activities related to the operation of the distribution system from Západoslovenská energetika, a.s. and Enermont s.r.o. to Západoslovenská distribučná, a.s., i.e. shifting the activities, assets, employees and changes in the organisational structure of the Company.

6.4.2 ZSE Energia, a.s.

ZSE Energia, a.s. is not familiar with any major events that happened after the end of 2013.

6.4.3 Enermont s.r.o.

After the end of 2013 up to 90 % of Enermont s.r.o. employees moved to Západoslovenská distribučná, a.s. which brought a decline in the capacities available for the third market, including partial regional restrictions. At the same time, a direct co-operation in the area of preparation and implementation of construction projects for the needs of Západoslovenská energetika, a.s. came to an end as well.

6.5 Proposal of 2013 Profit Distribution

On March 24, 2014 the Board of Directors of Západoslovenská energetika, a.s. acknowledged the proposal for profit distribution and recommended the Supervisory Board to negotiate about it:

Proposal for the Appropriation of Profit of ZSE for 2013	
Acknowledged by the Board of Directors on March 24, 2014	
Net profit	97,667,000 €
Contribution to social fund	435,565
Dividends	52,213,435
Transfer to Retained earnings from previous years	45,000,000
Total distribution of profit	97,667,000

7. Corporate Responsibility

7.1 Strategy of Corporate Responsibility in ZSE Group

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

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

Even at the time when the consequences of the economic crises show, to what extent Slovak companies perform in a responsible manner, we can claim that we belong to those complying with our commitments. Every year we try to influence our surroundings not only by means of partnerships, but mainly by efforts and involvement of employees in voluntary activities such as donating blood, collecting clothing for various organisations. Furthermore, our employees take part in the project called Our Bratislava organised in co-operation with Pontis Foundation and in many other voluntary activities. They do all this in their working or leisure time. Together with the Pontis Foundation and Slovak Scouting we also undertake the project called Disenchanted 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 philanthropy and corporate responsibility Via Bona in the category of the Prize for Courage to Support Innovative Project seven years ago.

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

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

Corporate responsibility is primarily a way of our thinking that we apply on a day-to-day running of the business. It also represents the underlying inner values of the 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 employees' 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.

7.2 Protection of the Environment

The environmental protection ranks among the top priorities of ZSE Group. We desire to protect and improve the quality of the environment by taking preventive measures in all the activities carried out by our employees and in all the premises operated by the ZSE Group.

We constantly pay a due attention to the protection of soil and water, nature and landscape and, last but not least, to the atmospheric protection. Regarding ecological projects we take proactive approach thus ensuring safe avifauna and preventing any soil and water pollution.

An overview of the ZSE investments made into ecological projects and plant maintenance in 2013:

Ecological Projects	
2013	€ Thousand
Investment capital of Západoslovenská distribučná, a.s.	247
Investment capital of Západoslovenská energetika, a.s.	240
Investment capital of ZSE Energia, a.s.	7
Costs for ecological operation, maintenance and repair of equipment in ZSE Group, including waste processing	739

Investments into the protection of underground water and soil were made in order to improve the environmental performance of transformer stands of electric substations aiming to cut down any risks associated with underground water and soil pollution, construction of appropriate storage facilities as well as monitoring of the pollution nearby a power plant located in Piešťany. The parking areas were also renovated in operational facilities; sewage was discharged through oil waste separators.

The environmental investments were made in order to upgrade high voltage line by protective console cases in the areas of bird reservations. The company implemented the project aimed at the protection of avifauna entitled EU LIFE09 NAT/H/000384 „The Protection of Saker Falcon“. All of

such activities tend to eliminate any risks of the mortality of protected bird species when sitting on electric power poles. In 2013 more than 720 poles were equipped with protective console cases which is more than 60 km of high voltage lines. In Southern Slovakia new nest cases were installed on 16 electric line poles on which storks usually build their nests.

In 2013 ZSE Group caused no contamination of underground and surface water sources owing to internal activities and operation of its facilities. A stroke hit a distribution transformer located near a village of Obyce which caused oil leakage into soil layers. This event was classified as an extraordinary threat to underground water sources which was reported and subsequently examined by the Slovak Environmental Inspection Authority. Measures were taken to prevent any oil leakage into a wider area of the transformer station. The environmental inspection came to conclusion that such measures were sufficient. Any damage to oil-filled equipment with minimum leakage of harmful substances is dealt with immediately following the damage in order to avoid any threat to the quality of water sources.

As a result of the separate waste collection scheme and careful separation of waste originating from administrative activities carried out in 2013 our company successfully separated from municipal waste more than 1.4 t of plastic material and 5.4 t of paper for the purpose of recycling. Owing to the thorough separation of waste produced from repairs of power generating stations and constructions the company processed 613 t of scrap material collected. Due to our maximum effort to utilise effectively waste the company managed to effectively process and utilise 80 % of the total waste.

An attention was given to the equipment filled with SF₆ gas that was classified as fluorinated greenhouse gas. Západoslovenská energetika, a.s., is a holder of the Certificate on Expert Competence allowing to manipulate with fluorinated greenhouse gases that fill some of the power generating equipment. Our employees are holders of the Certificates on Expert Competence allowing them to work with SF₆ gas-filled equipment. Any gas leakage is closely monitored and recorded. Obligations arising out of the Act on Fluorinated Greenhouse Gases have to be complied with in relation to the operation of air conditioning in the plants owned by ZSE Group.

The company has committed to increase the environmental awareness of its employees by providing regular information in the form of articles, reports and data on the environmental issues. In addition, there is an opportunity to participate in the ZSE Group environmental activities. Traditionally, the month of April is the time celebrating the Earth Day – the Green Academy organised in the premises of Design Factory. An inseparable part of this event is also a competition called „The Best Idea“ that is organised for secondary school students presenting their best ideas in the field of renewable energy.

All the results achieved in this area in the year 2013 are in compliance with the approved document entitled „The Occupational Health Care and the Environmental Protection of the Companies Západoslovenská energetika, a.s., ZSE Energia, a.s., and Západoslovenská distribučná, a.s., and the document entitled „The Policy of the Integrated Management System in Enermont s.r.o., aiming to eliminate any substantial environmental impacts in line with ISO 14001.

7.3 Occupational Health and Safety

The Health, Safety and Environment Improvement Plan (hereinafter only „HSE IP) commits E.ON to meet annual targets in the field of occupational health, safety and the environment. The purpose is to establish and reinforce the culture of safety and environmental protection, plus the conditions leading to better results. The relevant conditions are specified in the Internal Regulation No. 6.BOZP.14 (6.121.14).

An independent indicator is TRIF combine that was determined for E.ON SE at the value of 1.8 in 2013. Apart from the data provided by internal employees such indicator also includes the data provided by suppliers. This indicator achieved the value of 1.4 in the reference period.

The data subject to TRIF combine indicator are reported to the HSE E.ON SE headquarters by means of SW application Prevent! Any incidents are reported on a monthly basis via SW GRIDS.

The Commission in charge of Occupational Health and Safety (hereinafter only „OHS Commission) holds meetings at least once a year. The following issues were mainly discussed at the meeting - occupational accidents and fire, Safety Pyramid, SIM internal audits, recertification auditing and new E.ON regulations.

The internal management documentation relating to occupational safety and health was updated for the purpose of making ready for the organisational changes and requirements raised within E.ON SE.

In a period from September to December 2013 training courses were held repeatedly for managers and other employees to provide them with the relevant information relating to occupational health and safety as well as the use of protective work equipment (hereinafter only „PWE“).

In 2013 ZSE Group made investment worth approximately 589,519 € in connection with ensuring occupational health and safety (personal and protective work equipment, legislative training courses relating to occupational health and safety and preventive health check-ups).

In 2013 Západoslovenská energetika, a.s., and its daughter companies registered four occupational injuries. In 2013 ZSE Group experienced neither fatal occupational injury nor occupational disease.

In 2013 state inspection authorities made no inspection regarding occupational safety and health protection in ZSE Group.

In 2013 the employees of delivery companies or ZSE Group-owned facilities spent 1,045,563 at work. No occupational injury of employees working for delivery company was reported in the reference period (i.e. TRIF = 0,0).

Statistical indicators of occupational injury rate in 2011, 2012 and 2013

Year	No. of registered occupational injuries (ROI)			Lost calendar days due to ROI			Average number of employees		
	2011	2012	2013	2011	2012	2013	2011	2012	2013
ZSE Group	4	4	4	99	107	389	1,808	1,856	1,846

LTIF (Lost Time Injury Frequency) in 2013: 1.3

TRIF (Total Recordable Incidents Frequency) in 2013: 1.9

TRIF comb (TRIF combined with TRIF of suppliers) in 2013: 1.4

Notes:

ROI

– registered occupational injury

LTIF

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

TRIF

– 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 Group

TRIF_{comb}

– the number of incidents involving ZSE Group employees and sub-contractors performing work at the workplace/facility of ZSE Group per one million of hours worked out in the monitored period

8. Consolidated Financial Statements for the Year Ended December 31, 2013

Consolidated Financial Statements prepared for the year ended December 31, 2013 in accordance with International Financial Reporting Standards (IFRS) as adopted by European Union are included in appendix.

9. Independent Auditor's Report

Independent Auditor's Report to the Consolidated Financial Statements for the year 2013 is included in appendix.

Západoslovenská energetika, a.s.

**Independent Auditor's Report and
Consolidated Financial Statements
for the year ended 31 December 2013
prepared in accordance with
International Financial Reporting Standards
as adopted by the European Union**

Západoslovenská energetika, a.s.

Consolidated financial statements for the year ended 31 December 2013 prepared in accordance with IFRS as adopted by the European Union

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Západoslovenská energetika, a.s.

Consolidated financial statements for the year ended 31 December 2013 prepared in accordance with IFRS as adopted by the European Union

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of Západoslovenská energetika, a.s. and its subsidiaries, which comprise the consolidated balance sheet as at 31 December 2013 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Board of Directors responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Západoslovenská energetika, a.s. and its subsidiaries as at 31 December 2013 and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.


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




Ing. Eva Hupková, FCCA
SKAU licence No.: 672

In Bratislava, 24 March 2014

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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, rel. No. 16611/B, Section: Sro.

Consolidated balance sheet at 31 December 2013 prepared in accordance with IFRS as adopted by the European Union

(All amounts are in thousand of Euro unless stated otherwise)

		As at 31 December	
	Note	2013	2012
ASSETS			
Non-current assets			
Property, plant and equipment	7	654,528	619,794
Intangible assets	8	12,146	13,007
Other non-current asset		2,398	2,398
		<u>669,072</u>	<u>635,199</u>
Current assets			
Inventories	10	7,435	4,019
Trade and other receivables	11	113,813	110,892
Current income tax receivables		7,871	3,465
Cash and cash equivalents	12	22,777	21,717
		<u>151,896</u>	<u>140,093</u>
Total assets		<u>820,968</u>	<u>775,292</u>
EQUITY AND LIABILITIES			
Share capital and reserves			
Share capital	13	196,969	196,969
Legal reserve fund	13	39,421	39,421
Other funds created from profit	13	-	45,467
Other reserves		(240)	(1,124)
Retained earnings		(332,567)	216,933
Total equity		<u>(96,417)</u>	<u>497,666</u>
Non-current liabilities			
Issued bonds	16	627,178	-
Pension and other provisions for liabilities and charges	18	10,844	10,121
Deferred revenues	14	78,320	73,296
Deferred income tax liabilities	17	14,492	11,173
		<u>730,834</u>	<u>94,590</u>
Current liabilities			
Issued bonds	16	4,138	-
Trade and other payables	18	175,786	161,525
Deferred revenues	14	5,926	3,885
Pension and other provisions for liabilities and charges	18	701	1,338
Bank overdrafts	12	-	16,288
		<u>185,551</u>	<u>183,036</u>
Total liabilities		<u>917,385</u>	<u>277,626</u>
Total equity and liabilities		<u>820,968</u>	<u>775,292</u>

These consolidated financial statements have been approved for issue by the Board of Directors on 24 March 2014.

.....
Jochen Kley
Chairman of the Board of Directors and CEO

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Marian Rusko
Member of the Board of Directors

Consolidated statement of comprehensive income for the year ended 31 December 2013
prepared in accordance with IFRS as adopted by the European Union

(All amounts are in thousand of Euro unless stated otherwise)

	Note	Year ended 31 December	
		2013	2012
Revenues	19	1,036,585	1,029,987
Purchase of electricity, gas and related fees	20	(753,997)	(735,045)
Employee benefits	21	(55,833)	(53,178)
Depreciation and amortisation	21	(39,153)	(41,490)
Other operating expenses	22	(61,877)	(51,076)
Other operating income		15,008	7,796
Profit from operations		140,733	156,994
Finance income			
Interest income		156	827
Interest expense and other finance expenses	23	(5,161)	(380)
Net finance income		(5,005)	447
Profit before tax		135,728	157,441
Income tax expense	24	(33,383)	(34,341)
Net profit		102,345	123,100
Other comprehensive income (items that will not subsequently be reclassified to profit or loss):	17, 18	884	(482)
Total comprehensive income		103,229	122,618
Earnings per share (expressed in EUR per share)			
- basic	28	17.245	20.743
- diluted	28	17.245	20.743

Západoslovenská energetika, a.s.

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Consolidated cash flow statement for the year ended 31 December 2013 prepared in accordance with IFRS as adopted by the European Union

(All amounts are in thousand of Euro unless stated otherwise)

	Share capital	Legal reserve fund	Other funds	Other reserves*)	Retained earnings	Total
Balance at 1 January 2012	196,969	39,421	45,467	(86)	255,026	536,797
Comprehensive income						
Profit for the year	-	-	-	-	123,100	123,100
Other comprehensive income	-	-	-	(482)	-	(482)
Total comprehensive income for year 2012	-	-	-	(482)	123,100	122,618
Transaction with owners						
Dividends	-	-	-	-	(160,350)	(160,350)
	-	-	-	-	(160,350)	(160,350)
Other	-	-	-	(556)	(843)	(1,399)
Balance at 31 December 2012	196,969	39,421	45,467	(1,124)	216,933	497,666
Comprehensive income						
Profit for the year	-	-	-	-	102,345	102,345
Other comprehensive income	-	-	-	884	-	884
Total comprehensive income for year 2013	-	-	-	884	102,345	103,229
Transfers (Note 13)	-	-	(45,467)	-	45,467	-
Transaction with owners						
Dividends (Note 13)**)	-	-	-	-	(697,312)	(697,312)
	-	-	-	-	(697,312)	(697,312)
Other	-	-	-	-	-	-
Balance at 31 December 2013	196,969	39,421	-	(240)	(332,567)	(96,417)

*) Other reserves include remeasurements post-employment benefit obligations net of tax.

**) Dividends are paid on the basis of separate financial statements of Západoslovenská energetika, a.s. The distributable retained earnings of Západoslovenská energetika, a.s. are disclosed in Note 13.

Consolidated cash flow statement for the year ended 31 December 2013 prepared in accordance with IFRS as adopted by the European Union

(All amounts are in thousand of Euro unless stated otherwise)

	Note	Year ended 31 December	
		2013	2012
Cash flows from operating activities			
Cash generated from operations	25	191,771	194,638
Interest received		156	1,004
Interest paid		(72)	(50)
Income tax paid		(34,714)	(33,378)
Net cash from operating activities		<u>157,141</u>	<u>162,214</u>
Cash flows from investing activities			
Purchase of property and equipment and intangibles		(74,374)	(82,516)
Acquisition of short-term investment		-	(20,000)
Proceeds from sale of short-term investment		-	30,000
Acquisition of other non-current assets		-	(160)
Dividends received	22	4,041	1,050
Proceeds from sale of property and equipment	25	1,223	482
Net cash used in investing activities		<u>(69,110)</u>	<u>(71,144)</u>
Cash flows from financing activities			
Proceeds from issued bonds		627,996	-
Other expenditures related to issued bonds		(1,367)	-
Dividends paid	13, 29	(697,312)	(210,350)
Net cash used in financing activities		<u>(70,683)</u>	<u>(210,350)</u>
Net decrease in cash and cash equivalents		17,348	(119,280)
Cash and cash equivalents at beginning of year	12	<u>5,296</u>	<u>124,576</u>
Cash and cash equivalents at end of year	12	<u>22,644</u>	<u>5,296</u>

Notes to the consolidated financial statement prepared at 31 December 2013 prepared in accordance with IFRS as adopted by the European Union

(All amounts are in thousands of Euro unless stated otherwise)

1 General information

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

The Company is one of the three successors of Západoslovenské energetické závody, štátny podnik, a state owned entity. On 31 October 2001, this state enterprise was wound up on a solvent basis, based on the resolution No. 96/2001 of the Slovak Minister of Economy. One day later, its assets and liabilities were transferred to the National Property Fund ("NPF") of the Slovak Republic in accordance with the relevant privatisation project. On 1 November 2001, the NPF contributed the assets and liabilities them to the following joint-stock companies: Západoslovenská energetika, a.s., Bratislavská teplárenská, a.s. and Trnavská teplárenská, a.s.

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

On 5 September 2002, the National Property Fund of the Slovak Republic sold 49% of the outstanding share capital of ZSE to E.ON Energie AG, Germany.

On 16 December 2003, E.ON Energie AG transferred 9% of total share capital of ZSE to European Bank for Reconstruction and Development (EBRD). These shares were transferred by EBRD back to E.ON Energie AG on 21 August 2012.

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

The structure of the Company's shareholders at 31 December 2013 and 2012 was as follows:

	Absolute amount in thousands Euro	Interest in share capital in %	Voting rights
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

Notes to the consolidated financial statement prepared at 31 December 2013 prepared in accordance with IFRS as adopted by the European Union

(All amounts are in thousands of Euro unless stated otherwise)

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

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

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

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

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

E.ON Slovensko, a.s. which currently owns a 39% shareholding in the Company's registered capital is consolidated as a 100% subsidiary by E.ON Energie AG, Munich, Germany. E.ON Energie AG which owns 10% of the Company's shares is a subsidiary of E.ON SE, based in Düsseldorf, Germany. E.ON SE prepares the consolidated financial statements for all group companies of the consolidation group and acts as a direct consolidating company.

Notes to the consolidated financial statement prepared at 31 December 2013 prepared in accordance with IFRS as adopted by the European Union

(All amounts are in thousands of Euro unless stated otherwise)

The members of the statutory bodies during the years ended 31 December 2013 and 31 December 2012 were as follows:

Board of Directors:		As at 31 December 2013	As at 31 December 2012
Chairman:	Jochen Kley (appointed on 5 December 2013)		Konrad Kreuzer
	Konrad Kreuzer (resigned on 5 December 2013)		Ing. Peter Adamec, PhD.
Vice Chairman:	Ing. Peter Adamec, PhD.		Jochen Kley
Members:	Jochen Kley (resigned on 5 December 2013)		Ing. Andrej Devečka
	Ing. Andrej Devečka (resigned on 1 July 2013)		Ing. Ján Rusnák
	Juraj Krajčár (appointed on 5 December 2013)		
	Ing. Ján Rusnák		
	Marian Rusko (appointed on 1 July 2013)		
Supervisory Board:		As at 31 December 2013	As at 31 December 2012
Chairman:	Ing. Ľubomír Streicher (appointed as Member on 1 July 2013 and as Chairman on 24 September 2013)		Ing. Milan Chorvátik
	Ing. Milan Chorvátik (resigned on 1 July 2013)		
Vice Chairman:	Lars Lagerkvist (appointed as Member on 5 December 2013 and as Vice Chairman on 19 December 2013)		Robert Adolf Hienz
	Robert Adolf Hienz (resigned on 5 December 2013)		
Members:	Silvia Šmátralová		Silvia Šmátralová
	Ing. Emil Baxa		Ing. Emil Baxa
	Ing. Peter Hanulík		Ing. Peter Hanulík
	Ing. Marek Hargaš		Ing. Marek Hargaš
	Ing. Boris Hradecký		Ing. Boris Hradecký
	JUDr. Libor Samec		JUDr. Libor Samec
	Robert Polakovič		Robert Polakovič

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

As part of the sale of 49% of shares to E.ON Energie AG, the National Property Fund of Slovakia and E.ON Energie AG have entered into a Shareholders' Agreement which was subsequently amended in preparation for the unbundling of distribution and supply to separate legal entities. The current shareholders of the Company are party to the amended Shareholders Agreement which sets out among others the areas of responsibility and decision making for the General Meeting, Board of Directors and for the Supervisory Board of the Company, as well as the rules for nomination of members of the boards. The majority of the members of the Board of Directors are nominated by E.ON Energie AG. The National Property Fund appoints the majority of the Supervisory Board. The Supervisory Board has extensive competences in addition to the powers given to it by Slovak corporate law. The Supervisory Board acts as the supreme controlling body of the Company.

According to the Company's Articles of the Association, the Supervisory Board has 9 members, two thirds of the members are appointed by the General Meeting of the Company and one third is elected by the Company's employees.

Notes to the consolidated financial statement prepared at 31 December 2013 prepared in accordance with IFRS as adopted by the European Union

(All amounts are in thousands of Euro unless stated otherwise)

The Board of Directors and Supervisory Board approve the annual Strategic Plan. The Supervisory Board approves significant transactions at variance with the Strategic Plan. The General Meeting adopts decisions with a qualified majority of two thirds of votes.

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

The Group employed 1,846 staff on average during 2013, of which 40 were management (2012: 1,856 employees on average, of which 30 were management).

Registered address:

Čulenova 6
816 47 Bratislava
Slovak Republic

Identification number (IČO) of the Company is: 35 823 551

Tax identification number (IČ DPH) of the Company is: SK2020285256

Notes to the consolidated financial statement prepared at 31 December 2013 prepared in accordance with IFRS as adopted by the European Union

(All amounts are in thousands of Euro unless stated otherwise)

2 Summary of significant accounting policies

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

2.1 Basis of preparation

The Act on Accounting of the Slovak republic No. 431/2002 Coll. as amended requires the Group to prepare consolidated financial statements for the year ended 31 December 2013 in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS").

The Group's consolidated financial statements at 31 December 2013 have been prepared as ordinary consolidated financial statements in accordance with the Slovak Act No. 431/ 2002 Coll. ("Accounting Act") for the accounting period from 1 January 2013 to 31 December 2013.

The consolidated financial statements have been prepared in compliance with International Financial Reporting Standards as adopted by European Union on going concern basis of the Group. The Group applies all IFRS and interpretations issued by International Accounting Standards Board (herein after "IASB") as adopted by the European Union, which were in force as of 31 December 2013.

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

The Board of Directors may propose to the Company's shareholders to amend the consolidated 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 consolidated financial statements in conformity with IFRS requires the use of certain critical estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies on problematic transactions. In the process of applying of accounting policies management of the Company also realizes certain critical decisions. The areas involving a higher degree of complexity of judgement, or areas where assumptions and estimates are significant for the financial statements are disclosed in Note 4.

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

Notes to the consolidated financial statement prepared at 31 December 2013 prepared in accordance with IFRS as adopted by the European Union

(All amounts are in thousands of Euro unless stated otherwise)

2.1.1 Changes in accounting policy and disclosures

(a) New standards, interpretations and amendments adopted by the Company during the financial year ended 31 December 2013

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2013 that would be expected to have a material impact on the Group. The following new standards and interpretations became effective for the Group from 1 January 2013:

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 standard does not have a material impact on the Group's financial statements. This standard was endorsed by the EU on 11 December 2012.

Amendments to IAS 1, Presentation of Financial Statements (issued in June 2011, effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'Statement of profit or loss and other comprehensive income'. The amendment does not have a material impact on measurement of transactions and balances. This amendment was endorsed by the EU on 5 June 2012.

Disclosures - Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The standard does not have a material impact on the Group's financial statements. This amendment was endorsed by the EU on 13 December 2012.

Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning on or after 1 January 2013). The improvements consist of changes to five standards. IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS 23 "Borrowing costs", retrospectively by first-time adopters. IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements. IAS 16 was amended to clarify that servicing equipment which is used for more than one period is classified as property, plant and equipment rather than inventory. IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12. IAS 34 was amended to bring its requirements in line with IFRS 8. IAS 34 will require disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to the chief operating decision maker and there has been a material change in those measures since the last annual financial statements. These amendments to the standards do not have a material impact on the Group's financial statements. These amendments were endorsed by the EU on 27 March 2013.

(All amounts are in thousands of Euro unless stated otherwise)

Other revised standards and interpretations effective in European Union for annual periods beginning on or after 1 January 2013: Interpretation *IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine*, clarifies when and how to account for benefits arising from the stripping activity in the surface mining. Amendments to *IFRS 1, First-time adoption of International Financial Reporting Standards - Government Loans*, give first-time adopters of IFRSs the same relief as existing preparers. Amendments to *IFRS 1, First-time adoption of International Financial Reporting Standards*, relate to severe hyperinflation and eliminates references to fixed dates for certain exceptions and exemptions. Amendments to *IAS 12, Income taxes*, introduce a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale. These interpretations and amendments did not have impact on the Group's financial statements.

b) New standards, interpretations and amendments issued but not effective for the financial year beginning 1 January 2013 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 2014 or later, and which the Group has not early adopted:

IFRS 10, Consolidated Financial Statements, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2014), replaces all of the guidance on control and consolidation in *IAS 27, Consolidated and Separate Financial Statements* and *SIC-12, Consolidation – Special-purpose Entities*. IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. This standard was endorsed by the EU on 11 December 2012.

IFRS 11, Joint Arrangements, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2014), replaces standard *IAS 31, Interests in Joint Ventures* and *SIC-13, Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The Group is currently assessing the impact of the new standard on its consolidated financial statements. This standard was endorsed by the EU on 11 December 2012.

IFRS 12, Disclosure of Interests in Other Entities, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2014), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in *IAS 28, Investments in associates*. IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Group is currently assessing the impact of the new standard on its consolidated financial statements. This standard was endorsed by the EU on 11 December 2012.

IAS 27, Separate Financial Statements, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2014), was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by *IFRS 10, Consolidated Financial*

(All amounts are in thousands of Euro unless stated otherwise)

Statements. The Group is currently assessing the impact of the amended standard on its consolidated financial statements. This standard was endorsed by the EU on 11 December 2012.

IAS 28, Investments in Associates and Joint Ventures, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2014). The amendments to IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. This amendment was endorsed by the EU on 11 December 2012.

IFRS 9, Financial Instruments, Classification and Measurement. Key features of the standard issued in November 2009 and amended in October 2010, December 2011 and November 2013 are:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in its own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The amendments made to IFRS 9 in November 2013 removed its mandatory effective date, thus making application of the standard voluntary. The Group is currently assessing the impact of the standard on its consolidated financial statements. This standard has not yet been endorsed by the EU.

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

(All amounts are in thousands of Euro unless stated otherwise)

consolidated financial statements. This amendment was endorsed by the EU on 13 December 2012.

Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 (issued in June 2012 and effective for annual periods beginning on or after 1 January 2014). The amendments clarify the transition guidance in IFRS 10 "Consolidated Financial Statements". Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2013 for a calendar year-end entity that adopts IFRS 10 in 2014) is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities", by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period. Further, the amendments will remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied. These amendments were endorsed by the EU on 4 April 2013.

Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment entities (issued on 31 October 2012 and effective for annual periods beginning on or after 1 January 2014). The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary. These amendments were endorsed by the EU on 20 November 2013.

Amendments to IAS 19 – Defined benefit plans: Employee contributions (issued in November 2013 and effective for annual periods beginning 1 July 2014). The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service. The Group is currently assessing the impact of the amendments on its consolidated financial statements. These amendments have not yet been endorsed by the EU.

Other revised standards and interpretations:

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

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Amendments to IAS 36 - Recoverable amount disclosures for non-financial assets (issued on 29 May 2013 and effective for annual periods beginning 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period). The amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment. These amendments were endorsed by the EU on 19 December 2013.

Amendments to IAS 39 - Novation of Derivatives and Continuation of Hedge Accounting (issued on 27 June 2013 and effective for annual periods beginning 1 January 2014). The amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated (i.e. parties have agreed to replace their original counterparty with a new one) to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. These amendments were endorsed by the EU on 19 December 2013.

Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014, unless otherwise stated below). The improvements consist of changes to seven standards.

IFRS 2 was amended to clarify the definition of a 'vesting condition' and to define separately 'performance condition' and 'service condition'; The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

IFRS 3 was amended to clarify that (i) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (ii) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014.

IFRS 8 was amended to require (i) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (ii) a reconciliation of segment assets to the entity's assets when segment assets are reported.

The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial.

IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.

IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided. The Group is currently assessing the impact of the amendments on its consolidated financial statements. These amendments have not yet been endorsed by the EU.

Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014). The improvements consist of changes to four standards.

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The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented.

IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself.

The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9.

IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination. The Group is currently assessing the impact of the amendments on its consolidated financial statements. These amendments have not yet been endorsed by the EU.

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

2.2 Consolidation

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

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

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

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

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

2.3 Segment information

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

2.4 Foreign currency translation

(i) Presentation currency

These financial statements are presented in thousands of EUR, which is the Group's presentation currency. The functional currency of all entities within the Group is EUR.

(ii) Transactions and balances

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

2.5 Property, plant and equipment

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

(i) Cost

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

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

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

(ii) Depreciation

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

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

	Useful lives in years
Network buildings	30 – 50 years
Office buildings	30 – 50 years
Power lines	15 – 40 years
Switching stations	4 – 20 years
Other network equipment	4 – 20 years
Vehicles	4 – 15 years

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

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

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

2.6 Intangible assets

Intangible assets are initially measured at cost. Intangible assets are recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the Group, and the cost of the asset can be measured reliably. After initial recognition, the intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses.

Borrowing costs are capitalised during the period from acquisition until the asset becomes available for use. The Group does not have intangible assets with indefinite useful lives. Intangible assets are amortised on the straight-line basis over their useful lives, not exceeding a period of 4 years.

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

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;

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- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

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

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

2.7 Impairment of non-current non-financial assets

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

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

2.8 Financial assets

The Group classifies its financial assets according to IAS 39 "Financial Instruments: Recognition and Measurement". The classification depends on the purpose for which the financial assets were acquired, whether they are quoted in an active market and at the intention of management.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet (Notes 2.13 and 2.15).

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

Purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognised at fair value and transaction costs are expensed in the profit and loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Loans and receivables are carried at amortised cost using the effective interest method. The Group assesses at each year-end date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment testing of the receivables is described in note 2.13.

2.9 Financial liabilities

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

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

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

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

2.10 Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.11 Leases

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

Operating leases

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

2.12 Inventories

Inventories are stated at the lower of acquisition 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.

2.13 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, net of provision for impairment. Revenue recognition policy is described in Note 2.27.

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

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

2.14 Construction contracts

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

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

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

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

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

Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion.

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

2.15 Cash and cash equivalents

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

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

Cash and cash equivalents are carried at amortised cost using the effective interest method. Restricted balances are excluded from cash and cash equivalents for the purposes of the cash

flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the balance sheet date are included in non-current assets.

2.16 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.

2.17 Dividend distribution

Dividends' pay-out to the shareholders of the Company 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.

2.18 Legal reserve fund

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

2.19 Other funds

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

2.20 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.

2.21 Trade payables

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

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.22 Taxation

(i) Deferred tax

Deferred income tax is recognized using the balance sheet liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination and the transaction, when initially recorded, affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the 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 Group and it is probable that the temporary difference will not reverse in the foreseeable future. Dividend income is currently not subject to income taxes in the Slovak Republic.

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

(ii) Current income tax

Income tax is recognized as an expense in the period in which the Group's tax liability in the accompanying income statement of the Group is calculated on the basis resulting from the profit before tax, which was adjusted for deductible and non-deductible items due to permanent and temporary adjustments to the tax base loss a redemption. The current tax liability is stated net of corporate income tax advances that the Group paid during the year. If corporate income tax advances paid during the year exceed the tax liability for the period, the Group records a tax receivable.

(iii) Special levy on business in regulated industries

Since 1 September 2012, the Group is obliged to pay the special levy on business in regulated industries, which generally includes licensed distribution of electricity and supply of electricity and gas. The levy is payable, if the revenues from licensed activities achieve at least 50% of the total revenues of the individual companies of the Group for the respective accounting period. The Group's obligation to pay the levy arises when the profit before tax for the accounting period is at least EUR 3 million. The levy rate is 4.356% per annum (2012: 1.452% for the period from

September to December 2012) The levy is calculated as the multiple of the given rate and the accounting profit before tax determined under Slovak GAAP exceeding EUR 3 million. The Group has accounted for the levy as for the profit tax and included it, in accordance with IAS 12, within the income tax expense.

2.23 Contributions related to acquisition of property and equipment

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

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

Customer contributions relating to the acquisition of property and equipment during the process of connection of the customers to the grid are recognised over the life of acquired depreciable asset with the amount not yet recognised in the statement of comprehensive income recorded as deferred revenues within the current and non-current liabilities. Both the fixed assets and deferred revenue are recorded at fair value at acquisition.

2.24 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are carried at amortized cost using the effective interest method. Interest costs on borrowings to finance the construction of property, plant and equipment are capitalized based on cost of the qualifying assets, during the period of time that is required to complete and prepare the asset for

its intended use. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

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

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset in accordance with IAS 23. To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization is determined by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalized during a period does not exceed the amount of borrowing costs incurred during that period.

2.25 Provisions / Contingent liabilities

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

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

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

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

2.26 Employee benefits

The Group has both defined benefit and defined contribution plans.

(i) Pension obligations

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

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(ii) Unfunded defined benefit pension plans

According to the contract with the Trade Unions for the years 2011 to 2013, the Group is obliged to pay its employees on retirement or disability the average of their monthly salary (2012: average of their monthly salary). Additionally, if the employees decide to resign exactly at the date of retirement, the Group is obliged to pay its employees an additional 6 multiples of their average monthly salary (2012: 6 multiples of their average monthly salary).

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

The Group also pays certain life and work long term service bonuses.

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

b) Work long term service bonuses (long-term service bonuses) paid by the Group are dependent on the number of years of service for the Group and equal to the following amounts:

10 years	EUR 366
20 years	EUR 664
30 years	EUR 830
35 years	EUR 996
40 years	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 high quality corporate bonds which have terms to maturity approximating the terms of the related pension liability and (b) then attributing the calculated present value to the periods of service based on the plan's benefit formula.

Remeasurements on post-employment benefits arising from experience adjustments and changes in actuarial assumptions are charged or credited in other comprehensive income in the period in which they arise. Past service costs are recognised immediately in expenses.

(iii) Defined contribution pension plans

The Group contributes to the government and private defined contribution pension plans.

The Group makes contributions to the government health, retirement benefit, accidental and guarantee insurance and unemployment schemes at the statutory rates in force during the year, based on gross salary payments. Throughout the year, the Group made contributions amounting to 35.2% (2012: 35.2%) of gross salaries up to a monthly salary cap, which is defined by the relevant law, to such schemes, together with contributions by employees of a further 13.4% (2012: 13.4%). The cost of these payments is charged to the profit and loss in the same period as the related salary cost.

In addition, with respect to employees who have chosen to participate in a supplementary pension scheme, the Group makes contributions to the supplementary scheme amounting to 3% (2012: 3%) from the total of monthly tariff wage.

(All amounts are in thousands of Euro unless stated otherwise)

(iv) Termination benefits

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

(v) Profit sharing and bonus plans

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

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

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

2.27 Revenue recognition

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

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

(i) Revenue from sale and distribution of electricity

Revenue from the sale and distribution of electricity is recognised when the electricity is delivered to the customer.

Consumption to wholesale customers is metered and billed on a monthly basis. The consumption of retail customers in the segment of small businesses was metered during December 2013.

The consumption of retail customers in the households' segment is metered and billed on an annual basis and the Group split its household customer base to twelve billing cycles. The billing of electricity supplied in 2013 for all twelve billing cycles will be completed in December 2014. The Group now uses the Enersim demand profile data for the billing purposes. Network losses are included in the cost of purchased electricity.

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

(All amounts are in thousands of Euro unless stated otherwise)

(ii) Connection fees

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

(iii) Sales of services

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

(iv) Dividend income

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

(v) Interest income

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

(vi) Contractual penalties

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

(vii) Sales to hospitals

Hospitals pay with significant time delays. The Group recognises sales to some hospitals at estimated fair value of expected cash inflows. (Note 3.3)

3 Financial risk management

3.1 Financial risk factors

The Group's activities are exposing it to certain financial risks: market risk (including the risk of changes in foreign currency exchange rates and interest rate risk), credit risk and liquidity risk. The Group's principal financial instruments comprise trade receivables and payables, cash, issued bonds and short-term bank deposits.

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

(i) Market risk

(a) Foreign exchange risk

The Group operates mainly in the domestic market, and most of its sales, purchases and short-term deposits are denominated in Euro.

Management does not consider foreign exchange risk as a significant exposure to the Group's operations as it has only small volume of transactions in currency other than EUR.

(b) Price risk

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

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(c) Cash flow and fair value interest rate risk

As the Group has no significant interest earning assets other than short-term bank deposits, short-term bonds and cash at bank accounts as of 31 December 2013 and 2012, the operating cash flows are only to a small extent dependent on the market interest rate fluctuations. The short term bank deposits are denominated at fixed interest rates.

During the year 2013 The Company issued bonds in total amount of EUR 630 mil. Bonds have fixed interest rate. Further information about issued bonds including their interest rate are stated in Note 16.

(ii) Credit risk

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

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

As for the banks and financial institutions, the Group has relationships only with those that have a high independent rating assessment. If wholesale customers are independently rated, these ratings are used. If no independent rating is available, management assesses the credit quality of customer, taking into account its financial position, past experience and other factors. The Group does not set individual risk limits for counterparties. As for trade receivables, the Group does not have a significant concentration of credit risk mainly due to a large number of diverse customers.

The Group uses a system of reminders, which may culminate in a service disconnection, as the prevailing contract enforcement. The collection of receivables could be influenced by economic factors; management believes that there is no significant risk of loss to the Group beyond the provisions already recorded.

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

	Counterparty Rating *	31 December 2013		31 December 2012	
		Credit limit	Balance	Credit limit	Balance
Banks rated	A3		22,500		19,258
Banks rated	Baa	n/a	44	n/a	219
Banks rated	A		54		1,782
			<u>22,598</u>		<u>21,259</u>
Banks not rated			177		458
			<u>22,775</u>		<u>21,717</u>

**) Rating provided by Moody's and Fitch at 31 December 2013*

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(iii) Liquidity risk

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

The Group regularly monitors its liquidity position and uses overdrafts only in exceptional cases. The Group also uses the advantages of commercial terms between the Group and its suppliers to secure sufficient financing funds to cover its needs. The maturity of supplier's invoices is 20 days, on average.

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

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

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

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

	Less than one month	1 – 3 month s	3 months to 1 year	1 - 5 years	More than 5 years	Total
At 31 December 2013						
Trade payables (Note 15)	77,210	9,087	2,364	-	-	88,661
Other accrued liabilities (Note 15)	1,175	20,583	1,415	-	-	23,173
Issued bonds (Note 16)			1,316	315,000	315,000	631,316
Other financial liabilities (Note 15)	4,876	-	-	-	-	4,876
	<u>83,261</u>	<u>29,670</u>	<u>5,095</u>	<u>315,000</u>	<u>315,000</u>	<u>748,026</u>
At 31 December 2012						
Bank overdrafts (Note 12)	-	-	16,288	-	-	16,288
Trade payables (Note 15)	72,749	7,578	4,728	-	-	85,055
Other accrued liabilities (Note 15)	-	7	6,116	-	-	6,123
Other financial liabilities (Note 15)	8,860	-	-	-	-	8,860
	<u>81,609</u>	<u>7,585</u>	<u>27,132</u>	<u>-</u>	<u>-</u>	<u>116,326</u>

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3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders, and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. The Group's management manages capital reported under IFRS as equity amounting to, as at 31 December 2013, EUR (96,417) thousand (31 December 2012: EUR 497,666 thousand).

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

The Group's management considers the most relevant indicator of capital management to be the return on average capital employed (ROACE). Management expects return on average capital employed to be higher than cost of capital. Indicator ROACE is calculated as follows: earnings before interest and taxes EBIT (in the Consolidated statement of comprehensive Income of the Group presented as Profit from operations) / average capital.

3.3 Fair value estimation

Fair value measurements are analysed by level in the fair value hierarchy as follows:

- (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities,
- (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and
- (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs).

Management applies judgement in categorising financial instruments using the fair value hierarchy. If for fair value measurements are necessary significant adjustments of observable inputs measurement is included in level 3. Assessing the significance of valuation inputs is considered in relation to the overall fair value measurement.

Assets and liabilities not measured at fair value but for which fair value is disclosed

At 31 December 2013:	Level 1	Level 2	Level 3	Carrying value
Financial liabilities	638,366	-	-	631,316
Issued bonds – XS0979598207, series 1	318,313	-	-	315,654
Issued bonds – XS0979598462, series 2	320,053	-	-	315,663

The fair value of issued bonds was determined by quoted market price of bonds issued by the Company (as stated in Note 16).

(All amounts are in thousands of Euro unless stated otherwise)

At the balance sheet date, the fair values of other financial assets and liabilities approximate their carrying amounts. Non-current trade receivables and trade payables were partially discounted except for where the effect of discounting is negligible.

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

4 Critical accounting estimates and judgements

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

(i) Unbilled electricity

In 2011, the Group implemented new customer information system which contributed to improve accuracy of the existing system of expected electricity demand (Enersim) through expected electricity demand profiles in time. Implementation of this system improvement allows for making more accurate estimates of unbilled revenues from delivery and distribution, as described below. The Group now uses the Enersim demand profile data for the billing purposes.

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

- the estimated volume delivered and distributed to households in technical units (MWh) between the date of the last meter reading and the end of the accounting period; the consumption estimate utilises the time patterns of consumption of various customer profiles observed on a sample basis;
- the estimated losses in the distribution network; and
- the estimated unit price in EUR/MWh, that will be applied to billing the electricity delivery and distribution in the future. The price is based on actual average tariffs applicable in a given calendar year.

The Group applied the method of estimated network losses. This method is consistent with that applied in prior accounting periods and is based on an expert report. Should the estimate of total network losses be lower by 0.1 %, representing 9 GWh of electricity, with other parameters being unchanged, the revenues for commodity and distribution services would increase by EUR 1,233 thousand (2012: EUR 1,269 thousand). The estimate of unbilled revenues is by EUR 4,809 thousand higher compared to the same period last year.

(ii) Estimated useful life of network

The useful life of network assets was based on accounting estimates described in Note 2.5 and their carrying values as of 31 December 2013 and 31 December 2012 are disclosed in Note 7. If the estimated useful life of network assets had been shorter by 10% than management's estimates at 31 December 2013, the Group would have recognised an additional depreciation of network assets of EUR 3,332 thousand (2012: EUR 3,967 thousand).

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5 Group structure

The Group structure as of 31 December 2013 and as of 31 December 2012 was as follows:

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

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

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

ZSE has chosen to unbundle distribution through a model of new distribution business subsidiary resulting in the transfer of all core activities of distribution to Západoslovenská distribučná, a.s. (till 31 December 2012: ZSE Distribúcia, a.s.). The energy supply business has been transferred to ZSE Energia, a.s.

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

ZSE Development, s.r.o. (till 3 February 2012: OTC, s.r.o.) was established on 14 April 2003 and incorporated in the Commercial Register on 2 June 2003 as a private company fully owned by ZSE. On 1 July 2003, ZSE transferred to OTC, s.r.o. part of its business relating to the calibration of electricity metering equipment. Effective 1 January 2012, OTC, s.r.o. sold its calibration and metering business back to ZSE and sold its switching equipment maintenance business to Enermont and became a dormant company. ZSE Development was not consolidated on a full basis in these financial statements on materiality grounds but included at cost within other non-current assets.

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

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

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

None of Enermont s.r.o., ZSE Development, s.r.o. (until 3 February 2012: OTC s.r.o.), ZSE prenos, s.r.o., Západoslovenská distribučná, a.s. (till 31 December 2012: ZSE Distribúcia, a.s.) and ZSE Energia, a.s. don't have any subsidiaries of their own.

6 Segment reporting

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

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

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

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

Electricity distribution

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

Electricity and gas supply

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

As a result of regulation of the distribution business and partial regulation of the supply business approximately 88% during period ended 31 December 2013 (31 December 2012: approximately 88%) of the Group's EBITDA were generated from the sales to customers who are subject to price regulation.

Other

Segment Other consists mainly of network construction, maintenance testing and calibration of network elements for the Electricity distribution business. The segment also provides headquarter

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type functions, as central services, customer services, accounting, controlling, HR, IT and other services, to both supply and distribution businesses. The segment generated also some external revenues from construction and maintenance work related to energy assets for third parties.

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

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(All amounts are in thousands of Euro unless stated otherwise)

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

	31 December 2013			
	Distribution	Supply	Other	Eliminations
Revenue from external customers	205,924	818,025	12,636	-
Inter-segment revenues	367,360	72,094	209,668	(649,122)
				1,036,585
Purchases of electricity, gas and related fees	(343,498)	(845,824)	(83,146)	518,471
Employee benefits expenses	(7,191)	(4,374)	(44,275)	7
Other operating expenses	(87,445)	(24,993)	(82,627)	133,188
Other operating income	4,912	2,927	9,713	(2,544)
	140,062	17,855	21,969	-
Earnings before interest tax depreciation and amortization (EBITDA)				179,886

	31 December 2012			
	Distribution	Supply	Other	Eliminations
Revenue from external customers	187,798	835,340	6,849	-
Inter-segment revenues	362,227	75,858	200,408	(638,493)
Purchases of electricity, gas and related fees	(311,388)	(860,761)	(82,211)	519,315
Employee benefits expenses	(5,281)	(3,943)	(43,972)	18
Other operating expenses	(83,372)	(18,861)	(71,129)	122,286
Other operating income	2,044	2,095	6,783	(3,126)
	152,028	29,728	16,728	-
Earnings before interest tax depreciation and amortization (EBITDA)				198,484

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	Year ended 31 December	
	2013	2012
Reconciliation of Earnings before interest tax depreciation and amortization (EBITDA) to Profit before tax		
EBITDA	179,886	198,484
Depreciation and amortisation	(39,153)	(41,490)
Interest income	156	827
Interest expense	(5,101)	(380)
Other financial expenses	(60)	-
Profit before tax	135,728	157,441
31 December 2013		
Investments (cash effective)		
31 December 2012		
Investments (cash effective)		
Reconciliation of Investments (cash effective) to additions to non-current assets		
Investments (cash effective)	74,374	82,516
Assets acquired but not paid for	5,940	11,123
Payments to assets acquired in prior periods	6,958	2,662
Additions to tangible and intangibles assets	73,356	90,977

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7 Property, plant and equipment

	Land	Network buildings	Power lines	Switching stations and similar network equipment	Machinery, non-network and administration buildings, vehicles and other assets	Capital work in progress including advances (CIP)	Total
At 1 January 2012							
Cost	16,125	53,103	480,934	250,440	120,244	28,684	949,530
Accumulated depreciation including impairment charge	-	(18,042)	(183,448)	(115,799)	(53,837)	(996)	(382,122)
Net book value	16,125	35,061	297,486	134,641	56,407	27,688	567,408
Year ended 31 December 2012							
Additions	-	-	-	-	-	87,760	87,760
Transfers	1,716	4,986	25,625	34,508	10,028	(76,862)	1
Depreciation charge (Note 21)	-	(1,424)	(13,681)	(14,044)	(6,558)	-	(35,707)
Disposals (Note 25)	(8)	-	-	-	(35)	-	(43)
Impairment (charge)/release (Note 21)	-	-	-	-	-	375	375
At 31 December 2012 net book value	17,833	38,623	309,430	155,105	59,842	38,961	619,794

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	Land	Network buildings	Power lines	Switching stations and similar network equipment	Machinery, non-network and administration buildings, vehicles and other assets	Capital work in progress including advances (CIP)	Total
At 31 December 2012							
Cost	17,833	58,065	505,489	282,144	127,599	39,582	1,030,712
Accumulated depreciation including impairment charge	-	(19,442)	(196,059)	(127,039)	(67,757)	(621)	(410,918)
Net book value	17,833	38,623	309,430	155,105	59,842	38,961	619,794
Year ended 31 December 2013							
Additions	-	-	-	-	-	69,162	69,162
Transfers	1,370	3,103	42,621	16,463	6,400	(69,957)	-
Depreciation charge (Note 21)	-	(1,383)	(13,096)	(13,422)	(6,197)	-	(34,098)
Disposals (Note 25)	(87)	-	(5)	(15)	(328)	107	(328)
Impairment (charge)/release (Note 21)	-	-	-	-	(2)	-	(2)
Closing net book value	19,116	40,343	338,950	158,131	59,715	38,273	654,528
At 31 December 2013							
Cost	19,116	61,168	548,532	290,872	123,011	38,273	1,080,972
Accumulated depreciation including impairment charge	-	(20,825)	(209,582)	(132,741)	(63,296)	-	(426,444)
Net book value	19,116	40,343	338,950	158,131	59,715	38,273	654,528

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

Property plant and equipment includes the capitalised interest on debt apportioned to the construction period of qualifying assets as part of their cost of acquisition in the cumulative amount of EUR 11,981 thousand (as at 31 December 2012: EUR 11,684 thousand).

During the year ended 31 December 2013, the Group received from customers fixed assets and cash to finance the construction of fixed assets at fair value of EUR 512 thousand (during the year ended 31 December 2012: EUR 707 thousand). As at 31 December 2013, the cost and net book value of fixed assets financed through contributions amounts to EUR 63,018 thousand and EUR 29,111 thousand respectively (as at 31 December 2012: EUR 62,506 thousand and EUR 31,017 thousand respectively).

At 31 December 2013 and 2012, no property, plant and equipment were collateralised 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 541,121 thousand for buildings and building parts and up to amount of EUR 490,916 thousand for machinery, equipment, fixtures, fittings and other assets (2012: EUR 482,200 thousand and 432,630 thousand respectively).

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8 Intangible assets

	Computer software and other	Assets not yet available for use	Total
At 1 January 2012			
Cost	39,808	1,375	41,183
Accumulated depreciation including impairment charge	(25,609)	-	(25,609)
Net book value	14,199	1,375	15,574
Year ended 31 December 2012			
Additions	-	3,217	3,217
Transfers	2,477	(2,477)	-
Disposals	-	-	-
Amortisation charge (Note 20)	(5,784)	-	(5,784)
Closing net book value	10,892	2,115	13,007
At 31 December 2012			
Cost	42,012	2,115	44,127
Accumulated depreciation including impairment charge	(31,120)	-	(31,120)
Net book value	10,892	2,115	13,007
Year ended 31 December 2013			
Additions	-	4,194	4,194
Transfers	1,745	(1,745)	-
Amortisation charge (Note 20)	(5,055)	-	(5,055)
Closing net book value	7,582	4,564	12,146
At 31 December 2013			
Cost	43,706	4,564	48,270
Accumulated depreciation including impairment charge	(36,124)	-	(36,124)
Net book value	7,582	4,564	12,146

Assets not yet available for use comprise mostly the acquisition of additional software for upgrade and improvement of functionality of the customer and their network information system. Assets are expected to be finalised and available for use in 2014.

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9 Financial instruments by category

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

As at 31 December 2013	Loans and receivables	Total
Assets as per balance sheet		
Trade receivables (Note 11)	112,245	112,245
Amounts due from customers to contract work – third parties (Note 11)	524	524
Cash and cash equivalents (Note 12)	22,777	22,777
Total	135,546	135,546

As at 31 December 2012	Loans and receivables	Total
Assets as per balance sheet		
Trade receivables (Note 11)	109,103	109,103
Amounts due from customers to contract work – third parties (Note 11)	98	98
Cash and cash equivalents (Note 12)	124,709	124,709
Total	130,918	130,918

As at 31 December 2013	Other financial liabilities – carried at amortised cost	Total
Liabilities as per balance sheet		
Issued bonds (Note 16)	631,316	631,316
Trade payables (Note 15)	88,661	88,661
Other accrued liabilities (Note 15)	23,173	23,173
Other financial liabilities (Note 15)	4,876	4,876
Total	748,026	748,026

As at 31 December 2012	Other financial liabilities – carried at amortised cost	Total
Liabilities as per balance sheet		
Bank overdrafts (Note 12)	16,288	16,288
Trade payables (Note 15)	85,055	85,055
Other accrued liabilities (Note 15)	6,123	6,123
Other financial liabilities (Note 15)	8,860	8,860
Total	116,326	116,326

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10 Inventories

	As at 31 December	
	2013	2012
Natural gas	6,138	2,394
Materials and spare parts	1,297	1,625
Total inventories	7,435	4,019

The inventory items are shown after provision for slow-moving materials and spare parts of EUR 2 thousand (2012: EUR 15 thousand).

Movements in provision for slow-moving items for year ended 31 December 2013 are presented below:

	At 1 January 2013	Set-up	Release	At 31 December 2013
Materials and spare parts	15	-	(13)	2
Total	15	-	(13)	2

11 Trade and other receivables

	As at 31 December	
	2013	2012
Trade receivables within the due date and not impaired	101,421	98 253
Individually impaired trade receivables	45,555	40 991
from this: Receivables towards hospitals	7,603	5 130
Less: Provision for impairment of receivables	(34,731)	(30 141)
from this: Provisions for receivables towards hospitals	(2,615)	(642)
Trade receivables – net	112,245	109 103
Amounts due from customers for contract work – third parties	524	98
Total financial assets (Note 9)	112,769	109,201
Prepayments	309	1,133
Excise tax receivable (Note 29)	735	558
Total trade and other receivables	113,813	110,892

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

	As at 31 December	
	2013	2012
Trade receivables - neither past due nor impaired, including unbilled gas of EUR 1,210 thousand (2012: unbilled electricity EUR 5,310 thousand)	101,421	98,253
from this: receivables collected as of 31 January 2014	89,091	89,912
receivables that became overdue after the balance sheet date	12,330	8,341
Overdue receivables	45,555	40,991
Less: Provision for impairment of receivables	(34,731)	(30,141)
Total trade and other receivables	112,245	109,103

As of 31 December 2013, Group's trade receivables of EUR 45,555 thousand (31 December 2012: EUR 40,991 thousand) were impaired and fully or partially provided for. The amount of the provision was EUR 34,731 thousand as of 31 December 2013 (31 December 2012: EUR 30,141 thousand). The individually impaired receivables mainly relate to businesses and individuals which entered in unexpectedly difficult economic situations. It was assessed that a portion of the receivables is expected to be recovered.

The ageing of these receivables is as follows:

	As at 31 December	
	2013	2012
1 to 30 days after due date	6,074	6,900
31 to 60 days after due date	928	1,916
61 to 90 days after due date	910	790
91 to 120 days after due date	658	728
121 to 180 days after due date	934	1,900
181 to 360 days after due date	4,484	4,063
Over 360 days after due date	31,667	24,694
Total individually impaired receivables	45,555	40,991

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

	2013	2012
At the beginning of the year	30,141	30,102
Additional provision for receivables impairment	6,552	2,925
Unused amounts reversed	(226)	(624)
Receivables written off during the year as uncollectible	(1,736)	(2,262)
At end of the year	34,731	30,141

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

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

	As at 31 December	
	2013	2012
Costs incurred and recognised profits (less recognised losses) to date	1,498	259
Less progress billings	(974)	(161)
Amounts due from/(to) customers for contract work (Note 9)	524	98

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

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

The carrying amount of trade and other receivables as of 31 December 2013 and 2012 is not substantially different from their fair value. The maximum exposure to credit risk is limited by the carrying value of receivables. There is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers.

The carrying amounts of all the Group's trade and other receivables are denominated in EUR. The Group does not hold any collateral as security of the receivables.

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

12 Cash and cash equivalents

	As at 31 December	
	2013	2012
Cash at bank and in hand	22,644	21,584
Short-term bank deposits	133	133
Total	22,777	21,717

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

	As at 31 December	
	2013	2012
Cash at bank and in hand	22,644	21,584
Bank overdrafts (Note 9)	-	(16,288)
Total	22,644	5,296

The effective interest rate on short-term bank deposits was 0.15% (year ended 31 December 2012: 0.57%) and these deposits have an average maturity of 1 day (year ended 31 December 2012: 10 days). As at 31 December 2013, the restricted cash amounted to EUR 133 thousand (as

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at 31 December 2012: EUR 133 thousand) and was excluded from cash and cash equivalents for the purposes of the cash flow statement.

The cash and short-term deposits are kept by the Group in 6 banks. The credit quality of cash in the bank and bank deposits can be assessed by external credit ratings (Moody's and Fitch) at 31 December 2013:

	As at 31 December	
	2013	2012
Cash at bank		
Banks rated – A3 (Moody's)	22,367	19,125
Banks rated – Baa (Moody's)	44	219
Banks rated – A (Fitch)	54	1,782
Not rated banks	177	456
	<u>22,642</u>	<u>21,582</u>
Short-term bank deposits		
Banks rated – A3 (Moody's)	133	133
	<u>133</u>	<u>133</u>
Other		
Stamps	2	-
	<u>2</u>	<u>-</u>
Total cash in the bank and short-term bank deposits	<u>22,777</u>	<u>21,717</u>

These balances are neither past due nor impaired.

13 Shareholders' equity

The total authorised number of ordinary shares of the parent company of the Group ("the Company") is 5,934,594 shares (2012: 5,934,594) with a par value of EUR 33.19 per share, representing share capital of EUR 196,969 thousand. All authorised shares are issued and fully paid in. The Company does not have any share capital subscribed but not recorded in the Commercial Register.

No changes in the share capital of the Company occurred during the year 2013 and year 2012.

A Legal reserve fund is obligatorily created from the profit of the Company in accordance with the Slovak Commercial Code, paragraph 67. The minimum prescribed creation of the Legal reserve fund is specified in paragraph 217 of the Commercial Code and it defines that the Company is obliged to create a Legal reserve fund in the amount of 10% of its share capital at the time of the incorporation of the Company. This amount must be increased annually by at least 10% from net profit, until the Legal reserve fund achieves 20% of the share capital. Use of this fund is restricted under the Commercial Code only to cover losses of the Company and it is not a distributable reserve. The Legal reserve fund amounted to EUR 39,421 thousand as at 31 December 2013 (as at 31 December 2012: EUR 39,421 thousand).

Extraordinary General Meeting of the Company on its session held on 8 November 2013 approved cancellation of the purpose-built Other funds created from profit and transfer of their balance in total amount of EUR 45,467 thousand into the retained earnings. At the date of cancellation, Other funds included the regional development fund amounting to EUR 12,463 thousand (at 31 December 2012: EUR 12,463 thousand), which has been set up in 2004 based on the agreement of Company's shareholders, the distribution network recovery fund amounting

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to EUR 9,958 thousand (at 31 December 2012: EUR 9,958 thousand) set up in 2005 based on the agreement of Company's shareholders and by initiative of Ministry of Economy of Slovak republic, and the investment base fund amounting to EUR 23,046 thousand (at 31 December 2012: EUR 23,046 thousand), which was set up in 2006.

The General Meeting of the Company held on 30 May 2013 approved the statutory financial statements for the previous accounting period and the distribution of 2012 profit amounting to EUR 104,008 thousand as follows:

Appropriation to the social fund	EUR	1,197	thousand
Dividends paid	EUR	77,811	thousand
Transfer to retained earnings	EUR	25,000	thousand

The Extraordinary General Meeting of the Company held on 8 November 2013 approved distribution of accumulated retained earnings of the Company for the payment of an extraordinary dividend to the Company's shareholders in amount of EUR 619,501 thousand. These dividends were paid during November 2013.

Dividend per share represents EUR 117.50 for the year ended 31 December 2013 (2012: EUR 27.02 per share).

The distributable retained earnings of the Company at 31 December 2013 amounted to EUR 97,670 thousand (2012: EUR 651,846 thousand). The decision on the use of the 2013 profit of EUR 97,670 thousand will be made by the General Meeting.

14 Deferred revenues

	As at 31 December	
	2013	2012
Non current		
Contributions – long-term portion (a)	34,502	36,676
Connection fee – long-term portion (b)	43,818	36,620
	78,320	73,296
Current		
Contributions – current portion (a)	2,517	1,958
Connection fee – short-term portion (b)	3,409	1,927
	5,926	3,885

- a) Contributions are paid primarily by customers for capital expenditures made on their behalf, and access network assets transferred to the Company by its customers free of charge. The contributions are non-refundable and are recognised in revenue in line with the depreciation lives of the related assets.
- b) Connection fees are paid by customers to connect them to a network. Contribution is recognised as deferred revenue and is released to revenues over the useful life of the asset (approximately 20 years).

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15 Trade and other payables

	As at 31 December	
	2013	2012
Current trade and other payables		
Trade payables	88,661	85,055
Other accrued liabilities	23,173	6,123
Other financial liabilities	4,876	8,860
Financial liabilities (Note 9)	116,710	100,038
Other current payables and accrued expenses		
Deferred revenues – unbilled electricity and distribution	36,326	31,689
Payables to employees	1,997	2,111
Social security	1,437	1,238
Accrued personnel expenses	7,941	7,485
Advance payments	7,349	14,121
VAT payable (Note 29)	2,961	3,686
Other payables	1,065	1,157
	59,076	61,487
Total	175,786	161,525

Out of the total payables at 31 December 2013, overdue trade payables are EUR 5,313 thousand (at 31 December 2012: EUR 1,660 thousand). All other payables are within the due date.

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

The carrying value of payables is denominated mostly in Euro.

16 Issued bonds

An overview of issued bonds is presented in the table below:

	As at 31 December	
	2013	2012
Non-current		
Bonds	627,178	-
Current		
Bonds including unpaid interests	4,138	-
Total	631,316	-

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The Company issued bonds on 14 October 2013 registered in form in name of bearer. Interest revenues from bonds are due on annual basis. They were accepted to quoted regulated market of the Irish Stock Exchange, Dublin. Managers of the bonds issue were following companies: Citigroup Global Markets Limited, London, Great Britain; Raiffeissen Bank International AG, Wien, Austria and Société Générale, Paris, France. More details about issued bonds are presented in the table below:

	Emission amount in thousand EUR	Emission rate	Interest	Maturity date
ISIN: XS0979598207 series 1	315,000	100%	2.875% p.a.	14 October 2018
ISIN: XS0979598462 series 2	315,000	99.814%	4.000% p.a.	14 October 2023
Total	630,000			

17 Deferred income taxes

The Group's deferred income taxes are calculated on temporary differences under the balance sheet liability method using a principal tax rate of 22% (2012: 23%).

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

As of year-end 2013, Slovak tax legislation was amended based on which the corporate income tax rate decreases from 23% to 22%, effective 1 January 2014.

The deferred tax liability can be analysed as follows:

	As at 31 December	
	2013	2012
Deferred tax asset:		
to be recovered after more than 12 months	(2,309)	(2,328)
to be recovered within 12 months	(4,110)	(4,144)
	<u>(6,419)</u>	<u>(6,472)</u>
Deferred tax liability:		
to be paid after more than 12 months	14,584	12,306
to be paid within 12 months	6,327	5,339
	<u>20,911</u>	<u>17,645</u>
Total deferred tax liability	<u>14,492</u>	<u>11,173</u>

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The movements in deferred tax liability during the year are as follows:

	As at 1 January 2013	Credited/ (charged) to profit and loss	Credited to other comprehensive income	As at 31 December 2013
Property, plant and equipment	17,645	3,266	-	20,911
Pension liability and other liabilities	(4,115)	(41)	245	(3,911)
Provisions against bad debts	(2,357)	(151)	-	(2,508)
Total	11,173	3,074	245	14,492

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

18 Pension and other provisions for liabilities and charges

	Pensions and other staff benefits (a)	Litigation (b)	Total
At 1 January 2013	10,759	700	11,459
Additional provisions	1,370	-	1,370
Used/paid during year	(490)	(83)	(573)
Releas of unused provision	(94)	(617)	(711)
At 31 December 2013	11,545	-	11,545

	As at 31 December	
Analysis of total provisions	2013	2012
Non-current	10,844	10,121
Current	701	1,338
	11,545	11,459

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(a) Pension and other staff benefits

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

(i) post employment benefits

	As at 31 December	
	2013	2012
Present value of unfunded retirement obligations	9,346	8,781
Liability in the balance sheet	9,346	8,781

The amounts recognised in profit and loss are as follows:

	Year ended 31 December	
	2013	2012
Current service cost	592	453
Past service cost	1,258	-
Interest expense	269	271
Total	2,119	724

Movements in the present value of defined benefit obligation are:

	As at 31 December	
	2013	2012
Present value of unfunded retirement obligations at beginning of the year	8,781	6,585
Current service cost	592	453
Interest expense	269	271
Past service cost	1,258	-
Paid	(227)	(208)
Other	-	1,070
Remeasurements of pension obligation	(1,327)	610
Present value of unfunded retirement obligations at the end of the year	9,346	8,781

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

Average number of employees at 31 December 2013	1,846
Percentage of employees, who will terminate their employment with the Group prior to retirement (staff turnover)	4.21% p.a.
Expected salary increases short-term	3.5% p.a.
Expected salary increases long-term	3.3% p.a.
Discount rate	3.5% p.a.

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

	As at 31 December	
	2013	2012
Present value of unfunded obligations	2,199	1,978
Liability in the balance sheet	2,199	1,978

The amounts recognised in profit and loss are as follows:

	Year ended 31 December	
	2013	2012
Current service cost	221	126
Interest expense	73	59
Total charge/(credit), included in costs	294	185

Movements in the present value of defined benefit obligation are:

	As at 31 December	
	2013	2012
Present value of the obligation at beginning of the year	1,978	1,578
Current service cost	221	126
Interest expense	73	59
Paid	(263)	-
Other	-	329
Remeasurements of pension obligation	190	(114)
Present value of unfunded retirement obligations at the end of the year	2,199	1,978

	Year ended 31 December	
	2013	2012
Remeasurements of pension obligation recognised in other comprehensive income		
- on post employment benefits,	(1,327)	610
- on other long-term benefits	190	(114)
Total	(1,137)	496

(b) Provision for litigation

Provision for litigation was related to the legal case with a supplier's employee, who suffered a serious work-related accident whilst working for the Company. The provision was set up in the amount of the assumed compensation quantified by the Company's lawyer. As the litigation has ended, EUR 83 thousand from the provision was used during the year 2013 and the remaining part of the provision was released.

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19 Revenues

Revenues include the following:

	Year ended 31 December	
	2013	2012
Electricity sales:		
Sales of electricity to industrial and commercial customers	246,076	288,124
Sales of electricity to residential customers	126,451	145,649
Distribution charges related to:		
Sales of electricity to industrial and commercial customers	448,767	416,369
Sales of electricity to residential customers	166,991	165,456
Other	-	1,397
Other revenue:		
Sales of gas	31,324	1,788
Revenues for connection works and testing fees	3,410	3,171
Revenue for construction work	9,537	3,782
Other	4,029	4,251
	1,036,585	1,029,987

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

20 Purchases of electricity, gas and related fees

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

	Year ended 31 December	
	2013	2012
Purchases of electricity from:		
Slovenské elektrárne ("SE") (Note 29)	219,787	208,737
Other domestic electricity producers and traders	285,582	267,179
Imports from abroad related to an electricity island	-	191
Purchases on the spot market	26,701	32,693
Electricity transmission fees (including system access and ancillary service charges)	187,583	221,468
Cost of purchased gas	30,418	1,786
Other	3,656	2,991
	753,997	735,045

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21 Operating expenses

	Year ended 31 December	
	2013	2012
<i>Employee benefit costs</i>		
Wages and salaries	36,750	35,176
Pension costs – defined contribution plans	7,537	5,719
Other social costs	11,546	12,283
	<u>55,833</u>	<u>53,178</u>
<i>Depreciation and amortisation</i>		
Depreciation (Note 7)	24,098	35,706
Amortisation (Note 8)	5,055	5,784
	<u>39,153</u>	<u>41,490</u>
<i>Operating expenses</i>		
Repairs and maintenance of electrical network related assets	10,418	7,371
IT maintenance fees	11,689	12,343
Advisory services	2,691	3,234
Rental costs	4,038	3,829
Other repairs and maintenance	805	1,251
Advertising	1,524	2,333
Call centre services	2,888	2,924
Post and telecommunication costs	3,254	2,927
Security services	1,175	1,181
Energotel services	612	598
GIS services	-	295
External services	879	567
Travel expenses	813	762
Audit of financial statements	226	227
Tax consultancy	-	-
Other non-audit services	233	21
Other services	13,085	8,538
Bad debt expense (Note 11)	6,326	2,301
Impairment of non-current assets	(2)	(375)
Other operating expenses	1,233	749
	<u>61,877</u>	<u>51,076</u>

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22 Other operating income

	Year ended 31 December	
	2013	2012
Customer grants	1,678	1,678
Income from rental and social facilities	736	581
Gain on disposal of fixed assets	904	350
Dividend income	4,041	1,050
Income from contractual penalties	1,571	1,617
Income from unauthorized consumption of electricity	2,567	-
Other	3,511	2,520
	15,008	7,796

During the year 2013 the Company received dividends amounting to EUR 3,534 thousand from ZSE Development Ltd. Dividends accounted for one-time distribution of a substantial part of the available funds accumulated during the past years as long as the subsidiary did not carry out the reorganization and termination of its business activities (Note 5). A subsidiary is not within these accounts fully consolidated on the basis of significance, but it is recognized under non-current assets at cost.

23 Interest expense and other finance expenses

	Year ended 31 December	
	2013	2012
Interest expenses:		
- Interest from bonds	4,687	-
- other interest	354	380
Other finance expenses:		
- finance expenses related to bonds	60	-
- other	60	-
	5,161	380

24 Income tax expense

In 2012 the applicable income tax rate was 23%. The rate on special levy on the profit over EUR 3 mil. in regulated industries was 4.356%, and the levy rate was effective from September 2012 and is deductible when calculating income tax. In 2013 the Slovak tax legislation was enacted the income tax rate 22%, effective from 1 January 2014.

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

	Year ended 31 December	
	2013	2012
Profit before tax	135,728	157,441
Theoretical income tax related to current period at 25, 56% included Special levy 2,56 % (2012: 20%)	34,694	31,487
Income tax related to prior periods	16	357
Effect of change of the tax rate to 22% (2012: 23%)	(659)	1,943
Other tax non-deductible items	(922)	554
Other	254	-
Income tax expense for the period	33,383	34,341
The tax charge for the period comprises:		
Deferred tax charge/ (credit) (Note 17)	3,074	4,792
Current tax charge in respect of current period	26,816	27,619
Special levy on business in regulated industries	3,477	1,573
Income tax related to prior periods	16	357
Income tax expense for the period	33,383	34,341

25 Cash generated from operations

	Note	Year ended 31 December	
		2013	2012
Profit before tax		135,728	157,441
Adjustments for:			
Depreciation	7, 21	34,098	35,706
Amortisation	8, 21	5,055	5,784
Impairment (release)/charge		-	(375)
Loss/(Gain) on sale of property and equipment		(904)	(439)
Interest income		(156)	(827)
Interest expense	23	5,101	380
Dividend income	22	(4,041)	(1,050)
Net movements in provisions and deferred revenues		5,627	5,439
Other non-cash transactions		1,128	(1,399)
Changes in working capital			
Inventories	10	(3,416)	(2,631)
Trade and other receivables		(2,187)	6,576
Trade and other payables		15,738	(9,967)
Cash generated from operations		191,771	194,638

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	Year ended 31 December	
	2013	2012
Net book amount of disposals	319	43
Gain/(Loss) on disposal of property, plant and equipment	904	439
Proceeds from disposals	1,223	482

26 Contingencies

Taxation

Due to the fact that Slovak tax law contains certain provisions allowing for more than one interpretation, as well as the practice developed in the generally unstable environment by the tax authority of making arbitrary judgements on business activities, Management's interpretation of the Company's business activities may not coincide with the interpretation of these activities by the tax authorities. The fiscal years from 2008 to 2013 remain open to tax inspection.

27 Commitments

(i) Capital commitments

At 31 December 2013, the Group concluded contracts for the purchase of non-current assets totalling EUR 4,288 thousand which will become effective after this date (2012: EUR 2,542 thousand).

(ii) Operating lease commitments – the Group as lessee

The operating lease payments amounted to EUR 4,038 thousand (2012: EUR 3,829 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:

	Year ended 31 December	
	2013	2012
No later than one year	2,466	3,477
Later than one year and no later than five years	5,770	5,246
Later than five years	438	35
	8,674	8,758

As at 31 December 2013 and 31 December 2012, the Group leases cars and various premises for business and administrative purposes under operating leasing contracts.

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28 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:

	2013	2012
Profit for the year	102,345	123,100
Weighted average number of ordinary shares in issue	5,934,594	5,934,594
Basic earnings per share (EUR per share)	17.245	20.743

(ii) Diluted

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has no potential ordinary shares as of 31 December 2013 and 2012, and diluted earnings per share are the same as basic earnings per share.

29 Related party transactions

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

(i) Shareholders

- The Slovak Republic represented by the National Property Fund
- E.ON Slovensko, a.s.
- E.ON Energie AG

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

- E.ON Bayern AG
- E.ON SE
- E.ON Česká republika
- E.ON Elektrárne, s.r.o.
- E.ON Energie AG
- E.ON Energie, a.s., České Budějovice
- E.ON Energy Trading SE, Bratislava
- E.ON Energy Trading SE, Düsseldorf
- E.ON Energie Human Resources International GmbH, Munich
- E.ON Inhouse Consulting GmbH, Munich
- E.ON Business Services Slovakia spol. s r. o. (till 30 September 2013: E.ON IT Slovakia spol. s r.o.)
- E.ON Risk Consulting, Germany
- Energotel, a.s.
- Bioplyn Cetin, s.r.o.
- Bioplyn Ladzany, s.r.o.
- Bioplyn Hont, s.r.o.
- Bioplyn Horovce, s.r.o.

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(All amounts are in thousands of Euro unless stated otherwise)

(iii) Government related entities

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

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

In case of disclosures of transactions with government entities Slovak Republic Company has applied the exemption under IAS 24, paragraph 25.

These consolidated financial statements disclose summarised significant operations with government bodies and other non-government entities:

	Year ended 31 December	
	2013	2012
Payment of dividends to related parties*)		
<i>(i) Shareholders</i>		
National Property Fund (NPF)	355,629	107,279
E.ON Slovensko, a.s.	271,952	84,140
Payment of dividends to other shareholders	69,731	18,931
	697,312	210,350

Notes to the consolidated financial statements prepared at 31 December 2013 prepared in accordance with IFRS as adopted by the European Union

(All amounts are in thousands of Euro unless stated otherwise)

	Year ended 31 December	
	2013	2012
Sales		
<i>(i) Shareholders</i>		
E.ON Slovensko a.s.	894	913
	894	913
<i>(ii) Entities under common control with E.ON Slovensko and E.ON SE Group</i>		
E.ON Elektrárne s.r.o.	61	115
E.ON Energie Human Resources International GmbH, Munich	61	25
Bioplyn Ladzany s.r.o.	3	-
Bioplyn Cetín s.r.o.	5	-
Bioplyn Hont s.r.o.	-	1
Bioplyn Horovce, s.r.o.	2	-
E.ON Energie AG	1	-
E.ON Energy Trading SE – sale of electricity	608	1,721
E.ON Energie, a.s. České Budějovice	49	21
E.ON Business Services Slovakia spol. S r.o. (till 30 September 2013: E.ON IT Slovakia spol. S r.o.)	588	488
Energotel, a.s.	1,102	1,101
E.ON SE	-	12
	2,480	3,484
<i>(iii) Government related entities</i>		
SEPS, a.s. - sale of electricity	4,896	920
OKTE, a.s. - deviations	2,894	3,460
Železnice Slovenskej republiky, a.s. – sale of electricity	6,702	9,597
Stredoslovenská energetika, a.s.	179	943
Východoslovenská energetika, a.s.	-	24
SVP, š.p.	11	10
Slovenské elektrárne, a.s.	140	287
SPP – distribúcia, a.s.	165	74
	14,987	15,315
Total	18,361	19,712

Západoslovenská energetika, a.s.

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Notes to the consolidated financial statements prepared at 31 December 2013 prepared in accordance with IFRS as adopted by the European Union

(All amounts are in thousands of Euro unless stated otherwise)

	Year ended 31 December	
	2013	2012
Purchases and expenses		
<i>(i) Shareholders</i>		
E.ON Slovensko, a.s.	-	1
	-	1
<i>(ii) Entities under common control with E.ON Slovensko and E.ON SE Group</i>		
E.ON SE		-
E.ON Česká republika	9	-
E.ON Energie Human Resources International GmbH, Munich	1,801	758
E.ON Risk Consulting, Germany	99	97
E.ON Energy Trading SE – purchase of electricity	20,597	35,245
Bioplyn Cetín, s.r.o.	1,027	748
E.ON Elektrárne s.r.o.	5	10
E.ON Bayern AG	-	7
E.ON Business Services Slovakia spol. S r.o. (till 30 September 2013: E.ON IT Slovakia spol. S r.o.) – IT services	16,070	16,748
Energotel, a.s.	1,772	1,817
E.ON Energie, a.s. České Budějovice - purchase of gas	334	596
	41,714	56,026
<i>(iii) Government related entities</i>		
Slovenské elektrárne, a. s., Bratislava (Note 19) – purchase of electricity	219,787	208,737
Slovenské elektrárne, a. s., Bratislava - other purchases	3,242	7,718
SEPS, a.s. – transmission services	167,720	153,549
OKTE, a.s. - deviations	20,290	19,785
Stredoslovenská energetika, a.s. – purchase of electricity	1,878	805
Stredoslovenská energetika Distribúcia, a.s. – distribution cost	16,293	17,068
Východoslovenská energetika, a.s.	173	289
Východoslovenská distribučná, a.s – distribution cost	19,927	19,832
SVP, š.p.	738	990
Bratislavská teplárenská, a.s. – purchase of electricity	6,279	6,263
SE Predaj, s.r.o.	-	4,739
Slovenský plynárenský priemysel, a.s.	2,192	521
SPP - distribúcia, a.s. - distribution cost	8,677	312
	467,196	440,608
<i>(iv) Taxes</i>		
Income tax (Note 24)	30,309	29,549
Property and motor vehicle tax	620	582
	30,929	30,131
Total	538,839	526,766

The Group purchased from E.ON Business Services Slovakia spol. s r.o. (till 30 September 2013: E.ON IT Slovakia spol. s r.o.) IT services and the acquisition of intangible assets. The services from E.ON Business Services Slovakia spol. s r.o. (till 30 September 2013: E.ON IT Slovakia spol. s r.o.) are provided based on a frame contract concluded for an indefinite period with cancellation notice of 12 months. The amounts of services to be provided to the Group under such arrangements are expected in 2014 to be on the same level as in year 2013.

Notes to the consolidated financial statements prepared at 31 December 2013 prepared in accordance with IFRS as adopted by the European Union

(All amounts are in thousands of Euro unless stated otherwise)

There are no other purchase or sales commitments with related parties as of 31 December 2013, other than disclosed above.

	As at 31 December	
	2013	2012
Receivables		
<i>(i) Shareholders</i>		
E.ON Slovensko, a.s.	57	46
	<u>57</u>	<u>46</u>
<i>(ii) Entities under common control with E.ON Slovensko and E.ON SE Group</i>		
E.ON Energie AG	1	-
E.ON IT Hannover	-	3
E.ON Elektrárne, s.r.o.	-	1
E.ON SE	-	12
E.ON Energy Trading SE - sale of electricity	161	274
E.ON Energie, a.s. České Budějovice	-	5
	<u>162</u>	<u>295</u>
<i>(iii) Government related entities</i>		
SEPS, a.s. - sale of electricity	1,008	-
OKTE, a.s. - deviations	231	604
Stredoslovenská energetika, a.s.	18	24
Železnice Slovenskej republiky, a.s. - sale of electricity	382	636
Slovenské elektrárne, a.s., Bratislava	7	1
Slovenský plynárenský priemysel, a.s.	-	215
SPP - distribúcia, a.s.	3	47
Východoslovenská energetika, a.s.	-	1
	<u>1,649</u>	<u>1,528</u>
<i>(iv) Taxes</i>		
Excise tax receivable (Note 11)	735	558
Income tax receivable	7,871	3,465
	<u>8,606</u>	<u>4,023</u>
Total	<u>10,474</u>	<u>5,892</u>

Notes to the consolidated financial statements prepared at 31 December 2013 prepared in accordance with IFRS as adopted by the European Union

(All amounts are in thousands of Euro unless stated otherwise)

	As at 31 December	
	2013	2012
Payables		
	-	-
<i>(i) Entities under common control with E.ON Slovensko and E.ON SE Group</i>		
E.ON České Budejovice	-	-
Bioplyn Cetín, s.r.o.	98	113
E.ON Bayern AG	-	-
E.ON Energy Trading SE – purchase of electricity	1,859	5,732
E.ON Business Services Slovakia spol. S r.o. – liabilities from cash-pooling	35	367
E.ON Business Services Slovakia spol. S r.o. (till 30 September 2013: E.ON IT Slovakia spol. S r.o.) – trade payables	6,132	3,387
Energotel, a.s.	128	504
E.ON Risk Consulting GmbH	-	-
E.ON Energie, a.s., České Budejovice	307	1
	8,559	10,104
<i>(ii) Government related entities</i>		
Slovenské elektrárne, a.s. Bratislava - purchase of electricity	24,725	29,089
Stredoslovenská energetika, a.s. - purchase of electricity	85	472
Stredoslovenská energetika Distribúcia, a.s. – distribution cost	584	304
Východoslovenská distribučná, a.s. – distribution cost	804	840
Východoslovenská energetika, a.s. - purchase of electricity	331	79
SEPS, a.s. – transmission services	15,830	2,746
SE Predaj, s.r.o.	-	482
SVP, š.p.	131	196
Bratislavská teplárenská, a.s.	1,059	219
Slovenský plynárenský priemysel, a.s.	-	50
SPP - distribúcia, a.s.	1,044	101
OKTE, a.s. - deviations	1,818	1,578
	46,411	36,156
<i>(iii) Taxes</i>		
Income tax payable	-	-
VAT tax payable (Note 14)	2,961	3,686
	2,961	3,686
Total	57,931	49,946

Notes to the consolidated financial statements prepared at 31 December 2013 prepared in accordance with IFRS as adopted by the European Union

(All amounts are in thousands of Euro unless stated otherwise)


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


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

	Year ended 31 December	
	2013	2012
<i>Board of directors and other key management personnel</i>		
Salaries and short-term employee benefits	1,675	1,320
Pension costs – defined contribution plans	231	184
Total	1,906	1,504
<i>Supervisory board</i>		
Salaries and short-term employee benefits	254	246
Pension costs – defined contribution plans	73	76
Total	327	322

30 Events after the end of the reporting period

After 31 December 2013, no significant events have occurred that would require recognition or disclosure in the 2013 financial statements.


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Jochen Kley
Chairman of the Board of Directors and CEO
Written record of members of entity's statutory
body


.....
Marian Rusko
Member of the Board of Directors
Written record of members of entity's statutory
body