Distribúcia SPP

Independent auditor's report and separate financial statements

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

For the year ended 31 December 2010

SPP - distribúcia, a.s.

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

For the year ended 31 December 2010

Deloitte.

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

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

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

SPP - distribúcia, a.s.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of SPP - distribúcia, a.s.:

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

Statutory Body's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Companies' 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 SPP - distribúcia, a.s. as of 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Other Matter

The financial statements of the Company for the year ended 31 December 2009 were audited by another auditor who expressed an unqualified opinion thereon dated 17 February 2010.

Bratislava 2 March 2011

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

	Note	31 December 2010	31 December 2009
ASSETS:			
NON-CURRENT ASSETS			
Property, plant and equipment	6	2 740 217	2 765 282
Non-current intangible assets and other assets	7	1 634	1 787
Other non-current assets		5 483	-
Total non-current assets		2 747 334	2 767 069
CURRENT ASSETS			
Inventories	8	137 713	138 373
Receivables and prepayments	9	113 527	95 986
Income tax asset		-	-
Cash and cash equivalents		239	138
Total current assets		251 479	234 497
Assets classified as held for sale		13	53
TOTAL ASSETS		**2 998 826**	**3 001 619**
EQUITY AND LIABILITIES:			
CAPITAL AND RESERVES			
Registered capital	14	1 957 418	1 957 418
Legal reserve fund	15	391 459	391 484
Retained earnings	15	107 031	107 318
Total equity		2 455 908	2 456 220
NON-CURRENT LIABILITIES			
Deferred income	10	27 544	27 883
Retirement and other long-term employee benefits	11	3 107	3 409
Deferred tax liability	19.2	359 570	366 013
Non-current interest-bearing borrowings	12	30 000	30 000
Total non-current liabilities		420 221	427 305
CURRENT LIABILITIES			
Trade and other payables	13	122 590	114 209
Current income tax		107	3 885
Provisions and other current liabilities		-	-
Total current liabilities		122 697	118 094
Total liabilities		542 918	545 399
TOTAL EQUITY AND LIABILITIES		**2 998 826**	**3 001 619**

The financial statements on pages 3 to 29 were signed on 2 March 2011 on behalf of the Board of Directors:

Jost Ahrens
Chairman of the Board of Directors

Jean-Pierre Beringuier
Member of the Board of Directors

SPP – distribúcia, a.s.
INCOME STATEMENTS
Years ended 31 December 2010 and 31 December 2009
(EUR '000)

	Note	***Year ended 31 December 2010***	***Year ended 31 December 2009***
REVENUES FROM SALES OF SERVICES:			
Natural gas distribution		383 743	388 846
Other revenues		3 799	4 299
Total revenues		387 542	393 145
OPERATING EXPENSES:			
Own work capitalised		5 095	4 421
Purchases of natural gas and consumables and services		(5 240)	(10 075)
Depreciation and amortisation	6, 7	(100 776)	(86 840)
Storage of natural gas and other services		(101 215)	(102 039)
Staff costs	16	(48 283)	(45 401)
Provision for bad and doubtful debts, obsolete and slow-moving inventory, net	8, 9	(848)	(417)
Provisions and impairment losses, net	6, 7, 11	(2 843)	(12 874)
Other, net		2 820	1 618
Total operating costs		(251 290)	(251 607)
OPERATING PROFIT		136 252	141 538
Financial revenues		626	75
Financial costs	18	(1 186)	(521)
PROFIT BEFORE INCOME TAXES		135 692	141 092
INCOME TAX	19.1	(28 661)	(32 581)
NET PROFIT FOR THE PERIOD		**107 031**	**108 511**

SPP – distribúcia, a.s.
STATEMENT OF COMPREHENSIVE INCOME
Years ended 31 December 2010 and 31 December 2009
(EUR '000)

	Note	***Year ended 31 December 2010***	***Year ended 31 December 2009***
NET PROFIT FOR THE PERIOD		107 031	108 511
OTHER COMPREHENSIVE INCOME/(LOSS)	20		
Hedging derivatives (cash flow hedging)		(25)	-
Deferred tax related to items of other comprehensive income for the period		-	-
OTHER NET COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		(25)	-
TOTAL NET COMPREHENSIVE INCOME FOR THE PERIOD		**107 006**	**108 511**

SPP - distribúcia, a.s.
STATEMENTS OF CHANGES IN EQUITY
Years ended 31 December 2010 and 31 December 2009
(EUR '000)

	Registered capital	*Legal reserve fund*	*Hedging reserve*	*Retained earnings*	*Total*
Balance at 31 December 2008	1 957 418	391 484	-	103 798	2 452 700
Net profit for the period	-	-	-	108 511	108 511
Other comprehensive income for the period	-	-	-	-	-
Dividends paid	-	-	-	(104 991)	(104 991)
Transfer to retained earnings	-	-	-	-	-
Balance at 31 December 2009	**1 957 418**	**391 484**	**-**	**107 318**	**2 456 220**
Net profit for the period	-	-	-	107 031	107 031
Other comprehensive income for the period	-	-	(25)	-	(25)
Dividends paid	-	-	-	(107 318)	(107 318)
Transfer to retained earnings	-	-	-	-	-
Balance at 31 December 2010	**1 957 418**	**391 484**	**(25)**	**107 031**	**2 455 908**

(EUR '000)

	Note	*Year ended 31 December 2010*	*Year ended 31 December 2009*
OPERATING ACTIVITIES			
Cash flows from operating activities	21	225 644	183 037
Interest paid		(1 198)	(588)
Interest received		94	72
Income tax paid		(38 882)	(28 623)
Net cash flows from operating activities		185 658	153 898
INVESTING ACTIVITIES			
Acquisition of property, plant and equipment		(78 505)	(78 813)
Proceeds from sale of property, plant and equipment and intangible assets		20	69
Net cash inflow/(outflow) from investing activities		(78 485)	(78 744)
FINANCING ACTIVITIES			
Dividends paid		(107 318)	(104 991)
Proceeds and expenditures related to interest-bearing borrowings		-	30 000
Other proceeds and payments from financial activities, net		246	(123)
Net cash flows from financing activities		(107 072)	(75 114)
NET INCREASE IN CASH AND CASH EQUIVALENTS		101	40
EFFECTS OF FOREIGN EXCHANGE FLUCTUATIONS		-	-
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		138	98
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**239**	**138**

(EUR ‘000)

1. GENERAL

1.1. General Information

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

The Company was founded on 26 November 2004 and incorporated in the Commercial Register on 10 December 2004. Slovenský plynárenský priemysel, a.s. is the 100% owner of the Company.

On 1 July 2006, Slovenský plynárenský priemysel, a.s. (hereinafter also "SPP") contributed to the Company a part of its business, including assets and liabilities of the original Distribution Division.

Since 1 July 2006, the Company has assumed the performance of activities related to natural gas distribution, as well as assets and liabilities related to the gas distribution business.

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

Company Identification No. (IČO)	35 910 739
Tax Registration No. (DIČ)	2021931109

1.2. Principal Activities

Since 1 July 2006, following the legal unbundling process, the Company has been responsible for natural gas distribution in the Slovak Republic.

The Company is required by law to provide non-discriminatory access to the distribution network. Prices are subject to review and approval by the Regulatory Office for Network Industries (RONI).

1.3. Employees

The average number of employees of SPP – distribúcia, a.s. for the year ended 31 December 2010 was 1 696, of which executive management: 1 (for the year ended 31 December 2009: 1 778, of which executive management: 1).

As at 31 December 2010, the actual headcount was 1 666 (31 December 2009: 1 764).

1.4. Registered Address

Mlynské nivy 44/b
825 11 Bratislava
Slovak Republic

2. NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS AND CHANGES IN ESTIMATES

2.1. Adoption of New and Revised International Financial Reporting Standards

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

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

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

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

- Amendments to IAS 24 "Related Party Disclosures" - Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party, adopted by the EU on 19 July 2010 (effective for annual periods beginning on or after 1 January 2011).
- Amendments to IAS 32 "Financial Instruments: Presentation" – Accounting for rights issues, adopted by the EU on 23 December 2009 (effective for annual periods beginning on or after 1 February 2010).
- Amendments to IFRS 1 "First-time Adoption of IFRS"- Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters, adopted by the EU on 30 June 2010 (effective for annual periods beginning on or after 1 July 2010).

- Amendments to IFRIC 14 "IAS 19 — The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction" - Prepayments of a Minimum Funding Requirement, adopted by the EU on 19 July 2010 (effective for annual periods beginning on or after 1 January 2011).
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments", adopted by the EU on 23 July 2010 (effective for annual periods beginning on or after 1 July 2010).

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

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

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

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

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

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

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

The financial statements have been prepared under the historical cost convention, with the exceptions detailed below. Information on the applied principal accounting policies is provided below. The reporting currency and functional currency of the Company is the euro (EUR). These separate financial statements were prepared under the going concern assumption.

b) Research and Development

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

c) Property, Plant and Equipment and Intangible Assets

Property, plant and equipment and intangible assets are stated in the balance sheet at historical cost less accumulated depreciation and impairment losses. In the case of assets deposited in the form of 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 otherwise 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.

Other 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:

Type of assets	***Useful life***
Regulation stations	15 – 50 years
Gas pipelines	40 – 60 years
Structures	15 – 60 years
Machines, tools and equipment	4 – 40 years
Other non-current assets	3 – 8 years

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

At each reporting date an assessment is made as to whether there is any indication that the recoverable amount of the Company's property, plant and equipment and intangible assets is less than the carrying amount. Where there is such an indication, the recoverable amount of the asset, being whichever is the higher of the fair value less costs of sale and the present value of future cash flows, is estimated. The resulting provision for an impairment loss is recognised in full in the income statement in the year in which the impairment occurs. The discount rates used to calculate the net present value of future cash flows reflect current market assessments of the time value of money and the risks specific to the asset. In the event that a decision is made to abandon a construction project in progress or to significantly postpone the planned completion date, the carrying amount of the asset is reviewed for potential impairment and a provision is recorded, if appropriate. In 2010, the Company prepared an analysis of the expected value-in-use of assets based on which no impairment of non-current assets was identified.

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.

d) Government Grants

Free-of-charge transfers of gas facilities by municipalities to the Company's assets are deemed to be non-monetary grants. They are recognised at fair value of the assets received and are included in non-current liabilities as deferred income. This deferred income is recognised in the income statement on a straight-line basis over the useful lives of the assets transferred.

e) Inventories

Inventories are stated at the lower of cost and the net realisable value. The cost of natural gas stored in underground storage facilities and raw materials and other inventories is calculated using the weighted arithmetic average method. The cost of raw materials and other inventories includes the cost of acquisition and related costs and the cost of inventories developed internally includes materials, other direct costs and production overheads. Appropriate provisions are made for obsolete and slow-moving inventories. Natural gas in acquisition is valued at cost. Other costs related to the acquisition of natural gas are immaterial.

f) 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.

g) 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.

h) Derivative Financial Instruments

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

Changes in the fair value of derivative financial instruments that are determined and effective as cash flow hedges are recognised directly in equity. As a hedging relationship arises, the Company documents the relationship between the hedging instrument and the hedged item, risk management objectives, and the strategy for realising 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 in the same period when the hedged fixed liability is incurred or when 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.

i) Cash and Cash Equivalents

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

j) 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.

k) Non-Current Interest-Bearing Borrowings

Loans are initially recognised at fair value after deducting incurred transaction costs. They are subsequently recognised at amortised cost using the effective interest rate method.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are recognised as part of the cost of the related asset. Other borrowing costs are recognised as an expense in the period in which they are incurred.

l) Revenue Recognition

Sales are recorded upon the delivery of products or the performance of services, net of value added tax and discounts. The Company records revenues from distribution and 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.

m) 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.

n) 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 at 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.

o) Leasing

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

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

p) Taxation

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

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

The principal temporary differences arise from the depreciation of non-current assets and various provisions. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

q) Foreign Currencies

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

<u>Impairment of Property, Plant and Equipment</u>

The Company re-assessed the provision for the impairment of property, plant and equipment on the basis of an evaluation of their planned disposal or sale. Refer to Note 6 for details on the impairment of property, plant and equipment.

5. FINANCIAL INSTRUMENTS

a) Financial risk management

The Company is not exposed to severe financial risks that would include the effects of changes in foreign currency exchange rates. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial position.

The main risks arising from the Company's financial instruments are liquidity risk and credit risk.

(1) Foreign currency risk

The Company is not exposed to severe foreign currency risk arising from foreign currency transactions since it does not recognise significant financial assets and liabilities denominated in a foreign currency as at 31 December 2010. As at 31 December 2009, the Company did not recognise significant financial assets and liabilities denominated in a foreign currency.

Sensitivity to foreign exchange changes

The impact of sensitivity to foreign exchange changes was not significant in the current or previous reporting periods.

(EUR '000)

(2) Commodity price volatility risk

The Company is a party to framework agreements for the purchase of natural gas, other services and raw materials. The Company also enters into contracts for natural gas sales and storage. Contracts for natural gas storage are at fixed prices. As at 31 December 2009, the Company did not use any major instruments to eliminate commodity price volatility risk. As at 31 December 2010, the Company used hedging derivative contracts to hedge the fair value of the sales contract; changes in the fair value are recognised in the income statement.

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

Open commodity swap contracts	***2010***		***2010***	
	Fair value		***Nominal amount***	
	Fair value hedging	***Held for trading***	***Fair value hedging***	***Held for trading***
Sell gas				
Less than 3 months	(25)	75	265	5 131
3 to 12 months	-	-	-	-
Over 12 months	-	-	-	-

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

Sensitivity to commodity price volatility

Sensitivity to changes in commodity prices depends on changes in the price of heavy and light oils and in the USD/EUR exchange rate.

(3) Interest rate risk

The Company is not exposed to significant concentration of interest rate risk. As at 31 December 2010 and 2009, the Company recorded a long-term loan with a fixed interest rate provided by the parent company.

As at 25 February 2010, the interest rate of the long-term loan was modified by an amendment to the loan agreement from 4.25% p.a. to 3.65% p.a. to reflect standard market conditions.

(4) Credit risk

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in a financial loss to the Company. The Company has adopted a policy of only dealing with credit-worthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

The Company sells its services to customers, SPP being the major customer, which means that the risk that receivables will remain unpaid is considerably eliminated.

(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 synchronising the maturity of financial assets with financial needs.

(EUR '000)

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

As at 31 December 2010	***On demand***	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***> 5 years***	***Total***
Loans	-	-	-	30 000	-	30 000
Other liabilities	-	10 300	-	-	-	10 300
Trade payables	-	112 290	-	-	-	112 290

As at 31 December 2009	***On demand***	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***> 5 years***	***Total***
Loans	-	-	-	30 000	-	30 000
Other liabilities	-	7 671	-	-	-	7 671
Trade payables	-	106 538	-	-	-	106 538

b) Capital risk management

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

The Company's capital structure consists of equity attributable to the Company's owners, comprising registered capital, the legal reserve fund and retained earnings as disclosed in Notes 14 and 15 and interest-bearing borrowings as disclosed in Note 12. The gearing ratio at the 2010 year-end was 1% (2009: 1%).

The gearing ratio at the year-end was as follows:

	31 December 2010	***31 December 2009***
Debt (i)	30 000	30 000
Cash and cash equivalents	239	138
Net debt	29 761	29 862
Equity (ii)	2 455 908	2 456 220
Net debt to equity ratio	**1%**	**1%**

(i) Debt is defined as long- and short-term borrowings.
(ii) Page 6

c) Categories of financial instruments

	31 December 2010	***31 December 2009***
Financial assets		
Loans and receivables (including cash and cash equivalents)	111 405	92 044
Financial derivatives recognised as hedges	309	-
Financial derivatives held for trading	-	-
Financial liabilities		
Financial liabilities carried at amortised costs	152 331	144 209
Financial derivatives recognised as hedges	25	-
Financial derivatives held for trading	234	-

d) Estimated fair value of financial instruments

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.

(EUR '000)

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

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

	Level 1	*Level 2*	*Level 3*	*Total*
Financial assets at fair value through profit or loss	**-**	**309**	**-**	**309**
Financial derivatives held for trading	-	309	-	309
Financial derivatives used as hedging	-	-	-	-
Financial liabilities at fair value through profit or loss	**-**	**259**	**-**	**259**
Financial derivatives held for trading	-	234	-	234
Financial derivatives used as hedging	-	25	-	25

Embedded derivative instruments

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

(EUR '000)

6. PROPERTY, PLANT AND EQUIPMENT

	Regulation stations	*Gas pipelines*	*Land, buildings and structures*	*Plant, machinery and equipment*	*Other non-current tangible assets*	*Assets in the course of construction*	*Total*
Year ended 31 December 2009							
Opening net book value	136 211	2 514 757	181	13 218	681	93 654	2 758 702
Additions	51	28 636	-	-	-	78 143	106 830
Placed into service	5 312	79 377	-	1 644	47	(86 380)	-
Reclassifications	(72)	(186)	62	80	(4)	24	(96)
Disposals	-	(23)	(12)	(79)	(1)	(1)	(116)
Depreciation charge	(7 400)	(78 277)	(9)	(2 434)	(153)	-	(88 273)
Change in provisions	(505)	(11 326)	-	(9)	3	72	(11 765)
Closing net book value	**133 597**	**2 532 958**	**222**	**12 420**	**573**	**85 512**	**2 765 282**
Year ended 31 December 2009							
Cost	160 358	2 766 601	292	19 219	1 400	85 900	3 033 770
Provisions and accumulated depreciation	(26 761)	(233 643)	(70)	(6 799)	(827)	(388)	(268 488)
Net book value	**133 597**	**2 532 958**	**222**	**12 420**	**573**	**85 512**	**2 765 282**
Opening net book value	133 597	2 532 958	222	12 420	573	85 512	2 765 282
Additions	-	112	-	-	-	78 606	78 718
Placed into service	4 854	93 614	-	1 587	5	(100 060)	-
Reclassifications	360	(141)	(2)	(326)	3	-	(106)
Disposals	(2)	(125)	-	(6)	(4)	-	(137)
Depreciation charge	(8 502)	(92 639)	(3)	(2 492)	(121)	-	(103 757)
Change in provisions	29	1 289	-	(72)	(6)	(1 023)	217
Closing net book value	**130 336**	**2 535 068**	**217**	**11 111**	**450**	**63 035**	**2 740 217**
Year ended 31 December 2010							
Cost	163 979	2 820 211	233	20 003	1 357	64 428	3 070 211
Provisions and accumulated depreciation	(33 643)	(285 143)	(16)	(8 892)	(907)	(1 393)	(329 994)
Net book value	**130 336**	**2 535 068**	**217**	**11 111**	**450**	**63 035**	**2 740 217**

(EUR '000)

As at 31 December 2010, the Company uses tangible assets related to gas pipelines and regulation stations with cost in the amount of EUR 12 985 thousand, which is presented as assets in the course of construction. Depreciation charge in the amount of EUR 103 thousand was recorded in 2010 in this respect.

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

Insured object	***Type of insurance***	***Cost of insured assets 2010***	***Cost of insured assets 2009***	***Name and seat of the insurance company***
Buildings, halls, structures (except for gas pipelines), machinery, equipment, fixtures & fittings, low-value TFA, other TFA, works of art, inventories (except gas pipelines)	Insurance of assets	202 284	131 064	Allianz-Slovenská poisťovňa, a.s. Kooperativa, a.s., ČSOB Poisťovňa, a.s.
Motor vehicles	MTPL, motor vehicle insurance against damage, destruction, theft	672	377	Allianz-Slovenská poisťovňa, a.s.

The cost of fully depreciated non-current assets (includes also non-current intangible assets), which were in use as at 31 December 2010, amounts to EUR 7 324 thousand (31 December 2009: EUR 6 838 thousand).

7. NON-CURRENT INTANGIBLE ASSETS AND OTHER ASSETS

	Software	***Other non-current intangible assets***	***Assets in the course of construction***	***Total***
Year ended 31 December 2009				
Opening net book value	21	1 126	467	1 614
Additions	-	-	670	670
Placed into service	1	1	(2)	-
Reclassifications	-	-	-	-
Disposals	-	-	(686)	(686)
Amortisation	(11)	(394)	-	(405)
Change of provisions	-	-	594	594
Closing net book value	**11**	**733**	**1 043**	**1 787**
At 31 December 2009				
Cost	42	1 885	1 043	2 970
Provision and impairment loss	(31)	(1 152)	-	(1 183)
Net book value	**11**	**733**	**1 043**	**1 787**
Year ended 31 December 2010				
Opening net book value	11	733	1 043	1 787
Additions	-	-	359	359
Placed into service	1	830	(831)	-
Reclassifications	-	2	-	2
Disposals	-		-	-
Amortisation	(8)	(506)	-	(514)
Change of provisions	-	-	-	-
Closing net book value	**4**	**1 059**	**571**	**1 634**
At 31 December 2010				
Cost	43	2 717	571	3 331
Provision and impairment loss	(39)	(1 658)	-	(1 697)
Net book value	**4**	**1 059**	**571**	**1 634**

(EUR '000)

8. INVENTORIES

	31 December 2010	*31 December 2010*
Natural gas	136 342	136 849
Raw materials and other inventories	1 452	1 627
Provision	(81)	(103)
Total	**137 713**	**138 373**

The balance of natural gas represents natural gas used to balance the distribution network and natural gas for own consumption, as well as losses in the distribution network.

As at 31 December 2010 and 31 December 2009, no provision was required or recognised in respect of an adjustment to reduce the cost of natural gas to its net realisable value.

The Company created provisions for slow-moving inventories of raw materials in the amount of EUR 81 thousand (31 December 2009: EUR 103 thousand).

9. RECEIVABLES AND PREPAYMENTS

	31 December 2010	*31 December 2010*
Receivables from distribution activities	56 953	52 503
Prepayments and other receivables	54 213	39 403
Receivables from financial derivatives	309	-
Other tax assets	2 052	4 080
Total	**113 527**	**95 986**

As at 31 December 2010, the Company recorded receivables due and overdue in the amount of EUR 112 901 thousand and EUR 2 792 thousand, respectively, excluding an impairment provision. As at 31 December 2009, the Company recorded receivables due and overdue in the amount of EUR 95 723 thousand and EUR 1 609 thousand, respectively, excluding an impairment provision.

Out of the Company's total receivables and prepayments as at 31 December 2010 the most significant amounts represent a receivable from unbilled outputs from the distribution activities, which amounts to EUR 55 689 thousand, and a receivable from cash pooling transactions from the parent company, which amounts to EUR 46 745 thousand (in 2009, the most significant amounts represented a receivable from unbilled outputs from the distribution activities (EUR 49 075 thousand) and a receivable from cash pooling transactions from the parent company (EUR 28 944 thousand)).

As at 31 December 2010, receivables and prepayments are shown net of provisions for bad and doubtful debts in the amount of EUR 2 166 thousand (31 December 2009: EUR 1 346 thousand).

As at 31 December 2010, receivables and prepayments include receivables from eustream, a. s., in the amount of EUR 1 315 thousand (31 December 2009: EUR 4 308 thousand) and SPP in the amount of EUR 101 242 thousand (31 December 2009: EUR 82 266 thousand).

Movements in the provision for receivables were as follows:

	31 December 2010	*31 December 2009*
Opening value	(1 346)	(1 013)
Creation	(874)	(390)
Use	2	-
Reversal	52	57
Closing value	**(2 166)**	**(1 346)**

Collateralisation of receivables

Certain receivables that are under execution proceedings are pledged by an execution lien. Several bank guarantees totalling EUR 4 804 thousand (31 December 2009: EUR 1 263 thousand) were established to secure the Company's receivables from natural gas distribution. In addition, financial funds in the amount of EUR 224 thousand (31 December 2009: EUR 119 thousand) were deposited in the Company's bank account.

(EUR '000)

Overdue receivables that were not provided for:

	2010	***2009***
Less than 2 months	467	116
2 to 3 months	-	-
3 to 6 months	-	5
6 to 9 months	-	5
9 to 12 months	-	4
More than 12 months	-	39
Total	**467**	**169**

Overdue receivables that were provided for:

	2010	***2009***
Less than 2 months	12	-
2 to 3 months	141	36
3 to 6 months	291	92
6 to 9 months	296	70
9 to 12 months	127	87
More than 12 months	1 458	1 155
Total	**2 325**	**1 440**

10. DEFERRED INCOME

	31 December 2010	***31 December 2009***
Opening balance, net	27 883	163
Assets acquired during the reporting period	112	28 535
Amortisation during the reporting period	(451)	(815)
Other deferred income	-	-
Closing balance, net	**27 544**	**27 883**

Some gas facilities were obtained "free of charge" from municipal and local authorities. This deferred income is released in the income statement on a straight-line basis in the amount of depreciation charges of non-current tangible assets acquired free of charge.

11. RETIREMENT AND OTHER LONG-TERM EMPLOYEE BENEFITS

The long-term employee benefits program at the Company was launched in 2006. This is a defined benefit program, under which the employees are entitled to a lump-sum payment upon old age or disability retirement and, subject to vesting conditions, life and work jubilee payments.

In 2010, the Company signed a new collective agreement under which employees are entitled to a retirement benefit based on the number of years with the SPP core group companies at the date of retirement. The retirement benefits range from one month to six months of the employee's average salary. As at 31 December 2010 and 31 December 2009, the obligation relating to retirement and other long-term employee benefits was calculated on the basis of valid collective agreements in the given years.

As at 31 December 2010, there were 1 671 (31 December 2009: 1 754) employees covered by this program. As of that date, it was an un-funded program, with no separately allocated assets to cover the program's liabilities.

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

	Long-term benefits	***Post-employment benefits***	***Total benefits at 31 December 2010***	***Total benefits at 31 December 2009***
Net liability at 1 January	788	2 806	3 594	2 957
Net expense recognised	5	(117)	(112)	760
Benefits paid	(82)	(64)	(146)	(123)
Net liabilities	**711**	**2 625**	**3 336**	**3 594**

(EUR '000)

	Current liabilities (included in other current liabilities)	***Non-current liabilities***	***Total***
At 31 December 2010	229	3 107	3 336
At 31 December 2009	185	3 409	3 594

Key assumptions used in actuarial valuation:

	At 31 December 2010	***At 31 December 2009***
Market yield on government bonds	4.61%	4.30%
Annual future real rate of salary increases	2.00%	2.00%
Annual employee turnover	1.44%	1.44%
Retirement ages (male and female)	62 for male and 60 for female	62 for male and 60 for female

12. NON-CURRENT INTEREST-BEARING BORROWINGS

As at 31 December 2010 and 31 December 2009, the Company drew a loan denominated in euros in the amount of EUR 30 million, which was provided by the parent company at a fixed interest rate of 3.65% per annum (2009: 4.25% per annum). The loan falls due in 2013 and is not secured by any assets.

13. TRADE AND OTHER PAYABLES

	At 31 December 2010	***At 31 December 2009***
Trade payables	44 274	43 407
Payables from distribution activities	68 016	63 131
Payables from financial derivatives	259	-
Other payables	602	585
Employee liabilities	7 246	4 778
Social security and other taxes	2 193	2 308
Total	**122 590**	**114 209**

As at 31 December 2010, total trade and other payables included payables to SPP in the amount of EUR 65 885 thousand (31 December 2009: EUR 71 132 thousand) and eustream, a. s. in the amount of EUR 2 502 thousand (31 December 2009: EUR 933 thousand).

Of the Company's payables resulting from distribution activities as at 31 December 2010 and 31 December 2009, the major portion is represented by a prepayment received from the parent company for natural gas distribution.

As at 31 December 2010, the Company recorded payables within maturity in the amount of EUR 122 590 thousand; no overdue payables were recognised. As at 31 December 2009, the Company recorded payables within maturity in the amount of EUR 114 209 thousand; no overdue payables were recognised.

Social fund payables:

	Amount
Opening balance as at 1 January 2010	301
Total creation:	390
from expenses	*390*
Total drawing:	(450)
monetary rewards and gifts	*(56)*
life jubilee benefits	*(35)*
work jubilee benefits	*(47)*
catering allowance	*(170)*
other drawing as per CA	*(142)*
Closing balance as at 31 December 2010	**241**

Liabilities secured by pledge or other form of collateral

A bank guarantee was established in Tatra banka, a. s., totalling EUR 33 thousand for other payables to the Customs Office (2009: EUR 33 thousand).

(EUR '000)

14. 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 1 957 384 402.17. 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.

15. LEGAL RESERVE FUND AND RETAINED EARNINGS

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

The legal reserve fund in the amount of EUR 391 484 thousand (31 December 2009: EUR 391 484 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.

Distribution of profit:

Allotment	***Profit allotment for 2009***	***Profit allotment for 2008***
Allotment to legal reserve fund	-	-
To cover losses from previous years	1 193	-
Dividends	107 318	104 991
Total profit to be distributed	**108 511**	**104 991**

16. STAFF COSTS

	Year ended 31 December 2010	***Year ended 31 December 2009***
Wages, salaries and bonuses	29 543	29 120
Social security costs	9 642	9 769
Other social security costs and severance pay	9 098	6 512
Total staff costs	**48 283**	**45 401**

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.

17. COSTS OF AUDIT SERVICES

	Year ended 31 December 2010	***Year ended 31 December 2009***
Audit of financial statements	33	39
Other assurance services	2	-
Tax advisory services	-	13
Other related services provided by the auditor	-	-
Total	**35**	**52**

(EUR '000)

18. FINANCIAL EXPENSE

	Year ended 31 December 2010	*Year ended 31 December 2009*
Interest expense	1 175	518
Other	11	3
Total financial expense/(income)	**1 186**	**521**

19. TAXATION

19.1. Income Tax

Income tax comprises the following:

	Year ended 31 December 2010	*Year ended 31 December 2009*
Current income tax	35 104	34 102
Deferred income tax (Note 19.2)	-	-
– current year	(6 443)	(1 521)
Total	**28 661**	**32 581**

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

	Year ended 31 December 2010	*Year ended 31 December 2009*
Profit before taxation	135 692	141 092
Income tax at 19%	25 781	26 808
Effect of adjustments from permanent differences between carrying amount and tax value of assets and liabilities	2 253	5 776
Other adjustments	627	(3)
Income tax for the current year	**28 661**	**32 581**

Adjustments include tax non-deductible expenses, mainly social and other expenses, that represent the permanent difference between the carrying amount and the tax value of expenses.

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

19.2. Deferred Income Tax

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

	At 1 January 2010	*Charge to equity for the period*	*(Charge)/credit to profit for the period*	*At 31 December 2010*
Difference in NBV of non-current assets	(369 988)	-	7 503	(362 485)
Items adjusting tax base only when paid	1	-	-	1
Provisions for receivables	204	-	40	244
Impairment loss	2 470	-	(1 006)	1 464
Provisions for inventories	1 300	-	(94)	1 206
Total	**(366 013)**	-	**6 443**	**(359 570)**

(EUR '000)

	At 1 January 2009	*Charge to equity for the period*	*(Charge)/credit to profit for the period*	*At 31 December 2009*
Difference in NBV of non-current assets	(369 099)	-	(889)	(369 988)
Items adjusting tax base only when paid	(3)	-	4	1
Provisions for receivables	196	-	8	204
Impairment loss	360	-	2 110	2 470
Provisions for inventories	1 012	-	288	1 300
Total	**(367 534)**	-	**1 521**	**(366 013)**

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

	31 December 2010	*31 December 2009*
Deferred tax liability	(359 570)	(366 013)
Total	**(359 570)**	**(366 013)**

20. TAX EFFECTS IN THE STATEMENT OF OTHER COMPREHENSIVE INCOME

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

31 December 2010	*Before tax*	*Tax*	*After tax*
Cash flow hedging	(25)	-	(25)
Other comprehensive income for the period	**(25)**	**-**	**(25)**

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

21. CASH FLOWS FROM OPERATING ACTIVITIES

	Year ended 31 December 2010	*Year ended 31 December 2009*
Profit before tax	135 692	141 092
Adjustments:		
Depreciation and amortisation	99 688	87 846
Interest income, net	1 078	443
Derivatives	(466)	-
Provisions and other non-cash items	(4 443)	12 296
Loss from sale of non-current assets	(86)	22
(Increase)/decrease in receivables and prepayments	(23 266)	(33 329)
(Increase)/decrease in inventories	616	(10 255)
Increase/(decrease) in trade and other payables	16 831	(15 078)
Cash flows from operating activities	**225 644**	**183 037**

22. COMMITMENTS AND CONTINGENCIES

Capital Expenditure Commitments

As at 31 December 2010, capital expenditures of EUR 92 149 thousand (31 December 2009: EUR 79 121 thousand) had been committed under contractual arrangements for the acquisition of non-current assets, but were not recognised in the financial statements.

(EUR '000)

Operating Lease Arrangements

The Company leases means of transport under an operating lease agreement made in 2010. The contract is made for four years and the Company has no pre-emptive right to purchase the assets after the expiry of the lease term. The lease payments amounted to EUR 1 488 thousand in the year ended 31 December 2010.

Non-cancellable operating lease payables amount to:

Period	***2010***	***2009***
Within 1 year	3 572	-
From 1 to 5 years	9 228	-
More than 5 years	-	-
Total	**12 800**	**-**

Liberalisation of the Slovak energy sector and possible regulation risks

Regulation framework on the natural gas market in the Slovak Republic

On the basis of the current energy legislation, the natural gas market in the Slovak Republic is fully liberalised. Effective from 1 July 2007, all customers are allowed to freely select a natural gas supplier. The Company, as the gas distribution network operator, is obliged to provide all participants with non-discriminatory treatment and allow access to the distribution network on a transparent and non-discriminatory basis. Moreover, the Company is also obliged to enter into a contract for connection and gas distribution with all customers that fulfils the business and technical conditions.

Distribution of gas, as well as access and connection to the distribution network, are subject to regulation by the Regulatory Office of Network Industries (RONI).

Tariffs for regulated activities

Every year the RONI approves tariffs for access to the distribution network and gas distribution, as well as for the connection to the distribution network and supporting services. These tariffs are proposed so that the total planned revenues from the tariffs for access to the distribution network and gas distribution in the regulation year in euros per gas volume unit do not exceed the average price for the year, calculated pursuant to the RONI's Decree No. 4 of 23 July 2008 which determines price regulation in the gas sector and which amends the RONI's Decree No. 4/2007 of 31 July 2007 determining the scope and structure of eligible costs, the method for determining reasonable profit and supporting materials for a price proposal in the gas sector within the wording of the Decree No. 4/2010.

The price for connection to the distribution network for consumers is to be determined on the basis of the planned average costs of processing the application for connecting the relevant gas market participant's gas delivery equipment to the distribution network. Such costs are incurred by the distribution network operator as part of the activities required within the standard scope to connect the gas delivery equipment.

Changes in the regulatory laws and policy

In 2010, Act No. 656/2004 Coll. on Energy and Act No. 276/2001 Coll. on Regulation in Network Industries were amended several times. In respect of the regulation, the preparation for the implementation of the so-called 3rd Energy Package that was adopted by the relevant EU bodies in 2009 was also significant in the energy sector.

The 3rd Energy Package consists of the following legal regulations:

- Regulation (EC) No. 713/2009 establishing an Agency for the Cooperation of Energy Regulators (ACER);
- Directive No. 2009/73/EC concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC;
- Regulation (EC) No. 715/2009 on conditions for access to the natural gas transmission networks and repealing Regulation (EC) No. 1775/2005;
- Directive No. 2009/72/EC concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC; and
- Regulation (EC) No. 714/2009 on conditions for access to the network for cross-border exchanges in electricity and repealing Regulation (EC) No. 1228/2003.

It is expected that the transposition of the 3rd Energy Package into the legislation of the Slovak Republic will not have a material effect on the Company's operations.

Taxation

The Company has significant transactions with the shareholder 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 to 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.

(EUR ‘000)

23. RELATED PARTY TRANSACTIONS

Slovenský plynárenský priemysel, a.s. is the owner of 100% of the Company’s shares.

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

	Year ended 31 December 2010					***31 December 2010***		
	Revenues	***Creation/ (reversal) of provisions for receivables***	***Expenses***	***Dividends***	***Other***	***Receivables***	***Provisions for receivables***	***Payables***
SPP, a.s.	450 695	-	54 234	107 318	27 898	101 242	-	95 887
Other related parties	12 056	-	102 127	-	18 761	1 708	-	7 895

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

Transactions with related parties mainly represented services related to the distribution, purchases, sales, transit and storage of natural gas, as well as other services.

	Year ended 31 December 2009					***31 December 2009***		
	Revenues	***Creation/ (reversal) of provisions for receivables***	***Expenses***	***Dividends***	***Other***	***Receivables***	***Provisions for receivables***	***Payables***
SPP, a.s.	466 037	-	64 335	104 991	26 737	82 266	-	101 132
Other related parties	7 297	-	97 963	-	7 386	4 316	-	6 608

(EUR '000)

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

	Year ended 31 December 2010	***Year ended 31 December 2009***
Remuneration to members of the Board of Directors, Supervisory Board, executive management and former members of the bodies - total	631	581
Of which:		
Board of Directors and executive management	*500*	*450*
Supervisory Board	*131*	*131*
Benefits after termination of employment to members of the Board of Directors, Supervisory Board, executive management and former members of the bodies – total	-	-
Other long-term benefits to members of the Board of Directors, Supervisory Board, executive management and former members of the bodies – total	-	-
Benefits after termination of employment of members of the Board of Directors, Supervisory Board, executive management and former members of the bodies – total	-	-
Benefits in kind to members of the Board of Directors and executive management – total	10	9
Of which:		
Board of Directors and executive management	*10*	*9*
Other payments to members of the Board of Directors, Supervisory Board, executive management and former members - total	-	-
Of which:		
Board of Directors and executive management	-	-
Supervisory Board	-	-

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

a) Members of the Company's bodies

Body	***Function***	***Name***
Board of Directors	Chairman	Jost Ahrens, LL.M.Advocate since 1 Jul 2010
	Chairman	Ing. Stéphane Grit until 30 Jun 2010
	Vice-Chairman	Ing. Miroslav Greš
	Member	Jean-Pierre Beringuier since 15 Sep 2010
	Member	Jost Ahrens, LL.M.Advocate until 30 Jun2010
	Member	Ing. Stéphane Grit from 30 Jun 2010 until 14 Sep 2010
Supervisory Board	Chairman	Doc. Ing. Nikolaj Ponevský, PhD.
	Vice-Chairman	Ekkehard Ludwig since 1 Jul 2010
	Vice-Chairman	Dan Pantilie until 30 Jun 2010
	Member	Ing. Vladislav Petráš
	Member	Ing. Gustáv Laca
	Member	Daniel Nechala
	Member	Pavol Korienek
Executive management	General Director	Ing. Bohumil Kratochvíl

b) Consolidated financial statements

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

The ultimate reporting entities that consolidate the Company are GDF SUEZ SA and E.ON AG.

The Company's separate financial statements and SPP's consolidated financial statements are deposited with the Commercial Register of Bratislava 1 District Court (Záhradnícka 10, 811 07 Bratislava) and published in the Commercial Journal and at www.spp.sk.

25. POST-BALANCE SHEET EVENTS

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

Prepared on: 2 March 2011	***Signature of the person responsible for the preparation of the financial statements:***	***Signature of the person responsible for bookkeeping:***	***Signature of a member of the statutory body of the reporting entity or a natural person acting as a reporting entity:***
Approved on:	Ing. Bohumil Kratochvíl	Ing. Libor Briška	Jost Ahrens Chairman of the Board of Directors
		Ing. Miroslav Jankovič	Jean-Pierre Beringuier Member of the Board of Directors

Proposal
of profit distribution for the year 2010

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

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

I.	**Profit after tax**	**107,031,133.81** €
II.	**Allocation to the statutory reserve fund** in accordance with the Article XVIII of the Articles of Association the reserve fund reached the level of 20% of registered capital	**0.00** €
III.	**Level of net profit** **determined as dividends**	**107,031,133.81** €

SPP – distribúcia, a.s.
Mlynské nivy 44/b
825 11 Bratislava 26
Slovak Republic
www.spp-distribucia.sk

Design: Ogilvy & Mather