Independent auditor's report and separate financial statements

(prepared in accordance with the International Financial Reporting Standards, as adopted by the EU)

For the year ended 31 December 2010

eustream, a.s.

INDEPENDENT AUDITOR'S REPORT AND SEPARATE FINANCIAL STATEMENTS (PREPARED IN ACCORDANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS, AS ADOPTED BY THE EU)

For the year ended 31 December 2010

Deloitte.

Deloitte Audit s.r.o.
Digital Park II, Einsteinova 23
851 01 Bratislava
Slovak Republic

Tel: +421 2 582 49 111
Fax: +421 2 582 49 222
deloitteSK@deloitteCE.com
www.deloitte.sk

Registered at the Municipal
Court in Bratislava I
Section Sro, File 4444/B
Id. Nr.: 31 343 414
VAT Id. Nr.: SK2020325516

eustream, a.s.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of eustream, a.s.:

We have audited the accompanying financial statements of eustream, a.s.(the "Company"), which comprise the balance sheet as at 31 December 2010, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Statutory Body's Responsibility for the Financial Statements

The Company's statutory body is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as the statutory body determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of eustream, a.s.as of 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Other Matter

The financial statements of the Company for the year ended 31 December 2009 were audited by another auditor who expressed an unqualified opinion thereon dated 22 February 2010.

Bratislava 18 February 2011

Deloitte

Deloitte Audit s.r.o.
Licence SKAu No. 014

Ing. Wolda K. Grant, FCCA
zodpovedný audítor
Licencia SKAu č. 921

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eustream, a.s.
BALANCE SHEETS
As at 31 December 2010 and 31 December 2009
(EUR '000)

	Note	*31 December 2010*	*31 December 2009*
ASSETS:			
NON-CURRENT ASSETS			
Property, plant and equipment	6	33 883	21 981
Non-current intangible assets	7	3 321	2 166
Total non-current assets		37 204	24 147
CURRENT ASSETS			
Inventories	8	20 744	21 507
Receivables and prepayments	9	298 013	164 852
Income tax asset		-	1 259
Other assets		10	4
Cash and cash equivalents		59	20
Total current assets		318 826	187 642
TOTAL ASSETS		**356 030**	**211 789**
EQUITY AND LIABILITIES:			
CAPITAL AND RESERVES			
Registered capital	13	82 929	82 929
Legal reserve fund and other funds	14	17 233	16 102
Retained earnings	14	191 739	82 123
Total equity		291 901	181 154
NON-CURRENT LIABILITIES			
Retirement and other long-term employee benefits	10	2 138	2 334
Deferred tax liability	20.2	1 760	1 583
Total non-current liabilities		3 898	3 917
CURRENT LIABILITIES			
Trade and other payables	12	28 031	23 435
Current income tax		26 635	-
Provisions and other current liabilities	11	5 565	3 283
Total current liabilities		60 231	26 718
Total liabilities		64 129	30 635
TOTAL EQUITY AND LIABILITIES		**356 030**	**211 789**

The financial statements on pages 3 to 31 were signed on 18 February 2011 on behalf of the Board of Directors:

Dipl. Ing. Antoine Jourdain
Chairman of the Board of Directors

Ing. Andreas Rau
Member of the Board of Directors

(EUR ‘000)

	Note	***Year ended 31 December 2010***	***Year ended 31 December 2009***
Revenues from sale of services			
Natural gas transit and other		826 472	742 913
Total revenues		826 472	742 913
Operating costs			
Own work capitalised		653	523
Purchases of natural gas and consumables and services		(135 474)	(133 934)
Depreciation and amortisation	6, 7	(4 016)	(3 875)
Lease of transit network and other services		(417 422)	(477 601)
Staff costs	15	(31 889)	(36 405)
Provision for bad and doubtful debts, obsolete and slow-moving inventory, net	8, 9	(98)	(650)
Provisions and impairment losses, net	11, 6, 7	(2 379)	(44)
Other, net		(2 427)	5 267
Total operating costs		(593 052)	(646 719)
Operating profit		233 420	96 194
Financial income/(expense)	17, 18	777	1 158
Profit before income taxes		234 197	97 352
Income tax	20.1	(45 912)	(18 683)
NET PROFIT FOR THE PERIOD		**188 285**	**78 669**

(EUR '000)

	Note	*Year ended 31 December 2010*	*Year ended 31 December 2009*
PROFIT FOR THE PERIOD		188 285	78 668
Other comprehensive income:	21		
Cash flow hedging		1 131	(715)
Deferred tax relating to components of other comprehensive income/loss for the period		-	44
OTHER NET COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		1 131	(671)
TOTAL NET COMPREHENSIVE INCOME FOR THE PERIOD		**189 416**	**77 998**

(EUR '000)

	Registered capital	*Legal reserve fund*	*Hedging reserve*	*Retained earnings*	*Total*
Balance at 31 December 2008	82 929	16 586	187	88 702	188 404
Net profit for the period	-	-	-	78 669	78 669
Other comprehensive loss for the period	-	-	(671)	-	(671)
Dividends paid	-	-	-	(85 248)	(85 248)
Balance at 31 December 2009	**82 929**	**16 586**	**(484)**	**82 123**	**181 154**
Net profit for the period	-	-	-	188 285	188 285
Other comprehensive income for the period	-	-	1 131	-	1 131
Dividends paid	-	-	-	(78 669)	(78 669)
Balance at 31 December 2010	**82 929**	**16 586**	**647**	**191 739**	**291 901**

eustream, a.s.
STATEMENTS OF CASH FLOWS
Years ended 31 December 2010 and 31 December 2009
(EUR '000)

	Note	***Year ended 31 December 2010***	***Year ended 31 December 2009***
Operating activities			
Cash flows from operating activities	22	118 150	100 280
Interest paid		-	(1)
Interest received		427	675
Income tax paid		(17 841)	(16 669)
Net cash flows from operating activities		100 736	84 285
Investing activities			
Acquisition of property, plant and equipment		(19 453)	(1 986)
Proceeds from sale of property, plant and equipment and intangible assets		559	1
Net cash inflow/(outflow) from investing activities		(18 894)	(1 985)
Financing activities			
Dividends paid		(78 669)	(85 248)
Other proceeds and payments from financing activities, net		(3 133)	1 016
Net cash flows from financing activities		(81 802)	(84 232)
Net increase in cash and cash equivalents		40	(1 932)
Net foreign exchange difference		(1)	(1)
Cash and cash equivalents at the beginning of the period		20	1 953
Cash and cash equivalents at the end of the period		**59**	**20**

(EUR '000)

1. GENERAL

1.1. General Information

In accordance with Act No. 431/2002 Coll. on Accounting as amended, eustream, a.s., (hereinafter also the "Company") is required to prepare separate financial statements as at 1 January 2008 in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union ("EU").

The Company was founded by a Memorandum of Association on 26 November 2004 and incorporated in the Commercial Register on 10 December 2004 under the business name SPP – preprava, a.s. Slovenský plynárenský priemysel, a.s. is the 100% owner of the Company.

On 1 July 2006, Slovenský plynárenský priemysel, a.s. (hereinafter also "SPP") made a contribution to the Company of part of the business, including the assets (not including the main assets for natural gas transmission) and liabilities of the former transit division. At the same time, SPP leased the main assets for natural gas transmission (gas transmission pipelines, compressor stations) to the Company under an operating lease contract.

Since 1 July 2006, the Company has assumed the performance of activities related to international natural gas transmission.

SPP – preprava a.s. changed its business name to eustream a.s. by an entry in the Commercial Register on 3 January 2008.

On 30 April 2010, the Annual General Meeting approved the Company's 2009 financial statements.

Company Identification No. (IČO)	35 910 712
Tax Registration No. (DIČ)	2021931175

1.2. Principal Activities

Since 1 July 2006, following the legal unbundling, the Company has been responsible for the transmission of natural gas in Slovakia.

SPP contributed part of the business, including the assets (not including the main assets for natural gas transmission) and liabilities of the original transit division to its subsidiary SPP – preprava. At the same time, SPP leased the main assets for natural gas transit (gas transmission pipelines, compressor stations) to the Company under an operating lease contract. With effect from 1 July 2006, the Company assumed the performance of activities associated with the transmission of natural gas.

<u>EU 3rd Energy Package</u>

In 2009, the European Union endorsed Directive No. 2009/73/EC and related regulations concerning common rules for the internal market in natural gas, the so-called "3rd Gas Regulation". The aim of the new regulation is, inter alia, to specify a new regime for separating transmission system operators, which enables choosing one of the following three scenarios:

- Ownership unbundling;
- Independent system operator; or
- Independent transmission operator.

EU member states must adopt the so-called implementation legislation into their own legislations before 3 March 2011 and select one of the aforementioned separation scenarios, which must then be implemented over the next 12 months, but not later than 3 March 2012. The transposition of this legislation into the legislation of the Slovak Republic has not been completed yet and it is currently uncertain which separation scenario will be adopted.

The impact of the 3rd Energy Package will be that SPP, a.s. will transfer the transmission network to eustream.

1.3. Employees

The average number of employees of eustream, a.s. for the year ended 31 December 2010 was 920, of which 1 was executive management (for the year ended 31 December 2009: 1 086, of which 1 was executive management).

1.4. Registered Address

Mlynské nivy 42
825 11 Bratislava
Slovak Republic

2. NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS AND CHANGES IN ESTIMATES

2.1. Adoption of New and Revised International Financial Reporting Standards

The Company has adopted all the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that have been endorsed for use in the EU and that are relevant to its operations and are effective for accounting periods beginning on 1 January 2010. The following amendments to the existing standards issued by the International Accounting Standards Board and adopted by the EU are effective for the current accounting period:

- IFRS 1 (revised) "First-time Adoption of IFRS" adopted by the EU on 25 November 2009 (effective for annual periods beginning on or after 1 January 2010)
- Amendments to IFRS 1 "First-time Adoption of IFRS"- Additional Exemptions for First-time Adopters, adopted by the EU on 23 June 2010 (effective for annual periods beginning on or after 1 July 2010)
- Amendments to IFRS 2 "Share-based Payment" – Group cash-settled share-based payment transactions adopted by the EU on 23 March 2010 (effective for annual periods beginning on or after 1 January 2010)
- Amendments to IAS 27 "Consolidated and Separate Financial Statements" adopted by the EU on 3 June 2009 (effective for annual periods beginning on or after 1 July 2009)
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" – Eligible hedged items, adopted by the EU on 15 September 2009 (effective for annual periods beginning on or after 1 July 2009)
- Amendments to various standards and interpretations "Improvements to IFRSs (2009)" resulting from the annual improvement project of IFRS published on 16 April 2009, adopted by the EU on 23 March 2010 (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 23 March 2010 (effective for annual periods beginning on or after 1 January 2010)
- IFRIC 12 "Service Concession Arrangements" adopted by the EU on 25 March 2009 (effective for annual periods beginning on or after 30 March 2009)
- IFRIC 15 "Agreements for the Construction of Real Estate" adopted by the EU on 22 July 2009 (effective for annual periods beginning on or after 1 January 2010)
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" adopted by the EU on 4 June 2009 (effective for annual periods beginning on or after 1 July 2009)
- IFRIC 17 "Distributions of Non-Cash Assets to Owners" adopted by the EU on 26 November 2009 (effective for annual periods beginning on or after 1 November 2009)
- IFRIC 18 "Transfers of Assets from Customers" adopted by the EU on 27 November 2009 (effective for annual periods beginning on or after 1 November 2009. IFRIC 18 had an impact on the recognition of cash received and assets from customers regarding construction contracts related to connecting to a distribution network. IFRIC 18 provides guidance on how to identify and separate individual services, which are the subject matter of such contracts. The accounting treatment of such transactions depends on whether the customer is paying for a service to connect or for a service to provide ongoing access to utilities. If the subject matter of the contract for connection is the provision of services to connect to the network, cash received from a customer are to be recognised on a one-off basis in revenues at the moment of successful connection.

The adoption of these amendments to the existing standards has not led to any changes in the Company's accounting policies.

At the date of authorisation of these financial statements the following standards, revisions, and interpretations adopted by the EU were in issue but not yet effective:

- Amendments to IAS 24 "Related Party Disclosures" – Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party, adopted by the EU on 19 July 2010 (effective for annual periods beginning on or after 1 January 2011)

- Amendments to IAS 32 "Financial Instruments: Presentation" – Accounting for rights issues, adopted by the EU on 23 December 2009 (effective for annual periods beginning on or after 1 February 2010)
- Amendments to IFRS 1 "First-time Adoption of IFRS" – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters, adopted by the EU on 30 June 2010 (effective for annual periods beginning on or after 1 July 2010)
- Amendments to IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" - Prepayments of a Minimum Funding Requirement, adopted by the EU on 19 July 2010 (effective for annual periods beginning on or after 1 January 2011)
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments", adopted by the EU on 23 July 2010 (effective for annual periods beginning on or after 1 July 2010)

The Company has elected not to adopt these standards, revisions, and interpretations in advance of their effective dates.

The Company anticipates that the adoption of these standards, revisions, and interpretations will have no material impact on the Company's financial statements in the period of initial application.

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following standards, amendments to the existing standards and interpretations, which were not endorsed for use as at 31 December 2009.

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2013).
- Amendments to IFRS 7 "Financial Instruments: Disclosures"- Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011).
- Amendments to various standards and interpretations "Improvements to IFRSs (2010)" resulting from the annual improvement project of IFRS published on 6 May 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording (most amendments are to be applied for annual periods beginning on or after 1 January 2011).

At the same time, hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated. Based on the Company's estimates, the application of hedge accounting for the portfolio of financial assets or liabilities pursuant to IAS 39: "Financial Instruments: Recognition and Measurement" would not significantly impact the financial statements, if applied as at the reporting date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Accounting

These separate financial statements have been prepared in accordance with IFRS as adopted by the EU. IFRS as adopted by the EU do not currently differ from IFRS as issued by the International Accounting Standards Board (IASB).

The financial statements are prepared under the historical cost convention, except for certain financial instruments. The principal accounting policies adopted are detailed below. The Company's reporting and functional currency is the euro (EUR). The separate financial statements were prepared under the going concern assumption.

b) Research and Development

Research and development costs are recognised as expenses except for costs incurred for development projects, which are recognised as non-current intangible assets to the extent of the expected future economic benefits. However, development costs initially recognised as expenses are not recognised as assets in a subsequent period.

c) Financial Instruments

Financial assets and liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the related instrument.

(EUR '000)

d) Derivative Financial Instruments

Derivative financial instruments are initially recognised at fair value and are re-measured to fair value at subsequent reporting dates.

Changes in the fair value of derivative financial instruments that are determined and effective as cash flow hedges are recognised directly in equity. As a hedging relationship arises, the Company documents the relationship between a hedging instrument and the hedged item, risk management objectives, and the strategy for realisation of various hedging transactions. As of the hedging origination, the Company continuously monitors whether the hedging instrument used in the hedging relationship is effective in compensating for cash flow changes in the hedged item. The amounts recognised in equity are recognised in the income statement at the same period when the hedged fixed liability is incurred or the anticipated transaction affects the profit or loss.

Changes in the fair value of derivative financial instruments that do not meet the requirements of effective cash flow hedging recognised in equity are recognised in the income statement.

e) Trade Receivables

Trade receivables are stated at their expected realisable value, net of provisions for debtors in bankruptcy or restructuring proceedings and net of provisions for overdue bad and doubtful receivables where risk exists that they will not be fully or partially settled.

f) Property, Plant and Equipment and Intangible Assets

Property, plant and equipment and intangible assets are stated at historical cost less accumulated depreciation and impairment losses. For assets deposited as a contribution in kind as at 1 July 2006, historical cost was determined by an independent expert as at this date.

Cost includes all costs incurred for placing the asset into service for its intended use.

Items of property, plant and equipment and intangible assets that are retired or disposed of are eliminated from the balance sheet at net book value. Any gain or loss resulting from such retirement or disposal is included in the income statement.

Items of property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives. Depreciation charges are recognised in the income statement computed so as to amortise the cost of the assets to their estimated net book value over their residual useful lives. The useful lives of property, plant and equipment and intangible assets are as follows:

	2010	***2009***
Regulation stations	15 – 50	15 - 50
Structures	40	40
Machines, tools and equipment	4 – 15	4 - 15
Other non-current assets	1 – 8	1 – 8

Land is not depreciated as it is deemed to have an indefinite useful life.

At each reporting date an assessment is made as to whether there is any indication that the recoverable amount of the Company's property, plant and equipment and intangible assets is less than the carrying amount. Where there is such an indication, the recoverable amount of the asset, being whichever is the higher of the fair value less costs of sale and the present value of future cash flows, is estimated. The resulting provision for an impairment loss is recognised in full in the income statement in the year in which the impairment occurs. The discount rates used to calculate the net present value of future cash flows reflect current market assessments of the time value of money and the risks specific to the asset. In the event that a decision is made to abandon a construction project in progress or to significantly postpone the planned completion date, the carrying amount of the asset is reviewed for potential impairment and a provision recorded, if appropriate.

Expenditures relating to an item of property, plant and equipment and intangible assets are added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the original assessed standard of performance of the existing asset, will flow to the Company. All other subsequent expenditures are treated as repairs and maintenance and are expensed in the period in which they are incurred.

g) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of natural gas in the transit network pipelines and raw materials and other inventories are calculated using the weighted arithmetic average method. Costs of raw materials and other inventories include costs of acquisition and related costs and for inventories developed internally materials, other direct costs and production overheads. Increases in natural gas accumulation in the transit network pipelines are valued at cost. There are no costs related to acquisition. Appropriate provisions are made for obsolete and slow-moving inventories.

h) Cash and Cash Equivalents

Cash and cash equivalents consist of cash in hand and cash in bank with insignificant risk of changes in value.

i) Provisions for Liabilities

A provision is recognised when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable 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. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. The amount of the provision is the present value of the risk-adjusted expenditures expected to be required to settle the obligation, determined using the estimated risk-free interest rate as a discount rate. Where discounting is used, the carrying amount of the provision increases in each period to reflect the unwinding of the discount by the passage of time.

j) Greenhouse Gas Emissions

The Company receives free emission rights as a result of the European Emission Trading Schemes. The rights are received on an annual basis and in return the Company is required to return rights equal to its actual emissions. The Company recognises a net liability resulting from the gas emissions. Therefore, a provision is only recognised when actual emissions exceed the emission rights received free of charge. When emission rights are purchased from other parties, they are measured at cost and treated as a reimbursement right. When emission rights are acquired by exchange, they are measured at fair value as at the date when they become available for use and the difference between the fair value and cost is recognised through profit or loss.

k) Revenue Recognition

Sales are recorded upon the delivery of products or performance of services, net of value added tax and discounts. The Company records revenues from fees for natural gas transit, revenues from transit network balance, and from other activities on an accrual basis.

Moment of revenue recognition: revenues are recognised when the delivery terms are fulfilled, since at that moment significant risks and rights of ownership are transferred to the customer. The date of delivery fulfilment is the last day of the relevant calendar month.

l) Social Security and Pension Schemes

The Company is required to make contributions to various mandatory government insurance schemes, together with contributions by employees. The cost of social security payments is charged to the income statement in the same period as the related salary cost.

m) Retirement and Other Long-Term Employee Benefits

The Company has a long-term employee benefit program comprising a lump-sum retirement benefit, social assistance benefit in material deprivation and life and work jubilee benefits, for which no separate financial funds were earmarked. In accordance with IAS 19, the employee benefits costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the income statement so as to spread the regular cost over the service period of employees. The benefit obligation is measured as the present value of the estimated future cash flows discounted by market yields on Slovak government bonds, which have terms to maturity approximating the terms of the related liability. All actuarial gains and losses are recognised in the income statement. Past service costs are recognised when incurred up to the benefits already vested and the remaining portion is directly expensed.

(EUR '000)

n) Leasing

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset (economic substance of the arrangement). Accounting treatment of leases is not dependent on which party is the legal owner of the leased asset. An operating lease is a lease other than a finance lease.

Operating lease
The lessee under an operating lease arrangement does not present assets subject to an operating lease in its balance sheet nor does it recognise operating lease obligations for future periods. Lease payments under an operating lease shall be recognised as an expense on a straight-line basis over the lease term.

o) Taxation

Income taxes are calculated from accounting profit as determined under Slovak accounting principles after adjustments for certain items for taxation purposes at the currently effective tax rate of 19%.

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. Deferred tax is calculated at the tax rates that are expected to apply for the period when the asset is realised or the liability is settled. Deferred tax is recognised in the income statement, except when it relates to items directly credited or charged directly to equity, in which case the deferred tax is also recognised in equity. The income tax rate valid since 1 January 2004 is 19%.

Major temporary differences arise from depreciation on property, plant and equipment, various provisions, and derivative financial instruments. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised.

p) Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of the European Central Bank (ECB) pertaining on the dates of the transactions. Monetary assets, receivables and payables denominated in foreign currencies are translated as at the reporting date at the ECB exchange rates valid on the reporting date. Gains and losses arising on exchange as at the reporting date are included in the income statement.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Except key actuarial assumptions (Note 10) used in the calculation of benefits there is no significant risk of material adjustments in future periods.

5. FINANCIAL INSTRUMENTS

a) Financial risk management

The Company is exposed to various financial risks that would include the effects of changes in foreign currency exchange rates. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial position of the Company. To manage certain risks the Company enters into financial derivative instruments, eg forward currency contracts. The purpose is to manage the currency risks arising from the Company's operations and its sources of finance.

(1) Foreign currency risk

The Company operates internationally and is exposed to foreign currency risk arising from various currency exposures.

Analysis of financial assets and financial liabilities by currency:

	Financial assets		***Financial liabilities***	
	As at 31 December 2010	***As at 31 December 2009***	***As at 31 December 2010***	***As at 31 December 2009***
USD	3 781	3 482	-	2

(EUR ‘000)

In 2009, the Company concluded forward contracts to hedge the 2010 cash flows for transit services in US dollars, which meet the criteria of IAS 39. The effective part of these forward contracts is recognised in equity. No contracts to hedge the 2011 exchange rates were concluded in 2010.

The table below summarises open forward currency contracts as at the reporting date.

Open forward currency contracts	***Fair value***			
	2010		***2009***	
	Cash flow hedging	***Held for trading***	***Cash flow hedging***	***Held for trading***
USD sale				
Within 3 months	-	-	(161)	-
From 3 to 12 months	-	-	(323)	(18)

Sensitivity to foreign exchange changes

The table below displays the sensitivity of the Company to a 3% strengthening or weakening of the euro against the US dollar. The sensitivity analysis only includes outstanding monetary items denominated in foreign currency and adjusts their translation at the end of the reporting period by the 3% FX change.

	Impact of US dollar rate	
	As at 31 December 2010	***As at 31 December 2009***
Effect on profit/loss before tax	117	108

The effects mainly relate to risks of outstanding receivables and payables in USD at the year-end.

(2) Commodity price volatility risk

To reduce risks related to changes in commodity prices the Company uses a swap of EUA – CER licences within the 7% limit determined by law.

Company has also entered into commodity forward contracts to hedge cash flow from sales of surplus of balancing gas in the volume of 382 200 MWh.

The following table details swap commodity contracts outstanding at the reporting date.

Open commodity swap and forward contracts	***2010***		***2010***	
	Nominal amount		***Fair value***	
	Fair value hedging	***Held for trading***	***Fair value hedging***	***Held for trading***
Sell gas				
Less than 3 months	265	-	2 751	-
3 to 12 months	296	(7)	4 418	517
Over 12 months	86	(17)	1 511	569

Open commodity swap and forward contracts	***2009***		***2009***	
	Nominal amount		***Fair value***	
	Fair value hedging	***Held for trading***	***Fair value hedging***	***Held for trading***
Sell gas				
Less than 3 months	-	-	-	-
3 to 12 months	-	-	-	-
Over 12 months	-	-	-	-

(3) Interest rate risk

The Company has no significant concentrations of interest rate risk. As at 31 December 2010 and 31 December 2009, the Company had no outstanding long-term loans and granted no long-term loans with a fixed interest rate.

(EUR '000)

(4) Credit risk

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet, net of any provision for impairment.

(5) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash with adequate maturity, availability of funding through an adequate amount of committed credit lines and the ability to close open market positions. The Company, as a member of the SPP core group, is part of the cash-pooling system. In the system flexibility is maintained by keeping committed credit lines available and synchronizing the maturity of financial assets with financial needs.

The table below summarises the maturity of the financial liabilities as at 31 December 2010 and 31 December 2009, based on contractual undiscounted payments:

As at 31 December 2010	***On demand***	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***> 5 years***	***Total***
Other liabilities	-	5 479	-	-	-	5 479
Trade and other payables	-	22 552	-	-	-	22 552

As at 31 December 2009	***On demand***	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***> 5 years***	***Total***
Other liabilities	-	8 167	-	-	-	8 167
Trade and other payables	-	15 269	-	-	-	15 269

The table below details the Company's liquidity analysis for its derivative financial instruments. The table is based on undiscounted net cash inflows/(outflows) on the derivative instrument that are settled on a net basis:

	Less than 1 month	***1 – 3 months***	***From 3 months to 1 year***	***1 – 5 years***	***Total***
2010					
Net settled:					
Forward currency contracts recognised as hedging	-	-	-	-	-
Forward currency contracts held for trading	-	-	-	-	-
Forward commodity contracts recognised as hedging	-	265	296	86	647
Swap commodity contracts held for trading	-	-	(7)	(17)	(24)
Total	**-**	**265**	**289**	**69**	**623**
2009					
Net settled:					
Forward currency contracts recognised as hedging	(54)	(107)	(323)	-	(484)
Forward currency contracts held for trading	-	-	(18)	-	(18)
Forward commodity contracts recognised as hedging	-	-	-	-	-
Swap commodity contracts held for trading	-	-	(5)	(56)	(61)
Total	**(54)**	**(107)**	**(346)**	**(56)**	**(563)**

b) Capital risk management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to shareholders through the optimisation of the debt and equity ratio.

The Company's capital structure consists of equity attributable to the Company's owners, comprising registered capital, legal and other funds and retained earnings as disclosed in Notes 13 and 14. The Company had no external loans as at the 2010 and 2009 year-ends.

(EUR '000)

c) Categories of financial instruments

	31 December 2010	*31 December 2009*
Financial assets		
Financial derivatives recognised as hedging	647	-
Financial derivatives held for trading	-	-
Loans and receivables (including cash and cash equivalents)	296 870	146 803
Financial assets available for sale	-	-
Financial liabilities		
Financial derivatives recognised as hedging	-	502
Financial derivatives held for trading	24	61
Financial liabilities carried at amortised costs	28 007	22 873

d) Estimated fair value of financial instruments

The fair value of forward currency contracts was determined using forward exchange rates at the reporting date.

The fair value of commodity swaps is determined using forward commodity prices as at the reporting date.

The estimated fair values of other instruments, mainly current financial assets and liabilities, approximate their carrying amounts.

The following table provides an analysis of financial instruments that, upon initial measurement, are subsequently recognised at fair value, in accordance with the fair value hierarchy.

Level 1 of the fair value measurement represents those fair values that are deduced from the prices of similar assets or liabilities listed on active markets.

Level 2 of the fair value measurement represents those fair values that are deduced from input data other than listed prices included in Level 1, which are observable on the market for assets or liabilities directly (eg prices) or indirectly (eg deduced from prices).

Level 3 of the fair value measurement represents those fair values that are deduced from valuation models including subjective input data for assets or liabilities not based on market data.

	Level 1	*Level 2*	*Level 3*	*Total*
Financial assets at fair value through profit or loss	**-**	**647**	**-**	**647**
Financial derivatives held for trading	-	-	-	-
Financial derivatives used as hedging	-	647	-	647
Financial liabilities at fair value through profit or loss	**-**	**112**	**-**	**112**
Financial derivatives held for trading	-	112	-	112
Financial derivatives used as hedging	-	-	-	-

Embedded derivative instruments

Transit contracts denominated in euros represented the currency of the primary economic environment for one of the substantial parties to the contracts and so these contracts were not regarded as a host contract with an embedded derivative under the requirements of IAS 39. Hence, in accordance with IAS 39 (as revised in December 2003), the Company did not recognise the embedded derivatives separately from the host contract. Transit contracts denominated in US dollars represented the currency that is commonly used in contracts to purchase or sell non-financial items in the economic environment of the Slovak Republic in respect of business relations with external parties. Hence, in accordance with IAS 39 (as revised in December 2003), the Company did not recognise the embedded derivatives separately from the host contract.

The Company assessed all other significant contracts and agreements for embedded derivatives that should be recorded and concluded that there are no embedded derivatives in these contracts and agreements that are required to be measured and separately recognised as at 31 December 2010 and 31 December 2009 under the requirements of IAS 39 (as revised in 2003).

(EUR ‘000)

Derivative instruments recognised as hedges and held for trading

The Company uses the following financial derivatives to decrease risks resulting from fluctuations in foreign currency exchange rates:

Forward currency contracts

Forward currency contracts are made to hedge against risks from fluctuations in foreign currency exchange rates with regard to specific transactions. The Company enters into these contracts to manage risks arising from ordinary business transactions.

As at 31 December 2010 and 31 December 2009, open forward currency contracts were recognised in the Company’s balance sheet under hedges. As at 31 December 2010, no open forward currency contracts held for trading were recognised (as at 31 December 2009: forward currency contracts held for trading were recognised).

6. PROPERTY, PLANT AND EQUIPMENT

Year ended 31 December 2010	*Regulation stations*	*Inlet and market delivery stations*	*Gas pipeline*	*Plant, machinery and equipment*	*Other non-current tangible assets*	*Assets in the course of construction*	*Total*
Opening net book value	2 021	-	-	17 524	1 361	1 075	21 981
Additions	-	-	-	-	-	15 667	15 667
Placed into service	-	4 648	780	1 588	1 164	(8 180)	-
Reclassifications	-	-	-	-	-	-	-
Disposals	-	-	-	(119)	(34)	-	(153)
Depreciation charge	(147)	(34)	(5)	(2 827)	(725)	-	(3 738)
Change in provisions	-	-	-	63	16	47	126
Closing net book value	**1 874**	**4 614**	**775**	**16 229**	**1 782**	**8 609**	**33 883**
Year ended 31 December 2010							
Cost	2 340	4 648	780	29 192	4 299	8 609	49 868
Provisions and accumulated depreciation	(466)	(34)	(5)	(12 963)	(2 517)	-	(15 985)
Net book value	**1 874**	**4 614**	**775**	**16 229**	**1 782**	**8 609**	**33 883**

Year ended 31 December 2009	*Regulation stations*	*Inlet and market delivery stations*	*Gas pipeline*	*Plant, machinery and equipment*	*Other non-current tangible assets*	*Assets in the course of construction*	*Total*
Opening net book value	2 168	-	-	18 913	1 802	766	23 649
Additions	-	-	-	-	-	1 852	1 852
Placed into service	-	-	-	1 422	122	(1 544)	-
Reclassifications	-	-	-	(7)	7	-	-
Disposals	-	-	-	(3)	(2)	-	(5)
Depreciation charge	(147)	-	-	(2 892)	(567)	-	(3 606)
Change in provisions	-	-	-	91	(1)	1	91
Closing net book value	**2 021**	**-**	**-**	**17 524**	**1 361**	**1 075**	**21 981**
Year ended 31 December 2009							
Cost	2 340	-	-	27 721	3 234	1 122	34 417
Provisions and accumulated depreciation	(319)	-	-	(10 197)	(1 873)	(47)	(12 436)
Net book value	**2 021**	**-**	**-**	**17 524**	**1 361**	**1 075**	**21 981**

Structures and plant, machinery and equipment represent the major portion of additions to assets.

The cost of fully depreciated non-current assets (including non-current intangible assets) that were still in use as at 31 December 2010 amounted to EUR 5 646 thousand (31 December 2009: EUR 2 308 thousand).

(EUR '000)

Type and amount of insurance for property, plant and equipment and intangible assets:

Insured object	***Type of insurance***	***Cost of insured assets 2010***	***2009***	***Name and seat of the insurance company***
Buildings, halls, structures, machinery, equipment, fixture & fittings, low-value TFA, other TFA, works of art, inventories	Insurance of assets	24 722	10 448	Allianz-Slovenská poisťovňa, a.s. Kooperativa, a.s., ČSOB Poisťovňa, a.s.
Motor vehicles	MTPL, motor vehicle insurance against damage, destruction and theft	5 723	5 218	Allianz-Slovenská poisťovňa, a.s.

7. NON-CURRENT INTANGIBLE ASSETS AND OTHER ASSETS

Year ended 31 December 2010	***Software***	***Other non-current intangible assets***	***Assets in the course of construction***	***Total***
Opening net book value	219	1 488	459	2 166
Additions	-	-	3 145	3 145
Placed into service	23	3 047	(3 070)	-
Reclassifications	-	-	-	-
Disposals	-	(1 283)	(613)	(1 896)
Amortisation	(202)	(63)	-	(265)
Change of provisions	-	-	171	171
Closing net book value	**40**	**3 189**	**92**	**3 321**
At 31 December 2010				
Cost	1 448	3 345	92	4 885
Provision and impairment loss	(1 408)	(156)	-	(1 564)
Net book value	**40**	**3 189**	**92**	**3 321**

Year ended 31 December 2009	***Software***	***Other non-current intangible assets***	***Assets in the course of construction***	***Total***
Opening net book value	563	46	599	1 208
Additions	-	-	1 405	1 405
Placed into service	6	1 488	(1 494)	-
Reclassifications	-	-	-	-
Disposals	-	-	(51)	(51)
Amortisation	(350)	(46)	-	(396)
Change of provisions	-	-	-	-
Closing net book value	**219**	**1 488**	**459**	**2 166**
At 31 December 2009				
Cost	1 425	1 581	630	3 636
Provision and impairment loss	(1 206)	(93)	(171)	(1 470)
Net book value	**219**	**1 488**	**459**	**2 166**

Other intangible assets mainly include emissions rights.

(EUR '000)

8. INVENTORIES

	31 December 2010	*31 December 2009*
Natural gas	10 618	11 094
Raw materials and other inventories	10 727	11 145
Provision	(601)	(732)
Total	**20 744**	**21 507**

The balance of natural gas represents accumulated natural gas in the pipelines.

As at 31 December 2010 and 31 December 2009, only a provision for inventories of unusable or damaged raw materials in stock was created.

9. RECEIVABLES AND PREPAYMENTS

	31 December 2010	*31 December 2009*
Receivables from transmission activities	47 048	48 991
Receivables from financial derivatives	647	-
Prepayments and other receivables	249 763	97 792
Other taxes	555	18 069
Total	**298 013**	**164 852**

As at 31 December 2010, the Company recorded receivables due and overdue in the amount of EUR 297 975 thousand and EUR 197 thousand, respectively, excluding an impairment provision. As at 31 December 2009, the Company recorded receivables due and overdue in the amount of EUR 164 768 thousand and EUR 232 thousand, respectively, excluding an impairment provision.

Receivables and prepayments are shown subsequent to provisions for bad and doubtful receivables in the amount of EUR 159 thousand (31 December 2009: EUR 148 thousand).

Receivables and prepayments include receivables from cash pooling from SPP in the amount of EUR 254 888 thousand (31 December 2009: EUR 105 119 thousand) and SPP – distribúcia, a.s. in the amount of EUR 2 502 thousand (31 December 2009: EUR 933 thousand).

Movements in the provision for receivables were as follows:

	31 December 2010	*31 December 2009*
Opening value	(148)	(145)
Creation	(13)	(4)
Use	-	-
Reversal	2	1
Closing value	**(159)**	**(148)**

Collateralisation of receivables

As at 31 December 2010, pursuant to contracts for the collateralisation of receivables, a bank guarantee was established in various banks in the total amount of EUR 7 503 thousand (31 December 2009: EUR 1 484 thousand).

Overdue receivables that were not provided for:

	2010	*2009*
Less than 2 months	36	84
2 to 3 months	-	-
3 to 6 months	-	-
6 to 9 months	-	-
9 to 12 months	-	-
More than 12 months	-	-
Total	**36**	**84**

(EUR '000)

Overdue receivables that were provided for:

	2010	***2009***
Less than 2 months	-	-
2 to 3 months	-	-
3 to 6 months	-	-
6 to 9 months	1	1
9 to 12 months	12	-
More than 12 months	148	147
Total	**161**	**148**

10. RETIREMENT AND OTHER LONG-TERM EMPLOYEE BENEFITS

The long-term employee benefits program at the Company was launched in 2006. This is a defined benefit program, under which the employees are entitled to a lump-sum payment upon old age or disability retirement and, subject to vesting conditions, life and work jubilee payments. In 2010, the Company signed a new collective agreement under which employees are entitled to a retirement benefit based on the number of years with the SPP core group companies at the date of retirement. The retirement benefits range from one month to six months of the employee's average salary. As at 31 December 2010 and 31 December 2009, the obligation relating to retirement and other long-term employee benefits was calculated on the basis of valid collective agreements in the given years.

As at 31 December 2010, there were 897 (31 December 2009: 1 080) employees covered by this program. As of that date, it was an un-funded program, with no separately allocated assets to cover the program's liabilities.

Movements in the net liability recognised in the balance sheet for the year ended 31 December 2010 are as follows:

	Long-term benefits	***Post-employment benefits***	***Total benefits at 31 December 2010***	***Total benefits at 31 December 2009***
Net liability at 1 January	470	1 954	2 424	2 273
Net expense recognised	24	(133)	(109)	213
Benefits paid	(70)	(10)	(80)	(62)
Net liabilities	**424**	**1 811**	**2 235**	**2 424**

	Current liabilities (included in other current liabilities)	***Non-current liabilities***	***Total***
At 31 December 2010	97	2 138	2 235
At 31 December 2009	90	2 334	2 424

Key assumptions used in actuarial valuation:

	At 31 December 2010	***At 31 December 2009***
Market yield on government bonds	4.60%	4.30%
Annual future real rate of salary increases	2.00%	2.00%
Annual employee turnover	1.44%	1.44%
Retirement ages (male and female)	62 for male and 60 for female	62 for male and 60 for female

11. PROVISIONS FOR LIABILITIES

Movements in provisions are summarised as follows:

	Total provisions at 31 December 2010	***Total provisions at 31 December 2009***
Balance at 1 January	3 283	-
Effect of discounting	-	-
Creation of provisions	3 417	3 283
Use of provisions	-	-
Reversal of provisions	(1 135)	-
Closing balance	**5 565**	**3 283**

(EUR '000)

The provisions are included in liabilities as follows:

	Current provisions (included in other current liabilities)	***Non-current provisions***	***Total provisions***
At 31 December 2010	5 565	-	5 565
At 31 December 2009	3 283	-	3 283

In 2007, following the ruling of the Anti-monopoly Office of the Slovak Republic imposing a fine on the Company, a provision of EUR 3 283 thousand was created. The fine was paid in 2008, thereby using the provision in full. In 2009, following a ruling by the Bratislava Regional Court, the Anti-monopoly Office deposited the fine in the full amount into the Company's bank account.

As the litigation has not been lawfully terminated, a provision of EUR 3 283 thousand was created in 2009.

To cover the liability related to the produced CO_2 emissions the Company created a provision in the amount of EUR 2 282 thousand. The provision will be used at the delivery of the 2010 emission rights in April 2011.

12. TRADE AND OTHER PAYABLES

	At 31 December 2010	***At 31 December 2009***
Trade and other payables	22 974	12 238
Employee liabilities	3 528	5 646
Social security and other taxes	1 467	1 605
Liabilities from transit activities	38	3 383
Liabilities from financial derivatives	24	563
Total	**28 031**	**23 435**

As at 31 December 2010, payables to the group companies included trade payables to SPP in the amount of EUR 26 thousand (31 December 2009: EUR 2 428 thousand), and SPP – distribúcia, a.s. in the amount of EUR 1 695 thousand (31 December 2009: EUR 4 308 thousand).

As at 31 December 2010, the Company recorded payables within maturity in the amount of EUR 28 031 thousand; no overdue payables were recorded. As at 31 December 2009, the Company recorded payables within maturity in the amount of EUR 23 435 thousand; no overdue payables were recorded.

Social fund payables:

	Amount
Opening balance as at 1 January 2010	**314**
Total creation:	277
from expenses	*277*
Total drawing:	(285)
social assistance benefit in material deprivation	-
monetary rewards and gifts	*(33)*
life jubilee benefits	*(16)*
work jubilee benefits	*(54)*
catering allowance	*(89)*
other drawing as per CA	*(93)*
Closing balance as at 31 December 2010	**306**

Liabilities secured by pledge or other form of collateral

As at 31 December 2010, the Company established a bank guarantee in Tatra banka, a.s. totalling EUR 332 thousand for other payables to the Customs Office (31 December 2009: EUR 332 thousand).

(EUR '000)

13. REGISTERED CAPITAL

The registered capital consists of 10 ordinary certificate-form shares at the face value of EUR 3 319.39 per share, and 1 ordinary certificate-form share at the face value of EUR 82 895 533.19. The SPP is the 100% owner of the shares referred to above. The registered capital was incorporated in the Commercial Register in the full amount.

14. LEGAL RESERVE FUND AND RETAINED EARNINGS

Since 1 January 2008 the Company has been required to prepare separate financial statements in accordance with IFRS as adopted by the EU. Retained earnings represent amounts based on the separate financial statements.

The legal reserve fund in the amount of EUR 16 586 thousand (31 December 2009: EUR 16 586 thousand) is created in accordance with Slovak law and is not distributable to shareholders. The reserve is created from retained earnings to cover possible future losses or increases of the registered capital. Transfers of at least 10% of the current year's profit are required to be made until the reserve is equal to at least 20% of the registered capital. The legal reserve fund in the Company has already attained 20% of the registered capital.

Allotment	***Profit allotment for 2009***	***Profit allotment for 2008***
Allotment to legal reserve fund	-	-
To cover losses from previous years	-	-
Dividends	78 669	85 248
Total profit to be distributed	**78 669**	**85 248**

Hedging Reserves

Hedging reserves represent gains and losses arising from cash flow hedging. A cumulative accrued gain or loss arising from hedging derivatives is recognised in the income statement provided that the hedging transaction has an effect on the income statement or is included as an adjustment of the base in the hedged non-financial item in accordance with the applicable accounting procedures.

	Year ended 31 December 2010	***Year ended 31 December 2009***
Opening balance	(484)	187
Gain/loss on cash flow hedging	-	-
Commodity forward contracts	1 131	-
Currency forward contracts	-	(671)
Closing balance	**647**	**(484)**

15. STAFF COSTS

	Year ended 31 December 2010	***Year ended 31 December 2009***
Wages, salaries and bonuses	20 927	23 079
Social security costs	6 394	7 509
Other social security costs and severance pay	4 568	5 817
Total staff costs	**31 889**	**36 405**

The Company is required to make social security contributions, amounting to 35.2% of salary bases as determined by law, up to a maximum amount ranging from EUR 1 - 3 thousand per employee depending on the type of insurance. The employees contribute an additional 13.4% of the relevant base up to the above limits.

(EUR '000)

16. COSTS OF AUDIT SERVICES

	Year ended 31 December 2010	*Year ended 31 December 2009*
Audit of financial statements	33	39
Other assurance services	2	-
Tax advisory services	-	3
Other related services provided by the auditor	-	-
Total	**35**	**42**

17. INVESTMENT INCOME

	Year ended 31 December 2010	*Year ended 31 December 2009*
Interest income	461	586
Derivative instruments	394	767
Dividends	-	-
Other investment income, net	-	-
Total investment income	**855**	**1 353**

18. FINANCIAL EXPENSE

	Year ended 31 December 2010	*Year ended 31 December 2009*
Interest expense	(2)	(1)
FX differences – loss/(profit) (Note 19)	(29)	(153)
Other	(47)	(41)
Total financial expense/(income)	**(78)**	**(195)**

19. FOREIGN EXCHANGE RATE DIFFERENCES

	Year ended 31 December 2010	*Year ended 31 December 2009*
Foreign exchange rate losses (gains) arising from:		
– Operating activities	(3 573)	1 309
– Financing activities (Note 18)	(29)	(153)
Total foreign exchange rate losses (gains)	**(3 602)**	**1 156**

20. TAXATION

20.1. Income Tax

Income tax comprises the following:

	Year ended 31 December 2010	*Year ended 31 December 2009*
Current income tax	45 735	19 323
Deferred income tax (Note 21.2)		
– current year	177	(640)
Total	**45 912**	**18 683**

(EUR '000)

The reconciliation between the reported income tax expense and the theoretical amount that would arise using the standard tax rates is as follows:

	Year ended 31 December 2010	***Year ended 31 December 2009***
Profit before taxation	234 197	97 352
Income tax at 19%	44 497	18 497
Effect of adjustments from permanent differences between accounting and tax value of assets and liabilities	1 554	254
Other adjustments	(139)	(68)
Income tax for the current year	**45 912**	**18 683**

Adjustments primarily include non-tax deductible costs.

The taxation years from 2005 to 2010 are still open for inspection by the tax authorities.

20.2. Deferred Income Tax

The following are the major deferred tax liabilities and assets recognised by the Company and movements therein, during the current and prior reporting periods:

	At 1 January 2010	***Charge to equity for the period***	***(Charge)/credit to profit for the period***	***At 31 December 2010***
Difference in NBV of non-current assets	(2 664)	-	(32)	(2 696)
Change in fair value of derivatives	-	-	-	-
Items adjusting tax base only when paid	-	-	-	-
Employee benefits and other provisions	890	-	(76)	814
Provisions for receivables	3	-	(2)	1
Impairment loss	49	-	(42)	7
Provisions for inventories	139	-	(25)	114
Total	**(1 583)**	**-**	**(177)**	**(1 760)**

	At 1 January 2009	***Charge to equity for the period***	***(Charge)/credit to profit for the period***	***At 31 December 2009***
Difference in NBV of non-current assets	(2 776)	-	112	(2 664)
Change in fair value of derivatives	(88)	44	44	-
Items adjusting tax base only when paid	1	-	(1)	-
Employee benefits and other provisions	502	-	388	890
Provisions for receivables	5	-	(2)	3
Impairment loss	68	-	(19)	49
Provisions for inventories	21	-	118	139
Total	**(2 267)**	**44**	**640**	**(1 583)**

In accordance with the Company's accounting policy, certain deferred tax assets and liabilities were mutually offset. The following table shows the balances (after offsetting) of deferred tax for the purposes of recognition in the balance sheet:

	31 December 2010	***31 December 2009***
Deferred tax liability	1 760	1 583
Total	**1 760**	**1 583**

(EUR '000)

21. TAX EFFECTS IN THE STATEMENT OF OTHER COMPREHENSIVE INCOME

Disclosure of tax effects relating to each component of other comprehensive income:

At 31 December 2010	***Before tax***	***Tax***	***After tax***
Cash flow hedging	1 131	-	1 131
Other comprehensive income for the period	**1 131**	**-**	**1 131**

At 31 December 2009	***Before tax***	***Tax***	***After tax***
Cash flow hedging	(484)	-	(484)
Other comprehensive income for the period	**(484)**	**-**	**(484)**

22. CASH FLOWS FROM OPERATING ACTIVITIES

	Year ended 31 December 2010	***Year ended 31 December 2009***
Profit before tax	234 197	97 353
Adjustments:		
Depreciation and amortisation	4 108	4 002
Interest income, net	(459)	(585)
FX differences	56	(20)
Derivatives	3 087	(766)
Provisions and other non-cash items	2 135	3 817
Loss from sale of non-current assets	4	4
(Increase)/decrease in receivables and prepayments	(132 551)	(7 356)
(Increase)/decrease in inventories	755	205
Increase/(decrease) in trade and other payables	6 818	3 626
Cash flows from operating activities	**118 150**	**100 280**

23. COMMITMENTS AND CONTINGENCIES

Capital Expenditure Commitments

As at 31 December 2010, capital expenditures of EUR 13 706 thousand (31 December 2009: EUR 1 599 thousand) had been committed under contractual arrangements for the acquisition of non-current assets, but were not recognised in the financial statements.

Operating Lease Arrangements

The Company operates the international natural gas transmission network under the Contract for Operating Lease with the owner – SPP. The contract is for six years and does not contain an option for purchasing the assets at the end of the lease term. The lease payments in the year ended 31 December 2010 amounted to EUR 366 593 thousand. The lease payments in 2009 totalled EUR 428 510 thousand.

The Company leases means of transport under an operating lease agreement. The agreement is made for four years and the Company has no pre-emptive right to purchase the assets after the expiry of the lease term. The lease payments amounted to EUR 602 thousand in the year ended 31 December 2010.

Non-cancellable operating lease payables amount to:

Period	***2010***	***2009***
Within 1 year	368 038	428 510
From 1 to 5 years	187 029	642 766
More than 5 years	-	-
Total	**555 067**	**1 071 276**

Natural Gas Transmission

In 2010, the Company fully implemented a long-term contract for natural gas transmission (with *ship-or-pay* conditions) through the Slovak Republic with Gazprom export LLC, a Russian natural gas exporter. This contract enables the use of gas pipelines in the ownership of SPP, leased under a lease agreement to eustream, a.s., in line with the transmission capacity required by Gazprom export LLC to fulfil long-term export contracts signed with customers in Central and Western Europe.

The Company provides access to the transmission network and transmission services on the basis of *ship-or-pay* contracts. The major user of the network (shipper) is Gazprom export LLC, followed by other customers, usually leading European gas companies transiting gas from Russian and Asian reservoirs to Europe. The major part of the transit capacity is ordered on the basis of long-term contracts. In addition, the Company, within the *entry-exit* system, also concludes short-term transmission contracts.

The Company is paid transmission fees directly to its accounts by the relevant shipper. Tariffs have been fully regulated since 2005. The regulator annually issues pricing decisions on the basis of a proposal submitted by the Company.

On the basis of the regulated business and pricing terms, shippers also provide the Company with a portion of the tariffs in kind as gas for operating purposes, covering gas consumption during the operation of the transit network.

Taxation

The Company has significant transactions with shareholders and other related parties. The tax environment in which the Company operates in the Slovak Republic is dependent on the prevailing tax legislation and practice. As the tax authorities are reluctant to provide official interpretations in respect of the tax legislation, there is an inherent risk that the tax authorities may require, for example, transfer pricing or other adjustments of the corporate income tax base. The tax authorities in the Slovak Republic have broad powers of interpretation of tax laws which could result in unexpected results from tax inspections. The amount of any potential tax liabilities related to these risks cannot be estimated.

Liberalisation of the Slovak Energy Sector and Possible Regulation Risks

Regulation framework on the natural gas market in the Slovak Republic

On the basis of the current energy legislation, the natural gas market in the Slovak Republic is fully liberalised, allowing all customers to freely select a natural gas supplier (effective from 1 July 2007). The Company as the operator of the transmission network is obliged to provide free and non-discriminatory access to the transmission network in the Slovak Republic to all natural gas transmission companies that fulfil commercial and technical conditions for gas transmission. The Company's activities are subject to regulation from the Regulatory Office of Network Industries (RONI). RONI, *inter alia,* establishes the regulation policy for individual regulation periods, monitors compliance of corporate activities with the existing legislation and RONI decrees, and issues decisions on tariff determination for access to the transmission network and gas transit.

Tariffs for regulated activities

Every year RONI approves tariffs for access to the transmission network and natural gas transmission. These tariffs are determined based on an analysis of gas transmission price benchmarking in the other EU member states, and the contracts for gas transmission through the Slovak Republic concluded prior to 1 January 2005.

Changes in the regulatory laws and policy

In 2010, no significant change in the energy legislation regulating gas transit was adopted. In 2010, other secondary legislation regulations were issued (RONI price decrees). In general, this new legislation does not introduce any changes into the method of price regulation with regard to gas transit for users of the transit network in the Slovak Republic. In Ruling 0003/2011/P of 6 October 2010, RONI approved the Company's proposed prices for access to the transit network and gas transit for 2011, and the decision included a tariff for the new title transfer service as well as a tariff for the planned connection between the Slovak Republic and Hungary.

EU 3rd Energy Package

In 2009, the European Union endorsed Directive No. 2009/73/EC and related regulations concerning common rules for the internal market in natural gas, the so-called "3rd Gas Regulation". The aim of the new regulation is, inter alia, to specify a new regime for separating transmission system operators, which enables choosing one of the following three scenarios:

- Ownership unbundling;
- Independent system operator; or
- Independent transmission operator.

EU member states must adopt the so-called implementation legislation into their own legislations before 3 March 2011 and select one of the aforementioned separation scenarios, which must then be implemented over the next 12 months, but not later than 3 March 2012. The transposition of this legislation into the legislation of the Slovak Republic has not been completed yet and it is currently uncertain which separation scenario will be adopted.

The impact of the 3rd Energy Package will be that SPP, a.s. will transfer the transmission network to eustream.

(EUR '000)

24. RELATED PARTY TRANSACTIONS

In 2010, the Company entered into the following transactions with related parties:

	Year ended 31 December 2010					***31 December 2010***		
	Revenues	***Creation/ (reversal) of provisions for receivables***	***Expenses***	***Dividends***	***Other***	***Receivables***	***Provisions for receivables***	***Payables***
SPP, a.s.	126 989	-	391 095	78 669	6 393	256 296	-	26
Other related parties	75 909	-	4 939	-	14 157	2 502	-	11 300

Management considers that the transactions with related parties have been made on an arm's length basis.

In 2010, transactions with SPP represented distribution of dividends and other transactions related to lease of non-current assets, purchase and sale of natural gas and other services.

In 2010, transactions with other related parties mainly represented services related to purchases, sale and transit of natural gas, and other services.

	Year ended 31 December 2009					***31 December 2009***		
	Revenues	***Creation/ (reversal) of provisions for receivables***	***Expenses***	***Dividends***	***Other***	***Receivables***	***Provisions for receivables***	***Payables***
SPP, a.s.	119 898	-	455 551	85 249	21 109	105 119	-	2 428
Other related parties	62 201	-	10 651	-	8 386	1 256	-	5 012

(EUR '000)

The compensation of the members of the Company's bodies and executive management during the year was as follows:

	Year ended 31 December 2010	***Year ended 31 December 2009***
Remuneration to members of the Board of Directors, Supervisory Board, executive management and former members of the bodies - total	639	597
Of which – Board of Directors and executive management	*508*	*466*
– Supervisory Board	*131*	*131*
Benefits after termination of employment to members of the Board of Directors, Supervisory Board, executive management and former members of the bodies – total	-	-
Other long-term benefits to members of the Board of Directors, Supervisory Board, executive management and former members of the bodies – total	-	-
Of which – Board of Directors and executive management	-	-
Benefits in kind to members of the Board of Directors, Supervisory Board, executive management and former members of the bodies - total	12	11
Of which – Board of Directors and executive management	*12*	*11*
Other payments to members of the Board of Directors, Supervisory Board, executive management and former members - total	-	-
Of which – Board of Directors and executive management	-	-

25. SUPPLEMENTARY INFORMATION TO COMPLY WITH OTHER STATUTORY REQUIREMENTS FOR SEPARATE FINANCIAL STATEMENTS

a) Members of the Company's bodies

Body	***Function***	***Name***
Board of Directors	Chairman	Ing. Andreas Rau – until 30 Jun 2010
	Chairman	Dipl. Ing. Antoine Jourdain – since 1 Jul 2010
	Vice-Chairman	Ing. Miroslav Gažo
	Member	Dipl. Ing. Antoine Jourdain – until 30 Jun 2010
	Member	Ing. Andreas Rau – since 1 Jul 2010
Supervisory Board	Chairman	Ing. Jaroslav Krč – Šebera
	Vice-Chairman	Ing. Georg Friedrich Rosenstock – until 30 Jun 2010
	Vice-Chairman	Ing. Thierry Kalfon MBA – since 1 Jul 2010
	Member	Martin Ryba
	Member	Mgr. Ivan Švec
	Member	Andrej Lendvay
	Member	Ing. Rudolf Rigáň
Executive management	General Director	Ing. Pavol Janočko

b) Consolidated financial statements

The Company is a subsidiary of SPP, which has its registered office at Mlynské nivy 44/a, Bratislava, and holds a 100% share in the Company's registered capital.

The Company provides the data for the separate financial statements to the higher consolidation of SPP. SPP prepares the consolidated financial statements in accordance with the International Financial Reporting Standards (IAS/IFRS).

The highest reporting entities that consolidate eustream, a.s. are GDF SUEZ SA and EON AG.

The separate financial statements of eustream a.s. and the consolidated financial statements of SPP are deposited with the Commercial Register of Bratislava I District Court, Záhradnícka 10, 811 07 Bratislava, published in the Commercial Journal and at www.spp.sk.

c) Liabilities secured by pledge or other form of collateral

In respect of payables arising from the lease of the transit network and the adjacent land, eustream, a.s., and SPP concluded a contract for the conditional assignment of receivables, on the basis of which the Company cedes the receivables from the transit contracts to SPP in the event the payables for the lease of the transit network and adjacent land are not settled.

26. POST-BALANCE SHEET EVENTS

No events occurred subsequent to 31 December 2010 that might have a material effect on the financial statements of the Company.

Prepared on: **18 February 2011**	***Signature of the person responsible for bookkeeping:***	***Signature of the person responsible for the preparation of the financial statements:***	***Signature of a member of the statutory body of the reporting entity or a natural person acting as a reporting entity:***
Approved on:	Ing. Miroslav Jankovič Director of Accounting and Taxes Section	Ing. Libor Briška Director of Economics and Finance Division	Dipl. Ing. Antoine Jourdain Chairman of the Board of Directors Ing. Andreas Rau Member of the Board of Directors

Proposal
of profit distribution for the year 2010

The proposal of profit distribution for the year 2010 is prepared in line with the Articles of Association of eustream, a.s. Article XIX - PROFIT DISTRIBUTION, Article XVIII – GENERATION AND USE OF RESERVE FUND, and in line with the provisions of the Commercial Code No. 513/1991 Coll., as amended.

The proposal of the profit distribution for the year 2010 is based on the audited financial statements for the year 2010.

I.	**Profit after tax**	**188,284,526.84** □
II.	**Allocation to the statutory reserve fund** in accordance with the Article XVIII of the Articles of Association the reserve fund reached the level of 20% of registered capital	**0.00** □
III.	**Level of net profit** **determined as dividends**	**188,284,526.84** □

eustream, a.s.
Mlynské nivy 42
825 11 Bratislava 26
Slovak Republic
www.eustream.sk

Design: Mitropolitana Ogilvy & Mather