

**Slovenská elektrizačná prenosová sústava, a.s.**

**Independent Auditors' Report and  
Consolidated Financial Statements  
for the year ended 31 December 2011**

**Prepared in accordance with International  
Financial Reporting Standards (IFRS)  
as adopted by the European Union**

**Slovenská elektrizačná prenosová sústava, a.s.**

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Translation of the statutory Auditors' Report originally prepared in Slovak language

**Independent Auditors' Report**

To the Shareholders, Supervisory Board and Board of Directors of Slovenská elektrizačná prenosová sústava, a.s.:

We have audited the accompanying consolidated financial statements of Slovenská elektrizačná prenosová sústava, a.s. ("the Company"), which comprise the statement of consolidated financial position as at 31 December 2011, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*

Management as represented by the statutory body is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of 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 our 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, we consider internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view 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 control. 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 opinion.

*Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Company as at 31 December 2011, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

4 May 2012  
Bratislava, Slovak Republic

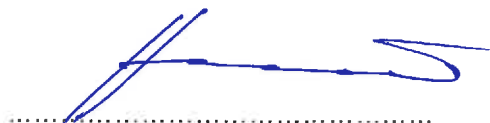
Auditing company:  
KPMG Slovensko spol. s r.o.  
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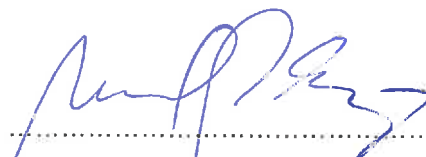
Responsible auditor:  
Richard Farkaš  
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	Note	As of 31 December 2011	2010
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	675,833	331,758
Intangible assets	6	18,375	21,111
Non-current financial assets	9	15	30
Other investments	8	62	12
Receivables		1	1
Deferred tax asset	18	-	2,081
		<b>694,286</b>	<b>354,993</b>
<b>Current assets</b>			
Inventories	11	7,199	719
Trade and other receivables	12	38,054	45,710
Current financial assets	9	15	30
Cash and cash equivalents	13	92,837	68,720
Current income tax receivable		-	-
		<b>138,105</b>	<b>115,179</b>
Non-current assets held for sale	7	2,732	2,735
<b>Total assets</b>		<b>835,123</b>	<b>472,907</b>
<b>EQUITY</b>			
<b>Share capital and reserves attributable to equity holders of the Company</b>			
Share capital	14	81,833	81,833
Legal reserve fund	14	16,366	16,366
Other reserves	14	126,145	104,890
Revaluation reserve	14	237,382	-
Retained earnings		70,560	39,042
<b>Total equity</b>		<b>532,286</b>	<b>242,131</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Non-current bank loans and finance lease liabilities	16	33,100	43,100
Grants and other deferred revenue	17	47,585	47,037
Liabilities related to derivatives transactions	15	670	2,270
Deferred tax liability	18	55,284	-
Non-current provisions for liabilities and charges	19	3,506	2,662
		<b>140,145</b>	<b>95,069</b>
<b>Current liabilities</b>			
Current bank loans and finance lease liabilities	16	10,000	10,000
Trade and other payables	15	137,225	107,255
Grants and other deferred revenue	17	11,450	5,168
Provisions for current liabilities and charges	19	33	6,617
Current income tax payable		3,984	6,667
		<b>162,692</b>	<b>135,707</b>
<b>Total liabilities</b>		<b>302,837</b>	<b>230,776</b>
<b>Total equity and liabilities</b>		<b>835,123</b>	<b>472,907</b>

The consolidated financial statements for the year ended 31 December 2011 prepared in accordance with International Financial Reporting Standards as adopted by the European Union were approved and authorized for issue on 4 May 2012 by the Board of Directors.



Ing. Ján Horkovič  
Chairman of the Board of Directors



Ing. Michal Pokorný  
Vice-chairman of the Board of Directors

Consolidated Income Statement and Statement of Comprehensive Income for the year ended 31 December 2011 prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union  
(All amounts are in thousands of euro unless stated otherwise)

		Year ended 31 December	
	Note	2011	2010
Revenues	20	504,987	450,004
Capitalized costs		5	72
Consumables and services	21	(364,459)	(341,419)
Personnel costs	22	(20,676)	(19,390)
Depreciation and amortisation	5.6	(58,362)	(44,680)
(Impairment) / Reversal of impairment of fixed assets		210	(5,174)
Negative revaluation difference	5	(15,350)	-
Other operating income	24	12,029	7,915
Other operating expense	23	(5,399)	(3,894)
<b>Operating profit</b>		<b>52,985</b>	<b>43,434</b>
Interest income	25	291	69
Interest expense	25	(800)	(494)
Other finance income/(expense)	25	(270)	(3,033)
<b>Finance cost, net</b>		<b>(779)</b>	<b>(3,458)</b>
<b>Profit before tax</b>		<b>52,206</b>	<b>39,976</b>
Income tax expense	26	(9,918)	(8,807)
<b>Profit for the year</b>		<b>42,288</b>	<b>31,169</b>
<b>Other comprehensive income</b>			
Revaluation of property, plant and equipment		265,701	-
<b>Total comprehensive income</b>		<b>307,989</b>	<b>31,169</b>
Profit attributable:			
Owners of the parent		307,989	31,169
Non-controlling interest		-	-
<b>Profit for the year</b>		<b>307,989</b>	<b>31,169</b>
Total comprehensive income attributable to:			
Owners of the parent		307,989	31,169
Non-controlling interest		-	-
<b>Total comprehensive income for the period</b>		<b>307,989</b>	<b>31,169</b>

	Share capital	Legal reserve fund	Other funds	Revaluation reserve	Retained earnings	Total equity
<b>Balance at 1 January 2010</b>	<b>81,833</b>	<b>16,366</b>	<b>97,194</b>	-	<b>18,883</b>	<b>214,276</b>
Net profit for the year 2010	-	-	-	-	31,169	31,169
Other comprehensive income	-	-	-	-	-	-
<b>Total comprehensive income for the year 2010</b>	-	-	-	-	-	-
Dividends paid (Note 14)	-	-	-	-	31,169	31,169
Profit appropriation to Statutory Fund (Note 14)	-	-	7,696	-	(3,314)	(3,314)
<b>Balance at 31 December 2010</b>	<b>81,833</b>	<b>16,366</b>	<b>104,890</b>	-	<b>39,042</b>	<b>242,131</b>
<b>Balance at 31 January 2011</b>	<b>81,833</b>	<b>16,366</b>	<b>104,890</b>	-	<b>39,042</b>	<b>242,131</b>
Net profit for the year 2011	-	-	-	-	42,288	42,288
Other comprehensive income	-	-	-	237,382	28,319	265,701
<b>Total comprehensive income for the year 2011</b>	-	-	-	<b>237,382</b>	<b>70,607</b>	<b>307,989</b>
Dividends paid (Note 14)	-	-	-	-	(17,834)	(17,834)
Profit appropriation to Statutory Fund (Note 14)	-	-	21,255	-	(21,255)	-
<b>Balance at 31 December 2011</b>	<b>81,833</b>	<b>16,366</b>	<b>126,145</b>	<b>237,382</b>	<b>70,560</b>	<b>532,286</b>



Year ended 31 December			
	Note	2011	2010
<b>Cash flows from operating activities</b>			
Cash generated from operations	30	159,445	82,662
Income tax paid		(17,562)	(1,284)
Interest received		291	69
Net cash generated from operating activities		<b>142,174</b>	<b>81,447</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment and intangible assets		(89,809)	(35,977)
Proceeds from sale of property, plant and equipment	30	331	56
Interest received		3	-
Repayment of loan granted to the company CAO	9	30	-
Net cash used in investing activities		<b>(89,445)</b>	<b>(35,921)</b>
<b>Cash flows from financing activities</b>			
Proceeds / (repayments) of loans		(10,000)	(11,461)
Interest paid		(778)	(507)
Dividends paid	14	(17,834)	(3,314)
Net cash used in financing activities		<b>(28,612)</b>	<b>(15,282)</b>
Net increase (+) / decrease (-) in cash and cash equivalents		<b>24,117</b>	<b>30,244</b>
Cash and cash equivalents at the beginning of the year	13	<b>68,720</b>	<b>38,476</b>
Cash and cash equivalent at the end of the year	13	<b>92,837</b>	<b>68,720</b>

## 1 General Information

Slovenská elektrizačná prenosová sústava, a.s., ("the parent company", "SEPS, a.s.") is one of three joint stock companies established (pursuant to the Commercial Register) in the Slovak Republic on 21 January 2002 (date of establishment: 13 December 2001) from the process of the division of its predecessor Slovenské elektrárne, a.s. ("SE", "SE, a.s.").

Consolidated financial statements comprise of the financial statements of the Group and the sole subsidiary OKTE, a.s. (hereinafter "the subsidiary"), which has been controlled as at 31 December 2011 and during the year then ended (hereinafter "the Group"). OKTE, a.s. is 100% subsidiary SEPS, a.s. OKTE, a.s. was established on 20 July 2010 by separation of deviation settlement and short-term electricity market organizer in accordance with the Act No. 656/2004 Coll. on Energy. OKTE, a.s. was included for the first time to the consolidated financial statements as at 31 December 2011. Parent company SEPS, a.s. prepares a consolidated financial statements in accordance with International Financial Reporting Standards as adopted by European Union ("EU").

The principal activities of the Group comprise the transmission of electricity in the country of the Slovak Republic through 220 kV, 400 kV and, in a small part, through 110 kV lines and electric stations of the transmission grid, including electricity import, export and transit. The Group is also responsible for maintaining a balanced electricity grid in the Slovak Republic and balancing the production and usage of electricity during the time which is performed using the system services. The Group also performs deviation settlement and organizes short-term electricity market.

The Bohunice International Decommissioning Support Fund („BIDSF“) was established in relation to the shut-down of a power plant in Jaslovské Bohunice. The main purpose of this Fund is to finance or to co-finance the preparation and implementation of selected projects ("authorized projects") related to providing the technical assistance and/or goods, work and services with respect to support the shut-down of the power plant in Jaslovské Bohunice as a result of a decision of the Slovak Republic to do so. The Fund supports the reconstruction, improvement and modernization of the energy production, transmission and distribution sectors and increases their efficiency. Three Group's projects (note 17) are considered to be qualified by Contributors body as Qualified projects, thereof one has not been drawn until 31 December 2011 yet.

The Group operates in accordance with the Act on Energy and the relevant legislation. Office of Network Industries of the Slovak Republic (hereinafter „URSO“) controls particular aspects of the relationship of the parent company and subsidiary and with its customers, including rates of the services provided.

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

	Absolute amount EUR	Ownership interest and voting rights %
National Property Fund (NPF)	81,833	100%
<b>Total</b>	<b>81,833</b>	<b>100%</b>

The National Property Fund of the Slovak Republic, based in Bratislava, Drieňová 27 owns 100% of SEPS a.s.'s registered capital and 100% of the voting rights.

The Group is not a shareholder with an unlimited liability in other entities.

The members of the parent company's statutory bodies during the year ended 31 December 2011 were as follows:

Body	Function	Name
Board of Directors	Chairman	Ing. Ján Horkovič
	Vice-Chairman	Ing. Emil Krondiak until 4 May 2011
	Vice-Chairman	Ing. Igor Grošaft from 4 May 2011
	Member	Ing. Martin Bonko
	Member	Ing. Igor Grošaft from 4 May 2011
	Member	Ing. Michal Pokorný
Supervisory Board	Member	Ing. Emil Krondiak from 4 May 2011
	Chairman	Ľubor Benkovič
	Vice-Chairman	Ing. Ján Oráč
	Vice-Chairman	Ing. Peter Kollárik
	Member	Michal Sokoli
	Member	Jaroslav Stratený until 19 February 2012
	Member	Ing. Anna Bubeníková
	Member	RNDr. Jozef Mertan
	Member	Vojtech Ravasz
	Member	Ing. Lajos Csóka
	Member	Ing. Pavol Faktor
	Member	Ing. Anton Letko, MBA
Executive management	Member	Ing. Marián Mihalda from 20 February 2012
	Member	Milan Duchoň from 20 February 2012
	General Director	Ing. Ján Horkovič
	Managing Director of Operations	Ing. Martin Bonko
	Managing Director of SED and Commerce	Ing. Michal Pokorný
	Managing Director of Economics Development and Capital Investment	Ing. Igor Grošaft
		Ing. Emil Krondiak

The Company employed 507 personnel on average during 2011 (2010: 519), 8 of which were management (2010: 6).

**Registered address and identification number of the parent company**

Mlynské nivy 59/A  
824 84 Bratislava  
Slovak Republic

Identification number (IČO) of the Company is: 358 291 41

Tax identification number (IČ DPH) of the Company is: SK 2020261342

**Registered address of the subsidiary company**

OKTE, a.s.  
Mlynské nivy 59/A  
821 09 Bratislava  
Slovak Republic

## **2 Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these consolidated Financial Statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

### **2.1. Basis for preparation of the Consolidated Financial Statements**

Legal reason for preparing the consolidated Financial Statements:

The Group's Financial Statements at 31 December 2011 have been prepared as consolidated Financial Statements under § 22 (2) of the Slovak Act No. 431/ 2002 Coll. ("Accounting Act") for the accounting period from 1 January 2011 to 31 December 2011.

The Accounting Act requires the Group to prepare Consolidated Financial Statements for the year ended 31 December 2011 in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

These consolidated financial statements have been prepared in accordance with IFRS as adopted by the European Union. The Group applies all IFRS and interpretations issued by International Accounting Standards Board (hereinafter "IASB"), as amended by the European Union, which were in force as of 31 December 2011.

These consolidated financial statements have been prepared on a historical cost basis, except for property, plant and equipment, which are stated in accordance with IAS 16 and derivative financial instruments, which are stated at fair value as at the reporting date.

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

The preparation of the consolidated Financial Statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated Financial Statements are disclosed in Note 4.

These consolidated Financial Statements are prepared in thousands Euros ("EUR thousand").

### **2.2. Changes in the accounting policies**

As at the 1 January 2011 the Group adopted a revaluation model to the fair value in accordance with IAS 16 on property, plant and equipment, except for the classes of property containing vehicles, inventory and work of art. The Group decided to use this model because it assumes that the financial statements will provide more true and fair presentation of property, plant and equipment used for regulated activities related to transmission of electricity as well as the change will achieve more equal status with other regulated entities in the regulated sector. Revaluation of property, plant and equipment to fair value was applied prospectively with no impact on previous periods. As a result of the revaluation the net book value of property, plant and equipment increased by EUR 312 675 thousand, the deferred tax liability increased by EUR 59 408 thousand and the net profit decreased by EUR 11 392 thousand (negative revaluation difference EUR 15 350 thousand net of decrease in change in deferred income by EUR 1 041 thousand and deferred tax by EUR 2 916 thousand). The positive revaluation difference have been recorded in other comprehensive income accumulated as a revaluation reserve in equity in the amount of EUR 265 700 thousand net of deferred tax. Revaluation of property, plant and equipment was made by an independent expert who used the depreciable replacement cost method to calculate fair value of property and also assessed the useful life of each asset. Based on the expert's opinion, the Group extended the useful life of the revaluated assets.

The Group has adopted the following new and amended IFRS and IFRIC interpretations as at 1 January 2010, all adopted by EU:

IAS 24	Revised IAS 24 Related Party Disclosures (effective for annual periods beginning on or after 1 January 2011)
IAS 32	Amendment to IAS 32 Financial Instruments: Presentation: Classification of Rights Issues (effective for annual periods beginning on or after 1 February 2010)
IFRIC 14	Amendment to IFRIC 14: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2011)
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010).

Project of improvements to the International Financial Reporting Standards (issued May 2010).

The principal impacts of these changes are as follows:

Revised IAS 24 Related Party Disclosures

The amendment exempts government-related entity from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with (i) a government that has control, joint control or significant influence over the reporting entity; and (ii) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity. The revised Standard requires specific disclosures to be provided if a reporting entity takes advantage of this exemption. The revised Standard also amends the definition of a related party.

Amendment to IAS 32 Financial Instruments: Presentation: Classification of Rights Issues

The amendment requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The Amendment to IAS 32 does not have a significant impact on the consolidated financial statements.

Amendment to IFRIC 14: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The amendment of IFRIC 14 addresses the accounting treatment for prepayments made when there is also a minimum funding requirements (MFR). Under the amendments, an entity is required to recognise certain prepayments as an asset on the basis that the entity has a future economic benefit from the prepayment in the form of reduced cash outflows in future years in which MFR payments would otherwise be required. Amendments to IFRIC 14 do not have significant impact on the consolidated financial statements.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

The interpretation provides guidance on the accounting for debt for equity swaps. IFRIC 19 does not have an impact on the consolidated financial statements.

Project of improvements to the International Financial Reporting Standards (issued May 2010).

In May 2010, IASB issued a collection of amendments to IAS standards and IFRIC interpretations, mainly to eliminate discrepancies and clarify the terminology. The following standards and interpretations has been amended:

IFRS 3	Business Combinations (effective for annual periods beginning on or after 1 July 2010)
IAS 1	Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2011)
IAS 27	Amendments to IAS 27 Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2010)
IAS 34	Interim Financial Reporting (effective for annual periods beginning on or after 1 January 2011)

**IFRIC 13      Customer Loyalty Programmes (effective for annual periods beginning on or after 1 January 2011)**

Improvements do not have significant impact on the consolidated statement of financial position or performance of the Group.

**2.3.    Conoslidation principles**

Subsidiaries are those companies in which the Group, directly or indirectly, has an interest of more than 50% in the voting rights or otherwise has power to exercise control over their operations; and are included in the consolidated financial statements. Subsidiaries are consolidated as of the date when the Group gained control. All receivables and payables, disposals and purchases, as well as expenses, revenues, profits and losses on transactions within the Group are eliminated.

All acquisitions of subsidiaries are accounted at cost. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. If the cost of the business combination exceeds the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised, the difference is disclosed as goodwill.

**2.4.    Investments**

Investments are carried at historical cost in these consolidated Financial Statements. The historical cost comprise the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire the investment at the time of their acquisition.

**2.5.    Foreign currency transactions and translation**

**(i)    Functional and presentation currency of the consolidated Financial Statements**

Items included in these consolidated Financial Statements are presented in Euros which is the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated Financial Statements are presented in thousands of euro.

**(ii) Transactions and balances**

Transactions in foreign currency are translated into the functional currency using the reference exchange rates determined and declared by the European Central Bank or National Bank of Slovakia as at the date preceding the date of the accounting transaction or at any other day if required by special regulation. At the reporting date, the assets and liabilities are translated into the functional currency using the reference exchange rates determined and declared by the European Central Bank or National Bank of Slovakia as at the reporting date. The transaction in foreign currency are retranslated into the functional currency using the exchange rate valid at the date of the accounting transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated Statement of Comprehensive Income.

**2.6. Property, plant and equipment**

The property, plant and equipment is carried at cost less accumulated depreciation out accumulated impairment losses, with exception to the revaluation model adopted for certain classes of property, plant and equipment.

**(i) Cost**

Cost includes expenditure that is directly attributable to the acquisition of the items. Borrowing costs related to the loans received, which are directly attributable to the acquisition or production of an asset, are included in the cost of the asset.

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

Property, plant and equipment as at the date of establishment of the parent company comprise assets that were acquired as a result of the separation of Slovenské elektrárne, a.s., into three legal entities. These assets were transferred at their original cost with related accumulated depreciation.

The most significant part of property, plant and equipment is represented by the network. The network mainly includes power lines, pylons and switching stations. Useful life of network assets varies between 40 and 80 years (2010: between 20 and 30 years).

**(ii) Revaluation**

In 2011 property, plant and equipments are for the first time carried in revaluated amounts as at the revaluation date less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The first revaluation of property, plant and equipment was made as at 1 January 2011. The revaluation was made by an independent expert. The revaluations will be carried with sufficient regularity (at least every five years) to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

The increase in the carrying amount of property, plant and equipment as a result of revaluation is recognised in other comprehensive income and accumulated in equity under the heading revaluation surplus. The increase in revaluation of carrying amount of property, plant and equipment is recognized in the profit or loss only to the extent that it reverses a revaluation (i.e. negative revaluation difference) of the same asset previously recognised in income statement.

A decrease in carrying amount of property, plant and equipment as a result of revaluation is recognised in the income statement. The decrease in revaluation of carrying amount of property, plant and equipment is recognized in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus.

Depreciation of revaluated items of property, plant and equipment is recognized as an expense in the income statements. Revaluation surplus is transferred to the equity proportionally over the asset useful life. In such case, the amount of the surplus transferred represent a difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original costs. In case of sale of asset or its derecognition is the remaining balance of the revaluation surplus transferred to the retained earnings.

### (iii) Depreciation

The depreciation of property, plant and equipment starts in the month when the property, plant and equipment is available for use. Property, plant and equipment is depreciated in line with the approved depreciation plan using the straight-line method. Monthly depreciation charge is determined as the difference between acquisition costs and residual value, divided by estimated useful life of the property, plant and equipment. The estimated useful lives of individual groups of assets are as follows:

	2011	2010
Buildings, halls, networks and constructions	40 - 80 years	20 - 30 years
Machines, equipment and vehicles	12 - 30 years	4 - 12 years
Other property, plant and equipment	4 years	4 years

Buildings, halls and constructions include mainly switching stations, administrative buildings, transmission lines, halls, transformers and control rooms, pylons, towers, tanks, communications, elevated power lines.

Machines, equipment and vehicles include mainly hardware machines, tools and equipment, vehicles, radio relay point and cables.

Land and assets under construction are not depreciated.

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 assets were already of the age and in the conditions expected at the end of their useful life. The residual value of an asset is nil or its scrap value if the Group expects to use the asset until the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Expenditures to acquire the property, plant and equipment subsequent to initial recognition are recognized as an item of property, plant and equipment only if it is probable that they will enhance the future economic benefits beyond its original performance. All other expenses are recognized as repair and maintenance costs in the period to which it is incurred.

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

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

Items that are retired or otherwise disposed of are eliminated from the consolidated Statement of Financial Position, along with the corresponding accumulated depreciation. Gains and losses on



disposals are determined by comparing proceeds with carrying amount and are included in operating profit.

In accordance with IAS 36, as at the date of preparation of consolidated financial statements, an assessment of impairment indicators is made that would indicate the recoverable amount of property, plant and equipment would be less than its carrying value. In case any indicator exists at the balance sheet date, the recoverable amount of property, plant and equipment is estimated which is a higher of the fair value less cost to sell and value in use (i.e. the present value of future cash flows). Any impairment loss on property, plant and equipment is recognized in the income statements in the period in which the impairment occurs. The discount rates used in calculating the present value of future cash flows comes from the position of the Group as well as from economic environment of the Slovak Republic as at the balance sheet date. In case the Group decides to stop the investment project or significantly delay its scheduled termination, it considers any reduction of its value and, where appropriate, record the impairment loss.

## **2.7. Intangible assets**

Intangible assets are initially measured at cost. Intangible assets are recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the Group, and the cost of the asset can be measured reliably. After initial recognition, the intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Borrowing costs are capitalized and included in the cost of an asset. The Group does not have intangible assets with indefinite useful lives. Intangible assets are amortized on the straight-line basis over their useful lives.

The amortisation of an intangible asset starts in the month when the intangible asset is put in use. Intangible assets are depreciated in line with the approved depreciation plan using the straight-line method. Monthly depreciation charge is determined as the difference between acquisition costs and residual value, divided by estimated useful life of the intangible assets.

Residual value of intangible assets is assumed to be zero unless (a) there is a commitment by a third party to purchase the asset at the end of its useful life, or (b) there is an active market for the asset and residual value can be determined by the reference to that market and it is probable that such a market will exist at the end of the asset's useful life.

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

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

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

Computer software development costs recognized as assets are amortised over their estimated useful lives, which does not exceed 4 years. Intangible assets are depreciated over 4 years, easement of access based on contract for easement.

## **2.8. Impairment of non-financial assets**

Assets that have an indefinite useful life (e.g. goodwill), if any, and intangible assets not yet in use are not subject to amortization and are tested for impairment annually. Land, construction in progress and assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be higher as a recoverable amount. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are individually identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that were impaired are reviewed for possible reversal of the impairment at each reporting date.

## **2.9. Non-current assets held for sale**

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less cost to sell.

## **2.10. Financial assets**

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

Financial assets are initially recognized at fair value plus transaction costs (in case of financial assets) and less transaction costs (in case of financial liabilities) except for the financial assets carried at fair value through profit and loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the consolidated Statements of Comprehensive Income.

Regular purchases and sales of financial assets are recognized on trade-date – the date on which the Company commits to purchase or sell the asset.

The Company derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Company has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Management determines the classification of its investments at initial recognition.

## **Financial assets at fair value through consolidated Statements of Comprehensive Income**

Financial assets at fair value through consolidated Statements of Comprehensive Income include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term or to mitigate risks. This category includes derivative financial instruments entered into by the Group that are not designated as

hedging instruments in hedge relationships. Financial assets in this category are classified as current.

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

### **Loans and receivables**

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

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Loans and receivables are disclosed as part of non-current and current financial assets, trade receivables and cash and cash equivalents on the consolidated Statement of Financial Position.

Loans and receivables represent outstanding loan granted to company Central Auction Office ("CAO") (the Company owns 12.5% share in this company), trade receivables and cash and cash equivalents.

### **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.

The Group is a lessee of certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of the ownership of the asset are classified as finance leases. Finance leases are recognized as assets and liability in the consolidated Statement of Financial Position at amount equal to the lower of the fair value of the leased asset and the present value of the minimum lease payments, each determined at the commencement of the lease.

Each lease payment is split into the liability and finance charges in order to achieve a constant periodic rate of interest on the remaining balance of the liability. The corresponding rental obligations, net of future finance charges, are included in non-current and current bank loans and other borrowings. Finance charges are included in interest expense in the consolidated Statement of Comprehensive Income.

If there is reasonable certainty that the lessee will obtain ownership of the asset by the end of the lease term, the period of expected use is the useful life of the asset and the asset is depreciated accordingly; otherwise the asset is depreciated over the shorter of the lease term and its useful life.

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 consolidated Income Statement on a straight-line basis over the period of the lease.

The Group is a lessee under the term of operating lease. The rental related to the operative lease is expensed on a straight-line basis over the period of the lease in the consolidated Financial Statements.

## **2.12. Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined using weighted average cost method. The acquisition costs include all costs associated with the acquisition of the inventories such as customs duties or transportation costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable selling costs.

## **2.13. Trade and other receivables**

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, net of provision for impairment. Revenue recognition policy is described in the Note 2.23.

The risk of customers' insolvency is managed by financial guarantees received from customers which can be used in case the customers' debts are not settled when became due.

An impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all the amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy or financial reorganization, default or delinquency in payments 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 the estimated future cash flow discounted by the original effective interest rate.

Impairment of trade receivables is recognized through an allowance account. Impairment losses and their reversals, if any, are recognized in the consolidated Statement of Comprehensive Income within other operating expenses or income. Trade receivables that cannot be collected are written off. Trade receivables that were written off and are subsequently repaid by the debtors are recognized in the consolidated Statement of Comprehensive Income within other operating income.

## **2.14. Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method.

## **2.15. Share capital**

Ordinary shares are classified as share capital.

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

## **2.16. Current and deferred income tax**

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is provided, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated Financial Statements. However, the 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 that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively

enacted by the reporting date and are expected to apply when the related deferred tax asset is realized or the deferred income tax liability is settled.

Deferred 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 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 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 tax assets against tax liabilities and these relate to income taxes levied by the same taxation authority.

## **2.17. Grants and contributions related to acquisition of property and equipment**

Grants and contributions are recognized at their nominal value where there is a reasonable certainty that the grant or contribution would be received and the Group would comply with all attached conditions. Grants and contributions relating to acquisition of property and equipment were accounted for by setting up the grant as deferred income, which was recognized as other income over the life of related depreciable asset in connection with the grant approved by EBRD for the Reconstruction – Structure 2, Part 2 and Structure 3 in Križovany, with the grant approved by EBRD for Lemešany - Košice - Moldava – Structure 4. The Group also has a grant approved by EBOR in the amount of EUR 76 million for Reconstruction of switching station in Bystričany and for transmission lines in Horná Ždaňa – Križovany. This grant has not been drawn in 2011.

## **2.18. Borrowings**

Borrowings are recognized initially at fair value, net of transaction cost incurred. Borrowings are subsequently stated at amortized cost. The difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated Statement of Comprehensive Income over the period of the borrowings using the effective interest method.

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 reporting date.

## **2.19. Provisions**

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

If there is a onerous contract presented at the Group, the present obligation according to this contract is recognized and valued as a provision.

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

The amount recognised as a provision represents the best estimate of the expenditure required to settle the present obligation at the reporting date, i.e. the amount that the Group would rationally pay to settle the obligation. The estimate is determined by the judgement of the management and

the Group's lawyers. The provision represents the individual most likely outcome as the best estimate of the liability.

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

## **2.20. Contingent liabilities**

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

## **2.21. Trade payables**

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using effective interest method. Trade payables includes the financial guarantees (Note 2.13).

## **2.22. Employee benefits**

The Group has both defined benefit and defined contribution plans.

### **Pension plans**

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 or to the Government 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.

### **Unfunded defined benefit pension plan**

The Group also has a long-term pension plan, which includes one-off payments at retirement in accordance with legal requirements and its Collective Agreement.

According to the Collective Agreement of the individual companies, the Group is obliged, based on the number of years in service, to pay its employees on retirement or disability the following multiples of their average monthly salary:

#### Number of year in service

0 - 2	3
3 - 9	5
10 - 14	6
15 - 19	7
Over 20	8

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

#### Other benefits

The Group also pays the following life and work jubilee benefits:

- compensation of electricity costs in amount of EUR 149.37 (EUR 150 since 2012) yearly for employees on retirement working for the Group for at least three years;
- jubilee benefit from EUR 265.55 to EUR 531.10 depending on the number of years worked for the Group when the employee reaches the age of 50 years.

The Employees of the Group expect that the Group will continue to provide such benefits and, based on opinion of management, it is not probable that the Company would cease to provide such benefits in the future.

The liability recognised in the consolidated Statement of Financial Position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date.

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

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised immediately in the Income Statement. Past-service costs are recognised immediately in the Income Statement, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

#### Defined contribution pension plans

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

The Company makes contributions to the government health, retirement benefit, accidental and guarantee insurance and unemployment schemes at the statutory rates in force during the year, based on gross salary payments.

Throughout the year, the Group made contributions amounting to 35.2% (2009: 35.2%) of gross salaries up to a monthly salary ceiling, which is defined by the relevant law for such schemes together with contributions by employees of a further 13.4% (2009: 13.4%). The cost of these payments is charged to the consolidated Statement of Comprehensive Income 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 of 3% of the total of monthly wages, excluding severance payment and payments at retirement.

### **Profit sharing and bonus plans**

Liabilities for any employee benefits in the form of profit sharing and bonus plans are recognized as 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 determinable before the Financial Statements are authorised for issue; or
- the past practice created a valid expectation of employees that they will receive a profit sharing or other bonus and the amount can be determined before the consolidated Financial Statements are authorised for issue.
- bonuses or profit sharing and the amount can be determined before the consolidated Financial Statements are authorised for issue.

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.

### **2.23. Revenue recognition**

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

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

The revenue is recognised when the respective service is rendered.

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

Dividend income is recognized when the right to receive the payment is established and inflow of economic benefits is probable.

Interest income is recognized in the period when it is earned on a time proportion basis using the effective interest method.

### **2.24. Dividend distribution**

Dividend distribution to the Group's shareholders is recognised as a liability in the Group's consolidated Financial Statements in the period in which the dividends are approved by the Group's shareholders.

### **2.25. Standards issued but not yet effective**

Standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below:

- |        |  |
|--------|--|
| IFRS 7 | Amendments to IFRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 July 2011, these amendments have not been approved by EU yet); |
| IFRS 9 | Financial Instruments (effective for annual periods beginning on or after 1 January 2013; this standard has not been approved by the EU yet);                                |



IAS 12 Deferred tax: Recovery of Underlying Assets (Amendments to IAS 12) (effective for annual periods beginning on or after 1 January 2012, these amendments have not been approved by EU yet).

The principal effects of these changes are as follows:

#### Amendments to IFRS 7 Financial Instruments: Disclosures

The amendments allow users of consolidated financial statements to improve their understanding of transfer transactions of financial assets, including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. The Group is considering impact of this standard on its consolidated financial statements.

#### IFRS 9 Financial Instruments

IFRS 9 is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply. Prior periods need not be restated if an entity adopts the standard for reporting periods beginning before 1 January 2012. The Group is considering impact of this standard on its consolidated financial statements.

#### Deferred tax: Recovery of Underlying Assets (Amendments to IAS 12)

IAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 Investment Property. The amendment provides a practical solution to the problem by introducing a presumption that recovery of the carrying amount will, normally be, be through sale. The Group does not expect amendments to IAS 12 to have an impact on the consolidated financial statements.

### **3 Financial Risk Management**

#### **3.1 Financial risk factors**

The Group's activities are exposing it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk, price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's performance. The Group uses derivative financial instruments to mitigate certain risk exposures, if necessary.

Risk management is carried out by the Group under policies approved by the Board of Directors. The Group identifies, evaluates and hedges financial risks in cooperation with the Group's operating units. The Board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments.

##### **(i) Market risk**

###### **(a) Foreign exchange risk**

The Group provides electricity transit services and auctions in which payments are denominated in EUR. Similarly, the Group recognises part of purchases and credit financing with payments denominated in EUR.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
USD / CZK and other	(73)	(1,796)	-	-

The impact of other currencies on the Group's operations is immaterial.

Based upon the sensitivity analysis of financial assets and liabilities recognised as at 31 December 2011, a 10% strengthening/weakening in the EUR against USD and CZK would result in an increase/decrease in the Group's profit by EUR 7 thousand. Management considers the risk is not significant.

**(b) Price risk**

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

**(c) Operating risks – prices of services**

The Group is the owner of the transmission system of the Slovak Republic and provides the operation of this system through which realizes the transmission of electricity including international transmission and directly associated activities. These activities include the maintenance of steady balance of Electricity System of the Slovak Republic through the provision of system services and loss coverage during the transmission. It also performs an administrative charges for operating system and its subsequent transfer to regional energy distribution companies. The operation fee serves as a state instrument to support the production of electricity from renewable sources and coverage of expenses incurred in the economic interest (mining of Slovak coal to generate electricity and subsidy for green energy producer). The Group organizes and evaluates short-term electricity market for short-term electricity market participants and deviation settlement of the related companies in the Slovak Republic.

Activities of the Group are subject to regulation by The Regulatory Office of Network Industries of the Slovak Republic (hereinafter the „URSO“). URSO determines regulation policies for the current regulation period. Year 2011 belongs into the three-year regulation period started in 2009 and ending in 2011. URSO, among other decisions, determines the regulation policy, controls audit compliance of the Group with the current energy legislation and URSO revenues and issues decisions on maximum allowed revenues, expenditures and prices for the Group.

In this regulation period the principle of transmission service regulation was based on a price cap; however, the increase in regulation prices was restricted by inflation level. Prices for other related services, as well as short-term electricity market organization and deviation settlement were determined through maximum allowed revenues and related rates. For the part of the services maximum allowed expenditures and maximum prices for purchased services were determined. Deviations from the maximum allowed revenues and expenditures are taken into account in the future rates by the correction factors.

For 2011 URSO approved and issued in the decision for the Group rates and charges for transmission and reserved production, system services, losses and system operation. These charges create the structure of main revenues of the Group consisting mainly of electricity transmission and reserved production revenues, revenues from electricity transmission loss charges, system services revenues and system operation revenues. Additionally, the Group generates revenues from international transmission (ITC mechanism) and auctions.

The Group's costs are created mainly from regulated costs for purchase of support services needed to provide system services, system operation costs, purchase of electricity for loss coverage and own consumption, costs for international transmission and auctions, other costs needed for transmission system operation and operation of the Group.

**(d) Cash flow interest rate risk**

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. All borrowings of the Group are at variable rate.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the Group calculates the impact on consolidated Statement of Comprehensive Income of a defined interest rate shift. The scenarios are run only for liabilities that represent the major interest-bearing positions.

Operating revenues and operating cash flows of the Group are independent, to a large extent, of the changes in interest rates on the market. The Group does not have material interest-bearing assets other than cash and cash equivalents. In 2007 and 2008, the Group entered into interest rate swaps with a maturity date in 2014, to mitigate the risk of fluctuations in interest rates. The agreed interest rates range between 3-month EURIBOR and the interest rate of 11.35%. The interest rate swaps refer to the agreed upon principal amounts in net book value totalling EUR 16,300 thousand (31 December 2010: EUR 21,434 thousand). As at 31 December 2011, the Group made unrealized gain from interest rate swap in the amount EUR 813 thousand (liabilities related to interest rate swap as at 31 December 2011: EUR 1,458 thousand; as at 31 December 2010: EUR 2,270 thousand).

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the reporting date. For variable rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the reporting date was outstanding for the whole year.

If interest rates had been 100 basis points higher and all other variables were held constant, the Group's profit for the year ended 31 December 2011 would decrease by EUR 1,184 thousand. If interest rates had been 100 basis points lower and all other variables were held constant, the Group's profit for the year ended 31 December 2011 would decrease by EUR 1,746 thousand. This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

**(ii) Credit risk**

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables. As for the banks and financial institutions, Group has relationships only with those ones that have high independent rating assessment. If wholesale customers are independently rated, these ratings are used. If there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

The Group has implemented individual assessment of major customers credit risk. The input information for the assessment is payment discipline of customer, indicators from Financial Statements, available information on customer's indebtedness. Major customers include those with highest purchases of services. Payment conditions are set-up according to the results of the assessment. Average maturity of receivables upon sale of products and services is based on dates agreed in the contracts, i.e. 3 to 30 days.

The Group is managing risk of non-payment of customers through advance payments and guarantees.

As for the trade receivables, the Group carries out its activities with a few significant counterparties. Although the receivables of the Group are generated from a few customers only, the credit risk is limited due to character of the counterparties. All the customers are strategic Slovak companies engaged in the electricity business, most of them with an influence by the state.

Maximal exposure related to trade and other receivables is the nominal value of trade receivables adjusted by individual impairment of EUR 4 thousand (Note 12).

The table below shows the balances of receivables due from banks at the reporting date:

Counterparty	Internal Rating <sup>2</sup>	Balance as at 31 December	
		2011	2010
Banks rated <sup>1</sup>			
Všeobecná úverová banka, a.s.	A1	1,606	2,664
Tatra banka, a.s.	A2	79,911	56,046
Dexia banka Slovensko, a.s.	A1	-	396
Slovenská sporiteľňa, a.s.	A1	11,224	9,552
Other	n/a	96	62
<b>Total</b>		<b>92,837</b>	<b>68,720</b>

<sup>1</sup> The amount of cash and short-term deposits at banks as at 31 December 2011 amounts to EUR 92,835 thousand (31 December 2010: EUR 68,720 thousand). Furthermore, the Company has agreed with those banks on credit lines on current accounts totalling EUR 50,016 thousand (31 December 2010: EUR 46,466 thousand) which were not utilized. The Company has bank borrowings as at 31 December 2011 of EUR 43,100 thousand (31 December 2009: EUR 53,100 thousand) and these credit lines were utilized.

<sup>2</sup> The Company uses the independent ratings of Moody's and Standard & Poor's.

### (iii) Liquidity risk

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. Due to the dynamic nature of the underlying business the Group aims to maintain flexibility in funding by keeping committed credit lines available.

The Group manages liquidity risk by having an option to utilize bank overdrafts which should cover an immediate shortage of cash. 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 between 3 to 60 days.

The Group monitors movements of financial resources on its bank accounts on a regular basis.

Expected cash flow is prepared as follows:

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

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

Management monitors rolling forecasts of the Group's liquidity reserve comprises un-drawn borrowing facility and cash and cash equivalents on the basis of expected cash flow.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the consolidated Statement of Financial Position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
<b>At december 2011</b>				
Bank loans (principal incl. future interest charges)	10,558	10,420	23,384	-
Trade and other payables excluding liabilities not falling under IFRS 7	134,674	-	-	-
<b>Total</b>	<b>145,232</b>	<b>10,420</b>	<b>23,384</b>	<b>-</b>
<b>At 31 December 2010</b>				
Bank loans (principal incl. future interest charges)	10,484	10,375	33,554	-
Trade and other payables excluding liabilities not falling under IFRS 7	105,956	-	-	-
<b>Total</b>	<b>116,440</b>	<b>10,375</b>	<b>33,554</b>	<b>-</b>

The following table below summarizes liquidity analysis of Group's financial derivatives. The table has been prepared based on undiscounted net cash inflows/(outflows) from financial derivatives settled by the Group in gross amounts. For other than fixed amounts payable/receivable, recognised amounts were derived from projected interest rates as illustrated by yield curves as at the reporting date.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
<b>At 31 December 2011</b>				
Interest rate swaps	(811)	(516)	(196)	-
<b>Total</b>	<b>(811)</b>	<b>(516)</b>	<b>(196)</b>	<b>-</b>
<b>At 31 December 2010</b>				
Interest rate swaps	(390)	(1,058)	(1,163)	-
<b>Total</b>	<b>(390)</b>	<b>(1,058)</b>	<b>(1,163)</b>	<b>-</b>

### 3.2 Capital risk management

The parent company's objectives of managing capital are to safeguard the parent Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The parent company's management manages shareholders' capital reported under IFRS amounts to, as at 31 December 2011, EUR 532,286 thousand (31 December 2009: EUR 242,131 thousand).

Consistent with others in the industry, the parent company's management monitors capital on the basis of the gearing ratio. This ratio is calculated as follows:

	31 December 2011	31 December 2010
Total equity and liabilities	835,123	472,908
Equity (Note 14)	532,286	242,131
Equity to Total equity and liabilities ratio	64%	51%

During 2011, the parent company's strategy was unchanged from 2010, i.e. to maintain Equity to Total liabilities and equity ratio above 35% which is compliant with externally imposed capital requirements. During 2011 and 2010, the Group complied with the externally imposed capital requirements to which it is subject to (Note 16).

### 3.3 Fair value estimation

The fair value of derivatives and investments available for sale or held for trading is based on inputs other than quoted market prices as at the reporting date.

The carrying value less impairment provision of trade financial assets and liabilities are assumed to approximate their fair values.

## 4 Critical accounting estimates and judgements

The Group makes estimates and assumptions concerning the future periods. The accounting estimates due to its nature, would differ from actual results realized in future periods. Critical estimates and assumptions that bear a risk that their change will cause a material adjustment to the carrying amounts of assets and liabilities within the future, are described below.

### (i) Regulated revenues

The Group is the owner of the transmission system of the Slovak Republic and provides the operation of this system through which realizes the transmission of electricity including international transmission and directly associated activities. These activities include the maintenance of steady balance of Electricity System of the Slovak Republic through the provision of system services and loss coverage during the transmission. It also performs an administrative charges for operating system and its subsequent transfer to regional energy distribution companies. The operation fee serves as a state instrument to support the production of electricity from renewable sources and coverage of expenses incurred in the economic interest (mining of Slovak coal to generate electricity). The Group organizes and evaluates short-term electricity market for short-term electricity market participants and deviation settlement in Slovak Republic.

Activities of the Group are subject to regulation by The Regulatory Office of Network Industries of the Slovak Republic (hereinafter the „URSO“). URSO determines regulation policies for the current regulation period. Year 2011 belongs into the three-year regulation period started in 2009 and ending in 2011. URSO, among other decisions, determines the regulation policy, controls audit compliance of the Group with the current energy legislation and URSO revenues and issues decisions on maximum allowed revenues, expenditures and prices for the Group.

In this regulation period the principle of transmission service regulation was based on a price cap; however, the increase in regulation prices was restricted by inflation level. Prices for other related services, as well as short-term electricity market organization and deviation settlement were determined through maximum allowed revenues and related rates. For the part of the services maximum allowed expenditures and maximum prices for purchased services were determined.

Deviations from the maximum allowed revenues and expenditures are taken into account in the future rates by the correction factors.

For more details on description related to revenues see Note 3.1 (i) (c).

## (ii) Pension benefits

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions (Note 19).

## (iii) Revaluation of property, plant and equipment

The main operating assets of the Group are assets used for electricity transmission. In the past, the Group valued assets at the historical acquisition costs. As at 1 January 2011 the Group applied the revaluation model to fair value according to ISA 16 for property, plant and equipment, except for the classes of property containing vehicles, inventory and artwork. Revaluation of property, plant and equipment was made by an independent expert who used a net realizable value. In case of increase of the assets book value during revaluation, the analysis of the possible impairment was performed based on the determining value in use (present value of the current cash flows expecting from the use of property). The result of the revaluation is the increase of the assets and related increase in other comprehensive income accumulated in equity. Assumptions used in the revaluation model are based on the independent expert. The method used for revaluation is further described in Note 5. The final reported book values of these assets and related revaluation deviations are not necessarily the values at which these assets may have been or will be sold.

The Group also evaluated the expected remaining useful life of the property, plant and equipments based on the expert opinion as stated above. The result of the reassessment of useful life is the increase of the estimated useful life.

	2011	2010
Buildings, networks and constructions	40 – 80 years	20 - 30 years
Machinery, equipment and vehicles	12 - 30 years	4 – 12 years
Other non-current tangible assets	4 years	4 years

There are uncertainties regarding future economic conditions, technology changes and business environment in the sector or regulations by URSO, which may result to future possible adjustments to the estimated revaluations and useful life of property, plant and equipment. This may significantly change the reported amount of assets, equity and profit of the Group in the future.

## (iv) Valuation of swap

The Group uses Discounted Cash Flow model that uses only observable market data for determining the fair value of common financial instruments, like interest rate swaps. Availability of

observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values.

**(v) Impairment test**

On 31 December 2011, the management of the parent company performed a test for potential impairment by comparing recoverable value and book value. Due to the nature of the business, the parent company was considered as one cash generating unit. Recoverable value was determined based on the value of use. The fair value was derived from the value of future cash flows adjusted for present value by discount. Discount rate used in impairment test was 8.4% (after income tax). This discount rate was calculated by weighted average cost of capital.

Fair value of cash generating unit was determined based on projected cash flows arising from long-term financial plan prepared by the parent company's management. The financial plans were prepared for the next five years. Projected cash flows for the next period after the five years were derived from these financial plans. In this subsequent period it is expected to achieve such operating and financial efficiency, which management consider to be sustainable. Based on this standard level of cash flows, terminal value of cash flows growth condition was calculated at 0% per annum.

The key assumptions that affect the fair value the most, are except for the discount rate are mainly planned capital expenditures after 2016. Most assumptions are based on a historical basis.



**5 Property, plant and equipment**

	<b>Lands</b>	<b>Buildings, halls and constructions</b>	<b>Machinery, equipment, vehicles and other assets</b>	<b>Capital work in progress including advances (CIP)</b>	<b>Total</b>
<b>At 1 January 2010</b>					
Cost	6,062	278,409	327,648	35,150	647,269
Accumulated depreciation and impairment charges	-	(126,707)	(196,487)	(35)	(323,229)
<b>Net book value</b>	<b>6,062</b>	<b>151,702</b>	<b>131,161</b>	<b>35,115</b>	<b>324,040</b>
<b>Year ended 31 December 2010</b>					
Opening net book value	6,062	151,702	131,161	35,115	324,040
Additions	-	3,477	16,516	29,367	49,360
Transfers	176	6,660	2,028	(8,864)	-
Disposals	-	-	(32)	-	(32)
Depreciation charge	-	(11,473)	(25,349)	-	(36,822)
Impairment	-	(4,479)	-	-	(4,479)
Transferred to disposal group classified as held for sale	-	-	(309)	-	(309)
<b>Closing net book value</b>	<b>6,238</b>	<b>145,887</b>	<b>124,015</b>	<b>55,618</b>	<b>331,758</b>
<b>At 31 December 2010</b>					
Cost	6,238	290,671	335,861	55,653	688,423
Accumulated depreciation and impairment charges	-	(144,785)	(211,845)	(35)	(356,665)
<b>Net book value</b>	<b>6,238</b>	<b>145,886</b>	<b>124,016</b>	<b>55,618</b>	<b>331,758</b>
<b>Year ended 31 December 2011</b>					
Opening net book value	6,238	145,886	124,016	55,618	331,758
Positive revaluation	7,416	261,939	58,670	-	328,025
Negative revaluation	-	(7,056)	(8,294)	-	(15,350)
Additions	-	-	519	84,717	85,236
Transfers	269	8,048	21,536	(29,853)	-
Disposals	(2)	(1,463)	(1,437)	-	(2,902)
Depreciation charge	-	(32,115)	(18,819)	-	(50,934)
<b>Closing net book value</b>	<b>13,921</b>	<b>375,239</b>	<b>176,191</b>	<b>110,482</b>	<b>675,833</b>

**At 31 December  
2011 after  
revaluation**

Cost	13,921	407,483	195,850	110,517	727,771
Accumulated depreciation and impairment charges	-	(32,244)	(19,659)	(35)	(51,938)
<b>Net book value</b>	<b>13,921</b>	<b>375,239</b>	<b>176,191</b>	<b>110,482</b>	<b>675,833</b>

**At 31 December  
2010 in historical  
costs**

Cost	6,505	297,005	347,625	110,562	761,697
Accumulated depreciation and impairment charges	-	(149,848)	(214,230)	(35)	(364,113)
<b>Net book value</b>	<b>6,505</b>	<b>147,157</b>	<b>133,395</b>	<b>110,527</b>	<b>397,584</b>

As at 1 January 2011, the independent expert, who is not related to the parent company, nor to the subsidiary performed revaluation of property, plant and equipment based on observation of property, plant and equipment and determination of depreciable replacement costs of property, plant and equipment, with reference to the records of current market transactions with similar property items and methodology of depreciable replacement costs. Depreciable replacement costs are based on current acquisition cost, at which the property, plant and equipment would be acquired as new, and estimated residual value based on the current acquisition cost, useful life, and age of existing assets (methodology of depreciable replacement costs less depreciation).

This valuation is in accordance with International Valuation Standards. The Group recorded this valuation as at 1 January 2011. Revaluated book value is higher as residual value determined on the historical acquisition cost base by EUR 328,025 thousand and this amount is recognized in other comprehensive income.

By the revaluation of the property, plant and equipment, the Group also extended the useful life of the property, plant and equipment based on the expert opinion stated above. See also Note 2.6.

As at 31 December 2011, the parent company reassessed the impairment of property, plant and equipment in accordance with IAS 36 based on the assessment of their future use, disposal or sale. The parent company concludes that all assets used within regulation activities associated with the transmission of electricity as a whole constitute one cash generating unit. Due to the increase in asset value resulting from the revaluation, the parent company estimated discounted future cash flows based on currently effective regulation by URSO. Based on the impairment assessment, the Company concluded, that the property, plant and equipment used for electricity transmission activities is not impaired. The parent company's management decided that the impairment test provided at the parent company level is sufficient also for consolidated financial statement.

As at 31 December 2011, the most significant items within property, plant and equipment represent: switching stations and administrative buildings at revaluated net book value of EUR 248,437 thousand, in historical net book value of EUR 181,379 thousand (31 December 2010: EUR 169,127 thousand); transmission lines at revaluated net book value of EUR 275,393 thousand, in historical net book value of EUR 69,823 thousand (31 December 2010: EUR 69,310 thousand).

Non-current assets under construction consists mainly of EUR 14,308 thousand for reconstruction of a switching station TR 400/110 kV Medzibrod (31 December 2010: EUR 17,141 thousand), EUR 276 thousand for controlling training simulator (31 December 2010: EUR 5,757 thousand).

thousand), EUR 35,724 thousand for 2x400 kV switching station Košice-Lemešany (31 December 2010: EUR 4,609 thousand), EUR 5,254 thousand for remote management of switching station in Križovany (31 December 2010: EUR 4,084 thousand), EUR 7,428 thousand for transformer in Bošáca (31 December 2010: EUR 3,917 thousand), EUR 5,371 thousand for switching station and transmission lines in Gabčíkovo (31 December 2010: EUR 4,286 thousand), EUR 1,570 thousand for transformation 400/110 kV in Voľa (31 December 2010: EUR 1,569 thousand), EUR 16,427 thousand for remote management of switching station in Veľký Ďur (31 December 2010: EUR 442 thousand), EUR 1,804 thousand for remote management of switching station in Levice (31 December 2010: EUR 1,180 thousand), EUR 2,241 thousand for 2x400 kV switching station Medzibrod (31 December 2010: EUR 1,962 thousand), EUR 5,818 thousand for transformation 400/110 kV at switching station Medzibrod (31 December 2010: EUR 454 thousand) and EUR 7,985 thousand for 2x400 kV lines for switching station Medzibrod (31 December 2010: EUR 0). These assets are not available for use at the reporting date.

In accordance with accounting policies of the Group, borrowing costs are capitalized and therefore the Company capitalized interest amounting to EUR 58 thousand (31 December 2010: EUR 140 thousand) as a part of the acquisition cost of non-current assets. The effective interest rate related to capitalization as at 31 December 2011 amounted 1.326% p.a. (31 December 2010: 1.0038% p.a.).

As at 31 December 2011 the revaluated net book value of assets under finance lease, namely machines, tools and equipment represented EUR 732 thousand, in historical net book value EUR 703 thousand (31 December 2009: EUR 734 thousand).

The following table includes property leased by the Group as lessor under operating lease agreements:

	Land, buildings and structures	Plant, machinery and equipment	Total
<b>As at 31 December 2011</b>			
Cost	5,526	117	5,643
Accumulated depreciation	(292)	(11)	(303)
<b>Net book value as at 31 December 2011</b>	<b>5,234</b>	<b>106</b>	<b>5,340</b>
<b>As at 31 December 2011</b>			
Historical acquisition cost	4,730	136	4,866
Accumulated depreciation historical	(2,076)	(30)	(2,106)
<b>Historical net book value as at 31 December 2011</b>	<b>2,654</b>	<b>106</b>	<b>2,760</b>
<b>As at 31 December 2010</b>			
Cost	4,256	136	4,392
Accumulated depreciation	(2,039)	(21)	(2,060)
<b>Net book value as at 31 December 2010</b>	<b>2,217</b>	<b>115</b>	<b>2,332</b>

The Group also leases optic fibres and circuits. The value of such fibres and circuits cannot be reasonably estimated, as they are a part of other assets that are used by the Group.

There are no restrictions of ownership relating to property, plant and equipment other than those disclosed in these Notes to the consolidated Financial Statements. No property, plant and equipment has been pledged.

### Type and amount of insurance of non-current intangible and tangible assets

The Group has insured its assets against the following risks:

Insured object	Type of insurance	Amount insured as at 31 December 2011 and 2010	Name of the insurance company
Buildings, halls and constructions	Damage or total loss	170,724	Allianz - Slovenská poisťovňa, a.s. (co-insurance company Generali, Kooperativa, QBE)
Machines, tools and equipment, vehicles without car licence plates	Damage or total loss	87,542	Allianz - Slovenská poisťovňa, a.s. (co-insurance company Generali, Kooperativa, QBE)
Transformers and control rooms	Damage or total loss	233,215	Allianz - Slovenská poisťovňa, a.s. (co-insurance company Generali, Kooperativa, QBE)
RRB (radio relay point)	Damage or total loss	16,641	Allianz - Slovenská poisťovňa, a.s. (co-insurance company Generali, Kooperativa, QBE)
Elevated power lines	Damage or total loss	768,707	Allianz - Slovenská poisťovňa, a.s. (co-insurance company Generali, Kooperativa, QBE)
Cables	Damage or total loss	2,957	Allianz - Slovenská poisťovňa, a.s. (co-insurance company Generali, Kooperativa, QBE)
Office equipment	Damage or total loss	814	Allianz - Slovenská poisťovňa, a.s. (co-insurance company Generali, Kooperativa, QBE)
Fixtures and fittings	Damage or total loss	622	Allianz - Slovenská poisťovňa, a.s. (co-insurance company Generali, Kooperativa, QBE)
Sets of movable non-current tangible assets, cables, elevated power lines	Damage or total loss, insurance against theft, burglary, and robbery, and robbery during transport and vandalism	332	Allianz - Slovenská poisťovňa, a.s. (co-insurance company Generali, Kooperativa, QBE)
Set of machines and equipment	Machines and equipment insurance	323,541	Allianz - Slovenská poisťovňa, a.s. (co-insurance company Generali, Kooperativa, QBE)
Scheduled capital expenditures, automatic coverage of new assets	Damage or total loss	33,194	Allianz - Slovenská poisťovňa, a.s. (co-insurance company Generali, Kooperativa, QBE)

Fixtures and fittings	Insurance against theft, burglary, and robbery, and robbery during transport and vandalism	291	Allianz - Slovenská poisťovňa, a.s. (co-insurance company Generali, Kooperativa, QBE)
Measuring devices and notebooks in motor vehicles	Insurance against theft, burglary, and robbery, and robbery during transport and vandalism	66	Allianz - Slovenská poisťovňa, a.s. (co-insurance company Generali, Kooperativa, QBE)
Scheduled capital expenditures	Machines and equipment insurance	23,236	Allianz - Slovenská poisťovňa, a.s. (co-insurance company Generali, Kooperativa, QBE)

## 6 Intangible assets

	Software and other intangible assets	Intangible assets not yet in use	Total
<b>At 1 January 2010</b>			
Cost	37,079	778	37,857
Accumulated amortisation and impairment charges	(16,283)	-	(16,283)
<b>Net book value</b>	<b>20,796</b>	<b>778</b>	<b>21,574</b>
<b>Year ended 31 December 2010</b>			
Opening net book amount	20,796	778	21,574
Additions	-	7,744	7,744
Transfers	5,320	(5,320)	-
Disposals	-	-	-
Amortisation charge	(7,512)	-	(7,512)
Impairment loss	(695)	-	(695)
<b>Closing net book value</b>	<b>17,909</b>	<b>3,202</b>	<b>21,111</b>
<b>At 31 December 2010</b>			
Cost	42,399	3,202	45,601
Accumulated amortisation and impairment charges	(24,490)	-	(24,490)
<b>Net book value</b>	<b>17,909</b>	<b>3,202</b>	<b>21,111</b>
<b>Year ended 31 December 2011</b>			
Opening net book amount	17,909	3,202	21,111
Additions	63	4,629	4,692
Transfers	5,413	(5,413)	-
Disposals	-	-	-
Amortisation charge	(7,428)	-	(7,428)
<b>Closing net book value</b>	<b>15,957</b>	<b>2,418</b>	<b>18,375</b>
<b>At 31 December 2011</b>			
Cost	47,875	2,418	50,293
Accumulated amortisation and impairment charges	(31,918)	-	(31,918)
<b>Net book value</b>	<b>15,957</b>	<b>2,418</b>	<b>18,375</b>

The computer software consists mainly of SAP, STET, XMatic, DAMAS (auction portal), Oracle and XM Trade and ISZO (deviation settlement information system). Net book value of SAP is EUR 1,743 thousand (31 December 2010: EUR 3,020 thousand), remaining amortization period is between 1 and 4 years. Net book value of DAMAS is EUR 1,783 thousand (31 December 2010: EUR 2,906 thousand), remaining amortization period is 3 and 4 years. Net book value of ISZO is EUR 3,403 thousand (31 December 2010: EUR 4,275 thousand).

Intangible assets not yet in use include EUR 173 thousand for controlling training simulator (31 December 2010: EUR 1,010 thousand), EUR 1,727 thousand for remote management for

switching station Veľký Ďur and EUR 554 thousand for completion of trade measurement system..

Internally generated intangible assets are immaterial.

There are no restrictions of ownership relating to intangible assets. No intangible assets are pledged.

## 7 Non-current assets held for sale

Non-current assets held for sale as at 31 December 2011 represent administrative building in Bratislava, apartment in Horná Ždaňa and machines and equipment that are to be recovered through a sale transaction rather than use and the sale is considered highly probable

	31 December 2010	Additions	Sales	31 December 2011
Cost of assets	5,270	-	9	5,261
Recorded accumulated depreciation	(2,517)	-	(6)	(2,511)
Impairment loss upon revaluation	(18)	-	-	(18)
<b>Total</b>	<b>2,735</b>	<b>-</b>	<b>3</b>	<b>2,732</b>

## 8 Shares and other investments

	2011	2010
At the beginning of the year	12	12
Additions	50	-
Disposals	-	-
<b>At the end of the year</b>	<b>62</b>	<b>12</b>

Eight providers of transmission systems: Verbund - Austrian Power Grid AG, ČEPS, a.s., Electro-Slovenija d.o.o., E.ON Netz GmbH, MAVIR Hungarian TSO Company Ltd., PSE-Operator S.A., SEPS, a.s. a Vattenfall Europe Transmission GmbH established Central Auction Office (CAO) based in Gute Änger 15, Freising, Germany for the purpose of introducing regional coordinated management of network overloading. In year 2011 the parent company contributed into CAO EUR 50 thousand, overall contribution increased to EUR 62 thousand. Share of 12.5% remained unchanged.

## 9 Financial assets

### Loans to the company CAO

	2011	2010
<b>At the beginning of the year</b>	60	60
Additions	-	-
Disposals	30	-
<b>At the end of the year</b>	<b>30</b>	<b>60</b>
Less non-current portion of Loans to the company	(15)	(30)
<b>Current portion of Loans to the Company</b>	<b>15</b>	<b>30</b>

The balance as at 31 December 2011 represents the outstanding loan granted to the auction office (Note 8) with final maturity in year 2013 and repayment thereof in five annual instalments.

The fair value of the loan granted to the auction office was calculated using the method of the discounted cash flows, using the discount rate of 12-month EURIBOR. The fair value is approximately equal to the carrying value of the loan. The credit risk exposure related to this loan is limited by the carrying value of the loan.

In 2011 CAO has repaid instalment in amount of EUR 15 thousand, that has been after due date as at 31 December 2010.

## 10 Financial instruments by category

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

As at 31 December 2011	Financial assets at fair value through profit and loss	Loans and receivables	Total
<b>Assets as per Statement of Financial Position</b>			
Trade receivables (before impairment provision)	-	27,592	27,592
Receivables due from derivative financial instruments	-	-	-
Other receivables	-	2,589	2,589
Cash at bank and in hand	-	92,837	92,837
Short-term bank deposits	-	-	-
Loans to the company CAO	-	30	30
<b>Total</b>	<b>-</b>	<b>123,048</b>	<b>123,048</b>



As at 31 December 2011	Financial liabilities at fair value through profit and loss	Other financial liabilities - carried at amortized cost	Total
<b>Liabilities as per Statement of Financial Position</b>			
Trade and other payables	-	72,719	72,719
Received guarantees	-	57,565	57,565
Liabilities due from derivative financial instruments	1,657	-	1,657
Other payables	-	1,192	1,192
Bank loans	-	43,100	43,100
<b>Total</b>	<b>1,657</b>	<b>174,576</b>	<b>176,233</b>

As at 31 December 2010	Financial liabilities at fair value through profit and loss	Loans and receivables	Total
<b>Assets as per Statement of Financial Position</b>			
Trade receivables (before impairment provision)	-	38,698	38,698
Receivables from derivative financial instruments	-	-	-
Other receivables	-	3,998	3,998
Cash at bank and in hand	-	68,720	68,720
Short-term bank deposits	-	-	-
Loans to the company CAO	-	60	60
<b>Total</b>	<b>-</b>	<b>111,476</b>	<b>111,476</b>

As at 31 December 2010	Financial liabilities at fair value through profit and loss	Other financial liabilities - carried at amortized cost	Total
<b>Liabilities as per Statement of Financial Position</b>			
Trade and other payables	-	66,327	66,327
Received guarantees	-	36,164	36,164
Liabilities due from derivative financial instruments	2,560	-	2,560
Other payables	-	239	239
Bank loans	-	53,100	53,100
<b>Spolu</b>	<b>2,560</b>	<b>155,830</b>	<b>158,390</b>

**11 Inventories**

	<b>As at 31 December</b>	
	<b>2011</b>	<b>2010</b>
Advance payments made for inventory	6,304	-
Materials and spare parts	895	719
	<b>7,199</b>	<b>719</b>

The most significant items in inventory are advance payments in the amount of EUR 6,304 thousand, which represent value of not used advance payments for received and used inventory within organization of short-term electricity market.

The Group has a limited right to dispose with inventory and does not use them to guarantee its liabilities.

**12 Trade and other receivables**

	<b>As at 31 December</b>	
	<b>2011</b>	<b>2010</b>
Current receivables and prepayments:		
Neither past due nor impaired trade receivables	27,017	34,358
Past due but not impaired trade receivables	571	4,336
Individually impaired trade receivables	4	4
Trade receivables (before provision for impairment)	<b>27,592</b>	<b>38,698</b>
Less: Provision for impairment of receivables	(4)	(4)
Trade receivables - net	<b>27,588</b>	<b>38,694</b>
VAT receivables	5,404	2,941
Loan granted	2,473	77
Other receivables including accrued income	2,589	3,998
<b>Other receivables including accrued income - net</b>	<b>10,466</b>	<b>7,016</b>
<b>Total trade and other receivables</b>	<b>38,054</b>	<b>45,710</b>

The analysis of trade receivables by the remaining period to maturity is shown in the following table:

	As at 31 December	
	2011	2010
Receivables within due date	27,017	34,358
Overdue receivables	575	4,340
<b>Total</b>	<b>27,592</b>	<b>38,698</b>

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

	As at 31 December	
	2011	2010
Slovenské elektrárne, a.s.	3,010	3,422
Západoslovenská energetika, a. s.	54	53
Západoslovenská energetika Distribúcia, a. s.	7,411	5,270
Západoslovenská energetika Energia, a. s.	1,535	1,878
Stredoslovenská energetika, a. s.	2,224	2,110
Stredoslovenská energetika Distribúcia, a. s.	4,261	4,235
Východoslovenská energetika, a. s.	692	699
Východoslovenská energetika Distribúcia, a. s.	3,210	2,225
Other	4,620	14,466
<b>Neither past due or impaired trade receivables</b>	<b>27,017</b>	<b>34,358</b>

All receivables that are neither past due nor impaired are classified as trade receivables. The credit quality of receivables that are neither past due nor impaired is monitored regularly by the management of the parent company and subsidiary. Although the receivables of the Group are generated from a few customers only, the credit risk is limited due to character of the counterparties. Most of the customers are strategic Slovak companies, most of them engaged in electricity business, with an influence by the state.

As at 31 December 2011, trade receivables of EUR 571 thousand (31 December 2010: EUR 4,336 thousand) were past due but not impaired. Their ageing analysis is as follows:

	As at 31 December	
	2011	2010
1 to 90 days	559	4,336
91 to 180 days	12	-
<b>Total past due but not impaired trade receivables</b>	<b>571</b>	<b>4,336</b>

The closing balance of the Group's trade receivables includes receivables in the carrying amount of up to EUR 571 thousand (31 December 2010: EUR 4,336 thousand) overdue at the reporting date, for which no provisions were recorded by the Group as there were no significant changes in creditworthiness of the debtors and the amounts are still considered recoverable. The Company recorded no collateralized receivables.

As at 31 December 2011, trade receivables of EUR 4 thousand (31 December 2010: EUR 4 thousand) were impaired and provided for. As at 31 December 2011, the Group recorded a 100% provision for such receivables, in 2011 in the amount of EUR 4 thousand (2010: EUR 4 thousand).

The ageing of these receivables is as follows:

	As at 31 December	
	2011	2010
Over 361 days	4	4
<b>Total individually impaired receivables</b>	<b>4</b>	<b>4</b>

The movements in the provision for impairment of trade receivables are recognized in the Income Statement in Other operating (expenses) / income. Movements are presented below:

	2011	2010
At the beginning of the year	4	2,629
Additional provision for receivables impairment	-	-
Unused amounts released	-	(1,318)
Receivables written-off during the year as uncollectible	-	(1,307)
<b>At the end of the year</b>	<b>4</b>	<b>4</b>

No receivables have been pledged as collateral. The Group does not have any restrictions to deal with receivables.

### 13 Cash and cash equivalents

	As at 31 December	
	2011	2010
Cash at bank and in hand	84,232	66,057
Short-term bank deposits	8,605	2,663
	<b>92,837</b>	<b>68,720</b>

At 31 December 2011 cash and cash equivalents were fully available for the Group's use. The Group has two deposit accounts with guarantees for deviations (EUR 35,378 thousand) and electricity market (EUR 23,203 thousand).

For the purposes of the Statement of Cash Flow, the cash and cash equivalents comprise the following:

	As at 31 December	
	2011	2010
Cash and bank balances and deposits with original maturities of less than three months	92,837	68,720
	<b>92,837</b>	<b>68,720</b>

The carrying amounts of cash and cash equivalents as of 31 December 2011 are not substantially different from their fair value. The maximum exposure to credit risk is limited by the carrying value of cash and cash equivalents.

The analysis by credit quality is reported in Note 3.1 (ii).

#### 14 Shareholder's Equity

As at 31 December 2011, the registered capital of the parent company at a total nominal value of EUR 81,835 thousand consists of: 2,382 bearer shares at a nominal value of EUR 33 thousand; 793 bearer shares at a nominal value of EUR 34; 82 registered shares at a nominal value of EUR 33 thousand and 459 registered shares at a nominal value of EUR 34.

Equal rights are attributable to all types of shares.

Legal reserve fund is obligatorily created from profit of the parent company in accordance with the Slovak Commercial Code. The minimum prescribed creation of the Legal reserve fund is 10% of its share capital at the time of the incorporation of the parent 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 parent company and it is not a distributable reserve. Legal reserve fund amounted to EUR 16,366 thousand as at 31 December 2011 (as at 31 December 2010: EUR 16,366 thousand).

Other capital reserves comprise statutory fund of EUR 126,145 thousand as at 31 December 2011 to finance capital expenditure activities (31 December 2010: EUR 104,890 thousand) and differences from revaluation of assets amounted to EUR 237,382 thousand.

The statutory fund to finance future capital expenditures is used to accumulate internal funds of the parent company generated from profit to finance capital expenditures. In 2011, the parent company contributed to this fund an amount of EUR 21,255 thousand (31 December 2010: EUR 7,696 thousand) from 2010 profit distribution. The rules for the use of funds allocated to the statutory fund for capital expenditures are governed by the general financing principles of the parent company in relation to capital expenditures, and by the acquisition guidelines. Funds on the statutory fund to finance capital expenditures are accumulated from amounts allocated to the statutory fund based on the General Meeting decision.

The movements in revaluation assets fund are presented in the table below:

	<b>2011</b>
Positive revaluation 1 January 2011	328,025
Deferred tax 1 January 2011	(62,325)
Revaluation surplus reclassified to retained earnings as at 31 December 2011	(34,961)
Deferred tax on revaluation surplus as at 31 December 2011	6,643
<b>At the end of the period</b>	<b>237,382</b>

The parent company believes that the property revaluation surplus is not immediately available for distribution to the shareholders. Parts of the revaluation surplus are reclassified to retained earnings by the difference between depreciation of the revaluated values and original acquisition costs of the property. The rest of the revaluation is reclassified into retained earnings at the sale and disposal of the assets. These transfers to retained earnings are available for distribution to shareholders.

The General Meeting held on 21 June 2011 approved the consolidated Financial Statements for 2010 and decided to pay dividends to the shareholders for 2010. In 2011, a dividend of EUR 4 thousand (rounded) per share at a nominal value of EUR 33 thousand and EUR 3.74 (rounded) per share at nominal value of EUR 34 was declared to the shareholders (in 2010: EUR 1 thousand per share at a nominal value of EUR 33 thousand and EUR 1.38 per share at nominal value of EUR 34).

The profit accounting of the parent company for the year 2010 of EUR 31,169 thousand was distributed as follows:

	<b>2010 profit distribution</b>	<b>2009 profit distribution</b>
Dividends paid - National Property Fund	9,000	3,314
Appropriation to the Statutory Fund	21,255	7,696
Transfer to retained earnings	914	542
<b>Total</b>	<b>31,169</b>	<b>11,552</b>

During 2011 the parent company paid extraordinary dividends to the shareholder in the amount of EUR 8,834 thousand.

**15 Trade and other payables**

	<b>As at 31 December</b>	
	<b>2011</b>	<b>2010</b>
Trade payables	72,719	66,327
Received guarantees	57,565	36,164
Payables due to employees	839	804
Social security	403	370
Accrued personnel expenses	3,318	2,800
Liabilities due from derivative financial instruments	988	290
Social fund	201	260
Other payables	1,192	240
<b>Total</b>	<b>137,225</b>	<b>107,255</b>

The liabilities from derivative financial instruments include derivative transactions, other than hedging. These derivatives are used especially for the purpose of managing the risk related to the usual business transactions. As at 31 December 2011, the Group has three interest rate swaps with a negative fair value in the amount of EUR 1,458 thousand (31 December 2010: negative fair value of swaps was EUR 2,270 thousand), the part in the amount of EUR 670 thousand is recognized in the long-term liabilities and the amount of EUR 789 thousand is recognized in short-term liabilities. The accrued interest amounted to EUR 200 thousand (31 December 2010: EUR 290 thousand).

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

No payables are secured by a lien or other collateral.

The analysis of payables by the remaining maturity period is as follows:

	As at 31 December	
	2011	2010
Payables not yet due	129,831	100,009
Overdue payables	7,394	7,246
<b>Total</b>	<b>137,225</b>	<b>107,255</b>

#### Social fund

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

	2011	2010
Opening balance at 1 January	260	191
Creation	514	467
Usage	(573)	(398)
<b>Closing balance at 31 December</b>	<b>201</b>	<b>260</b>

#### 16 Bank loans and finance lease liabilities

	As at 31 December	
	2011	2010
<b>Non-current</b>		
Long term portion of bank loans (a)	33,100	43,100
Long term portion of finance lease	-	-
	<b>33,100</b>	<b>43,100</b>
<b>Current</b>		
Short term portion of bank loans (a)	10,000	10,000
Short term portion of finance lease	-	-
	<b>10,000</b>	<b>10,000</b>



**(a) Bank loans**

The maturity of bank loans is as follows:

Maturity	As at 31 December	
	2011	2010
Short term portion of bank loans	10,000	10,000
Long term portion of bank loans		
1-5 years	33,100	43,100
Over 5 years	-	-
<b>Total</b>	<b>43,100</b>	<b>53,100</b>

The fair value of current borrowings approximates their carrying amount, as the impact of discounting is not significant.

The Group has the following borrowing facilities which are not utilized:

	As at 31 December	
	2011	2010
Floating rate		
- Expiring within one year	26,780	23,236
- Expiring beyond one year	23,236	23,230
Fixed rate		
- Expiring within one year	-	-
<b>Total</b>	<b>50,016</b>	<b>46,466</b>

Loans from VÚB, a.s. and from Tatra banka, a.s. include certain financial covenants related to limits on debt ratios, interest coverage and debt to operating profit ratios calculated on the basis of the individual Financial Statements of the parent company. The parent company complied with these covenants at the reporting date of these Financial Statements.

The effective interest rates at the reporting date were as follows:

	2011	2010
Bank borrowings	1.326%	1.0038%

Structure of bank loans as at 31 December 2011 is as follows:

Bank/Creditor	Amount in EUR		Interest rate % p.a.	Maturity	Collateral	Part due in next 12 months	Part due after 12 months		
	31 December 2011	31 December 2010							
Tatra banka, a.s.	Investment	EUR	12,600	18,200	3MEURLIBOR + 0.145%	23.4.2014	-	5,600	7,000
SLSP, a.s.	Investment	EUR	13,500	17,900	3M EURIBOR + 0.145%	31.12.2014	-	4,400	9,100
VÚB, a.s.	Investment	EUR	17,000	17,000	3MEURIBOR + 0.85%	3.12.2015	-	-	17,000
Total	X	X	43,100	53,100	X	X	X	10,000	33,100

## 17 Grants and deferred revenues

Deferred revenues include the following items:

	As at 31 December	
	2011	2010
<b>Deferred revenues</b>		
Alcatel contract - long-term portion (a)	-	5,169
– current portion (a)	-	1,880
EBRD grant Lemešany – long-term portion ©	16,764	17,093
– short-term portion (b)	966	1,977
EBRD grant Lemešany – long-term portion (c)	20,221	4,802
– short-term portion ©	114	-
Auctions - current portion	-	196
US Steel – long-term portion (d)	5,110	5,447
– short-term portion (d)	281	607
EU TEN-E – long-term portion (e)	920	926
– short-term portion (e)	29	52
E.On – long-term portion (f)	3,525	3,699
– short-term portion (f)	158	393
Other - long-term portion (g)	1,045	9,901
– short-term portion (g)	9,902	63
<b>Total</b>	<b>59,035</b>	<b>52,205</b>

a)

As at the day of establishment, the parent company assumed a contract providing rights with respect to the transmission of electricity from the predecessor entity, Slovenské elektrárne, a.s. The contract is signed with Atel (Switzerland) for a period of 16 years from the signing of the contract in 1998 until 30 September 2014, for which the predecessor entity received an amount of CHF 38,000 thousand which is released to revenues on a straight-line basis over a period of the contract duration.

Based on the negotiation with ALPIQ AG – the legal successor of ATEL, on 10 August 2011 the contract on termination of the contract of 27 October 1997 was concluded relating to the transit rights on electricity in high-voltage system SE in Slovakia. In this contract the parent company committed partially to the return of advanced payment in the amount of EUR 7,200 thousand at least by 30 June 2014. The parent company returned the advance payment in full amount to ALPIQ on 17 August 2011 and the remaining balance of deferred income was released in 2011.

b)

On 10 December 2003, the parent company concluded a grant contract with the European Bank for Reconstruction and Development (EBRD), under which the EBRD undertook to provide a grant of EUR 24 million for IPR "Križovany 400 kW, Reconstruction – Structure 2, Part 2 and Structure 3". The contract became effective on 4 August 2004. The subsidy proceeds were drawn over the period of 2004 – 2010.

An amount of EUR 17,729 thousand (31 December 2010: EUR 19,070 thousand) was recognized in deferred revenue related to the grant.

At the reporting date, the parent company has no executor warranties or other contingent liabilities related to grant other than expenses connected to the project in accordance with an approved budget and its structure.

c)

On 18 December 2007, the parent company concluded a grant contract with the European Bank for Reconstruction and Development (EBRD), under which the EBRD undertook to provide a grant of EUR 43.9 million for extension of IPR Bošáca 400kV, transformer station 400/110kV Medzibrod - 2. construction, transformer station 400/110kV Medzibrod - 3. construction, power lines 2 x 400kV Lemešany - Košice - Moldava - 4. construction. The contract became effective on 4 July 2008.

An amount of EUR 20,335 thousand (31 December 2010: EUR 4,802 thousand) was recognized in deferred revenue related to the subsidy.

At the reporting date, the parent company has no executor warranties or other contingent liabilities related to grant other than expenses connected to the project in accordance with an approved budget and its structure.

d)

Deferred revenues include an amount of EUR 5,391 thousand (31 December 2009: EUR 6,054 thousand) related to investment in the switching station in Košice. This station is owned by the Company, however, the company US Steel was obligated to co-finance the half of the station's acquisition costs. The cash receipt will be released into the Income Statement on a straight-line basis during the expected useful life of the station.

e)

Deferred revenue of EUR 949 thousand represents a co-finance provided to the Company from an European Commission's program EU TEN-E (Trans – European Network) in the amount of 10% of the value of transmission lines EK-Moldava – SS- Košice (31 December 2010: EUR 978 thousand).

f)

Amount of EUR 3,683 thousand included in Deferred revenues is related to a 100% co-financing by company E.ON for a part of station in Križovany, field 13 (31 December 2011: EUR 4,092 thousand).

g)

Within other deferred income the Group recorded the amount EUR 8,884 thousand related to revenues from system operations and system services, which the Company will realize in 2012 or 2013. The Group received advance payments from participants for fees on daily electricity market related to 2012 in the amount of EUR 1,001 thousand.

Relating to the Group property revaluation, the deferred income as at 1 January 2011 were decreased by EUR 1,041 thousand. The amount EUR 375 thousand was related with the grant EBOR for Križovany, EUR 382 thousand with US Steel, EUR 251 thousand with E.ON and EUR 33 thousand with other deferred income.

## 18 Deferred tax

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

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

The movements in the deferred tax assets and liabilities were as follows:

	At 1 January 2011	Change recognized as expense/income	Change of equity	At 31 December 2011
Positive revaluation of fixed assets	(62,325)	6,643	-	(55,682)
Negative revaluation of fixed assets	2,916	(585)	-	2,331
Receivables	-	-	-	-
Non-current tangible and intangible assets	(2,127)	(2,880)	-	(5,007)
Retirement benefit	506	160	-	666
Provisions	3,334	(1,184)	-	2,150
Other	368	(110)	-	258
<b>Total</b>	<b>(57,328)</b>	<b>2,044</b>	<b>-</b>	<b>(55,284)</b>

On 1 January 2011 on revaluation of property, plant and equipment, deferred tax was recognized from negative revaluation of property, plant and equipment with double entry to profit and loss account in the amount of EUR 2 916 thousand and tax liability from positive revaluation to equity accounts in the amount of EUR 62 325 thousand. Therefore, the deferred tax balance as at 31 December 2010 does not reconcile the balance as at 1 January 2011.

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

	At 1 January 2010	Change recognized as expense/income	At 31 December 2010
Receivables	2	(2)	-
Non-current tangible and intangible assets	(1,901)	(226)	(2,127)
Retirement benefit	389	117	506
Provisions	1,451	1,883	3,334
Other	138	230	368
<b>Total</b>	<b>79</b>	<b>2,002</b>	<b>2,081</b>

**19 Provisions for liabilities and charges**

	<b>Pension benefits and other long-term benefits</b>	<b>Legal claims</b>	<b>Others</b>	<b>Total</b>
	<b>(a)</b>	<b>(b)</b>	<b>(c)</b>	
<b>At 1 January 2011</b>	<b>2,662</b>	<b>33</b>	<b>6,584</b>	<b>9,279</b>
Creation of provisions	1,593	-	-	1,593
Provisions used	(167)	-	-	(167)
Reversals of unused provision	(582)	-	(6,584)	(7,166)
<b>At 31 December 2011</b>	<b>3,506</b>	<b>33</b>	<b>-</b>	<b>3,539</b>

	<b>As at 31 December</b>	
<b>Analysis of total provisions</b>	<b>2011</b>	<b>2010</b>
Non-current	3,506	2,662
Current	33	6,617
<b>Total</b>	<b>3,539</b>	<b>9,279</b>

**(a) Pension benefits and other long-term benefits**

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

**(i) post employment benefits**

	<b>As at 31 December</b>	
<b>Analysis of total provisions</b>	<b>2011</b>	<b>2010</b>
Present value of unfunded retirement obligations	3,391	2,625
Unrecognised actuarial gains/(losses) and portion of past service cost	-	-
<b>Obligation in the Statement of Financial Position</b>	<b>3,391</b>	<b>2,625</b>

The amounts recognised in the consolidated Statement of Comprehensive Income are as follows:

	<b>2011</b>	<b>2010</b>
<b>Analysis of current provisions</b>		
Current service cost	233	710
Recognised actuarial gains/(losses)	1,183	(24)
Interest cost	94	64
<b>Pension (credit) / cost, included in personnel costs</b>	<b>1,510</b>	<b>750</b>

Movements in the present value of defined benefit obligation are:

	2011	2010
Present value of unfunded retirement obligations at the beginning of the year	2,625	2,014
Current service cost	233	710
Interest cost	94	64
Benefits paid	(162)	(139)
Cancelled	(582)	-
Actuarial (gains)/ losses	1,183	(24)
<b>Present value of unfunded retirement obligations at the end of the year</b>	<b>3,391</b>	<b>2,625</b>

(ii) other long-term benefits (jubilees and loyalties)

	As at 31 December 2011	2010
Present value of unfunded obligations	112	37
<b>Obligation in the Statement of Financial Position</b>	<b>112</b>	<b>37</b>

The amounts recognised in the consolidated Statement of Comprehensive Income are as follows:

	2011	2010
Current service cost	8	3
Recognised actuarial gains/losses	18	7
Interest expense	2	1
<b>Pension (credit) / cost, included in personnel costs</b>	<b>28</b>	<b>11</b>

Movements in the present value of defined benefit obligation are:

	2011	2010
Present value of unfunded retirement obligations at beginning of the year	37	32
Current service cost	8	3
Past service cost	52	-
Interest cost	2	1
Benefits paid	(5)	(6)
Actuarial gains/(losses)	18	7
<b>Present value of unfunded retirement obligations at the end of the year</b>	<b>112</b>	<b>37</b>

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

**As at 31 December 2011**

Percentage of employees, who will terminate their employment with SEPS a.s. prior to retirement (fluctuation rate)	3.0 – 7.2 % p.a., differing with age and sex
Expected salary increases - long-term	5% p. a.
- short-term	3% p. a.
Discount rate	5.18% p. a.

**As at 31 December 2010**

Percentage of employees, who will terminate their employment with SEPS a.s. prior to retirement (fluctuation rate)	5.2 – 10.1 % p.a., differing with age and sex
Expected salary increases - long-term	6% p. a.
- short-term	3% p. a.
Discount rate	4.61% p. a.

**(b) Provision for legal claims**

A provision is created for those legal claims where it is probable, at the reporting date, that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. In the opinion of the parent company's management, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant loss beyond the amounts provided.

The Group recorded a provision for the legal dispute with E. I. S. spol. s r.o., in which E. I. S. spol. s r.o. has claimed damages from the Company in the amount of EUR 33 thousand as a result of lost profit. Resolution of the legal dispute is anticipated in the next year.

**(c) Others**

The Group concluded a trade contract for the period 2009 to 2011. The expected obligation for the Group from this contract exceeds the future economic benefits which will flow into the Group. As at 31 December 2010 the Group recorded a provision in the amount of EUR 6,584 thousand for the expected negative impact of this contract. As at 31 December 2011 this provision has been used for returning the advance payment.



## 20 Revenues

Revenues include the following:

Revenues from electricity transmission and transit, deviation settlement and fees for organization of daily electricity market:

	2011	2010
Access to transmission grid	109,651	105,055
Covering losses	13,544	13,803
System operation	89,000	26,126
System services	194,222	199,502
Auctions	7,916	5,823
Deviations	87,470	91,694
Transit and other services	1,958	6,656
<b>Total revenues from electricity transmission and transit, deviation settlement and organization of daily electricity market</b>	<b>503,761</b>	<b>448,659</b>
Rental	427	389
Telecommunications services	550	718
Other revenues	249	238
<b>Total other revenues</b>	<b>1,226</b>	<b>1,345</b>
<b>Total revenues</b>	<b>504,987</b>	<b>450,004</b>

The revenue from the Group's core activities mainly results from the regulatory framework and the URSO decisions, issued by this institution for the relevant year.

Revenues from rental comprise income from the rental of non-residential premises, electric masts for various types of transmitters and antennas and lease of power lines. Telecommunication services include the lease of fibre optic cables and management information system.

## 21 Consumed materials and services

Consumed materials and services included the following:

	2011	2010
Expenses from operator activities of daily electricity market trading	0	698
Consumption of material, energy and other non-storable items	23,707	23,125
Repair and maintenance	9,201	14,503
Travel expenses	313	284
Representation expenses	229	453
Rental	434	415
Communication lines outputs	710	1,083
Stations service	4,069	4,305
Protection and maintenance of area	845	870
Revisions, controls, security services	1,912	1,954
Technical advisory	333	176
Cleaning	194	209
Biological recultivation	151	140
Geodetic services	384	0
Experts examinations, analysis, experts opinion, certifications	1,478	2,888
Information technology services, advertisement	7,688	8,037
Expenses for ancillary services	135,111	165,401
Expenses for system operation	86,167	24,451
Expenses for deviations	37,218	41,069
Expenses for auctions	385	1,263
Expenses for regulation energy	51,391	48,636
Cross-boarder assistance expenses (CBT)	108	-50
Audit of Financial Statements provided by auditor	51	27
Advisory services	988	530
Tax advisory	18	18
Other services provided by auditor	10	11
Usage of MO profile (ČEPZ)	448	0
Other	916	923
<b>Total</b>	<b>364,459</b>	<b>341,419</b>

The Group's costs are created mainly from regulated costs for purchase of support services needed to provide system services, system operation costs, regulated costs and deviations, purchase of electricity for loss coverage and own consumption, costs for international transmission and auctions, other costs needed for transmission system operation and operation of the Company.

**22 Personnel costs**

	2011	2010
Wages and salaries	14,061	12,838
Other personnel costs	920	2,041
Pension costs - definite contribution plans	4,157	3,750
Current service cost	241	713
Interest costs on pension and similar liabilities	96	65
Recognized actuarial losses/(gains)	1,201	(17)
<b>Total</b>	<b>20,676</b>	<b>19,390</b>

**23 Other operating expenses**

	2011	2010
Insurance costs	2,303	2,258
Loss from sale of fixed assets	2,315	-
Taxes and other fees	278	245
Gifts	132	489
Creation of provision	-	707
Other operating expenses	371	195
<b>Total</b>	<b>5,399</b>	<b>3,894</b>

**24 Other operating income**

	2011	2010
Gain from sale of fixed assets	-	25
Gain from sale of material	56	155
Release of deferred revenues from a grant	1,350	2,055
Change in value adjustment to trade receivables	-	1,318
Contractual penalties	2,487	2,112
Release of provision	6,584	-
Release of deferred revenues - Košice	663	608
Re-invoicing of overhead	-	498
Insurance claims and other	889	1,144
<b>Total</b>	<b>12,029</b>	<b>7,915</b>

Due to revaluation of property, plant and equipment, the amount of EUR 1,041 thousand was recognized into the other operation revenues on 1 January 2011. See also Note 2.2.

**25 Finance expense, net**

	2011	2010
Interest income	291	69
Interest expense from borrowings	(800)	(494)
Foreign exchange gains	5	1
Foreign exchange losses	(61)	(17)
Finance income on derivative instruments	871	-
Finance expense on derivative instruments	(1,060)	(3,000)
Other financial expense	(25)	(17)
<b>Net financial expense</b>	<b>(779)</b>	<b>(3,458)</b>

**26 Income tax expense**

Reconciliation from the theoretical to the reported income tax charge is presented in the following table:

	Year ended 31 December	
	2011	2010
Profit before tax (from continuing operations)	52,206	39,976
Theoretical income tax related to current period at 19%	9,919	7,595
- Other income not subject to tax (permanent)	(1,224)	(25)
- Non-deductible expenses (permanent)	1,223	1,237
	<b>9,918</b>	<b>8,807</b>
Income tax expense for the period		
The tax charge for the period comprises:		
- Deferred tax charge - expense/(income) (Note 18)	(4,960)	(2,002)
- Current income tax expense	14,878	10,809
	<b>9,918</b>	<b>8,807</b>
Effective tax rate	<b>19.00%</b>	<b>22.03%</b>

The Slovak corporate tax rate valid for 2011 and 2010 is 19%.

**27 Contingencies****(a) Taxation**

Many areas of Slovak tax law (such as transfer-pricing regulations) have not been sufficiently tested in practice, so there is some uncertainty as how the tax authorities would apply them. The extent of this uncertainty cannot be quantified. It will be reduced only if legal precedents or official interpretations are available. Neither the parent company's management, nor the subsidiary management is aware of any circumstances that may give rise to future material expense in this respect.

## (b) Regulation and liberalisation in energy industry

### *Regulatory framework for the electricity market in the Slovak Republic*

Based on the current legislation, the electricity market in the Slovak Republic is liberalized and allows free selection of electricity supplier for all customers.

Activities of the Group are subject to regulation by URSO.

## (c) Other

The Group is currently involved in a legal case with its former employee who is suing the parent company for alleged unfair dismissal. According to the opinion of the parent company's management and taking into account relevant legal advices, it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate cannot be made of the amount of the obligation at the reporting date.

## 28 Commitments

### (a) Capital commitments

The Group has contractual obligations under the contracts for the purchase of non-current assets entered into before 31 December 2011, the performance of which is scheduled only after 31 December 2011. The total obligation under the contracts amounts to EUR 87,046 thousand (2010: EUR 152,247 thousand). Capital commitments represent mainly reconstruction of switching station in Medzibrod, realization of transmission lines 2x400 kV for switching station in Medzibrod, reconstruction of transmission lines V406 Sučany-Hubová and remote management of switching stations.

The Group approved its capital expenditure budget for 2012 in the amount of EUR 68,511 thousand (the 2011 capital expenditure budget: EUR 89,063 thousand). Capital expenditures mainly relate to the reconstruction of power lines 400/110 kV and switching station in Medzibrod, to reconstruction of power lines V406 Sučany-Hubová, to remote management in Veľký Ďúr and Levice, to transmission lines 2x400 kV for switching station in Košice – Lemešany, to combined ground lines Spišská Nová Ves – Lemešany and Levice - Rimavská Sobota and to ICT systems.

It is expected that both internal and external funds will be used to finance these capital expenditures.

### (b) Operating lease commitments - Group as lessee

The Group has the following future minimum lease installments in relation to the above operating lease contracts:

	31 December 2011	31 December 2010
Due within 1 year	471	426
Due in 2 to 5 years	1,871	1,693
Due after 5 years	23	402
<b>Total</b>	<b>2,365</b>	<b>2,521</b>

The Group has also entered into an operating lease for an unlimited period of time with a possibility of termination with a 3-month termination period. The annual lease payments amount to EUR 213 thousand (31 December 2009: EUR 151 thousand). The main items include the lease of telecommunications routes.

### c) Operating lease commitments - Group as lessor

The Group leases out mainly radio relay points and optic fiber cables.

The Group records the following minimum lease installments in relation to the operating lease contracts:

	31 December 2011	31 December 2010
Due within 1 year	106	75
Due in 2 to 5 years (inclusive)	314	281
Due after 5 years	39	110
<b>Total</b>	<b>459</b>	<b>466</b>

The Group has also entered into operating lease for an unlimited period of time, for which the annual lease payments amount to EUR 549 thousand (31 December 2009: EUR 596 thousand).

### 29 Contingent assets

Participants of short-term electricity market and deviation settlement enclose the contract with banks on bank guarantees in favour of the Group that the Group has the right to use in case of insolvency. The amount of received bank guarantees as at 31 December 2011 is EUR 64,253 thousand (as at 31 December 2010: 66,892 thousand).

### 30 Cash generated from operations

	Note	2011	2010
Profit before income tax		52,206	39,976
Adjustments for:			
Depreciation of property, plant and equipments	5	50,934	36,823
Depreciation of non-current intangible assets	6	7,428	7,857
Negative revaluation	5	15,350	-
Impairment charge for non-current assets	5,7	(695)	5,173
Changes in provisions for receivables	12	-	(2,625)
Change in fair value of derivatives		(812)	1,524
(Gain)/loss on disposal of property, plant and equipment	23	2,166	(25)
Interest income/expense, net	25	509	425
Net movements in provisions	19	(5,740)	10,098
Changes in working capital:			
Inventories (gross)		(6,481)	(140)
Trade and other receivables		7,677	(12,627)
Trade and other payables, deferred revenues		36,903	(3,795)
<b>Cash generated from operations</b>		<b>159,445</b>	<b>82,664</b>

In the cash flow statement, proceeds from sale of property, plant and equipment are as follows:

	Note	2011	2010
Net book amount		2,497	32
Profit/(loss) on disposal of property, plant and equipment	24, 23	(2,166)	25
Proceeds from disposal of property, plant and equipment		<b>331</b>	<b>57</b>

### 31 Related party transactions

Parties related to the Group include its sole shareholder, the company CAO and key management personnel of the Group or the shareholder.

The National Property Fund (FNM), an entity fully owned by the Slovak Republic is the sole shareholder of the parent company.

Transactions with entities that are owned or controlled directly or indirectly by the State are realized in accordance with the prevailing regulatory principles.

The National Property Fund (FNM), an entity fully owned by the Slovak Republic, is the 51% shareholder of Západoslovenská energetika, a.s., Východoslovenská energetika, a.s. and Stredoslovenská energetika, a.s..

Západoslovenská energetika – Distribúcia, a.s., Západoslovenská energetika – Energia, a.s., Východoslovenská energetika – Distribúcia, a.s. and Stredoslovenská energetika – Distribúcia are 100% subsidiaries of these companies.

As at 31 December 2011, the outstanding balances with state-controlled entities and government bodies were as follows:

	Gross amount of trade receivables	Other receivables	Value adjustment to trade receivables	Trade and other payables
Slovenské elektrárne, a.s.	3,010	607	-	(9,663)
Západoslovenská energetika, a.s.	73	-	-	(78)
Západoslovenská energetika – Distribúcia, a.s.	7,411	-	-	6
Západoslovenská energetika – Energia, a.s.	1,539	-	-	(525)
Východoslovenská energetika, a.s.	692	-	-	(528)
Východoslovenská energetika – Distribúcia, a.s.	3,210	-	-	(4)
Stredoslovenská energetika, a.s.	2,224	-	-	(3,227)
Stredoslovenská energetika – Distribúcia, a.s.	4,261	-	-	(6,202)
Stredoslovenská energetika Project Development, spol. s r. o.	-	-	-	(194)
Tepláreň Košice, a. s.	35	-	-	(1,015)
Žilinská teplárenská, a. s.	2	-	-	(470)
Martinská teplárenská, a. s.	27	-	-	(567)
Zvolenská teplárenská, a. s.	8	-	-	(491)
CAO	702	-	-	(16)



The income and expense items with state-controlled entities and government bodies for the year ended 31 December 2011 were as follows:

	Sale of service	Purchase of services
CAO, a. s.	7,417	(385)
Slovenské elektrárne, a.s.	69,084	(98,410)
Západoslovenská energetika, a.s.	242	(689)
Západoslovenská energetika – Distribúcia, a.s.	143,219	(60)
Západoslovenská energetika – Energia, a.s.	19,186	(3,482)
Východoslovenská energetika, a.s.	7,340	(2,940)
Východoslovenská energetika – Distribúcia, a.s.	63,322	(30,303)
Stredoslovenská energetika, a.s.	22,264	(21,365)
Stredoslovenská energetika – Distribúcia, a.s.	80,660	(56,611)
Stredoslovenská energetika Project Development, spol. s r. o.	48	(2,828)
Tepláreň Košice, a. s.	334	(7,762)
Žilinská teplárenská, a. s.	-	(1,454)
Martinská teplárenská, a. s.	99	(1,567)
Zvolenská teplárenská, a. s.	115	(2,766)

As at 31 December 2010, the outstanding balances with state-controlled entities and government bodies were as follows:

	Gross amount of trade receivables	Other receivables	Value adjustment to trade receivables	Trade and other payables
Slovenské elektrárne, a.s.	3,657	-	-	(11,855)
Západoslovenská energetika, a.s.	59	-	-	(78)
Západoslovenská energetika – Distribúcia, a.s.	9,251	-	-	(364)
Západoslovenská energetika – Energia, a.s.	1,878	-	-	(214)
Východoslovenská energetika, a.s.	699	-	-	(78)
Východoslovenská energetika – Distribúcia, a.s.	2,225	-	-	(822)
Stredoslovenská energetika, a.s.	2,110	-	-	(2,951)
Stredoslovenská energetika – Distribúcia, a.s.	4,235	-	-	(534)
Tepláreň Košice, a. s.	42	-	-	(2,075)
Žilinská teplárenská, a. s.	5	-	-	(258)
Martinská teplárenská, a. s.	82	-	-	(4,196)
Zvolenská teplárenská, a. s.	1	-	-	(417)
OKTE, a. s. pôžička	-	20	-	-
CAO	213	-	-	(21)

The income and expense items with state-controlled entities and government bodies for the year ended 31 December 2010 were as follows:

	Sale of services	Purchase of services
CAO	187	(422)
Slovenské elektrárne, a.s.	51,114	(111,881)
Západoslovenská energetika, a.s.	323	(682)
Západoslovenská energetika – Distribúcia, a.s.	119,221	(3,595)
Západoslovenská energetika – Energia, a.s.	20,870	36
Východoslovenská energetika, a.s.	8,693	(2,781)
Východoslovenská energetika – Distribúcia, a.s.	60,224	(14,269)
Stredoslovenská energetika, a.s.	19,772	(18,368)
Stredoslovenská energetika – Distribúcia, a.s.	83,247	(4,892)
Tepláreň Košice, a. s.	308	(10,335)
Žilinská teplárenská, a. s.	-	(1,176)
Martinská teplárenská, a. s.	180	(1,872)
Zvolenská teplárenská, a. s.	98	(3,248)

#### Key management personnel compensation

Salaries and bonuses paid to the parent company's management, directors and other members of top management for the year ended 31 December 2010 and 31 December 2009, are as follows:

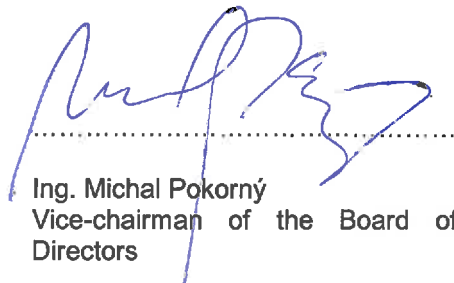
	Year ended 31 December 2011	Year ended 31 December 2010
Salaries and short term employee benefits	1,905	2,538
<b>Total</b>	<b>1,905</b>	<b>2,538</b>

## 32 Events after the reporting period

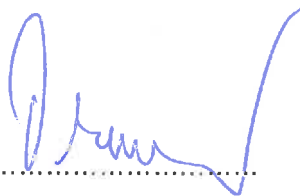
The Consolidated Financial Statements for the year ended 31 December 2011 prepared in accordance with International Financial Reporting Standards as adopted by the European Union were prepared and authorized for issue on 4 May 2012.



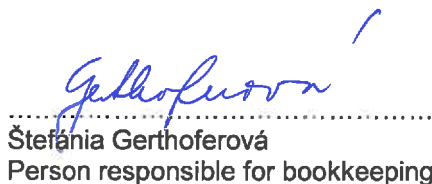
Ing. Ján Horkovič  
Chairman of the Board of Directors



Ing. Michal Pokorný  
Vice-chairman of the Board of Directors



Ing. Ján Oráč  
Person responsible for preparation of the Consolidated Financial Statements



Štefánia Gerthoferová  
Person responsible for bookkeeping