



ANNUAL REPORT **2013**





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## FOREWORD FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

Dear shareholders, business partners, employees  
Ladies and gentlemen,

We present you with the Annual Report of the company Eustream for 2013, a year in which the company transported almost sixty billion cubic metres of natural gas through Slovakia and a year that produced very positive financial results.

Firstly, I would like to summarise the key events that impacted the operation of the company in the year. At the decision of the Government of the Slovak Republic in December 2012 endorsing a change of ownership relations in our parent company Slovenský plynárenský priemysel, a.s. (SPP), Czech-based company Energetický a průmyslový holding, a. s. (EPH) became the new owner of a 49% stake in SPP. The change to the ownership structure of SPP was accompanied also by changes in the top bodies of Eustream at the beginning of 2013. Representatives of the shareholders until then, the companies E.ON Ruhrgas AG and GDF SUEZ, were replaced by the new members appointed to the Board of Directors and Supervisory Board. Personnel changes were also seen in top management, when in May 2013 the post of General Director was taken over by Miloš Pavlík, formerly head of Corporate Affairs. The Board of Directors decided also on other changes during the course of the year, concerning mostly the arrangement of organisational units.

„It is in the interests of the shareholders and employees alike for Eustream to run as efficiently as possible, to produce the maximum benefit and to withstand the competition from neighbouring transit systems successfully also in the long-term horizon.“

In line with Directive 2009/73/EC of the European Parliament and of the Council concerning common rules for the internal market in natural gas, member states were imposed the obligation to implement ownership unbundling of their transmission system operators, or apply one of the alternative solutions. The Government of the Slovak Republic opted for the option of Independent Transmission System Operator (ITO model). In this connection, the transfer of transmission assets from SPP to Eustream was a crucial and long-awaited step, culminating at the end

of February 2013. Ownership of gas transmission assets was a fundamental and essential requirement in demonstrating the independence of the transmission system operator, and was the next step towards complete unbundling of Eustream from the parent company.

Eustream became an independent transmission system operator. On 28 February 2013, the company Eustream requested the Regulatory Office for Network Industries (RONI) to initiate the certification process for it to be certified as an independent transmission system operator. Preparations for certification saw Eustream make various major changes in order to meet the adopted ITO model and new energy legislation. The company adopted new Articles of Association and in line with the Energy Act, set up a Supervisory Commission, which is obliged to deal with the legally prescribed tasks associated with the ITO model.

We compiled the transmission system operator Compliance Programme, which captures new and more detailed rules to ensure the non-discriminatory approach of Eustream towards market participants.

The principal mission of Eustream continues to be the safe and reliable transmission of natural gas through the territory of the Slovak Republic. To satisfy this role responsibly, we maintain the system in excellent condition and are moving forward with projects that increase the overall flexibility and effective operation of the transmission network. The establishment of new transit interconnections with neighbouring countries is of strategic importance. The greatest progress in the year was made in developing the Slovakia-Hungary gas interconnector. Digging work began in February, with the instalment of the pipes and the first welds made already in March. Work on the Slovak side is in the final phase and in the middle of 2014 we expect its interconnection with the Hungarian network, followed by trial operation.

The Poland-Slovakia gas interconnector project also moved forward to the next phase. The feasibility study is now complete, dealing in detail with the specifications and possibilities for the project to be feasible. Eustream, together with its Polish counterpart GAZ-SYSTEM, are examining the conclusions of the study and recommended solutions in detail. Where the results of the study are evaluated positively by both project partners, a call for expressions of interest in the new transmission capacities will follow. A final decision will then be taken to go ahead with the project. Given the importance of the project for gas infrastructure in the region of Central Europe, we will try to obtain EU financial support.

The management of Eustream, entrusted by the new shareholder, plans to preserve continuity in the running of the company and in the functioning processes that were established historically by the original owners, while continuing to implement strategic projects relating to the operation and optimisation of the whole transmission system. Organisational changes linked to modernisation of the system and the decommissioning of obsolete technologies are spread out over several years and affected employees will be informed in advance. In addition to the planned process, we will also be looking for other optimisation solutions. It is in the interests of the shareholders and employees alike for Eustream to run as efficiently as possible, to produce the maximum benefit and to withstand the competition from neighbouring transit systems successfully also in the long-term horizon.



**Tomáš Mareček**  
Chairman of the Board of Directors

## COMPANY PROFILE

### Eustream – the gas turntable of Central Europe

The basic mission of Eustream is the transmission of natural gas to Slovakia and through its territory to European markets. Since 1972, the company Eustream has transported over 2 trillion cubic metres of natural gas through Slovakia, following on successfully in the almost 160-year tradition of the Slovak gas industry and over 40-year tradition of international gas transmission.

Eustream is the operator of the extensive high-pressure transmission network in the Slovak Republic, with its transmission capacities being used by major energy companies from member

and non-member states of the European Union. We provide all our business partners with access to the transmission network in a transparent and non-discriminatory way, in compliance with European and Slovak gas legislation.

In terms of operation, we endeavour to achieve operational excellence and our key priorities are safety, reliability and efficiency. We build our customer relations based on a professional approach and transparent and non-discriminatory rules. We react to the changing needs of the market and offer clients a broad palette of services linked to gas transmission.

### History of Eustream



As of 31 December 2013, the owner of 100% of the shares in the company eustream, a.s. was Slovenský plynárenský priemysel, a.s. with registered office at Mlynské nivy 44/a, 825 11 Bratislava.

Eustream owns 15% of the shares in the company Central European Gas Hub AG with registered office at Floridsdorfer Hauptstrasse 1, 1210 Vienna, Austria. As of 31 December 2013, the company Eustream had no other shareholdings in other companies or branches abroad.

## Transmission system of Eustream

The transmission system operated by Eustream is a crucial energy link between the Commonwealth of Independent States and the European Union. It is interconnected to the main transmission routes in Ukraine, the Czech Republic and Austria. The transmission system comprises four or five parallel 1,200/1,400 mm diameter pipelines with an operating pressure of 73 bars. The pressure differential required for the smooth flow of the gas is secured by four compressor stations with an output of almost 600 MW. The most important compressor station is located at the Slovak-Ukrainian border in Veľké Kapušany. With a total installed capacity of almost 300 MW, this is one of the largest compressor stations in the EU. The daily technical capacity at the entry point in Veľké Kapušany is 2,548 GWh, which translates as 245 million cubic metres of gas a day.

The dominant part of Eustream's activities is concentrated on the international transmission of gas. Access to the capacities of the transmission system is based on the "Entry – Exit" principle. For entering or exiting the transmission system, customers can choose from the following entry/exit points:

- » Veľké Kapušany (border point between the Slovak Republic and Ukraine)
- » Baumgarten (border point between the Slovak Republic and Austria)
- » Lanžhot (border point between the Slovak and Czech republics)
- » Domestic point (virtual aggregated connection point to domestic storage reservoirs and distribution networks)

Eustream allows a change of ownership of gas also at the so-called Virtual Trading Point, not only between users of the network with reserved transmission capacity, but also between gas traders.

In connection with the prepared launch of the Slovakia-Hungary gas interconnection pipeline to live operation, another entry/exit point is planned at Veľké Zlieve (border point between the Slovak Republic and Hungary).

## Transmission system of Eustream



## NATURAL GAS TRANSMISSION

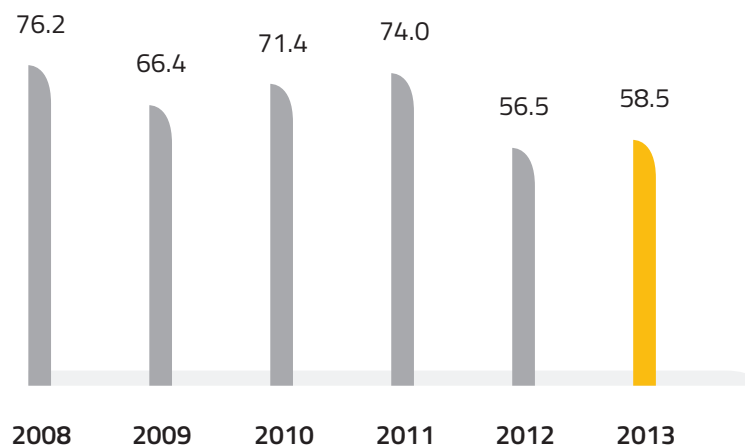
In 2013, we continued to register demand for greater flexibility in transmission services. We registered over five hundred new confirmed transmission capacity bookings, and for the January – December 2013 period we recorded over six hundred active contracts for transmission network access and the transmission of gas.

Throughout 2013 we transported a total of 58.5 billion cubic metres of natural gas through our transmission system, which in energy units works out at 614.25 terrawatt-hours. Most of the transmission, over 90%, was performed for international customers – users of the Slovak network and gas traders operating in various European countries.

In addition to stable long-term contracts, the number of contracts concerning short-term and cross-border transactions between hubs in the Central European region, and also contracts relating to liberalisation of the domestic Slovak gas market, have also increased substantially.

The day-to-day philosophy of Eustream is to approach clients proactively and monitor their needs over and above the requirements of legislation. In the fast-changing gas market and in the face of growing competition from other transmission systems, Eustream offers more than the flexible booking of transmission capacities, with other added value in the shape of supplementary services and products such as Title Transfer, Wheeling, increased flexibility using Day-ahead booking, as well as the option of trading with gas on the Virtual Trading Point.

Gas transmission (in billion m<sup>3</sup>)





The new Operational Order took effect from 2 May 2013, defining also additional auxiliary services:

- » the Parking and Loaning service enables short-term parking or loaning of gas from the transmission network,
- » the Back-up and Back-down service allows the supply or withdrawal of gas while preserving nominations of the Title transfer service.

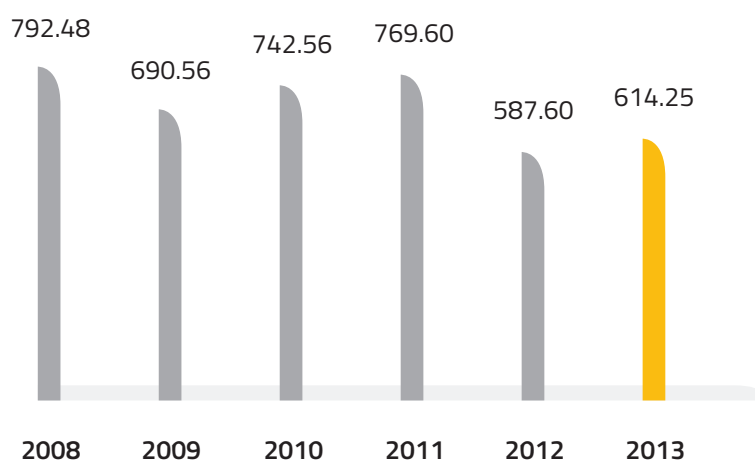
Eustream also switched from volume units to energy units and provides the services of transmission system access and the transmission of gas in kilowatt-hours or megawatt-hours. In compliance with market rules, we adjusted also the beginning and end of the gas trading day to 6:00 – 6:00.

Within the pan-European process of harmonising transmission services, network codes are

gradually being implemented. The first of these to be implemented was Congestion Management at the end of 2013, via which transmission system operators in the EU harmonised the rules and procedures in the event of transmission network congestion at individual interconnection points of European infrastructure.

Market demand for supply diversification, together with market liberalisation, have produced the ambition to integrate various markets and strengthen cross-border connections of transmission systems or neighbouring markets. Eustream therefore plans to continue boosting mutual co-operation with adjacent operators, to provide additional flexible cross-border transmission services, including bundled products, and to develop co-operation with CEGH as the operator of the Virtual Trading Point in Austria.

Gas transmission (in TWh)



## DEVELOPMENT OF THE TRANSMISSION

The company Eustream consistently invests in new equipment and environmental technologies so as to minimise the impact of transmission system operation on the natural environment and increase the reliability, safety and efficiency of transmission. Based on long-term forecasts of the development of gas transmission through Slovakia and legislative requirements on environmental protection, we prepared a long-term concept of change for transmission system infrastructure, which we advanced also in 2013. Investments are directed at replacing obsolete equipment, modernising existing units, technical modification of the arrangement and setup of the whole transmission system, so that we are capable of reacting flexibly to the changing requirements for transported gas volumes.

In 2013, Eustream implemented nine planned projects aimed at developing the transmission system, with total investments costs in excess of EUR 22 million. The most important development investments in the year were the installation of tandem turbo-sets at the compressor station in Veľké Zlievce and the interconnection pipeline DN800 Slovakia - Hungary. The planned term for completion of both projects is during 2014.

In the field of development, there are 10 projects in the pipeline at present. The most significant of these at the implementation phase include the construction of the Slovakia-Hungary gas interconnector. The most important project at the evaluation stage is the gas interconnector Slovakia – Poland, for which a feasibility study has already been prepared.

## Research and development

In the field of research and development, Eustream is involved in tasks focusing on the identification and application of new procedures and technologies, with the aim of raising the effectiveness of transmission and the safety of transmission system operation. Research and development tasks are managed as projects, which we carry out in co-operation with research institutes and universities in Slovakia and abroad. In 2013, we completed three research and development projects with a spent budget of EUR 192,500 in the course of the year.

Completed research and development tasks met the set objectives. The most important of these include "Impact of additional load on transmission pipeline lifetime" and "Researching methods of automated collection and measurement of cathodic protection values using multifunctional equipment in the company eustream, a.s.". Total costs for all research and development projects that were carried out in 2013 came to EUR 216,600.

We will continue in 2014 with the task "Research and design of non-destructive method for analysing the degradation of pipeline materials after several years of operation". The aim of this project is the research development and industrial application of a new method of measuring the micro-hardness or hardness of surface layers of metal materials for evaluating the accumulation of fatigue damage. Eustream will apply the results acquired and evaluated in this way to propose a method of metering and its subsequent industrial application in the conditions of Eustream. In this way, we gain a simple tool for gauging the fatigue damage of transmission network pipelines without the need to halt operations and take cross-sections of parts of the assessed pipes.



## Certification

- › On 28 October 2013 RONI issued its final decision on certification. It announced its decision to the Ministry of Economy SR, which then certified the company Eustream as independent transmission system operator satisfying the conditions required by European and Slovak legislation.

## LEGISLATIVE COMPLIANCE

Transposition of the European Union's Third Energy Package into Slovak legislation necessitated the preparation of two new laws – Act No. 251/2012 Coll. on energy, and on the amendment and supplementing of certain laws (Energy Act), and Act No. 250/2012 Coll. on regulation in network industries (Act on Regulation), both of which govern and regulate the pursuit of business in the energy sector. These two laws set out also new requirements for unbundling, i.e. unbundling of the production and supply activities from transmission system operation, which have a direct impact on the company Eustream.

Even though in the Energy Act the complete ownership unbundling of the transmission system operator was chosen as the base model for unbundling, the Government of the Slovak Republic by Resolution 656/2012 from 28 November 2012 decided to apply the ITO model (Independent Transmission Operator) and to establish an independent transmission system operator.

In line with this decision, Eustream remained part of a vertically integrated undertaking, while at the same time becoming obliged to meet various fundamental conditions imposed on it by the new legislation and to acquire certification as an independent transmission system operator.

### Certification

In line with the Act on Regulation, at the end of February 2013 Eustream submitted a proposal to initiate certification proceedings with the Regulatory Office for Network Industries (RONI). Key requirements included ensuring ownership of the transmission network was held by the company Eustream, the creation of a Supervisory Commission, the resolution of various limitations in relation to other companies of the SPP group, and the elaboration of an internal Compliance Programme and its implementation.

On 14 February 2013, the Slovak government by Resolution 85/2013 approved the transfer of assets required for gas transmission from the ownership of SPP to the company Eustream. This primarily concerned the pipelines, compressor stations, buildings, land and related assets, rights,

obligations and liabilities. The transfer of assets took place on 28 February 2013.

At the start of the year, Eustream adopted new Articles of association and in line with the law also established a Supervisory Commission. The Commission's jurisdiction covers, for instance, the appointment or recall of members of the Board of Directors, the approval of contracts on performance of their posts, approval of the ten-year development plan and the related approval of proposals to commence with individual investments, among other matters.

In complying with the Energy Act, we prepared our own Compliance Programme, where we set out the internal measures for ensuring Eustream's independence, as well as specific obligations for employees, Board of Directors members, Supervisory Board and Supervisory Commission members. The Compliance Programme took effect after approval by the Board of Directors and the national regulator on 18 June 2013. By law, responsibility for monitoring fulfilment of the programme falls to the Compliance Officer. After the proposal by the Supervisory Commission and the prior consent of the regulator RONI with the appointment, on 24 July 2013 the post was filled by Milan Sedláček, Head of Regulatory Affairs and Business Concept Development. His rights and obligations are defined under § 58 of the Energy Act and in the company's Articles of association.

### Certification process

As part of the certification process, the national regulator assessed the submitted certification proposal and fulfilment of the criteria of independence as part of a vertically integrated undertaking. In August 2013, the notification of a decision on certification of RONI received the opinion also of the European Commission. Once all the conditions placed on an independent transmission system operator had been met, on 28 October 2013 RONI issued its final decision on certification. It announced its decision to the Ministry of Economy SR, which then certified the company Eustream as independent transmission system operator satisfying the conditions required by European and Slovak legislation.

## COMPLIANCE PROGRAMME REPORT

Pursuant to § 58 subsection 11 item b) of Act No. 251/2012 Coll. on energy, and on the amendment and supplementing of certain laws, the person obliged to ensure compliance of the transmission system operator (hereinafter "Compliance Officer") is obliged to monitor fulfilment of the Compliance Programme.

Eustream prepared its Compliance Programme in 2013, setting out:

- » measures for ensuring non-discriminatory conduct and independence of the transmission system operator,
- » specific obligations of employees, the management and supervisory bodies of the transmission system operator aimed at fulfilling the objective of the Compliance Programme.

The draft Compliance Programme of the transmission system operator was presented to the Regulatory Office for Network Industries (RONI), which on 18 June granted its approval, meaning the Compliance Programme took effect from the same date. The company Eustream then arranged all necessary steps leading to adherence to the Compliance Programme and monitoring its fulfilment.

The transmission system operator provided the Compliance Officer with necessary collaboration in exercising his rights and obligations and ensured that this collaboration was provided also by all persons through whom the transmission system operator pursues its activity. The Compliance Officer was provided with the right to participate in the meetings of the Board of Directors as a statutory body of the transmission system operator, and also in the meetings of the Supervisory Commission, the General Meetings of the transmission system operator and its other bodies as per the Commercial Code, the right to access documents and records concerning the activities of the transmission system operator and to the provision of all information required for the Compliance Officer to fulfil its obligations, as well as access to the registered office and

operational premises of the transmission system operator without prior notice.

In 2013, the Compliance Officer:

- » discovered no gross breaches concerning fulfilment of the Compliance Programme of the transmission system operator,
- » did not identify actions of another party that is part of the same vertically integrated gas undertaking as the transmission system operator, or which has direct or indirect control over a party that is part of the same vertically integrated undertaking as the transmission system operator, at the General Meeting or a member of the Supervisory Commission at the meetings of the Supervisory Commission of the transmission system operator, which would prevent the transmission system operator from making investments that it is to carry out over the next three years according to the ten-year development plan.



**Milan Sedláček**  
Compliance Officer

## BOARD OF DIRECTORS



**Tomáš Mareček**

Chairman of the Board of Directors

He graduated from the Faculty of Finance of VŠE (University of Economics) in Prague. He started his professional career by joining the department of Mergers and Acquisitions of the J&T group in 2004. From 2004 he worked in the company Kablo Elektro, a.s., where he first participated in the project of company restructuring and subsequently served as director of finance. In 2007-2009 he participated in the successful acquisition of several companies. In 2011 he became Vice-chairman of the company Pražská tepleárenská, a.s. and at the same time serves in the Supervisory Board of the company EP Industries, a.s. On 24 January 2013, he became Chairman of the Board of Directors of Eustream.



**Robert Hančák**

Vice-Chairman of the Board of Directors

He completed university studies at the University of Economics in Bratislava and postgraduate study at the Faculty of Law of Comenius University. He started his professional career by joining the Tax Authority Bratislava IV in 1993. His professional experience includes several managerial positions in commercial companies Merimex Int., s.r.o. (1995), RENTA g.i.a.s. (1995 – 1997), J&T Real Estate, a.s. (1997 – 2006). From 2006 to 2010 he held the post of General Director of the Economic Section at the Ministry of Interior of the Slovak Republic. In 2011-2012 he was responsible in the company Strabag for contractual relations management for large road projects. On 20 September 2012 he became Vice-Chairman of the Board of Directors of Eustream.



### **Vladimír Mlynář**

Board of Directors member

He has been a member of the top management of the PPF group since 2010 and is responsible for public relations and co-operation with the public sector. In the nineties he was Editor in Chief of the weekly Respekt and presenter of the TV show "Respektovaní". After a successful career as a journalist, in 1998 he entered Czech politics, where he figured repeatedly as minister and MP and in 2010 as Chief Advisor to the Prime Minister. In 2008-2009, he worked for the company Telefónica O2. On 24 January 2013 he became a member of the Board of Directors of Eustream.

The given status is as of 31 December 2013. A change in the composition of the Board of Directors of Eustream came at the beginning of the year, when on 24 January Tomáš Mareček replaced Jean-Luc Rupp as Chairman of the Board of Directors and Vladimír Mlynář replaced Gunnar Löwensen as member of the Board of Directors.

## SUPERVISORY BOARD



**Peter Trgiňa**

Chairman of the Supervisory Board

**Miroslav Bodnár**

Vice-Chairman of the Supervisory Board

**Otto Halás**

Member of the Supervisory Board

**Andrej Lendvay**

Member of the Supervisory Board

**Viktor Mihalik**

Member of the Supervisory Board

**Viera Pet'ková**

Member of the Supervisory Board

He completed his university studies at the Faculty of Mechanical Engineering of the Slovak University of Technology in Bratislava and in 2010 completed his MBA studies at Nottingham Trent University, Great Britain. In 1996 he joined the company Toyota Motor Slovakia, s.r.o., where he worked as a manager until 2007, when he became General Director of VOP Nováky, a.s. In 2010 he took up the post of General Director of Automobilové opravovne MV SR, a.s. He then went on to provide consulting services in the field of crisis management and change management for various companies. On 20 September 2012 he became Chairman of the Supervisory Board of the company Eustream.

The given status is as of 31 December 2013. During 2013, changes were made to the composition of the Supervisory Board. On 24 January 2013, Thierry Kalfon was replaced as Vice-Chairman of the Supervisory Board by Daniel Křetínský, who was then replaced by Miroslav Bodnár on 5 March 2013.



## SUPERVISORY COMMISSION

### **Hana Krejčí**

Chairwoman of the Supervisory Commission

### **Ružena Lovasová**

Vice-Chairwoman of the Supervisory Commission

### **Miroslav Bodnár**

Member of the Supervisory Commission

### **Roman Karlubík**

Member of the Supervisory Commission

### **Jan Stříteský**

Member of the Supervisory Commission

The given status is as of 31 December 2013.  
The Supervisory Commission was established by Eustream as an independent transmission system operator in line with the Energy Act.  
The Supervisory Commission comprises five members, who are elected and recalled by the General Meeting for a four-year term of office.

## MANAGEMENT



**Miloš Pavlík**  
General Director

He studied economics and management in the chemical industry at the Slovak University of Technology in Bratislava. After completing his studies, he underwent various expert and managerial stays and courses in Europe and the USA. His professional career in the energy sector started in 1993, when he took up the post of Deputy director of sales for the foreign trade company Kerametal. In 2001, he started working in SPP as Director of the Gas Trade Section, where as part of the unbundling of energy sector activities, he dealt with sales of transit capacities. As head of sales in Eustream between 2006–2010 he oversaw the contracting of transmission capacities, the application of regulatory legislation, and also the operation of commercial dispatching. In January 2011 he became head of the Corporate Affairs Section, where he was responsible for strategy and regulation, legal affairs, public relations, facility management, crisis management and procurement. Since 27 May 2013 he has held the post of General Director of the company Eustream.



**Miroslav Bodnár**  
Strategy



**Andrej Amberský**  
Sales and Regulation



**Ol'ga Majorošová**  
Finance and Human Resources



**Michal Kristiňák**  
Corporate Affairs



**Rastislav Ňukovič**  
Asset Management



**Ján Janus**  
Operation and Maintenance



**Petr Krafka**  
Procurement and Logistics

The given status is as of 31 December 2013. Throughout the year, several organisational and personnel changes were made in the company management. A new organisational unit for strategy was set up, procurement and logistics were separated from corporate affairs and the field of information and communication systems was assigned to the corporate affairs agenda. The management of operations and maintenance was entrusted to Head of Dispatching Ján Janus. Until 27 May 2013 the post of General Director was held by Pavol Janočko.



## Employees

- › The company saw a slight increase in 2013 in the overall share of women in the company and the share of women holding middle management positions (about 11%), as well as the share of university educated employees (almost 45%).

## HUMAN RESOURCES

Human resources management in the company Eustream in 2013 was marked foremost by the collective bargaining process, which continued for most of the year. We also progressed in the process of making organisational changes in connection with modernisation of the compressor fleet and optimisation of internal processes.

### Education and employee development

In 2013, we continued with traditional programmes for new employees, as well as programmes for employees whose employment was terminated for organisational reasons.

In addition to standard types of education intended for all employees, such as periodic training, expert education on the introduction of new technologies, conferences, seminars or language courses, in 2013 we also saw the successful culmination of the year-long project of revision training in respect of expert preparation. As part of the project, almost 2,000 training sessions were organised for 662 employees.

### Evaluation, remuneration and motivation

In Eustream, we make sure the remuneration system has clear, fair and motivational rules and that rewards are directly linked to performance evaluation. In 2013, we made an analysis of the current system of remuneration. We then made changes to the evaluation scale, simplified the principle of calculating performance bonuses and made a clear distinction of the bonus scheme into company-wide and individual parts. The new principles in remuneration were put into effect on 1 January 2014, while we will continue to simplify and improve the remuneration rules. The aim of these changes is to set the remuneration rules so that the performance bonus of an employee is directly proportionate to his or her individual performance, which at the same time is intended to increase motivation.

### Social care

The programme of employee benefits did not change significantly in 2013 and Eustream provided its employees with the same compensations as in previous years. This year, once again, the employer used all available forms of assistance in cases when some employee found themselves in a situation that had a negative impact on their personal or family life.

In the collective bargaining process, employee allowances and benefits were subject to a detailed analysis. In defence of keeping individual benefits in the new collective agreement, the employer considered their use from the side of employees and also the financial demands. The employer tried to retain those employee allowances and benefits that are primarily used by current employees contributing to development of the company. The premium standard of provision in social care for departing employees was adjusted to a level that continues to provide provision in excess of that required by the Labour Code.

### Communication

The primary goal of the company Eustream in respect of internal communication is the transparent, accurate and timely provision of information about important changes affecting employees and representatives of the Gas Industry Trade Union (POZ).

We continued in 2013 with the traditional meetings of representatives of the company Eustream as the employer and of the trade union POZ, where communication focused on all key events and prepared changes concerning employees and their working conditions. By way of the intranet and electronic newsletter, employees can directly access information about what's happening in the company, about all open selection proceedings and organisational changes. Employees were informed about the progress of collective bargaining and the content of the Collective Agreement by way of several communication channels.

## Employee structure

As of 31 December 2013, Eustream had 877 employees, of which 165 are women (18.8% of total workforce). Thanks to the filling of certain specific job positions externally, the company saw a slight increase in 2013 in the overall share of women in the company and the share of women holding middle management positions (about 11%), as well as the share of university educated employees (almost 45%).

Age structure as of 31 December 2013		
30 or younger	29 employees	3.3 %
31 to 40	193 employees	22.0 %
41 to 50	338 employees	38.6 %
51 and older	317 employees	36.1 %

Qualification structure as of 31 December 2013		
Vocational school	136 employees	15.5 %
Full secondary education	350 employees	40.0 %
University education	391 employees	44.5 %



## Environment

- › The company Eustream consistently invests in new equipment and environmental technologies so as to minimise the impact of transmission system operation on the natural environment and increase the reliability of transmission.

## ENVIRONMENTAL PROTECTION AND SAFETY

We pay constant attention to the natural environment and to health and safety at work in the transmission of gas. We endeavour systematically to raise the quality of our services, achieve optimal energy management and set processes and workflows so that the impact on the environment is minimised. We employ an integrated management system to apply these principles, which includes:

- » Quality management system (ISO 9001)
- » Welding quality assurance system (ISO 3834 – 2)
- » Occupational health and safety management system (OHSAS 18001)
- » Environmental management system (ISO 14001)
- » Energy management system (ISO 50001)

In the field of environmental protection, Eustream focuses foremost on:

- » respecting the waste management hierarchy with the aim of reducing the volume of produced wastes
- » optimising water management
- » reducing emissions of pollutants to the environment
- » reducing noise levels emitted near compressor stations

Various internal inspections and audits conducted throughout the year verified compliance to legislation in the field of environmental protection and in 2013 no environmental damage was caused.

„We pay constant attention to the natural environment and to health and safety at work in the transmission of gas.“



## Waste management

The perpetual operation of the transmission system combined with maintenance and reconstruction work leads to the production of various kinds of waste. Eustream handles its wastes in compliance with applicable legislation. The main objective of waste management is to minimise the negative impacts of waste production and management on human health and the environment. We take care to use resources economically and proceed in practice according to the waste management hierarchy:

- » source reduction,
- » preparation for reuse,
- » recycling,
- » other appreciation, energy recovery,
- » treatment and disposal.

The growth in the volume of wastes in 2013 compared to 2012 was caused by the permanent shutdown of some 6 MW turbines. Eustream as the operator of turbines was obliged to drain all hazardous substances from the decommissioned equipment. This mostly concerned waste oils that were treated and disposed of in line with the Act on Wastes.

Waste generation (in tons)	2013	2012
Hazardous wastes	780	341
Other wastes	722	453
Total	1,502	794

Emissions of base pollutants (in tons)	2013	2012
CO	70	88
NOx	665	706

## Air protection

Eustream operates stationary incineration facilities that produce emissions of greenhouse gases and pollutants. By caring continually about the quality of these facilities, we endeavour to comply with ever-stricter legislation in respect of air protection.

An important project related to air protection is the modification of the Nuovo Pignone gas turbines to Dry Low Emissions (DLE) technology, which we are implementing progressively throughout 2011 – 2015. The aim of the project is cut down emissions of nitrogen oxide substantially. In 2013, the Nuovo Pignone gas turbines were modified at the compressor station in Ivanka pri Nitre. In 2014, the two Nuovo Pignone gas turbines at the Veľké Zlievce compressor station will also be modified.

The drop in emissions in 2013 compared with 2012 was partly down to the permanent shutdown of several gas turbines. Automated monitoring systems track non-stop the volumes of emissions at incineration facilities with a nominal thermal output of more than 50 MW.

## Protection against external noise pollution

Noise and vibration are produced in the transmission of natural gas at incineration facilities of compressor stations and related pipe yard technology. Eustream regularly monitors the level of noise emitted in the vicinity of compressor stations with the aim of reducing noise and vibration to below legally prescribed levels. In 2013, external noise was monitored at the compressor station CS 02 in the villages of Jablonov nad Turňou and Hrušov. The measurements confirmed that not even the compressor station at Jablonov nad Turňou exceeded the admissible values set for reference time intervals of the day, evening and night. In 2013, several gas turbines were shut down permanently, thereby reducing the level of emitted noise even further.

## Occupational health and safety (OHS)

Eustream ensures health and safety at work in line with respective legislative and internal regulations so that we eliminate or minimise the risks to employee safety to the maximum possible extent, and so that we ensure protection of their health at work. Eustream applies an active OHS policy in relation to employees, suppliers and all business partners taking part in the company's activities.

Eustream has a functioning OHS management system in place. Compliance with legislation and adherence to OHS rules was confirmed by inspections of the Labour Inspectorate and surveillance conducted by regional offices of public health, fire protection checks, as well as an external supervisory audit carried out at the end of 2013.

In co-operation with the occupational health service, we monitor the conditions and influencing factors of the working environment on the safety and health of employees at individual workplaces. Employees undergo regular preventive medical examinations in relation to their work. The scope of these depends on the risk factors that employees are exposed to during their work shift. In the 2013 calendar year, just one work injury was registered. We apply preventive measures and specific programmes for improving working conditions, eliminating risks and factors causing work injuries, occupational disease and other work-related bodily harm.

„An important project related to air protection is the modification of the gas turbines to Dry Low Emissions (DLE) technology.“

## Transmission

- › Throughout 2013 we transported a total of 58.5 billion cubic metres of natural gas through our transmission system, which in energy units works out at 614.25 terrawatt-hours. We registered over five hundred new confirmed transmission capacity bookings.

## ECONOMIC AND FINANCIAL PERFORMANCE

In 2013, Eustream generated revenue from the sale of services worth EUR 696.98 million, which is a drop over the previous year by EUR 88.09 million. This decline was caused by changes in volumes of contracted transmission capacities as a source of revenue. Operating expenses in 2013 were reported at the level of EUR 293.20 million. A significant reduction of EUR 160.42 million over 2012 was seen due to the cessation of the contract on the lease of gas assets, which has been in our ownership since 28 February 2013. The main cost items in 2013 were once again costs for services, depreciation and

amortisation, consumption of natural gas, material and energy, and payroll costs. Profit from financial operations for 2013 came to EUR 2.36 million, representing a growth of EUR 0.75 million over the previous year.

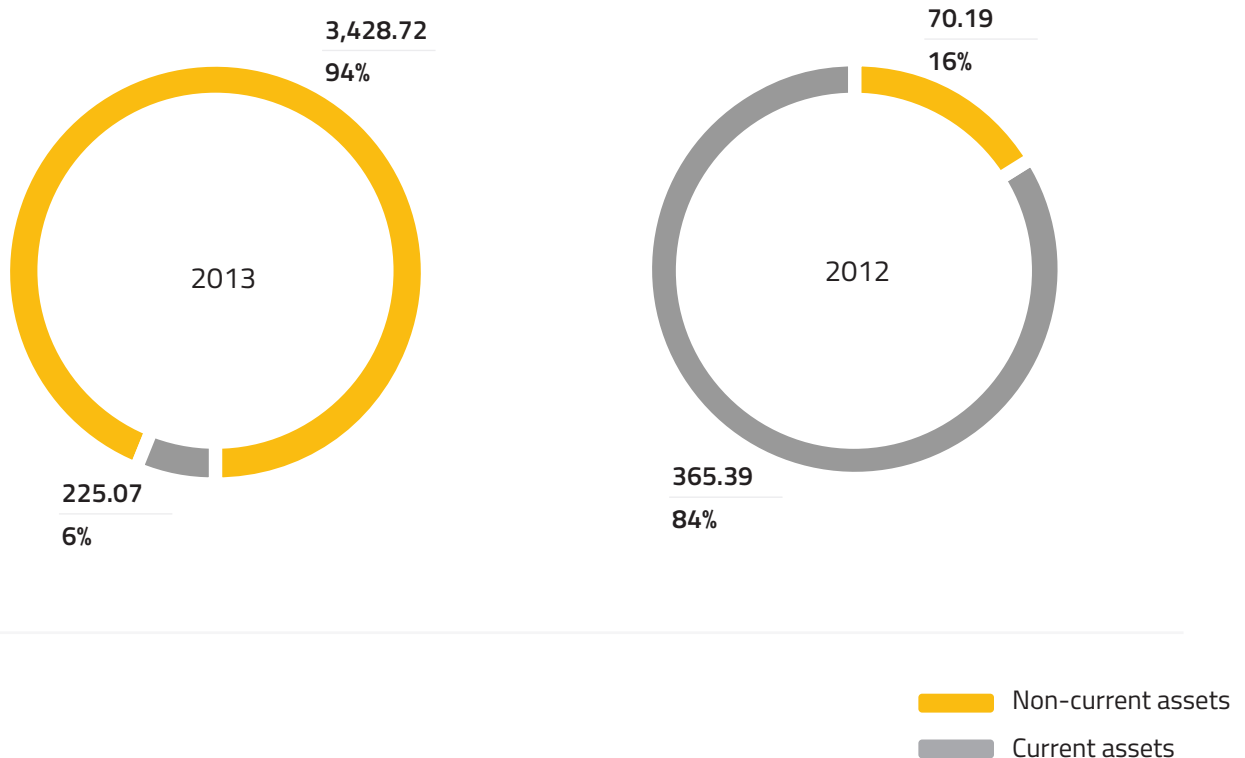
In 2013, by applying International Financial Reporting Standards (IFRS) as approved for use in the European Union, Eustream posted a pre-tax profit of EUR 406.14 million, which is a growth of EUR 73.08 million over the previous year. Income tax from current operations came to EUR 86.78 million and profit after tax amounted to EUR 319.36 million.

Comparison of revenues, costs and profit (in EUR million)	2013	2012
Revenues from sale of services	<b>696.98</b>	785.07
Operating expenses	<b>(293.20)</b>	(453.62)
Financial income/(expense)	<b>2.36</b>	1.61
Profit before tax	<b>406.14</b>	333.06
Income tax	<b>(86.78)</b>	(67.12)
Net profit for the period	<b>319.36</b>	265.94

## CAPITAL STRUCTURE

As of the balance sheet date, total assets of Eustream came to EUR 3,653.79 million and compared to previous period increased by EUR 3,218.21 million mainly due to transfer of gas transmission assets. The value of non-current assets was reported as EUR 3,428.72 million, accounting for 94% of total assets. Current assets comprised inventories, short-term receivables and cash and cash equivalents, accounting for 6% of the value of total assets. Compared to the previous reporting period, current assets dropped by EUR 140.32 million.

Comparison of assets structure  
(in EUR million)



Equity came to EUR 2,325.81 million and as a key source of coverage accounted for 64% of the value of company assets. In addition to the share capital, equity comprised also legal reserve fund, other funds and retained earnings. Equity grew year-on-year by EUR 1,954.82 million, under the influence of the in-kind contribution of the sole shareholder.

Share capital of the company as registered in the Commercial Register stands at EUR 282.93 million. The share capital comprises ten ordinary shares with a nominal value of EUR 3,319.39, one ordinary share with a nominal value of EUR 82,895,533.19 and one ordinary share with a nominal value of EUR 200,000,000.00.

Shareholder structure as of 31 December 2013:		
Slovenský plynárenský priemysel, a.s.	12 Shares	100%

The balance of legal reserve fund of the company came to EUR 56.59 million as of the balance sheet date.

Total liabilities comprised 36% of asset cover and came to EUR 1,327.98 million as of the balance sheet date. Liabilities consisted of long-term payables worth EUR 1,207.78 million and short-term payables amounting to EUR 120.20 million. Compared to the previous year, liabilities increased by EUR 1,263.39 million, primarily due to the issue of bonds worth EUR 746.56 million, which was linked to optimisation of the capital structure and is in line with the financial policy agreed by the shareholders of Eustream's parent company SPP.

Comparison of structure of sources of coverage (in EUR million)	2013	2012	2013	2012
Equity	2,325.81	370.99	64%	85%
Liabilities	1,327.98	64.59	36%	15%

### Did you know?

- › The most important compressor station is located at the Slovak-Ukrainian border in Velké Kapušany. With a total installed capacity of almost 300 MW, this is one of the largest compressor stations in the EU.

## FINANCIAL STATEMENTS

BALANCE SHEETS (selected data in EUR thousand)	31. december 2013	31. december 2012
<b>ASSETS</b>		
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	2,439,593	50,881
Intangible assets	7,707	9,430
Non-current financial investments	6,600	6,600
Loans issued	973,000	-
Other assets	1,821	3,275
<b>Total non-current assets</b>	<b>3,428,721</b>	<b>70,186</b>
<b>CURRENT ASSETS</b>	<b>225,072</b>	<b>365,395</b>
<b>TOTAL ASSETS</b>	<b>3,653,793</b>	<b>435,581</b>
<b>EQUITY AND LIABILITIES</b>		
<b>EQUITY</b>		
Registered capital	282,929	82,929
Legal reserve fund and other reserves	56,722	18,667
Retained earnings	1,986,163	269,393
<b>Total equity</b>	<b>2,325,814</b>	<b>370,989</b>
<b>NON-CURRENT LIABILITIES</b>	<b>1,207,780</b>	<b>9,653</b>
<b>CURRENT LIABILITIES</b>	<b>120,199</b>	<b>54,939</b>
<b>Total liabilities</b>	<b>1,327,979</b>	<b>64,592</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>3,653,793</b>	<b>435,581</b>



PROFIT AND LOSS STATEMENTS (selected data in EUR thousand)	Year ended 31 December 2013	Year ended 31 December 2012
Revenues from sale of services	696,981	785,066
Operating costs	(293,203)	(453,623)
<b>Operating profit</b>	<b>403,778</b>	<b>331,443</b>
Financial income	10,455	1,822
Financial expense	(8,090)	(207)
<b>Profit before tax</b>	<b>406,143</b>	<b>333,058</b>
Income tax	(86,781)	(67,119)
<b>NET PROFIT FOR PERIOD</b>	<b>319,362</b>	<b>265,939</b>

CASH FLOW STATEMENTS (selected data in EUR thousand)	Year ended 31 December 2013	Year ended 31 December 2012
<b>OPERATING ACTIVITIES</b>		
Cash flows from operating activities	644,237	310,960
Interest paid	(1)	(1)
Interest received	1,143	722
Income tax paid	(121,708)	(45,419)
<b>Net cash flows from operating activities, net</b>	<b>523,671</b>	<b>266,262</b>
<b>INVESTING ACTIVITIES</b>		
Loans provided	(964,314)	-
Acquisition of property, plant and equipment	(27,874)	(22,466)
Acquisition of investment in securities	-	(6,600)
Proceeds from sale of property, plant and equipment and intangible assets	6	28
Dividends received	420	-
<b>Net cash flows used in investing activities, net</b>	<b>(991,762)</b>	<b>(29,038)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from bonds issued	746,555	-
Dividends paid	(265,939)	(187,059)
Other proceeds from financing activities	1,919	4,785
Other expenditures from financing activities	(490)	(430)
<b>Net cash flows from financing activities, net</b>	<b>482,045</b>	<b>(182,704)</b>
<b>Net increase in cash and cash equivalents</b>	<b>13,954</b>	<b>54,520</b>
<b>Effect of foreign exchange differences</b>	<b>(14)</b>	<b>(54)</b>
<b>Cash and cash equivalents at beginning of reporting period</b>	<b>54,534</b>	<b>68</b>
<b>Cash and cash equivalents at end of reporting period</b>	<b>68,474</b>	<b>54,534</b>



## Our mission

- › The basic mission of Eustream is the transmission of natural gas to Slovakia and through its territory to European markets. Since 1972, the company Eustream has transported over 2 trillion cubic metres of natural gas through Slovakia.



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

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

We have audited the financial statements of eustream, a.s. ("the Company") at 31 December 2013, on which we issued Independent Auditor's Report on 9 April 2014 and on which we expressed an unqualified audit opinion as follows:

*"In our opinion the financial statements present fairly, in all material respects, the financial position of eustream, a.s. as at 31 December 2013, its financial performance, and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the European Commission's interpretation as described in Note 1.5."*

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

**Management's Responsibility for the Annual Report**

The Company's management is responsible for the preparation, accuracy, and completeness of the annual report in accordance with the Slovak Accounting Act.

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

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

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

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

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PricewaterhouseCoopers Slovensko, s.r.o., Námestie 1. mája 18, 815 32 Bratislava, Slovak Republic  
T: +421 (0) 2 59350 111, F: +421 (0) 2 59350 222, [www.pwc.com/sk](http://www.pwc.com/sk)

The company's ID (IČO) No. 35739347.  
Tax Identification No. of PricewaterhouseCoopers Slovensko, s.r.o. (DIČ) 2020270021.  
VAT Reg. No. of PricewaterhouseCoopers Slovensko, s.r.o. (IČ DPH) SK2020270021.  
Spoločnosť je zapísaná v Obchodnom registri Okresného súdu Bratislava 1, pod vložkou č. 16611/B, oddiel: Sro  
The company is registered in the Commercial Register of Bratislava 1 District Court, ref. No. 16611/B, Section: Sro

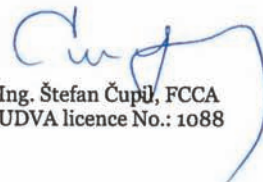


**Opinion**

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

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



  
Ing. Štefan Čupil, FCCA  
UDVA licence No.: 1088

Bratislava, 6 May 2014

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

## SIGNIFICANT EVENTS

Since the last day of the reporting period for which this Annual Report is compiled, no significant events occurred that should be noted.

## CONTACT INFORMATION

Business name:	eustream, a.s.
Registered office:	Votrubova 11/A, 821 09 Bratislava, Slovak Republic
Tel.:	+421 2 6250 7111
Fax:	+421 2 6250 7051
E-mail:	info@eustream.sk
Legal form:	joint-stock company
Registration in Companies Register:	District Court of Bratislava I, section Sa, entry ref. no. 3480/B
Identification and tax particulars:	Company ID: 35910712 Taxpayer reg. no.: 2021931175 VAT reg. no.: SK2021931175





**eustream, a.s.**

Votrubova 11/A, 821 09 Bratislava  
Slovak Republic  
[www.eustream.sk](http://www.eustream.sk)