FINANCIAL STATEMENTS 2012

eustream
SLOVAK GAS TSO

eustream, a.s.

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

For the year ended 31 December 2012

Deloitte.

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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 2012, 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 2012, 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.

Emphasis of Matters

We draw attention to Note 25 of the financial statements, which describes a certain legislative process related to the gas transmission certification and the parent company's decision to transfer assets used for gas transmission to the Company. The transfer of gas transmission assets will result in a significant change in the Company's balance sheet.

We draw attention to Note 28 of the financial statements, which describes change of the parent company ownership and change of the board of directors and the supervisory board of the Company after the balance sheet date.

Our opinion is not modified in respect of these matters.

Bratislava, 26 February 2013

Deloitte

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

Ing. Wolda K. Grant, FCCA
Responsible Auditor
Licence SKAu No. 921

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eustream, a.s.
BALANCE SHEETS
As at 31 December 31 December 2012 and 31 December 2011
(EUR '000)

	Note	*31 December 2012*	*31 December 2011*
ASSETS:			
NON-CURRENT ASSETS			
Property, plant and equipment	6	50 881	47 796
Non-current intangible assets	7	9 430	10 506
Non-current financial assets	8	6 600	-
Other non-current assets	11	3 275	-
Total non-current assets		70 186	58 302
CURRENT ASSETS			
Inventories	9	25 556	21 772
Receivables and prepayments	10	285 305	278 958
Income tax asset		-	1 758
Other assets		-	-
Cash and cash equivalents		54 534	68
Total current assets		365 395	302 556
TOTAL ASSETS		**435 581**	**360 858**
EQUITY AND LIABILITIES:			
CAPITAL AND RESERVES			
Registered capital	15	82 929	82 929
Legal reserve fund and other funds	16	18 667	24 159
Retained earnings	16	269 393	190 513
Total equity		370 989	297 601
NON-CURRENT LIABILITIES			
Deferred revenue	11	3 758	-
Retirement and other long-term employee benefits	12	2 309	2 033
Deferred tax liability	22.2	3 432	3 230
Other non-current liabilities		154	-
Total non-current liabilities		9 653	5 263
CURRENT LIABILITIES			
Trade and other payables	14	36 263	54 206
Current income tax		18 588	-
Provisions and other current liabilities	13	88	3 788
Total current liabilities		54 939	57 994
Total liabilities		64 592	63 257
TOTAL EQUITY AND LIABILITIES		**435 581**	**360 858**

The financial statements on pages 3 to 32 were signed on 26 February 2013 on behalf of the Board of Directors:

Ing. Tomáš Mareček
Chairman of the Board of Directors

Vladimír Mlynář
Member of the Board of Directors

(EUR '000)

	Note	***Year ended 31 December 2012***	***Year ended 31 December 2011***
Revenues from sale of services			
Natural gas transmission and other		785 066	802 386
Total revenues		785 066	802 386
Operating costs			
Own work capitalised		423	977
Consumption of natural gas and consumables and services		(73 429)	(145 186)
Depreciation and amortisation	6, 7	(8 237)	(3 622)
Lease of transmission network and other services		(337 846)	(387 230)
Staff costs	17	(38 768)	(36 606)
Provision for bad and doubtful debts, obsolete and slow-moving inventory, net	9, 10	(274)	(329)
Provisions and impairment losses, net	6, 7, 11	3 144	(592)
Other, net		1 364	(522)
Total operating costs		(453 623)	(573 110)
Operating profit		331 443	229 276
Financial income/(expense)	19, 20	1 615	1 752
Profit before income taxes		333 058	231 028
Income tax	22.1	(67 119)	(43 969)
NET PROFIT FOR THE PERIOD		**265 939**	**187 059**

(EUR '000)

	Note	***Year ended 31 December 2012***	***Year ended 31 December 2011***
PROFIT FOR THE PERIOD		265 939	187 059
Other comprehensive income:	23		
Cash flow hedging		(6 646)	8 702
Deferred tax relating to components of other comprehensive income/loss for the period		1 154	(1 776)
OTHER NET COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		(5 492)	6 926
TOTAL NET COMPREHENSIVE INCOME FOR THE PERIOD		**260 447**	**193 985**

(EUR '000)

	Registered capital	*Legal reserve fund*	*Hedging reserve*	*Retained earnings*	*Total*
Balance at 31 December 2010	82 929	16 586	647	191 739	291 901
Net profit for the period	-	-	-	187 059	187 059
Other comprehensive income for the period	-	-	6 926	-	6 926
Dividends paid	-	-	-	(188 285)	(188 285)
Balance at 31 December 2011	**82 929**	**16 586**	**7 573**	**190 513**	**297 601**
Net profit for the period	-	-	-	265 939	265 939
Other comprehensive income for the period	-	-	(5 492)	-	(5 492)
Dividends paid	-	-	-	(187 059)	(187 059)
Balance at 31 December 2012	**82 929**	**16 586**	**2 081**	**269 393**	**370 989**

(EUR '000)

	Note	*Year ended 31 December 2012*	*Year ended 31 December 2011*
Operating activities			
Cash flows from operating activities	24	310 960	275 073
Interest paid		(1)	(2)
Interest received		722	1 549
Income tax paid		(45 419)	(72 668)
Net cash flows from operating activities		266 262	203 952
Investing activities			
Acquisition of property, plant and equipment		(22 466)	(16 641)
Acquisition of investments in securities		(6 600)	-
Proceeds from sale of property, plant and equipment and intangible assets		28	35
Net cash inflow/(outflow) from investing activities		(29 038)	(16 606)
Financing activities			
Dividends paid		(187 059)	(188 285)
Other proceeds and payments from financing activities, net		4 355	945
Net cash flows from financing activities		(182 704)	(187 340)
Net increase in cash and cash equivalents		54 520	6
Net foreign exchange difference		(54)	3
Cash and cash equivalents at the beginning of the period		68	59
Cash and cash equivalents at the end of the period		**54 534**	**68**

(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 "eustream" or the "Company") prepares individual financial statements in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union ("EU").

The financial statements are statutory financial statements intended for general use and information; they are not intended for the purposes of any specific user or consideration of any specific transactions. Accordingly, users should not rely exclusively on these financial statements when making decisions.

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 a part of the business, including the assets (not including the main assets for natural gas transmission) and liabilities of the former transmission 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 23 April 2012, the Annual General Meeting approved the Company's 2011 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 assumed the performance of activities associated with the transmission of natural gas. Refer also to Note 25 for details on the EU's third energy package.

1.3. Employees

The average number of employees of the Company for the year ended 31 December 2012 was 974, of which 1 was executive management (for the year ended 31 December 2011: 970, of which 1 was executive management).

1.4. Registered Address

Votrubova 11/A
821 09 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 of 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 European Union (hereinafter the "EU") and that are relevant to its operations and are effective for accounting periods beginning on 1 January 2012. 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:

- **Amendments to IFRS 7 "Financial Instruments: Disclosures"** - Transfers of Financial Assets, adopted by the EU on 22 November 2011 (effective for annual periods beginning on or after 1 July 2011).

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:

- **IFRS 10 "Consolidated Financial Statements"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),

- **IFRS 11 "Joint Arrangements"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),

- **IFRS 12 "Disclosures of Interests in Other Entities"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),

- **IFRS 13 "Fair Value Measurement"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),

- **IAS 27 (revised in 2011) "Separate Financial Statements"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),

- **IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),

- **Amendments to IFRS 1 "First-time Adoption of IFRS"** - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),

- **Amendments to IFRS 7 "Financial Instruments: Disclosures"** - Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2013),

- **Amendments to IAS 1 "Presentation of Financial Statements"** - Presentation of Items of Other Comprehensive Income, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 July 2012),

- **Amendments to IAS 12 "Income Taxes"** - Deferred Tax: Recovery of Underlying Assets, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),

- **Amendments to IAS 19 "Employee Benefits"** - Improvements to the Accounting for Post-employment Benefits, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 January 2013),

- **Amendments to IAS 32 "Financial Instruments: Presentation"** - Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014),

- **IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).

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 financial statements of the Company 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 of 31 December 2012:

- **IFRS 9 "Financial Instruments"** (effective for annual periods beginning on or after 1 January 2015),

- **Amendments to IFRS 1 "First-time Adoption of IFRS"** - Government Loans (effective for annual periods beginning on or after 1 January 2013),

- **Amendments to IFRS 9 "Financial Instruments" and IFRS 7 "Financial Instruments: Disclosures"** – Mandatory Effective Date and Transition Disclosures,

- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosures of Interests in Other Entities"** - Transition Guidance (effective for annual periods beginning on or after 1 January 2013),

- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosures of Interests in Other Entities" and IAS 27 "Separate Financial Statements"** - Investment Entities (effective for annual periods beginning on or after 1 January 2014),

- **Amendments to various standards "Improvements to IFRSs (2012)"** resulting from the annual improvement project of IFRS published on 17 May 2012 (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2013).

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

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, 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 balance sheet date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Accounting

These individual 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 individual 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.

d) Derivative Financial Instruments

Derivative financial instruments are initially recognised at fair value and are re-measured to fair value at the subsequent reporting dates. Derivative financial instruments are contracts: (i) whose value changes in response to a change in one or more identifiable variables; (ii) that require no significant net initial investment; and (iii) that are settled at a certain future date. Derivative financial instruments, therefore, include swaps, options, futures, and swaps and options, as well as forward commitments to buy or sell quoted or non-quoted securities, and firm commitments or options to buy or sell non-financial assets that include the physical delivery of the underlying assets.

(EUR '000)

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:

	2012	***2011***
Border entry/exit points, domestic points	30 – 50	30 – 50
Compressor stations	11 - 22	7 - 14
Gas pipelines	60	60
Structures	40	40
Machines, tools and equipment	4 - 18	4 – 15
Other non-current assets	2 - 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 significantly to postpone the planned completion date, the carrying amount of the asset is reviewed for potential impairment and a provision recorded therefor, 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 their cost and their net realisable value. The cost of natural gas in the transmission 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 the related costs; for inventories developed internally, costs include costs of materials, other direct costs and production overheads. Increases in natural gas accumulation in the transmission 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 risks 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 transmission, revenues from transmission 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.

n) Leasing

Finance lease
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%. The income tax rate valid as of 1 January 2013 is 23%.

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%. The income tax rate valid as of 1 January 2013 is 23%.

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.

q) Accounting Principles Adopted for Government Grants

Government grants are recognised if there is reasonable assurance on the receipt of a grant and satisfaction of all the conditions attached to the receipt of a grant. If a government grant relates to the compensation of expenses, it is recognised as revenue over the period necessary for the systematic compensation of the grant with expenses which the grants are intended to compensate. If a grant relates to the acquisition of non-current assets, it is recognised as deferred revenue and is released in profit or loss on a straight-line basis over the estimated useful lives of the relevant assets. In the balance sheet they are recognised using the deferred revenue method.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Except key actuarial assumptions (Note 12) 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. 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 or swap commodity contracts. The purpose of such practice is to manage risks related to movements in commodity prices arising from the Company's operations.

(EUR '000)

(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 2012	***As at 31 December 2011***	***As at 31 December 2012***	***As at 31 December 2011***
USD	3 924	3 905	17	264

No contracts for hedging the 2012 exchange rates were concluded in 2012.

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 2012	***As at 31 December 2011***
Effect on profit before tax	121	113

The effects mainly relate to risks to 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.

The Company has also entered into commodity swaps to hedge cash flow from sales of surplus of balancing gas in the volume of 2 153 500 MWh.

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

Open commodity swaps	***2012***		***2012***	
	Nominal amount		***Fair value***	
	Fair value hedging	***Held for trading***	***Fair value hedging***	***Held for trading***
<u>Sell gas</u>				
Less than 3 months	776	-	15 017	-
3 to 12 months	1 928	-	44 901	-
Over 12 months	-	-	-	-

Open commodity swaps	***2011***		***2011***	
	Nominal amount		***Fair value***	
	Fair value hedging	***Held for trading***	***Fair value hedging***	***Held for trading***
<u>Sell gas</u>				
Less than 3 months	2 851	37	17 038	1 511
3 to 12 months	6 498	(8)	51 311	569
Over 12 months	-	-	-	-

(3) Interest rate risk

The Company has no significant concentrations of interest rate risk. As at 31 December 2012 and 31 December 2011, the Company had no outstanding long-term loans and granted no long-term loans with a fixed interest rate.

(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.

(EUR '000)

(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 2012 and 31 December 2011, based on contractual undiscounted payments:

As at 31 December 2012	*On demand*	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*> 5 years*	*Total*
Other liabilities	-	15 277	112	154	-	15 543
Trade and other payables	-	20 874	-	-	-	20 874

As at 31 December 2011	*On demand*	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*> 5 years*	*Total*
Other liabilities	-	10 906	-	-	-	10 906
Trade and other payables	-	43 300	-	-	-	43 300

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 instruments that are settled on a net basis:

	Less than 1 month	*1 – 3 months*	*From 3 months to 1 year*	*1 – 5 years*	*Total*
2012					
Net settled:					
Swap commodity contracts recognised as hedging	273	503	1 928	-	2 704
Swap commodity contracts held for trading	-	-	-	-	-
Total	**273**	**503**	**1 928**	**-**	**2 704**
2011					
Net settled:					
Swap commodity contracts recognised as hedging	1 001	1 850	6 498	-	9 349
Swap commodity contracts held for trading	37	-	(8)	-	29
Total	**1 038**	**1 850**	**6 490**	**-**	**9 377**

b) Capital risk management

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 15 and 16. The Company had no external loans as at the 2012 and 2011 year-ends.

c) Categories of financial instruments

	31 December 2012	*31 December 2011*
Financial assets		
Financial derivatives recognised as hedging	2 704	9 349
Financial derivatives held for trading	-	37
Loans and receivables (including cash and cash equivalents)	336 025	267 454
Non-current financial assets	6 600	-
Financial liabilities		
Financial derivatives recognised as hedging	-	-
Financial derivatives held for trading	-	8
Financial liabilities carried at amortised costs	36 263	54 199

(EUR '000)

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 the 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	**-**	**2 704**	**-**	**2 704**
Financial derivatives held for trading	-	-	-	-
Financial derivatives used as hedging	-	2 704	-	2 704
Financial liabilities at fair value through profit or loss	**-**	-	-	-
Financial derivatives held for trading	**-**	-	-	-
Financial derivatives used as hedging	-	-	-	-

Embedded derivative instruments

Transmission 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. Transmission 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 2012 and 31 December 2011 under the requirements of IAS 39 (as revised in 2003).

(EUR '000)

6. PROPERTY, PLANT AND EQUIPMENT

Year ended 31 December 2012	***Regulation stations***	***Border entry/exit points, domestic points***	***Compressor stations***	***Gas pipeline***	***Buildings and land***	***Machinery and equipment***	***Other non-current tangible assets***	***Assets in the course of construction***	***Total***
Opening net book value	-	6 331	2 568	1 865	2 733	15 453	2 121	16 725	47 796
Additions	-	-	-	-	-	-	-	9 034	9 034
Placed into service	-	10 017	2 625	1 173	3 734	6 781	173	(24 503)	-
Reclassifications	-	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	(5)	(3)	-	(8)
Depreciation charge	-	(738)	(238)	(50)	(454)	(3 671)	(713)	-	(5 864)
Change in provisions	-	-	-	-	(50)	(16)	(11)	-	(77)
Closing net book value	**-**	**15 610**	**4 955**	**2 988**	**5 963**	**18 542**	**1 567**	**1 256**	**50 881**
Year ended 31 December 2012									
Cost	-	17 057	5 192	3 060	6 440	33 611	4 614	1 256	71 230
Provisions and accumulated depreciation	-	(1 447)	(237)	(72)	(477)	(15 069)	(3 047)	-	(20 349)
Net book value	**-**	**15 610**	**4 955**	**2 988**	**5 963**	**18 542**	**1 567**	**1 256**	**50 881**

Year ended 31 December 2011	***Regulation stations***	***Border entry/exit points, domestic points***	***Compressor stations***	***Gas pipeline***	***Buildings and land***	***Machinery and equipment***	***Other non-current tangible assets***	***Assets in the course of construction***	***Total***
Opening net book value	1 874	4 614	-	775	-	16 229	1 782	8 609	33 883
Additions	-	-	-	-	-	-	-	17 578	17 578
Placed into service	-	52	2 644	1 107	2 757	1 931	971	(9 462)	-
Reclassifications	(1 874)	1 874	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	(102)	(9)	-	(111)
Depreciation charge	-	(209)	(76)	(17)	(24)	(2 518)	(623)	-	(3 467)
Change in provisions	-	-	-	-	-	(87)	-	-	(87)
Closing net book value	**-**	**6 331**	**2 568**	**1 865**	**2 733**	**15 453**	**2 121**	**16 725**	**47 796**
Year ended 31 December 2011									
Cost	-	7 040	2 644	1 887	2 757	27 668	4 548	16 725	63 269
Provisions and accumulated depreciation	-	(709)	(76)	(22)	(24)	(12 215)	(2 427)	-	(15 473)
Net book value	**-**	**6 331**	**2 568**	**1 865**	**2 733**	**15 453**	**2 121**	**16 725**	**47 796**

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 2012 amounted to EUR 5 581 thousand (31 December 2011: EUR 5 209 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 2012***	***2011***	***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	35 072	19 108	Allianz-Slovenská poisťovňa, a.s. Kooperativa, a.s
Motor vehicles	MTPL, motor vehicle insurance against damage, destruction and theft	8 350	5 940	Allianz-Slovenská poisťovňa, a.s.

7. NON-CURRENT INTANGIBLE ASSETS AND OTHER ASSETS

Year ended 31 December 2012	***Software***	***Other non-current intangible assets***	***Assets in the course of construction***	***Total***
Opening net book value	6 529	612	3 365	10 506
Additions	-	-	1 813	1 813
Placed into service	3 337	188	(3 525)	-
Reclassifications	-	-	-	-
Disposals	-	(505)	-	(505)
Amortisation	(2 236)	(148)	-	(2 384)
Change of provisions	-	-	-	-
Closing net book value	**7 630**	**147**	**1 653**	**9 430**
At 31 December 2012				
Cost	10 979	478	1 653	13 110
Provision and accumulated depreciation	(3 349)	(331)	-	(3 680)
Net book value	**7 630**	**147**	**1 653**	**9 430**

Year ended 31 December 2011	***Software***	***Other non-current intangible assets***	***Assets in the course of construction***	***Total***
Opening net book value	40	3 189	92	3 321
Additions	-	-	10 366	10 366
Placed into service	6 588	505	(7 093)	-
Reclassifications	-	-	-	-
Disposals	-	(3 027)	-	(3 027)
Amortisation	(99)	(55)	-	(154)
Change of provisions	-	-	-	-
Closing net book value	**6 529**	**612**	**3 365**	**10 506**
At 31 December 2011				
Cost	7 911	794	3 365	12 070
Provision and accumulated depreciation	(1 382)	(182)	-	(1 564)
Net book value	**6 529**	**612**	**3 365**	**10 506**

8. NON-CURRENT FINANCIAL ASSETS

Non-current financial assets include:

	Shares	***31 December 2012***	***31 December 2011***
Cost	6 600	6 600	-
Impairment	-	-	-
Closing balance, net	**6 600**	**6 600**	**-**

(EUR '000)

Shares represent equity interests in the following company:

Name	***Country of registration***	***Equity interest in %***	***Core activity***
Other equity interests			
Central European Gas HUB AG ("CEGH")	Austria	15	Intermediation of natural gas trading

The Company did not determine the fair value of the investment in CEGH, since it is an unlisted company and the fair value of the investment cannot be measured reliably.

9. INVENTORIES

	31 December 2012	***31 December 2011***
Natural gas	14 926	11 512
Raw materials and other inventories	11 641	11 090
Provision	(1 011)	(830)
Total	**25 556**	**21 772**

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

As at 31 December 2012 and 31 December 2011, only a provision for inventories of unusable or damaged raw materials in stock was created.

10. RECEIVABLES AND PREPAYMENTS

	31 December 2012	***31 December 2011***
Receivables from transmission activities	43 796	42 974
Receivables from financial derivatives	2 704	9 386
Prepayments and other receivables	237 695	224 412
Other taxes	1 110	2 186
Total	**285 305**	**278 958**

As at 31 December 2012, the Company recorded due and overdue receivables in the amount of EUR 285 241 thousand and EUR 237 thousand, respectively, excluding an impairment provision. As at 31 December 2011, the Company recorded receivables due and overdue in the amount of EUR 278 814 thousand and EUR 318 thousand, respectively, excluding an impairment provision.

Receivables and prepayments are shown net of provisions for bad and doubtful receivables in the amount of EUR 173 thousand (31 December 2011: EUR 174 thousand).

Receivables and prepayments as at 31 December 2012 include receivables from SPP in the amount of EUR 236 744 thousand (31 December 2011: EUR 222 712 thousand) and from SPP - distribúcia, a.s. in the amount of EUR 933 thousand (31 December 2011: EUR 1 788 thousand).

Movements in the provision for receivables were as follows:

	31 December 2012	***31 December 2011***
Opening balance	(174)	(159)
Creation	(2)	(41)
Use	3	23
Reversal	-	3
Closing balance	**(173)**	**(174)**

(EUR '000)

Security of receivables

To secure the Company's receivables, several bank guarantees were established totalling EUR 5 084 thousand (31 December 2011: EUR 5 606 thousand).

Overdue receivables that were not provided for:

	2012	***2011***
Less than 2 months	54	144
2 to 3 months	-	-
3 to 6 months	-	-
6 to 9 months	-	-
9 to 12 months	-	-
More than 12 months	-	-
Total	**54**	**144**

Overdue receivables that were provided for:

	2012	***2011***
Less than 2 months	-	-
2 to 3 months	11	-
3 to 6 months	1	-
6 to 9 months	-	-
9 to 12 months	-	-
More than 12 months	171	174
Total	**183**	**174**

11. DEFERRED REVENUE

Deferred revenue represents grants allocated by the European Commission for the reverse flow projects of the KS 4 and Plavecký Peter gas pipelines and the cross-border interconnection points between Poland and Slovakia and between Hungary and Slovakia.

Changes in deferred revenue recognised in the balance sheet for the year ended 31 December 2012 can be summarised as follows:

	31 December 2012	***31 December 2011***
Opening balance	-	-
Grants allocated during the period	3 842	-
Reversed portion	(58)	-
Closing balance	**3 784**	**-**

	Current portion (included in other current liabilities)	***Non-current portion***	***Total***
As at 31 December 2012	26	3 758	3 784
As at 31 December 2011	-	-	-

The non-current portion of the grant for the reverse flow of the KS 4 and Plavecký Peter gas pipelines and the Slovak-Hungarian cross-border interconnection point are recognised as other non-current assets.

12. 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 2012 and 31 December 2011, the obligation relating to retirement and other long-term employee benefits was calculated on the basis of valid collective agreements in the given years.

(EUR '000)

As at 31 December 2012, there were 975 (31 December 2011: 1 047) 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 2012 are as follows:

	Long-term benefits	*Post-employment benefits*	*Total benefits at 31 December 2012*	*Total benefits at 31 December 2011*
Net liability at 1 January	451	1 675	2 126	2 235
Net expense recognised	62	259	321	(52)
Benefits paid	(56)	(18)	(74)	(57)
Net liabilities	**457**	**1 916**	**2 373**	**2 126**

	Current liabilities (included in other current liabilities)	*Non-current liabilities*	*Total*
At 31 December 2012	64	2 309	2 373
At 31 December 2011	93	2 033	2 126

Key assumptions used in actuarial valuation:

	At 31 December 2012	*At 31 December 2011*
Market yield on government bonds	3.686%	5.175%
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

13. PROVISIONS FOR LIABILITIES

Movements in provisions are summarised as follows:

	Total provisions at 31 December 2012	*Total provisions at 31 December 2011*
Balance at 1 January	3 788	5 565
Effect of discounting	-	-
Creation of provisions	62	505
Use of provisions	(505)	(2 282)
Reversal of provisions	(3 283)	-
Closing balance	**62**	**3 788**

The provisions are included in liabilities as follows:

	Current provisions (included in other current liabilities)	*Non-current provisions*	*Total provisions*
At 31 December 2012	62	-	62
At 31 December 2011	3 788	-	3 788

In 2007, following the ruling of the Anti-Monopoly Office of the Slovak Republic ("PMÚ") 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, PMÚ deposited the fine in the full amount into the Company's bank account. As the litigation was not lawfully completed at that time, a provision of EUR 3 283 thousand was created in 2009. In 2012, however, the Anti-Monopoly Office of the Slovak Republic decided to suspend the litigation because the Act on Protection of Competition had not been violated and therefore, the provision was reversed.

To cover the liability related to the produced CO_2 emissions, the Company created a provision in the amount of EUR 62 thousand. The provision will be used at the delivery of the 2012 emission rights in April 2013.

(EUR '000)

14. TRADE AND OTHER PAYABLES

	At 31 December 2012	*At 31 December 2011*
Trade and other payables	23 472	40 126
Employee liabilities	7 238	8 246
Social security and other taxes	2 265	2 260
Liabilities from transmission activities	3 288	3 566
Liabilities from financial derivatives	-	8
Total	**36 263**	**54 206**

As at 31 December 2012, trade and other payables include payables to SPP in the amount of EUR 962 thousand (31 December 2011: EUR 9 948 thousand) and to SPP – distribúcia, a.s. in the amount of EUR 9 069 thousand (31 December 2011: EUR 6 426 thousand).

As at 31 December 2012, the Company recorded payables within maturity in the amount of EUR 36 263 thousand; no overdue payables were recorded. As at 31 December 2011, the Company recorded payables within maturity in the amount of EUR 54 206 thousand; no overdue payables were recorded.

Social fund payables:

	Amount
Opening balance as at 1 January 2012	258
Total creation:	313
from expenses	*313*
Total drawing:	(313)
social assistance benefit in material deprivation	-
monetary rewards and gifts	*(33)*
life jubilee benefits	*(17)*
work jubilee benefits	*(39)*
catering allowance	*(105)*
other drawing as per CA	*(119)*
Closing balance as at 31 December 2012	**258**

Liabilities secured by pledge or other form of collateral

As at 31 December 2012, the Company established a bank guarantee in Tatra banka, a.s. totalling EUR 332 thousand for payables to the Customs Office (31 December 2011: EUR 332 thousand).

In respect of liabilities arising from the lease of the transmission 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 transmission contracts to SPP in the event that the liabilities for the lease of the transmission network and the adjacent land are not settled.

For the payables to CEGH arising from the Membership Contract, a collateral in the amount of EUR 140 thousand was established at Všeobecná úverová banka.

15. 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.

16. LEGAL RESERVE FUND AND RETAINED EARNINGS

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

(EUR '000)

The legal reserve fund in the amount of EUR 16 586 thousand (31 December 2011: 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 2011***	***Profit allotment for 2010***
Allotment to legal reserve fund	-	-
To cover losses from previous years	-	-
Dividends	187 059	188 285
Total profit to be distributed	**187 059**	**188 285**

Hedging Reserves

A hedging reserve represents a cumulative accrued portion of gains and losses arising from a change in the fair value of hedging instruments concluded for cash flow hedging.

A cumulative gain or loss arising from a change in the fair value of hedging derivatives that are recognised and accrued in the legal reserve fund of cash flow hedging is reclassified 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 2012	***Year ended 31 December 2011***
Opening balance	**7 573**	**647**
Gain/loss on cash flow hedging		
Currency forward contracts	-	-
Commodity forward contracts	-	-
Commodity swap contracts	(4 205)	10 216
Interest rate swap contracts	-	-
Income tax applicable to gains/losses recognised through equity	1 154	(1 776)
Transfer to profit/loss		
Currency forward contracts	-	-
Commodity forward contracts	-	-
Commodity swap contracts	(2 441)	(1 514)
Interest rate swap contracts	-	-
Income tax applicable to gains/losses recognised through profit/loss	-	-
Transfer to initial carrying amount of the hedged item		
Currency forward contracts	-	-
Commodity forward contracts	-	-
Commodity swap contracts	-	-
Interest rate swap contracts	-	-
Income tax applicable to amounts transferred to the initial carrying amount of the hedged item	-	-
Closing balance	**2 081**	**7 573**

Gains/(losses) arising from a change in the fair value of the hedging instruments transferred during the current period from equity to profit and loss are disclosed in the following lines of the income statement:

	Year ended 31 December 2012	***Year ended 31 December 2011***
Revenues from sale of services	-	-
Natural gas transmission (revenue)	(2 441)	(1 514)
Purchases of natural gas, consumables and services	-	-
Other costs, net	-	-
Financial expenses	(86)	(38)
Income tax charged to expenses	-	-
Total	**(2 527)**	**(1 552)**

(EUR '000)

17. STAFF COSTS

	Year ended 31 December 2012	*Year ended 31 December 2011*
Wages, salaries and bonuses	25 537	23 198
Social security costs	7 842	7 833
Other social security costs and severance pay	5 389	5 575
Total staff costs	**38 768**	**36 606**

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.

18. COSTS OF AUDIT SERVICES

	Year ended 31 December 2012	*Year ended 31 December 2011*
Audit of financial statements	20	20
Other assurance services	-	-
Tax advisory services	1	-
Other related services provided by the auditor	2	14
Total	**23**	**34**

19. INVESTMENT INCOME

	Year ended 31 December 2012	*Year ended 31 December 2011*
Interest income	806	1 561
Derivative instruments	1 016	236
Dividends	-	-
Other investment income, net	-	-
Total investment income	**1 822**	**1 797**

20. FINANCIAL EXPENSE

	Year ended 31 December 2012	*Year ended 31 December 2011*
Interest expense	1	-
FX differences – loss/(profit) (Note 21)	124	-
Other	82	45
Total financial expense/(income)	**207**	**45**

21. FOREIGN EXCHANGE RATE DIFFERENCES

	Year ended 31 December 2012	*Year ended 31 December 2011*
Foreign exchange rate losses (gains) arising from:		
– Operating activities	(293)	(461)
– Financing activities (Note 20)	124	-
Total foreign exchange rate losses (gains)	**(169)**	**(461)**

(EUR '000)

22. TAXATION

22.1. Income Tax

Income tax comprises the following:

	Year ended 31 December 2012	*Year ended 31 December 2011*
Current income tax	61 002	44 275
Special levy	4 761	-
Deferred income tax (Note 21.2)	1 356	(306)
– current year	*867*	*(306)*
- adjustment of deferred tax due to the change in the tax rate	*489*	-
Total	**67 119**	**43 969**

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 2012	*Year ended 31 December 2011*
Profit before taxation	333 058	231 028
Income tax at 19%	63 281	43 895
Effect of adjustments from permanent differences between accounting and tax value of assets and liabilities	(314)	(93)
Other adjustments	(194)	167
Tax impact due to the change in the tax rate from 19% to 23%	489	-
Special levy on business in regulated industries	4 761	-
Effect of special levy as a tax-deductible item	(905)	-
Income tax for the current year	**67 119**	**43 969**

Adjustments primarily include non-tax deductible costs.

The effective tax rate differs from the tax rate stipulated by law of 19% in 2012 mainly due to the change in the current tax rate valid for the reporting period from 1 January 2013 and due to the special levy.

For the deferred tax calculation the Company applied the income tax rate of 23% that is valid in Slovakia as of 1 January 2013.

In line with Act No. 235/2012 Coll. on a Special Levy on Business in Regulated Industries and on the Amendment to and Supplementation of Certain Acts, the Company is obliged to pay a monthly special levy from September 2012 to December 2013. The levy rate is 0.00363 per month calculated from the profit before tax and is presented as a part of the current income tax pursuant to the IFRS requirements.

The taxation years from 2007 to 2012 are still open for inspection by the tax authorities.

22.2. 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 2012	*Charge to equity for the period*	*(Charge)/credit to profit for the period*	*At 31 December 2012*
Difference in NBV of non-current assets	(3 317)	-	(1 262)	(4 579)
Change in fair value of derivatives	(1 776)	1 154	-	(622)
Employee benefits and other provisions	1 707	-	(171)	1 536
Provisions for inventories	158	-	74	232
Other	(2)	-	3	1
Total	**(3 230)**	**1 154**	**(1 356)**	**(3 432)**

(EUR '000)

	At 1 January 2011	*Charge to equity for the period*	*(Charge)/credit to profit for the period*	*At 31 December 2011*
Difference in NBV of non-current assets	(2 696)	-	(621)	(3 317)
Change in fair value of derivatives	-	(1 776)	-	(1 776)
Employee benefits and other provisions	814	-	893	1 707
Provisions for receivables	1	-	(1)	-
Impairment loss	7	-	(7)	-
Provisions for inventories	114	-	44	158
Other	-	-	(2)	(2)
Total	**(1 760)**	**(1 776)**	**306**	**(3 230)**

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 2012	*31 December 2011*
Deferred tax liability	3 432	3 230
Total	**3 432**	**3 230**

23. TAX EFFECTS IN THE STATEMENT OF OTHER COMPREHENSIVE INCOME

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

At 31 December 2012	*Before tax*	*Tax*	*After tax*
Cash flow hedging	(6 646)	1 154	(5 492)
Other comprehensive income for the period	**(6 646)**	**1 154**	**(5 492)**

At 31 December 2011	*Before tax*	*Tax*	*After tax*
Cash flow hedging	8 702	(1 776)	6 926
Other comprehensive income for the period	**8 702**	**(1 776)**	**6 926**

24. CASH FLOWS FROM OPERATING ACTIVITIES

	Year ended 31 December 2012	*Year ended 31 December 2011*
Profit before tax	333 058	231 028
Adjustments:		
Depreciation and amortisation	8 201	3 622
Interest income, net	(805)	(1 561)
FX differences	39	(5)
Derivatives	(3 458)	(1 759)
Provisions for assets, provisions for liabilities and other non-cash items	(3 090)	1 000
Loss from sale of non-current assets	(24)	80
(Increase)/decrease in receivables and prepayments	(13 309)	(28 384)
(Increase)/decrease in inventories	(3 965)	(1 280)
Increase/(decrease) in trade and other payables	(5 687)	15 564
Cash flows from operating activities	**310 960**	**275 073**

(EUR '000)

25. COMMITMENTS AND CONTINGENCIES

Capital Expenditure Commitments

As at 31 December 2012, capital expenditures of EUR 18 018 thousand (31 December 2011: EUR 24 719 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 valid until 31 December 2013 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 2012 amounted to EUR 306 193 thousand (31 December 2011: EUR 340 641 thousand). Under the requirements of the EU's third energy package, the parent company may no longer own the transmission network. The Company expects that the parent company will transfer the transmission network to eustream. The EU's third energy package legislation has been transposed into the relevant Slovak legislation (refer to paragraph "Liberalisation of the Slovak Energy Sector and Possible Risks Arising from the Regulation of Natural Gas Transmission" in Note 25).

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 in the year ended 31 December 2012 amounted to EUR 1 971 thousand (31 December 2011: EUR 2 160 thousand).

Non-cancellable operating lease payables amount to:

Period	***2012***	***2011***
Within 1 year	308 163	172 481
From 1 to 5 years	1 150	3 421
More than 5 years	-	-
Total	**309 313**	**175 902**

Natural Gas Transmission

In 2012, 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, 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 transmitting gas from Russian and Asian reservoirs to Europe. The major part of the transmission capacity is ordered on the basis of long-term contracts. In addition, eustream, 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 transmission 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 Risks Arising from the Regulation of Natural Gas Transmission

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 transmission.

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. The 2012 tariffs for access to the transmission network and natural gas transmission were approved by RONI Ruling 0003/2012/P dated 29 September 2011.

Changes in the regulatory laws and policy

In 2012, there was a major change in the energy legislation regulating the gas transmission. New laws, namely the Act on Regulation in Network Industries and the Act on Energy and on the Amendment to and Supplementation of Certain Acts were adopted and published in the Collection of Laws under No. 250/2012 Coll. and No. 251/2012 Coll., respectively (hereinafter the "Energy and Regulation Acts"). The Energy and Regulation Acts became effective on 1 September 2012. In connection with these Acts certain related generally-binding regulations (secondary legislation) were adopted in 2012. By RONI Ruling 0003/2013/P dated 10 October 2012 the RONI approved the Company's proposal of tariffs for the access to the transmission network and gas transmission for 2013. On 17 August 2012, the RONI, by its Ruling 0005/2012/P-PP, approved the amendment to and supplementation of the Company's Operational Order, which introduces to the market additional new products supporting even greater liquidity and flexibility of the natural gas market, especially the virtual trading point and bundled day-ahead.

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 within the so-called "EU 3rd Energy Package". The aim of these legally-binding acts of the European Union is, inter alia, to specify a new regime for unbundling of transmission system operators, which enables choosing one of the following three scenarios:

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

EU Member States were required to 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 3rd Energy Package was transposed to the legislation of the Slovak Republic in 2012 through the Energy and Regulation Acts. The new Act on Energy defines as a primary model the ownership unbundling model of the transmission network operator; however, the Act allows the government to decide that the model of an independent transmission operator will be applied rather than the ownership unbundling model of the transmission network operator. The Government of the Slovak Republic at its session on 28 November 2012 finally decided by Resolution no. 656/2012 that the ownership unbundling model of the transmission network operator will not be used.

The Company is fully prepared to implement any model, including the model of an independent operator of the transmission network.

As a result, eustream is liable to file a petition to initiate the certification proceeding by 28 February 2013 and to ensure compliance with the conditions of the transmission network operator unbundling by 1 March 2013. These conditions require, inter alia, the assets used for gas transmission ownership. On 14 February 2013 the Company's shareholder decided to transfer the assets used for gas transmission to eustream.

In the publicly-available financial statements of the parent company for the year ended 31 December 2011 the fair value of the transmission network assets which the Company believes would be subject to transfer is stated at EUR 2 519 101 thousand. The fair value of assets subject to transfer will be different as at the transfer date and the difference could be material.

(EUR '000)

26. RELATED PARTY TRANSACTIONS

In 2012, the Company entered into the following transactions with related parties:

	Year ended 31 December 2012					*31 December 2012*		
	Revenues	***Creation/ (reversal) of provisions for receivables***	***Expenses***	***Dividends***	***Other***	***Receivables***	***Provisions for receivables***	***Payables***
SPP	102 522	-	307 995	187 059	1 017	236 744	-	962
Other related parties	73 442	-	6 597	-	13 191	978	-	10 826

The Company's management considers the transactions with related parties to be transactions made on an arm's length basis.

In 2012, transactions with SPP represented distribution of dividends and other transactions related to the lease of non-current assets, purchase and sale of natural gas and other services.

In 2012, transactions with other related parties mainly represented services related to purchases, sale and transmission of natural gas, and other services.

	Year ended 31 December 2011					*31 December 2011*		
	Revenues	***Creation/ (reversal) of provisions for receivables***	***Expenses***	***Dividends***	***Other***	***Receivables***	***Provisions for receivables***	***Payables***
SPP	107 222	-	360 143	188 285	14 282	222 712	-	9 948
Other related parties	66 104	-	9 160	-	13 995	1 792	-	21 587

(EUR '000)

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

	Year ended 31 December 2012	***Year ended 31 December 2011***
Remuneration to the members of the Board of Directors, Supervisory Board, executive management and former members of the bodies - total	711	578
Of which – Board of Directors and executive management	*593*	*456*
– Supervisory Board	*118*	*122*
Post-employment benefits to the members of the Board of Directors, Supervisory Board, executive management and former members of the bodies – total	-	-
Other long-term benefits to the 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 the members of the Board of Directors, Supervisory Board, executive management and former members of the bodies - total	17	10
Of which – Board of Directors and executive management	*17*	*10*
Other payments to the members of the Board of Directors, Supervisory Board, executive management and former members - total	-	-
Of which – Board of Directors and executive management	-	-

27. SUPPLEMENTARY INFORMATION TO COMPLY WITH OTHER STATUTORY REQUIREMENTS FOR INDIVIDUAL FINANCIAL STATEMENTS

a) Members of the Company's bodies

Body	***Function***	***Name***
Board of Directors	Chairman	Gunnar Löwensen – from 1 Jan 2012 until 30 Jun 2012
	Chairman	Jean-Luc Rupp – since 1 Jul 2012
	Vice-Chairman	Ing. Branislav Bajza – until 19 Sep 2012
	Vice-Chairman	Ing. Robert Hančák – since 20 Sep 2012
	Member	Dipl. Ing. Antoine Jourdain – until 7 Jun 2012
	Member	Gunnar Löwensen – since 1 Jul 2012
	Member	Jean-Luc Rupp – from 8 Jun 2012 until 30 Jun 2012
Supervisory Board	Chairman	Ing. Andrej Senaj – until 19 Sep 2012
	Chairman	Ing. Peter Trgiňa, MBA – since 27 Nov 2012
	Vice-Chairman	Christian Janzen – until 30 Jun 2012
	Vice-Chairman	Ing. Thierry Kalfon, MBA – since 1 Jul 2012
	Member	Ing. Peter Trgiňa, MBA – from 20 Sep 2012 until 26 Nov 2012
	Member	JUDr. Anton Kupšo – until 19 Sep 2012
	Member	RNDr. Otto Halás, PhD. – since 20 Sep 2012
	Member	Ing. Viera Peťková, PhD. – since 20 Sep 2012
	Member	Andrej Lendvay
	Member	Viktor Mihalik
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 individual 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 are GDF SUEZ SA and E.ON AG.

The individual financial statements of eustream 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.eustream.sk and www.spp.sk.

(EUR '000)

28. POST-BALANCE SHEET EVENTS

On 15 January 2013, GDF International SAS, E.ON Ruhrgas International GmbH and E.ON SE signed an agreement with Energetický a Průmyslový Holding ("EPH"), a key player on the heat, coal and electricity market in Central Europe, on the sale of their shares in Slovak Gas Holding, B.V. ("SGH"), which owns a 49% share in SPP (the parent company) and also carries out operating and management control. The transaction was completed on 23 January 2013.

As a result, the members of the Board of Directors and the Supervisory Board of eustream were changed on 24 January 2013, resp 25 January 2013. Mr. Jean-Luc Rupp was replaced by Mr. Ing. Tomáš Mareček and Mr. Gunnar Löwensen was replaced by Mr. Vladimír Mlynář on the Board of Directors. Mr. Thierry Kalfon was replaced by Mr. Daniel Křetínský on the Supervisory Board.

No other events occurred subsequent to 31 December 2012 that might have a material effect on the financial statements of the Company.

Prepared on: 26 February 2013	***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:***
	Ing. Oľga Majorošová Director, Finance and Human Resources	Ing. Pavol Janočko General Director	Ing. Tomáš Mareček Chairman of the Board of Directors Vladimír Mlynář Member of the Board of Directors

Approved on:

16 May 2013

Proposal
of profit distribution
for the year 2012

The proposal of profit distribution for the year 2012 is prepared in line with the Articles of Association of eustream, a.s. Article XXIII - DISTRIBUTION OF PROFIT, Article XXII – CREATION 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 2012 is based on the audited financial statements for the year 2012.

I.	**Profit after tax**	**265,938,980.04 €**
II.	**Allocation to the statutory reserve fund** in accordance with the Article XXII of the Articles of Association the reserve fund exceeds 20% of registered capital	**0.00 €**
III.	**Level of net profit** **determined as dividends**	**265,938,980.04 €**
IV.	**Tantiems to the members of the bodies** **(to be discussed)**	**0.00 €**

eustream, a.s.

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