

INDEPENDENT AUDITOR'S REPORTS AND SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS

(Prepared in Accordance with the International Financial Reporting Standards, as
Adopted by the EU)

for the year ended 31 December 2012



Slovenský plynárenský priemysel, a.s.

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

For the year ended 31 December 2012

Slovenský plynárenský priemysel, a.s.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of Slovenský plynárenský priemysel, a.s.:

We have audited the accompanying financial statements of Slovenský plynárenský priemysel, a.s. (the "Company"), which comprise the balance sheet as at 31 December 2012, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Statutory Body's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Slovenský plynárenský priemysel, a.s. as of 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Emphasis of Matter


We draw attention to Note 28 to the financial statements, which describes the implementation process of the requirements for the new energy legislation and the related transfer of the transmission network from the Company to its subsidiary eustream, a.s.

We draw attention to Note 31 to the financial statements, which describes the change in the parent company's ownership and in the Company's Board of Directors and Supervisory Board subsequent to the balance sheet date, and information about the future restructuring of the SPP Group.

Our opinion is not qualified in respect of these matters.

Bratislava, 13 March 2013


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Licence SKAu No. 014


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

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Slovenský plynárenský priemysel, a.s.
BALANCE SHEETS
31 December 2012 and 31 December 2011
(EUR '000)

	<i>Note</i>	31 December 2012	31 December 2011
ASSETS:			
NON-CURRENT ASSETS			
Investment property	9	26 657	23 333
Property, plant and equipment	8	2 537 444	2 662 216
Investments in subsidiaries	6a	3 085 512	3 140 225
Investments in joint ventures and associates	6a	18 870	18 870
Available-for-sale investments and borrowings	6b	153 515	265 008
Non-current intangible assets	10	9 892	12 180
Other non-current assets		114 442	22 242
Deferred tax asset	25.2	24 985	27 777
Total non-current assets		5 971 317	6 171 851
CURRENT ASSETS			
Inventories	11	360 392	320 150
Receivables and prepayments	12	389 881	651 491
Income tax assets		7 822	-
Available-for-sale investments	6c	55 415	28 679
Other assets	6c	114 662	39 887
Cash and cash equivalents		38 213	26 493
Total current assets		966 385	1 066 700
Assets held for sale	7	624	24
TOTAL ASSETS		6 938 326	7 238 575
EQUITY AND LIABILITIES:			
CAPITAL AND RESERVES			
Registered capital	18	1 735 416	1 735 416
Legal and other reserves	19	347 329	347 329
Revaluation reserves	19	1 792 935	1 857 902
Retained earnings		1 576 981	1 903 245
Total equity		5 452 661	5 843 892
NON-CURRENT LIABILITIES			
Non-current interest-bearing borrowings	16	483 807	633 675
Deferred income	13	958	970
Provisions for liabilities	15	39 648	32 518
Retirement and other long-term employee benefits	14	1 601	1 486
Deferred tax liability	25.2	-	-
Other non-current liabilities		666	-
Total non-current liabilities		526 680	668 649
CURRENT LIABILITIES			
Current portion of non-current interest-bearing borrowings	16	142 986	-
Trade and other payables	17	740 494	635 844
Income tax liabilities		-	39 677
Provisions and other current liabilities	15	75 505	50 513
Total current liabilities		958 985	726 034
Total liabilities		1 485 665	1 394 683
TOTAL EQUITY AND LIABILITIES		6 938 326	7 238 575

The financial statements on pages 3 to 44 were signed on 13 March 2013 on behalf of the Board of Directors:


JUDr. Daniel Křetínský
 Chairman of the Board of Directors


Mgr. Alexander Sako
 Vice-Chairman of the Board of Directors

Slovenský plynárenský priemysel, a.s.
INCOME STATEMENTS
Years ended 31 December 2012 and 31 December 2011
(EUR '000)

	<i>Note</i>	<i>Year ended 31 December 2012</i>	<i>Year ended 31 December 2011</i>
REVENUES FROM SALES OF PRODUCTS AND SERVICES			
Sales of natural gas and electricity		1 614 368	2 111 434
Lease of gas assets and other revenues		363 896	408 156
Total revenues		<u>1 978 264</u>	<u>2 519 590</u>
OPERATING EXPENSES			
Own work capitalised		1 844	2 086
Purchases of natural gas, electricity, consumables and services		(1 584 512)	(1 940 386)
Depreciation and amortisation	8, 9,10	(108 742)	(154 523)
Storage of natural gas and other services		(121 612)	(124 516)
Staff costs	20	(37 586)	(41 897)
Provisions for bad and doubtful debts, obsolete and slow-moving inventories, net	12, 11	(3 326)	10 388
Provisions and impairment losses, net	15, 8, 10	(78 867)	(88 663)
Other, net		5 889	15 639
Total operating expenses		<u>(1 926 912)</u>	<u>(2 321 872)</u>
OPERATING PROFIT			
Investment income	21	364 167	549 368
Finance (costs)/revenues	22	(18 483)	(20 628)
Profit before income taxes		<u>397 036</u>	<u>726 458</u>
Income tax	25.1	(31 711)	20 414
NET PROFIT FOR THE PERIOD		<u>365 325</u>	<u>746 872</u>

Slovenský plynárenský priemysel, a.s.
STATEMENTS OF COMPREHENSIVE INCOME
Years ended 31 December 2012 and 31 December 2011
(EUR '000)

	<i>Note</i>	<i>Year ended 31 December 2012</i>	<i>Year ended 31 December 2011</i>
PROFIT FOR THE PERIOD		365 325	746 872
OTHER COMPREHENSIVE INCOME:	26		
Decrease in the gas assets revaluation reserve		(37 387)	(16 347)
Increase in the financial investments revaluation reserve		26 736	-
Decrease in the revaluation reserve due to changes in fair values		-	(43 963)
Hedging derivatives (Cash flow hedging)		2 386	(25 008)
Deferred tax related to items of other comprehensive income for the period		(1 419)	358 020
Other net comprehensive income for the period		(9 684)	272 702
TOTAL NET COMPREHENSIVE INCOME FOR THE PERIOD		<u>355 641</u>	<u>1 019 574</u>

Slovenský plynárenský priemysel, a.s.
STATEMENTS OF CHANGES IN EQUITY
Years ended 31 December 2012 and 31 December 2011
(EUR '000)

	Registered capital	Legal reserve fund	Hedging reserve	Financial investments revaluation reserve	Revaluation reserve	(Accumulated loss)/ Retained earnings	Total
At 31 December 2010	1 735 416	347 329	3 863	-	1 652 738	1 634 972	5 374 318
Net profit for the period	-	-	-	-	-	746 872	746 872
Other comprehensive income for the period	-	-	(25 008)	-	297 710	-	272 702
Dividends paid	-	-	-	-	-	(550 000)	(550 000)
Transfer to retained earnings	-	-	-	-	(71 401)	71 401	-
At 31 December 2011	1 735 416	347 329	(21 145)	-	1 879 047	1 903 245	5 843 892
Net profit for the period	-	-	-	-	-	365 325	365 325
Other comprehensive income for the period	-	-	6 701	20 587	(36 972)	-	(9 684)
Dividends paid	-	-	-	-	-	(746 872)	(746 872)
Transfer to retained earnings	-	-	-	-	(55 283)	55 283	-
At 31 December 2012	1 735 416	347 329	(14 444)	20 587	1 786 792	1 576 981	5 452 661

Slovenský plynárenský priemysel, a.s.
STATEMENTS OF CASH FLOWS
Years ended 31 December 2012 and 31 December 2011
(EUR '000)

	<i>Note</i>	<i>Year ended 31 December 2012</i>	<i>Year ended 31 December 2011</i>
OPERATING ACTIVITIES			
Cash flows from operating activities	27	427 854	172 588
Interest paid		(23 846)	(22 276)
Interest received		613	1 406
Income tax paid		(77 329)	25 537
Net cash flows from operating activities		<u>327 292</u>	<u>177 255</u>
INVESTING ACTIVITIES			
Provided loans		(120)	(313 805)
Proceeds from provided borrowings		48 948	-
Proceeds from investments in securities		-	1 141
Acquisition of investments in securities	6	-	(143)
Purchase of property, plant and equipment		(45 894)	(34 961)
Proceeds from sales of property, plant and equipment and intangible assets		4 459	12 842
Proceeds from the decrease of the registered capital of a subsidiary	6	53 714	-
Dividends received	21	<u>376 912</u>	<u>730 399</u>
Net cash inflow/(outflow) from investing activities		<u>438 019</u>	<u>395 473</u>
FINANCING ACTIVITIES			
Proceeds from interest-bearing borrowings	16	142 986	-
Expenditures for the repayment of interest-bearing borrowings	16	(150 000)	(67 000)
Dividends paid		(746 872)	(550 000)
Other proceeds and expenditures from financial activities, net		(43)	(72)
Net cash flows from financing activities		<u>(753 929)</u>	<u>(617 072)</u>
Net increase/(decrease) in cash and cash equivalents		<u>11 382</u>	<u>(44 344)</u>
Effects of foreign exchange fluctuations		338	(1 627)
Cash and cash equivalents at the beginning of the period		<u>26 493</u>	<u>72 464</u>
Cash and cash equivalents at the end of the period		<u>38 213</u>	<u>26 493</u>

1. GENERAL

1.1. General Information

Slovenský plynárenský priemysel, a.s. ("SPP") was founded on 21 December 1988 by a Memorandum of Association as a 100% state-owned enterprise in the Slovak Republic. On 1 July 2001, SPP was transformed into a joint-stock company (akciová spoločnosť) that was 100% owned by the National Property Fund of the Slovak Republic. A consortium of strategic investors acquired a 49% share in SPP with management control with effect from 11 July 2002. As at 31 December 2012, SPP's shares are held by the National Property Fund of the Slovak Republic (51%) and Slovak Gas Holding, B. V., the Netherlands (49%) (jointly held indirectly by GDF SUEZ SA and E.ON Ruhrgas). On 15 January 2013, GDF International SAS, E.ON Ruhrgas International GmbH and E.ON SE signed an agreement with Energetický a Průmyslový Holding ("EPH"), a key player on the heat, coal and electricity market in Central Europe, on the sale of their shares in Slovak Gas Holding, B.V. ("SGH"), which owns a 49% share in SPP (the parent company) and also carries out operating and management control. The transaction was completed on 23 January 2013.

These financial statements represent the separate financial statements of SPP. They were prepared for the reporting period from 1 January to 31 December 2012 in accordance with International Financial Reporting Standards as adopted by the EU.

Identification number (IČO)	35 815 256
Tax identification number (DIČ)	2020259802

On 23 April 2012, the Annual General Meeting approved the 2011 financial statements of SPP.

1.2. Principal Activities

Since 1 July 2006, following the legal unbundling process, SPP is selling natural gas and electricity and leasing assets used for natural gas transmission to eustream, a.s., its subsidiary. Refer also to Note 28 for details on the "Third Energy Package".

1.3. Employees

The average number of SPP employees for the year ended 31 December 2012 was 992, of which 4 were executive management (for the year ended 31 December 2011: 1 170, of which 4 were executive management).

The actual number of full-time employees as at 31 December 2012 was 985 (as at 31 December 2011: 1 035).

1.4. Registered Address

Mlynské nivy 44/a
825 11 Bratislava
Slovak Republic

2. NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS AND CHANGES IN ESTIMATES

2.1. Application 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 2012. The following amendments to the existing standards issued by the International Accounting Standards Board and adopted by the EU are effective for the current accounting period:

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

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

Slovenský plynárenský priemysel, a.s.
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
Year ended 31 December 2012
(EUR '000)

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

- IFRS 10 "Consolidated Financial Statements", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014);
- IFRS 11 "Joint Arrangements", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014);
- IFRS 12 "Disclosures of Interests in Other Entities", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014);
- IFRS 13 "Fair Value Measurement", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013);
- IAS 27 (revised in 2011) "Separate Financial Statements", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014);
- IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014);
- Amendments to IFRS 1 "First-time Adoption of IFRS" - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013);
- Amendments to IFRS 7 "Financial Instruments: Disclosures" - Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2013);
- Amendments to IAS 1 "Presentation of Financial Statements" - Presentation of Items of Other Comprehensive Income, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 July 2012);
- Amendments to IAS 12 "Income Taxes" - Deferred Tax: Recovery of Underlying Assets, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013);
- Amendments to IAS 19 "Employee Benefits" - Improvements to the Accounting for Post-employment Benefits, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 January 2013);
- Amendments to IAS 32 "Financial Instruments: Presentation" - Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014); and
- IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).

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

The Company anticipates that the adoption of these standards, revisions, and interpretations will have no material impact on the 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 2012:

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2015);
- Amendments to IFRS 1 "First-time Adoption of IFRS" - Government Loans (effective for annual periods beginning on or after 1 January 2013);
- Amendments to IFRS 9 "Financial Instruments" and IFRS 7 "Financial Instruments: Disclosures" - Mandatory Effective Date and Transition Disclosures;
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosures of Interests in Other Entities" - Transition Guidance (effective for annual periods beginning on or after 1 January 2013);

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NOTES TO THE SEPARATE FINANCIAL STATEMENTS
Year ended 31 December 2012
(EUR '000)

- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosures of Interests in Other Entities" and IAS 27 "Separate Financial Statements" - Investment Entities (effective for annual periods beginning on or after 1 January 2014); and
- Amendments to various standards "Improvements to IFRS (2012)" resulting from the annual improvement project of IFRS published on 17 May 2012 (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2013).

The Company anticipates that adopting these standards and amendments to the existing standards 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, applying hedge accounting for the portfolio of financial assets or liabilities pursuant to IAS 39: "Financial Instruments: Recognition and Measurement" would not significantly impact the financial statements, if applied as at the reporting date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Accounting

The 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 IASB.

The financial statements are prepared under the historical cost convention, except for the specified categories of property, plant and equipment and certain financial instruments. The principal accounting policies adopted are detailed below. The reporting and functional currency of SPP is the euro (EUR). The separate financial statements were prepared under the going-concern assumption.

SPP has prepared and issued consolidated financial statements for the year ended 31 December 2012 that comply with IFRS as adopted by the EU. The consolidated financial statements were issued separately and do not accompany these separate financial statements. For a better understanding of the Company's consolidated financial position and results of operations, reference should be made to the consolidated financial statements for the year ended 31 December 2012, which were prepared on 13 March 2013.

b) Financial Instruments

Financial assets and liabilities are recognised on the Company's balance sheet when the Company as a contractual party is subject to the IFRS provisions concerning the given instrument.

c) Derivative Financial Instruments

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

Fair value hedging

Changes in the fair value of derivative financial instruments that qualify for fair value hedge accounting of natural gas prices and changes in the fair value of hedged contracts are recognised in the income statement together with any changes in the fair value of the hedged item (representing inventories of natural gas) related to the hedged risk. Changes in the fair value of a hedging instrument and changes in the hedged item related to the hedged risk are recognised in the income statement line of the relevant hedged item.

Derivative financial instruments that do not qualify for hedge accounting

Changes in the fair value of derivative financial instruments that do not qualify for effective hedging are recognised through profit and loss.

These items are mainly related to derivative financial instruments used for economic hedging that were not or are no longer recorded as hedging relationships for accounting purposes. In the event that a financial derivative does not meet or no longer meets the requirements for hedge accounting, changes in the fair value are directly recognised in the income statement as "*Mark-to-market*" or as "*Mark-to-market on commodity contracts other than trading instruments*" in ordinary operating income from derivative financial instruments with non-financial assets as the underlying assets, and in financial revenues or expenses in the case of currency, interest rate or equity derivatives. Derivative financial instruments used by the Company for trading activities with own energy and energy on behalf of customers, and other derivative financial instruments that are due in less than 12 months are recognised in the statement of financial position as current assets or current liabilities, while derivative financial instruments due after this period are classified as non-current items.

Cash flow hedging

The effective part of changes in the fair value of derivative financial instruments that are designated and qualifying as effective cash flow hedges is recognised in other comprehensive income and accumulated in equity as hedging reserves. Gains or losses relating to the ineffective portion are recognised immediately in the income statement. Amounts previously recognised in other comprehensive income and accumulated in hedging reserves will be transferred to the income statement at the moment the hedged item is recognised in the income statement in the same line of the statement as the hedged item.

d) Trade Receivables

Trade receivables are stated at the expected realisable value, net of provisions for debtors in bankruptcy or restructuring proceedings, and net of provisions for overdue bad and doubtful receivables at risk of full or partial non-settlement.

e) Subsidiaries, Associated Companies, Joint Ventures and Investments

Investments in subsidiaries, associated companies, and joint ventures are recognised at cost. The cost of the investment in a subsidiary is based on the costs attributed to the acquisition of the investment, which represents the fair value of the consideration given and directly attributable transaction costs.

Investments other than in subsidiaries, associated companies, and joint ventures are classified into one of the following three categories: held-to-maturity, trading and available-for-sale. Investments with fixed or determinable payments and fixed maturity that the Company has the positive intention and ability to hold to maturity are classified as held-to-maturity investments. Investments acquired principally for the purpose of generating a profit from short-term price fluctuations are classified as for trading. All other investments, other than loans and receivables, are classified as available-for-sale.

Held-to-maturity investments are included in non-current assets unless they mature within 12 months of the reporting date. Held-to-maturity investments are carried at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on acquisition until maturity. For investments carried at amortised cost, gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Available-for-sale investments are classified as current assets if management intends to sell them within 12 months of the reporting date. These investments are initially measured at cost, which is the fair value of the consideration given for them, including transaction costs.

After initial recognition, investments that are classified as available-for-sale and held for trading are measured at fair value. Gains or losses on investments held for trading are recognised in the income statement. Gains or losses on available-for-sale investments are recognised as a separate component of other comprehensive income, until the investment is sold or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in the statement of other comprehensive income will be recognised in the income statement.

For investments that are actively traded in organised financial markets, fair value is determined by reference to the quoted market prices as at the reporting date. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument that is substantially the same, or is calculated based on the expected cash flows of the underlying net asset base of the investment. If the fair value cannot be reasonably determined, investments are measured at cost less impairment losses.

Purchases and sales of investments are recognised on the transaction date, which is the date when the asset is delivered to the counterparty.

f) Property, Plant and Equipment and Intangible Assets

Property, plant, and equipment used for gas transmission are disclosed at their revalued amount, ie the fair value as at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The revaluation is performed by independent valuation experts. Revaluation is performed with sufficient regularity (at least every five years) so that the net book value does not differ materially from that which would be disclosed using fair values at the reporting date.

Any revaluation increase arising on the revaluation of the property, plant, and equipment is credited to a revaluation reserve. However, to the extent that revaluation decrease on the same revalued asset was previously recognised in profit or loss, a reversal of that revaluation decrease is also recognised in profit or loss. A decrease in the net book value arising on the revaluation of the property, plant and equipment is charged to the income statement to the extent that it exceeds the balance, if any, held in the assets revaluation reserve relating to a previous revaluation of that asset. Depreciation on revalued property, plant, and equipment is charged as an expense in the income statement. Revaluation surplus is gradually released to retained earnings over the depreciation period of the related revalued assets. On the subsequent sale or disposal of a revalued asset, the attributable revaluation surplus remaining in the revaluation reserve is transferred directly to retained earnings.

Other property, plant, and equipment and intangible assets are stated at cost less accumulated depreciation. Cost includes all costs attributable to 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 removed from the balance sheet at the net book value. Any gain or loss resulting from such retirement or disposal is included in the income statement.

Other items of property, plant, and equipment are depreciated on a straight-line basis over the estimated useful lives. Depreciation is charged to the income statement computed so as to amortise the cost of the assets to their estimated residual values over their residual useful lives. The useful lives used are as follows:

	2012	2011
Compressor stations	12 – 55	25 – 55
Border and domestic delivery stations	15 – 50	15 – 50
Gas pipelines	30 – 60	60
Buildings	30 – 40	25 – 80
Plant and machinery	3 – 8	4 – 40
Other non-current assets	3 – 8	3 – 8

The residual useful life of some gas assets is shorter than as specified in the table above, since consideration is being given to discontinuing their operation between 2013 and 2016.

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 realisable value of the Company's property, plant, and equipment and intangible assets is less than the carrying amount. When such an indication occurs, the realisable value of the asset, being the higher of the asset's fair value less costs of disposal and the present value of future cash flows ("value-in-use"), is estimated. The resulting impairment loss provision is recognised in full in the income statement in the year in which the impairment occurs. A provision for impairment of property, plant and equipment, recognised for property, plant and equipment with a positive revaluation reserve, will primarily decrease the positive balance of the revaluation reserve recognised in equity with only the excess of the net book value of the revaluation reserve recognised through profit or loss. The discount rates used to calculate the present value of the future cash flows reflect the current market assessments of the time value of money and the risks specific to the asset. In the event that a decision is made to abandon a construction project in progress or significantly to postpone its planned completion date, the carrying amount of the asset is reviewed for potential impairment and a provision recorded, if appropriate.

Expenditures relating to an item of property, plant, and equipment and intangible assets after being placed into service 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 enterprise. All other expenditures are treated as repairs and maintenance and are expensed in the period in which they are incurred.

g) Investment Property

Investment property that is held to generate income from a lease is initially recognised at cost inclusive of costs related to acquisition. They are subsequently recognised at historical cost. The Company does not apply any revaluation model for such assets.

h) Inventories

Inventories are stated at the lower of cost and 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 natural gas, 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.

i) Cash and Cash Equivalents

Cash and cash equivalents consist of cash in hand and cash in bank, and highly liquid securities with insignificant risk of changes in value and original maturities of three months or less from the date of issue.

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.

Provision for Environmental Expenditures

A provision for environmental expenditures is recognised when environmental clean-ups are probable and the associated costs can reasonably be estimated. Generally, the timing of these provisions coincides with a commitment to a formal plan of action or the divestment or closure of unused assets. The provision recognised is the best estimate of the expenditure required. If the liability is not settled in the following years, the amount recognised is the present value of the estimated future expenditure.

Provision for Various Litigation and Potential Disputes

The financial statements include a provision for various litigation and potential disputes which were estimated using available information and an assessment of the achievable outcome of the individual disputes. The provision is not recognised unless a reasonable estimate can be made.

k) Loans

Loans are initially recognised at fair value less transaction costs incurred. They are subsequently recorded 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 a given 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 sales of natural gas and electricity and other activities on the accrual basis. Revenues include estimates of gas supplied but not invoiced as at the reporting date.

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) Leases

A **finance lease** is a lease that transfers all the risks and rewards incidental to the ownership of an asset (economic substance of the arrangement). The accounting treatment of leases is not dependent on which party is the legal owner of the leased asset.

Operating lease

An operating lease is a lease other than a finance 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.

Sales and operating leaseback

If the leaseback is classified as an operating lease, profit is recognised immediately if the terms and conditions of the sale and leaseback transaction are clearly stated at fair value. If this is not the case, the sale and leaseback are recognised as follows:

- If the price is equal to or lower than the fair value, gains and losses are recognised immediately. However, if the loss is compensated by future lease payments that are below the market value, the loss will be deferred and depreciated over the period over which the assets are expected to be used.
- If the selling price is higher than the fair value, the resulting profit will be deferred and depreciated over the useful life of the assets.
- If the fair value is lower than the carrying amount of the assets as at the transaction date, such difference is recognised immediately as an impairment loss.

p) Income Tax

Income tax is calculated from the profit/loss before tax recognised under IFRS adjusted to the profit/loss recognised under the accounting procedures valid in the Slovak Republic after adjustments for individual items increasing and decreasing the tax base pursuant to Act No. 595/2003 Coll. on Income Tax, as amended, using the valid income 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 charged or credited to the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also recorded in equity. The income tax rate valid from 1 January 2004 to 31 December 2012 is 19%. The income tax rate valid as of 1 January 2013 is 23%.

The principal temporary differences arise from revaluations and depreciations on property, plant, and equipment 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 deductible temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates, and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not be reversed in the foreseeable future.

Current and deferred tax for the year

Current and deferred tax are recognised through profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively.

Special Levy on Business in Regulated Industries

Pursuant to the requirements of the IFRS, the income tax of SPP also includes a special levy as per Act No. 235/2012 Coll. on a Special Levy on Business in Regulated Industries and on Amendment to and Supplementation of Certain Acts. It is recognised through profit or loss.

The Company is a regulated entity obliged to pay a special levy from September 2012 to December 2013. The levy period is the calendar month and the levy rate amounts to 0.00363. The base for the levy is the profit/loss before tax recognised in accordance with IFRS and adjusted to the profit/loss recognised under the accounting procedures valid in the Slovak Republic and further adjusted pursuant to the Special Levy Act.

q) Foreign Currencies

Transactions in foreign currencies are initially recorded at the exchange rates of the European Central Bank (ECB) valid on the transaction dates. Monetary assets, receivables, and payables denominated in foreign currencies are retranslated at the ECB exchange rates valid on the reporting date. Foreign exchange gains and losses are included in the income statement.

r) Non-Current Assets Held for Sale

Non-current assets and the disposal groups of assets and liabilities are classified as held for sale if their carrying amount can be recovered through a sale transaction rather than through continuing use. This condition is considered fulfilled only when the sale is highly probable and the non-current asset (or the group of assets and liabilities held for sale) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and the groups of assets and liabilities held for sale) classified as held for sale are measured at the lower of their previous carrying amount and the fair value less costs to sell.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Company's accounting policies, as described in Note 3, SPP has made the following decisions concerning uncertainties and estimates that have a significant impact on the amounts recognised in the financial statements. There is a significant risk of material adjustments in future periods relating to such matters, including the following:

Litigation

SPP is involved in various legal proceedings for which management has assessed the probability of loss that may result in cash outflow. In making this assessment, SPP has relied on the advice of external legal counsel, the latest available information on the status of the court proceedings, and an internal evaluation of the likely outcome. The final amount of any potential losses in relation to the legal proceedings is not known and may result in a material adjustment to the previous estimates. Details of the legal cases are included in Note 28.

Revaluation of Property, Plant and Equipment

Since 1 January 2006, SPP has been adopting the revaluation model under IAS 16 for its property, plant, and equipment used for natural gas transmission and distribution. The revaluation of assets was performed by independent appraisers using the depreciated replacement cost approach. The revaluation of assets used for natural gas transmission and distribution resulted in an increase in the value of the assets and a corresponding increase in equity. The assumptions used in the revaluation model are based upon an expert independent valuation report. The resulting reported amounts for these assets and the related revaluation reserve do not necessarily represent values at which these assets could or would be sold. SPP also extended the useful lives of gas-related property, plant, and equipment on the basis of an independent appraisal report. The useful lives of these assets now range from 40 to 80 years for major gas assets and from 60 to 80 years for gas pipelines. To assess useful lives an expert opinion from technical experts is required.

As at 1 August 2012, SPP performed a new revaluation of property, plant, and equipment used for natural gas transmission under IAS 16, on the basis of the findings of the significant changes in the assumptions applied in the revaluation model performed by independent appraisers. As in the first revaluation, the depreciated replacement cost approach was used in the revaluation model. The revaluation of the assets used for gas transmission resulted in a decrease in the value of the assets and a related decrease in equity. On the basis of an independent appraisal, SPP adjusted the useful lives of property, plant, and equipment used for gas transmission.

There are inherent uncertainties about future business conditions, changes in technology, and the competitive environment within the industry that could require future adjustments to estimated revalued amounts and useful lives of assets, which may result in material changes in the reported financial position, equity, and profit. Refer to Note 8 for further details.

Impairment of Property, Plant and Equipment

The Company calculated and recorded amounts for the impairment of property, plant, and equipment on the basis of an evaluation of their future use, on planned liquidation or sale, and on the report of the independent appraiser. For some of these items, no final decision has yet been made and thus the assumptions on the use, liquidation, or sale of assets may change. Refer to Note 8 for details on the impairment of property, plant, and equipment.

Un-Billed Gas Sales

SPP records significant amounts as revenues from gas sales on the basis of estimated gas consumption by small industrial customers and residential customers. SPP makes an estimate of these revenues by allocating actual measured gas consumption to the individual categories of customers on the basis of past consumption trends and applying the valid natural gas prices. Actual consumption by customers in the different categories may vary and so the amounts recorded as revenues may change, given the price differences between categories of customers.

Environmental Provision

The financial statements include amounts recorded as an environmental provision. The provision is based on estimates of the future costs of dismantling, restoration and re-cultivation, and is also significantly impacted by the estimate of the timing of cash flows and the Company's estimate of the discount rate used. The provision takes into account the estimated costs for dismantling old gas facilities and compressor stations, decontaminating the soil and restoring the sites to their original condition after dismantling old gas facilities in compressor stations on the basis of past costs for similar activities. Refer to Note 15 for further details.

Provision for Onerous Contracts

As at 31 December 2012, SPP assessed that the separate financial statements include significant amounts recognised as provisions for onerous contracts in connection with non-cancellable contractual commitments to supply natural gas to customers based on the sales contracts. These provisions are based on current market information on the future development of natural gas prices in spot markets, USD/EUR exchange rates and indices monitored on the crude oil market, which are volatile. For more information, see Note 15.

5. FINANCIAL INSTRUMENTS

a) Financial Risk Management

The Company is exposed to a variety of financial risks, including the effects of changes in foreign currency exchange rates and gas purchase and selling prices. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company. In 2012 and 2011, the Company entered into derivative transactions, for example, forward currency contracts, swap interest contracts, hedging commodity swaps, in order to manage certain risks. The purpose of forward currency contracts is to eliminate the effects of changes in the USD/EUR and CZK/EUR exchange rate owing to future payments and revenues denominated in a foreign currency. The purpose of swap interest contracts is to fix interest rates on loans. The purpose of hedging commodity swaps is to limit price risks of sales contracts made with customers as well as purchase contracts with suppliers.

The main risks arising from the Company's financial instruments are foreign currency risk, commodity price risk, interest rate risk, liquidity risk, and credit risk. Risk management is performed by the Risk management section, using policies approved by the Board of Directors.

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(1) Foreign Currency Risk

The Company operates internationally and has been exposed to foreign currency risk arising from transactions in foreign currencies, primarily in US dollars (USD) and Czech crowns (CZK).

Analysis of financial assets and financial liabilities denominated in foreign currency:

	Financial assets		Financial liabilities	
	As at 31 December 2012	As at 31 December 2011	As at 31 December 2012	As at 31 December 2011
CZK	18 279	1 257	2	3
USD	22	204 009	228 237	35 794

The following table details the open forward currency contracts at the reporting date.

Open forward currency contracts	Fair value			
	2012		2011	
	Cash flow hedges	Held-for-trading	Cash flow hedges	Held-for-trading
<u>Sell CZK</u>				
Less than 3 months	-	12	237	-
3 to 12 months	-	1	677	-
Over 12 months	-	(7)	104	-
<u>Purchase USD</u>				
Less than 3 months	(30)	(3 755)	-	-
3 to 12 months	-	-	-	-
Over 12 months	-	-	-	-

Sensitivity to foreign currency changes

The following tables show the sensitivity of the Company to a 3% weakening of the euro against the US dollar and the Czech crown. The sensitivity analysis includes items denominated in a foreign currency and adjusts the currency translation at the end of the reporting period by the 3% FX change. A negative value indicates a decrease in the income statement if the euro weakens with regard to the relevant currency.

	Impact of US dollar	
	As at 31 December 2012	As at 31 December 2011
Effect on profit/loss before tax	(7 058)	5 203
	Impact of CZK	
	As at 31 December 2012	As at 31 December 2011
Effect on profit/loss before tax	565	39

The effects mainly relate to risks relating to outstanding receivables and payables in USD and CZK at the year-end. The Company has investments in subsidiaries whose financial statements are exposed to currency translation risk.

(2) Commodity Price Risk

The Company is a party to framework agreements for the purchase of natural gas and other services and materials. In addition, the Company enters into contracts for natural gas sales and natural gas storage. Contracts for natural gas storage are at fixed prices, which are escalated every year based on price indices. As at 31 December 2012 the Company used commodity swap contracts to manage the risk of commodity price fluctuations. Similarly, as at 31 December 2011, the Company used hedging derivative contracts to hedge the fair value of a sale contract; changes to fair value are recorded in the income statement.

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

<i>Open commodity swap contracts</i>	2012		2012	
	<i>Nominal amount</i>		<i>Fair value</i>	
	<i>Fair value hedging</i>	<i>Held for trading</i>	<i>Fair value hedging</i>	<i>Held for trading</i>
<i>Purchase/sell gas</i>				
Less than 3 months	155 618	190 244	(3 195)	9 686
3 to 12 months	193 910	299 200	(5 289)	(12 284)
Over 12 months	18 026	-	329	-
<i>Open commodity swap contracts</i>	2011		2011	
	<i>Nominal amount</i>		<i>Fair value</i>	
	<i>Fair value hedging</i>	<i>Held for trading</i>	<i>Fair value hedging</i>	<i>Held for trading</i>
<i>Purchase/sell gas</i>				
Less than 3 months	81 198	179 827	(6 834)	(52 856)
3 to 12 months	118 600	20 668	(5 725)	426
Over 12 months	2 253	131 616	(5)	2 771

In recent years, EU markets with natural gas experienced market decoupling – the disassociation of natural gas prices from the development of oil product prices denominated in USD. This trend resulted in the prices being denominated in euros on these markets for spot natural gas purchases/sales, which are significantly lower than purchase/selling prices of the long-term contracts usually linked to the development of oil product indices. The future development of the natural gas market is currently very unpredictable. The Company's strategy is to optimise natural gas resources using spot purchases and sales in order to minimise risks of losses related to the current market development.

Sensitivity to changes in commodity prices

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

(3) Interest Rate Risk

The Company's exposure to interest rate risk is significant, as it drew long-term loans. This risk is hedged by interest rate swaps for all long-term loans in the full amount (100%) of the drawn loan.

The following table displays the open interest swap contracts at the reporting date.

<i>Interest swaps</i>	<i>Average fixed interest rate</i>		<i>Nominal amount</i>		<i>Fair value</i>	
	2012	2011	2012	2011	2012	2011
	Recognised as hedging	1.86%	1.86%	400 000	400 000	(15 982)
Less than 3 months	-	-	-	-	(1 644)	(444)
3 to 12 months	-	-	-	-	(5 142)	(2 597)
Over 12 months	-	-	-	-	(9 196)	(5 853)
Held for trading	2.3%	2.3%	150 000	150 000	(2 427)	(3 100)
Less than 3 months	-	-	-	-	(820)	(276)
3 to 12 months	-	-	-	-	(1 607)	(1 247)
Over 12 months	-	-	-	-	-	(1 577)

(4) Credit Risk

As at 31 December 2012, the Company drew credit facilities in the amount of EUR 626 793 thousand (31 December 2011: EUR 633 675 thousand), of which short-term credit facilities amounted to EUR 142 986 thousand (31 December 2011: EUR 0 thousand) and long-term credit facilities amounted to EUR 483 807 thousand (31 December 2011: EUR 633 675 thousand).

Loans are drawn in EUR, with a variable interest rate linked to EURIBOR (according to the interest period agreed at the drawdown, for long-term loans usually 3M, for loans with shorter maturities 1M or O/N for overdraft facilities). The long-term negotiable loan from Deutsche Bank (EUR 83.7 million, due in July 2020) bears a fixed interest rate of 4.125% p.a. (coupon) or 4.348% p.a. (effective interest rate).

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The bulk of short-term credit lines include an automatic loan extension clause, provided that none of the parties concerned cancels the loan within the specified period. Long- or medium-term loans have a fixed maturity date, while in all instances the loan is payable in a lump sum as at the final maturity date, ie in 2013/2015/2020.

All loans are provided without any collateral, using common market provisions (pari-passu, ban to pledge assets, substantial negative impact). With regard to the balance of the credit facilities drawn as at 31 December in the amount of EUR 626 793 thousand (whereas the funds and tradable securities amounted to EUR 38 213 thousand), the net debt totals EUR 588 580 thousand. If necessary, maturing credit facilities may be paid off from undrawn credit facilities, as well as from available funds and tradable securities (31 December 2012: EUR 446 800 thousand).

(5) Credit risk related to receivables

The Company sells its products and services to various customers that, neither individually nor jointly in terms of volume and solvency, represent significant risk that the receivable will not be settled. The Company has policies in place that ensure that products and services are sold to customers with an appropriate credit history and that an acceptable limit to credit exposure is not exceeded. In addition to the existing trade receivables, the Company has receivables arising from borrowings provided to subsidiaries.

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

(6) Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash with an appropriate due date and marketable securities, the availability of funding through an adequate amount of committed credit lines, and the ability to close open market positions. Due to the dynamic nature of the underlying business, Treasury department aims to maintain flexibility by keeping committed credit lines available and synchronising the maturity of financial assets with financial needs. To settle outstanding liabilities, the Company has funds and undrawn credit lines at its disposal.

The table below summarises the maturity of financial liabilities at 31 December 2012 and 31 December 2011 based on contractual undiscounted payments:

31 December 2012	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Borrowings	-	142 986	-	400 000	83 807	626 793
Other liabilities	-	350 580	-	-	-	350 580
Trade payables	-	382 479	-	-	-	382 479
31 December 2011	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Borrowings	-	-	-	550 000	83 675	633 675
Other liabilities	-	461 350	-	-	-	461 350
Trade payables	-	162 419	-	-	-	162 419

b) Capital Risk Management

The Company manages its capital to ensure that it continues as a going concern while maximising the return to shareholders through optimising the debt and equity ratio, as well as through ensuring a high credit rating and sound capital ratios.

The capital structure of the Company consists of cash and cash equivalents and equity attributable to the Company's owners, which comprise the registered capital, legal and other reserves, revaluation reserves, and retained earnings as disclosed in Notes 18 and 19 and loans as discussed in Note 16. The gearing ratio at the year-end of 2012 and 2011 was 11% and 10%, respectively.

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

	At 31 December 2012	At 31 December 2011
Debt (i)	626 793	633 675
Cash and cash equivalents	38 213	26 493
Net debt	588 580	607 182
Equity (ii)	5 452 661	5 843 892
Net debt to equity ratio	11%	10%

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

(ii) Page 6

c) Categories of Financial Instruments

	At 31 December 2012	At 31 December 2011
Financial assets		
Loans and receivables (including cash and cash equivalents)	809 467	970 656
Financial derivatives held for trading	16 902	4 548
Financial derivatives recognised as hedging	8 135	6 728
Available-for-sale financial assets	55 996	29 625
Financial liabilities		
Financial liabilities carried at amortised costs	1 307 874	1 171 464
Financial derivatives held for trading	25 676	57 929
Financial derivatives recognised as hedging	26 895	27 868

d) Estimated Fair Value of Financial Instruments

The fair value of interest swap contracts is determined using forward interest rates at the reporting date.

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

The fair value of ordinary shares not in a book-entry form has been estimated using a valuation technique based on assumptions that they are not supported by observable market prices. The valuation requires management to make estimates of the expected future cash flows from shares that are discounted at current rates.

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 revaluation, 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 derived from the prices of similar assets or liabilities quoted on active markets.

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

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

2012	Level 1	Level 2	Level 3	Total
Financial assets at fair value	-	25 037	55 996	81 033
Financial derivatives held for trading	-	16 902	-	16 902
Financial derivatives recognised as hedging	-	8 135	-	8 135
Available-for-sale financial assets	-	-	55 996	55 996
Financial liabilities at fair value	-	52 571	-	52 571
Financial derivatives held for trading	-	25 676	-	25 676
Financial derivatives recognised as hedging	-	26 895	-	26 895

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2011	Level 1	Level 2	Level 3	Total
Financial assets at fair value	-	11 276	-	11 276
Financial derivatives held for trading	-	4 548	-	4 548
Financial derivatives recognised as hedging	-	6 728	-	6 728
Available-for-sale financial assets	-	-	29 625	29 625
Financial liabilities at fair value	-	85 797	-	85 797
Financial derivatives held for trading	-	57 929	-	57 929
Financial derivatives recognised as hedging	-	27 868	-	27 868

Movements in 2012 in financial instruments classified as Level 3

	Financial derivatives used as hedging	Held-for-trading financial investments	Available-for-sale financial investments	Total
Opening balance	-	-	29 625	29 625
Gains/losses recognised in the income statement	-	-	(365)	(365)
Gains/losses recognised in other comprehensive income	-	-	26 736	26 736
Settlement	-	-	-	-
Transfers	-	-	-	-
Closing balance	-	-	55 996	55 996

Embedded Derivative Instruments

The Company signed a long-term contract for purchases of natural gas denominated in USD. The US dollar is the currency commonly used in international commerce for trading in natural gas. Both the economic characteristics and risks of embedded forward derivative instruments (USD to EUR), and natural gas prices are generally believed to be closely related to the economic characteristics and risks of the underlying purchase agreements. Hence, in accordance with IAS 39 (as revised in December 2003), SPP does not recognise embedded derivatives separately from the host contract.

The Company has assessed all other significant contracts and agreements for embedded derivatives that should be recorded. The Company concluded that there are no embedded derivatives in these contracts and agreements that are required to be measured and recognised separately as at 31 December 2012 and 31 December 2011 under the requirements of IAS 39 (as revised in December 2009).

6. SUBSIDIARIES, ASSOCIATED COMPANIES, JOINT VENTURES AND OTHER INVESTMENTS

a) Subsidiaries, joint ventures and associated companies

As at 31 December 2012	Subsidiaries	Joint ventures and associates
Opening balance, net	3 140 225	18 870
Additions	-	-
Reclassifications	-	-
Disposals	(52 913)	-
Impairment	(1 800)	-
Closing balance, net	3 085 512	18 870
Cost	3 251 182	18 870
Impairment	(165 670)	-
Closing balance, net	3 085 512	18 870
As at 31 December 2011	Subsidiaries	Joint ventures and associates
Opening balance, net	3 231 197	18 953
Additions	61 201	-
Reclassifications	(173)	-
Disposals	-	(83)
Impairment	(152 000)	-
Closing balance, net	3 140 225	18 870
Cost	3 304 095	18 870
Impairment	(163 870)	-
Closing balance, net	3 140 225	18 870

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Details of SPP's subsidiaries as at 31 December 2012 are as follows:

Name	Country of incorporation	Ownership interest %	Principal activity
eustream, a.s.	Slovakia	100.00	Transmission of natural gas
SPP – distribúcia, a.s.	Slovakia	100.00	Distribution of natural gas
NAFTA, a.s.	Slovakia	56.15	Storage of natural gas and hydrocarbon exploration and production
GEOTERM KOŠICE, a.s.	Slovakia	95.82	Utilisation of geothermal energy
Nadácia SPP	Slovakia	100.00	Foundation
InfoGas, a. s., v likvidácii ⁽¹⁾	Slovakia	100.00	IT services
EkoFond, n.f.	Slovakia	100.00	Non-investment fund
SPP CZ, a.s.	Czech Republic	100.00	Purchase and sale of natural gas
SPP Bohemia, a.s.	Czech Republic	100.00	Holding company
SPP Storage, s.r.o.	Czech Republic	100.00	Storage of natural gas

⁽¹⁾ the entity's liquidation was completed as at 30 November 2012, the entity was not deleted from the Commercial Register as at 31 December 2012

On 22 February 2012, the registered capital of SPP Bohemia, a.s. was decreased from the original amount of CZK 1 100 million to CZK 2 million. Subsequently, the company's reserve fund was decreased from the original amount of CZK 220 000 thousand to the present amount of CZK 400 thousand.

The details of SPP's joint ventures as at 31 December 2012 are as follows:

Name	Country of incorporation	Ownership interest %	Principal activity
POZAGAS, a. s.	Slovakia	35.00	Natural gas storage
P R O B U G A S, a. s.	Slovakia	50.00	LPG retail

The information on SPP's associates as at 31 December 2012 as follows:

Name	Country of incorporation	Ownership interest %	Principal activity
SLOVGEOTERM, a. s.	Slovakia	50.00	Geothermal energy

Additional information on subsidiaries, joint ventures and associates:

Name and seat of the company	Equity		Profit/(loss)	
	2012	2011	2012	2011
eustream, a.s. Seat: Votrubova 11/A, Bratislava	370 979	299 377	265 939	187 059
SPP - distribúcia, a.s. Seat: Mlynské nivy 44/b, Bratislava	2 386 971	2 461 421	38 069	112 428
NAFTA, a.s. ⁽¹⁾ Seat: Votrubova 1, Bratislava	869 873	863 212	90 025	96 496
GEOTERM KOŠICE, a.s. Seat: Moldavská 12, Košice	12 287	12 301	(14)	(11)
InfoGas, a.s., v likvidácii Seat: Kozia 17, Bratislava,	166	376	(30)	181
Nadácia SPP Seat: Mlynské nivy 44/a, Bratislava	299	295	1	1
EkoFond, n.f. Seat: Mlynské nivy 44/a, Bratislava	590	462	-	-
PROBUGAS, a.s. Seat: Miletičova 23, Bratislava	2 898	3 732	(448)	385
SPP Bohemia, a.s. ⁽²⁾ Seat: Sokolovská 651/136A, Prague, Czech Republic	1 720 612 tis CZK	2 110 428 tis. CZK	297 423 tis. CZK	738 883 tis. CZK
SPP Storage, s.r.o. Seat: Sokolovská 651/136A, Prague, Czech Republic	CZK 2 188 768 ths.	CZK 1 776 586 ths.	CZK 433 645 ths.	CZK 223 903 ths.
POZAGAS, a.s. Seat: Malé námestie 1, Malacky	164 100	172 453	10 775	11 701
SLOVGEOTERM, a.s. Seat: Palisády 39, Bratislava	229	228	2	1
SPP CZ, a.s. Seat: Novodvorská 803/82, Prague, Czech Republic	CZK 29 775 ths.	CZK 78 108 ths.	CZK (49 197) ths.	CZK 61 196 ths.

⁽¹⁾ Financial results for the group of consolidated entities

⁽²⁾ The Company's unaudited financial results as at 31 December 2012; in the comparable period, the Company's unaudited financial results as at 31 December 2011

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b) Available-for-sale non-current investments and borrowings

Available-for-sale non-current investments comprise the following:

	<i>Shares</i>	<i>Borrowings</i>	<i>At 31 December 2012</i>	<i>At 31 December 2011</i>
Cost	581	152 934	153 515	265 008
Impairment	-	-	-	-
Closing balance, net	581	152 934	153 515	265 008

Ownership interests represent shareholdings in the following companies:

<i>Name</i>	<i>Country of incorporation</i>	<i>Ownership interest %</i>	<i>Principal activity</i>
Other shareholdings			
GALANTATERM, spol. s r. o.	Slovakia	17.50	Geothermal energy

Energotel, a.s., in which the Company held a 16.66% share, was sold in 2012.

Non-current investments also include a borrowing provided to the subsidiary SPP Storage, s.r.o. in the amount of EUR 152 934 thousand (31 December 2011: EUR 173 314 thousand.) with final maturity in 2021. The interest rate is fixed and amounts to 4.91% (31 December 2011: 4.91%). The loan to SPP Storage, s.r.o. is secured by real estate and movable assets.

c) Held-to-maturity and available-for-sale current investments and borrowings

Available-for-sale current investments and borrowings include:

	<i>Shares</i>	<i>Borrowings</i>	<i>At 31 December 2012</i>	<i>At 31 December 2011</i>
Cost	69 915	115 830	185 745	92 909
Impairment	(14 500)	(1 168)	(15 668)	(24 343)
Closing balance, net	55 415	114 662	170 077	68 566

Ownership interests represent shareholdings in the following companies:

<i>Name</i>	<i>Country of incorporation</i>	<i>Ownership interest %</i>	<i>Principal activity</i>
Other shareholdings			
Severomoravská plynárenská, a. s. ⁽¹⁾	Czech Republic	8.52	Gas distribution
Východočeská plynárenská, a. s. ⁽¹⁾	Czech Republic	10.00	Gas distribution

⁽¹⁾ listed companies

SPP did not determine the fair value of the investments in listed companies as the market is inactive and does not reflect the fair value of these investments and a reliable estimate of the fair value cannot be made.

Under current investments, the Company recognised the current portions of interest-bearing borrowings provided to the subsidiaries SPP - Distribúcia, a.s., in the amount of EUR 30.1 million; SPP Storage, s.r.o., in the amount of EUR 22 828 thousand (2011: EUR 27 728 thousand); and SPP Bohemia, a.s., in the amount of EUR 59 947 thousand (2011: EUR 11 926 thousand).

In December 2012, the Company signed an agreement on the sale of shareholdings in Severomoravská plynárenská, a.s. and Východočeská plynárenská, a.s. with a new investor. The transaction was completed and the shareholdings were transferred in January 2013.

In 2012, the bankruptcy of Oravské ferozliatinárske závody, a.s. was completed and the company was deleted from the Commercial Register on 27 June 2012. Subsequently, SPP wrote off the investment of EUR 8 659 thousand and the relevant provision in the same amount.

7. ASSETS CLASSIFIED AS HELD FOR SALE

	<i>Held-for-sale financial investments</i>	<i>Other</i>	<i>At 31 December 2012</i>	<i>At 31 December 2011</i>
Cost	-	867	867	1 774
Impairment	-	(243)	(243)	(1 750)
Closing balance, net	-	624	624	24

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8. PROPERTY, PLANT AND EQUIPMENT

	<i>Compressor and regulation stations</i>	<i>In-let and market delivery stations</i>	<i>Gas pipelines</i>	<i>Land, buildings and structures</i>	<i>Plant, machinery and equipment</i>	<i>Other non-current tangible assets</i>	<i>Assets in course of construction</i>	<i>Total</i>
Year ended 31 December 2011								
Opening net book value	563 143	54 820	1 983 252	152 721	10 100	979	122 653	2 887 668
Revaluation	(87 973)	204	55 664	-	-	-	-	(32 105)
Additions	-	-	-	-	-	-	28 029	28 029
Placed into service	91 271	3 183	11 874	3 392	6 253	13	(115 986)	-
Reclassifications	(637)	40	799	583	233	40	(1 280)	(222)
Change in revaluation surplus	(38 300)	-	(5 659)	-	-	-	-	(43 959)
Non-monetary contribution	-	-	(11 675)	-	-	-	-	(11 675)
Disposals	(3)	-	-	(5 284)	(1 631)	(2)	(586)	(7 506)
Depreciation charge	(68 794)	(2 766)	(62 382)	(6 060)	(3 729)	(187)	-	(143 918)
Change of provisions	(377)	-	(27)	(14 001)	(291)	(14)	614	(14 096)
Closing net book value	458 330	55 481	1 971 846	131 351	10 935	829	33 444	2 662 216
At 31 December 2011								
Acquisition cost	465 031	55 786	1 976 853	227 782	43 175	6 375	35 097	2 810 099
Provisions and accumulated depreciation	(6 701)	(305)	(5 007)	(96 431)	(32 240)	(5 546)	(1 653)	(147 883)
Net book value	458 330	55 481	1 971 846	131 351	10 935	829	33 444	2 662 216
Historical NBV at 31 December 2011	251 736	25 925	300 959	131 351	10 935	829	33 444	755 179
Year ended 31 December 2012								
Opening net book value	458 330	55 481	1 971 846	131 351	10 935	829	33 444	2 662 216
Revaluation	(34 314)	(2 098)	(16 386)	-	-	-	-	(52 798)
Additions	-	-	-	-	92	-	42 238	42 330
Placed into service	19 123	4 165	6 847	2 733	2 127	48	(35 043)	-
Reclassifications	-	-	-	2 018	233	31	(2 266)	16
Change in revaluation surplus	(183)	-	149	-	-	-	-	(34)
Non-monetary contribution	(52)	(426)	(125)	(10 613)	(133)	(19)	(2 843)	(14 211)
Disposals	(33 632)	(2 546)	(59 260)	(5 613)	(2 858)	(181)	-	(104 090)
Depreciation charge	-	-	-	1 913	555	-	1 547	4 015
Change of provisions	-	-	-	-	-	-	-	-
Closing net book value	409 272	54 576	1 903 071	121 789	10 951	708	37 077	2 537 444
At 31 December 2012								
Acquisition cost	422 782	55 618	1 926 958	206 822	34 040	5 110	37 077	2 688 407
Provisions and accumulated depreciation	(13 510)	(1 042)	(23 887)	(85 033)	(23 089)	(4 402)	-	(150 963)
Net book value	409 272	54 576	1 903 071	121 789	10 951	708	37 077	2 537 444
Historical NBV at 31 December 2012	270 799	28 412	301 232	121 789	10 951	708	37 077	770 968

These notes form an integral part of the separate financial statements.

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Type and amount of insurance of property, plant, machinery and equipment and non-current intangible assets:

<i>Insured assets</i>	<i>Type of insurance</i>	<i>Cost of insured assets</i>		<i>Name of the insurance company</i>
		<i>2012</i>	<i>2011</i>	
Buildings, halls, structures, machinery, equipment, fittings & fixtures, low-value TFA, other TFA, works of art, inventories (except for gas pipelines)	Insurance of assets	1 161 785	1 164 990	Allianz-Slovenská poisťovňa, a.s. Kooperativa, a.s., ČSOB Poisťovňa, a.s.
Movables, assets, inventories	Insurance of assets	3 122	13 278	Allianz-Slovenská poisťovňa, a.s. Kooperativa, a.s., ČSOB Poisťovňa, a.s.
Motor vehicles	MTPL, motor vehicle insurance against damage, destruction, theft	1 862	1 818	Allianz-Slovenská poisťovňa, a.s.

The Company records assets that are in use but not yet registered in the land registry in the net book value of EUR 10 thousand.

A significant part of the assets used for natural gas transmission are leased under a lease contract to the 100% subsidiary eustream, a.s. For changes in the energy legislation that may result in the transfer of gas assets in the future, see also Note 28.

Revaluation of Non-Current Assets for Use in Gas Transmission:

Property, plant, machinery and equipment used for natural gas transmission are recognised at revalued amounts. The last revaluation was performed in 2012 based on the assets' condition as observed and the assets replacement cost by reference to market evidence of recent transactions for similar assets and replacement cost estimate methodologies. Replacement costs were based on costs of Equivalent Assets (EA) and estimate the net book value of assets from the EA cost, useful life and age of existing assets (Depreciated Replacement Cost methodology).

In determining the fair value of property, plant, machinery and equipment used in gas transmission, the appraiser (ÚSI Žilina) used the replacement cost method, wherein the following assumptions were reflected:

- Technical condition of assets (repairs, maintenance, investments)
- Market influence (development of prices of work and material)
- Economic implications
- Other specific factors

In determining the fair value of assets, the appraiser followed the valid legislation on determining the general value of assets. This legislation provides methodological guidance for evaluating items of assets, given that these items pertain to the division of expert areas. This procedure provides for high expertise and reflects all specifics.

Cost of fully depreciated non-current assets (includes also software classified in non-current intangible assets), which were still in use as at 31 December 2012, amounted to EUR 121 895 thousand (31 December 2011: EUR 137 843 thousand).

9. INVESTMENT PROPERTY

	2012	2011
Opening net book value	23 333	23 601
Depreciation charge	(1 204)	(919)
Change in provisions	(1 389)	(2 897)
Additions and disposals	5 917	3 548
Closing net book value	26 657	23 333

SPP leases assets not related to gas to its subsidiaries SPP – distribúcia, a.s. and eustream, a.s. In accordance with IAS 40, SPP opted for recognition at historical cost. In the event of using the revaluation model, the restated value of assets would be EUR 46 363 thousand.

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10. NON-CURRENT INTANGIBLE ASSETS

	<i>Software</i>	<i>Other non-current intangible assets</i>	<i>Assets in course of construction</i>	<i>Total</i>
Year ended 31 December 2011				
Opening net book value	16 218	1 078	3 454	20 750
Additions	-	-	2 571	2 571
Placed into service	4 179	1 322	(5 501)	-
Reclassifications	-	-	-	-
Disposals	(2 137)	(60)	-	(2 197)
Amortisation	(9 042)	(627)	-	(9 669)
Change of provisions	-	-	725	725
Closing net book value	9 218	1 713	1 249	12 180
At 31 December 2011				
Acquisition cost	92 670	5 461	1 788	99 919
Provisions and accumulated depreciation	(83 452)	(3 748)	(539)	(87 739)
Net book value	9 218	1 713	1 249	12 180
Year ended 31 December 2012				
Opening net book value	9 218	1 713	1 249	12 180
Additions	-	-	3 440	3 440
Placed into service	1 930	906	(2 836)	-
Reclassifications	-	(1)	(10)	(11)
Disposals	(120)	(5)	-	(125)
Amortisation	(5 418)	(703)	-	(6 121)
Change of provisions	-	(10)	539	529
Closing net book value	5 610	1 900	2 382	9 892
At 31 December 2012				
Acquisition cost	91 924	5 519	2 382	99 825
Provisions and accumulated depreciation	(86 314)	(3 619)	-	(89 933)
Net book value	5 610	1 900	2 382	9 892

11. INVENTORIES

	<i>31 December 2012</i>	<i>31 December 2011</i>
Natural gas	372 642	333 694
Raw materials and other inventories	22	50
Provisions	(12 272)	(13 594)
Total	360 392	320 150

As at 31 December 2012 and 2011, the Company recorded a provision for raw materials and natural gas related to the adjustment of the cost of natural gas to its net realisable value.

12. RECEIVABLES AND PREPAYMENTS

	<i>31 December 2012</i>	<i>31 December 2011</i>
Trade receivables from natural gas and electricity sales	239 318	526 928
Prepayments for natural gas and electricity distribution	65 495	65 476
Receivables from the lease of gas facilities	4 850	-
Receivables from financial derivatives	24 372	11 277
Prepayments and other receivables	55 846	47 810
Total	389 881	651 491

All amounts are receivables within one year.

As at 31 December 2011, trade receivables from natural gas sales are shown net and represent receivables from billed and un-billed gas supplies and a prepayment for unconsumed natural gas for 2007 and 2009, and credit notes for the 2011 natural gas supplies.

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Of the Company's prepayments for natural gas and electricity distribution as at 31 December 2012, the major portion is represented by a prepayment to a subsidiary for natural gas distribution.

Receivables and prepayments are shown net of provisions for bad and doubtful receivables in the amount of EUR 125 927 thousand (31 December 2011: EUR 124 711 thousand).

Receivables and prepayments made also include receivables from eustream, a.s. in the amount of EUR 959 thousand (31 December 2011: EUR 9 946 thousand) from SPP – distribúcia, a.s. in the amount of EUR 75 726 thousand (31 December 2011: EUR 73 290 thousand), from SPP Bohemia, a.s. in the amount of EUR 2 892 thousand (31 December 2011: EUR 127 thousand), from SPP CZ, a.s. in the amount of EUR 28 241 thousand (31 December 2011: EUR 26 956 thousand) and from SPP Storage, s.r.o. in the amount of EUR 2 449 thousand (31 December 2011: EUR 7 352 thousand).

As at 31 December 2012, the Company recorded receivables within maturity in the amount of EUR 371 388 thousand and receivables overdue in the amount of EUR 144 420 thousand (excluding provisions). As at 31 December 2011, the Company recorded receivables within maturity and overdue in the amount of EUR 605 573 thousand and EUR 170 629 thousand, respectively (excluding provisions).

Receivables overdue that were not provided for:

	31 December 2012	31 December 2011
Less than 2 months	12 700	34 623
2 to 3 months	-	-
3 to 6 months	-	-
6 to 9 months	-	-
9 to 12 months	-	-
More than 12 months	-	-
Total	12 700	34 623

Receivables overdue that were provided for:

	31 December 2012	31 December 2011
Less than 2 months	200	201
2 to 3 months	1 830	2 178
3 to 6 months	3 249	6 360
6 to 9 months	4 632	6 236
9 to 12 months	2 716	3 552
More than 12 months	119 093	117 480
Total	131 720	136 007

The movements in provisions for receivables were as follows:

	31 December 2012	31 December 2011
Opening value	(124 711)	(176 418)
Creation	(9 331)	(11 810)
Use	6 005	40 870
Reversal	2 110	22 647
Closing value	(125 927)	(124 711)

13. DEFERRED INCOME

	31 December 2012	31 December 2011
Net opening balance	970	998
Assets acquired/(derecognised) during the period	4	-
Amortisation during the period	(16)	(28)
Other deferred income	-	-
Net closing balance	958	970

Deferred income from a stocktaking surplus is released into the income statement on a straight-line basis in the amount of the depreciation charges for non-current tangible assets identified during the stocktaking of assets.

14. RETIREMENT AND OTHER LONG-TERM EMPLOYEE BENEFITS

The long-term employee benefits program at SPP was originally launched in 1995. This is a defined benefit program, under which 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, SPP signed a new collective agreement under which employees are entitled to a retirement benefit based on the number of years with SPP at the date of retirement. The benefits range from one month to five months of the employee's average salary. As at 31 December 2012 and 31 December 2011, the obligation relating to retirement and other long-term employee benefits was calculated on the basis of valid collective agreements in the given years.

As at 31 December 2012, there were 985 (31 December 2011: 1 145) employees of SPP 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.

The movements in the net liability recognised in the balance sheet for the year ended 31 December 2012 are as follows:

	<i>Long-term benefits</i>	<i>Post-employment benefits</i>	<i>Total benefits at 31 December 2012</i>	<i>Total benefits at 31 December 2011</i>
Net liability at 1 January	321	1 217	1 538	2 162
Net expense recognised	28	159	187	(552)
Benefits paid	(23)	(20)	(43)	(72)
Net liabilities	326	1 356	1 682	1 538

	<i>Current liabilities (included in other current liabilities)</i>	<i>Non-current liabilities</i>	<i>Total</i>
At 31 December 2011		1 486	1 538
At 31 December 2012	52	1 601	1 682

Key assumptions used in actuarial valuation:

	<i>At 31 December 2012</i>	<i>At 31 December 2011</i>
Market yield on government bonds	3.680%	5.175%
Annual future real rate of salary increases	2.00%	2.00%
Annual employee turnover	1.44%	1.44%
Retirement ages (male and female)	62 for male and 60 for female	62 for male and 60 for female

15. PROVISIONS FOR LIABILITIES

The movements in provisions for liabilities are summarised as follows:

	<i>Environmental provisions</i>	<i>Provision for onerous contracts</i>	<i>Other provisions</i>	<i>Total provisions at 31 December 2012</i>	<i>Total provisions at 31 December 2011</i>
Balance at 1 January	8 126	48 227	25 130	81 483	42 427
Effect of discounting	299	194	-	493	170
Additions	-	76 569	1 860	78 429	57 475
Use	(52)	(25 322)	(435)	(25 809)	(18 491)
Reversal	(1)	(20 996)	-	(20 997)	(98)
Closing balance	8 372	78 672	26 555	113 599	81 483

The provisions are included in liabilities as follows:

	<i>Current provisions (included in provisions and other current liabilities)</i>	<i>Non-current provisions</i>	<i>Total provisions</i>
At 31 December 2011		32 518	81 483
At 31 December 2012	48 965	39 648	113 599

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a) Environmental Provisions

As part of the "Remediation of Old Environmental Burdens" project, SPP deals with the decontamination of polluted sites. In all sites of former coal-gas production, the remediation was completed, decontamination through post-remediation monitoring was confirmed and successful implementation was confirmed by the Ministry of the Environment of the Slovak Republic pursuant to the Act on Environmental Burdens. In 2011, the environmental burden identification project was carried out in all compressor stations (KS01 Veľké Kapušany, KS02 Jablonov nad Turňou, KS03 Veľké Zlievce and KS04 Ivánka pri Nitre) operated by eustream, a.s. In all compressor stations, the pollution caused by oil substances and the gas transmission condensate was confirmed. Three of them (KS01, KS02, KS03) were subject to partial decontamination, which could be carried out outside of the used gas facilities. In all compressor stations, the said pollution affects the site under the 6MW turbo-generator sets.

SPP estimated the provision for decontamination and restoration using the existing technology and current prices adjusted for expected future inflation and discounted using a discount rate that reflects the current market assessment of the time value of money and risks specific to the liability (approximately 1.49%). The provision forms an integral part of the transmission assets group and will be contributed to eustream, a.s. (see also Note 28).

b) Provision for Onerous Contracts

The Company identified and recorded a provision for onerous contracts in connection with non-cancellable contractual commitments to supply natural gas to customers under sales contracts in 2013 and beyond. These provisions are based on an assumption that the future costs to purchase natural gas, which are mainly influenced by the long-term purchase contract with Gazprom export, to provide natural gas to these customers will exceed the economic benefits obtained at the sale. The calculation of the provision is subject to various assumptions of current market information relating to the future development of natural gas prices in spot markets, USD/EUR exchange rates, and indices monitored in the gas market, which are volatile. The actual losses generated with regard to these contracts may vary and such differences may be material.

b) Other Provisions

Other provisions include an amount of EUR 26 055 thousand (31 December 2011: EUR 24 595 thousand) for various litigation and potential disputes. Refer also to Note 28.

16. INTEREST-BEARING BORROWINGS

	31 December 2012 Secured	31 December 2012 Unsecured	31 December 2012 Total	31 December 2011 Secured	31 December 2011 Unsecured	31 December 2011 Total
Bank loans and borrowings	-	626 793	626 793	-	633 675	633 675
Bonds	-	-	-	-	-	-
Total	-	626 793	626 793	-	633 675	633 675
Loans by currency						
EUR						
- with fixed interest rate	-	83 826	83 826	-	83 675	83 675
- with variable interest rate	-	542 967	542 967	-	550 000	550 000
Total loans	-	626 793	626 793	-	633 675	633 675
Loans are due as follows:						
Less than 1 year	-	142 986	142 986	-	-	-
1 to 2 years	-	-	-	-	150 000	150 000
2 to 5 years	-	400 000	400 000	-	400 000	400 000
More than 5 years	-	83 807	83 807	-	83 675	83 675
Total loans	-	626 793	626 793	-	633 675	633 675

In 2012 and 2011, SPP drew loans denominated in EUR bearing both variable and fixed interest rates. The average interest rate of loans drawn as at 31 December 2012 was 1.416% p.a. (or 3.033% p.a. reflecting interest rate swaps); while the decrease in the average interest rate compared to the previous year was caused (besides the decrease in interbank interest rates) also by a higher share of short-term credit lines in the total loans of SPP. The average loan maturity as at 31 December 2012 was 2.58 years (3.69 years as at 31 December 2011).

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Except for the long-term negotiable loan from Deutsche Bank, the existing loans are drawn on a revolving basis with an interest period of 1–3 months; occasionally, loans were also drawn in the form of an overdraft facility during the year. The loans were not secured by any pledges over assets.

Interest rates on loans:

Loans

EUR	
- with a fixed rate	4.125% p.a.
- with a variable rate	1M EURIBOR plus margin 3M EURIBOR plus margin

The carrying amount and face value of loans and bonds:

	<i>Carrying amount</i>		<i>Face value</i>	
	<i>31 December 2012</i>	<i>31 December 2011</i>	<i>31 December 2012</i>	<i>31 December 2011</i>
Loans	626 793	633 675	627 986	635 000
Bonds	-	-	-	-
Total	626 793	633 675	627 986	635 000

SPP has the following outstanding credit facilities:

	<i>31 December 2012</i>	<i>31 December 2011</i>
Variable rate:		
- due within 1 year	396 800	-
- due after more than 1 year	50 000	359 788
Total	446 800	359 788

Based on the existing medium-/long-term loan agreements the Company SPP is required to comply with agreed financial covenants, ie on each relevant day of each calendar year over the term of the contract, the net debt of Group on the respective relevant day of the relevant calendar year against it's the Group's EBITDA for the previous 12 months prior to that relevant day may be not higher than 2.

Furthermore, under the long-term negotiable loan from Deutsche Bank, the Company SPP is required to ensure that in the event of the transfer of the relevant assets (such as eustream, a.s./ SPP – distribúcia, a.s./or other significant subsidiary, ie the subsidiary that accounts for at least 15% of the Group's total sales or assets) that might result from the requirement to adapt to the new energy legislation ("unbundling"), the Company SPP must immediately after the transfer of such assets comply with the defined level of debt, ie the Group's equity to total assets may not be lower than 0.15. As at 31 December 2012, the Company complied with these covenants.

17. TRADE AND OTHER PAYABLES

	<i>31 December 2012</i>	<i>31 December 2011</i>
Payables from natural gas purchases and supplies	349 680	134 951
Payables from electricity purchases	34	-
Other trade payables and other payables	322 362	394 800
Amounts due to employees	5 184	4 595
Social security and other taxes	11 290	15 700
Payables from financial derivatives	51 905	85 798
Payables from transmission and distribution activities	39	-
Total	740 494	635 844

As at 31 December 2012, other trade payables and other payables also include trade payables and payables from cash-pooling to SPP – distribúcia, a.s., in the amount of EUR 82 742 thousand (31 December 2011: EUR 123 411 thousand), eustream, a.s., in the amount of EUR 236 744 thousand (31 December 2011: EUR 222 712 thousand), SPP Bohemia, a.s., in the amount of EUR 3 thousand (31 December 2011: EUR 53 645 thousand) and SPP Storage, s.r.o. in the amount of EUR 13 802 thousand (31 December 2011: EUR 14 629 thousand). The payables arising from purchases and sales of natural gas represent ordinary liabilities resulting from the purchase of natural gas and overpayments for natural gas off-takes.

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As at 31 December 2012, SPP recorded payables within maturity in the amount of EUR 740 494 thousand; no overdue payables were recorded. As at 31 December 2011, SPP recorded payables within maturity in the amount of EUR 635 844 thousand; no overdue payables were recorded.

Social fund payables:

	Amount
Opening balance as at 1 January 2012	1 044
Total additions:	308
<i>from expenses</i>	301
<i>non-mandatory allotment</i>	7
Total drawing:	(247)
<i>social assistance benefit in material deprivation</i>	-
<i>monetary rewards and gifts</i>	(77)
<i>life jubilee benefits</i>	(10)
<i>work jubilee benefits</i>	(12)
<i>catering allowance</i>	(113)
<i>other drawing as per the collective agreement</i>	(35)
Closing balance as at 31 December 2012	1 105

18. REGISTERED CAPITAL

At 31 December 2012 and 31 December 2011, the registered capital represented a total of 52 287 322 fully-paid shares (with a face amount of EUR 33.19) held by the National Property Fund of the Slovak Republic (51%) and Slovak Gas Holding B. V., the Netherlands (49%). The registered capital was incorporated in the Commercial Register in the full amount.

In accordance with the Articles of Association, the General Meeting adopts decisions with a voting majority of 52% of all votes. In certain cases, as defined by both Slovak law and the Articles of Association, a two-thirds voting majority is required.

19. LEGAL AND OTHER FUNDS AND RETAINED EARNINGS

Since 1 January 2006, SPP has been required to prepare financial statements in accordance with IFRS as adopted by the EU (both separate and consolidated) only. Distributable profit represents amounts only as stated in the separate financial statements.

The legal reserve fund in the amount of EUR 347 329 thousand (31 December 2011: EUR 347 329 thousand) is recorded in accordance with Slovak law and is not distributable to the shareholders. The reserve is created from retained earnings to cover possible future losses or increases in 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 Company has assessed that there are no clear rules or legislation on the potential distribution of the amounts included in the revaluation reserve. The revaluation reserve is not immediately available for distribution to the Company's shareholders. Portions of the revaluation reserve are transferred to retained earnings according to the differences between the depreciation charges from the revalued amounts and the original acquisition costs of the assets. The revaluation reserve is also transferred to retained earnings if the related asset is sold, contributed as a part of the business, or disposed of. These transfers to retained earnings are distributable.

Other funds and reserves in equity are not distributable to the Company's shareholders.

Type of allotment	Profit allotment for 2011	Profit allotment for 2010
Profit for the 2011/2010 year	746 872	442 991
Retained earnings	-	107 009
Total dividend amount	746 872	550 000

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Hedging Reserve

Hedging reserves represent gains and losses arising from cash flow hedging.

	Year ended 31 December 2012	Year ended 31 December 2011
Opening balance	(21 145)	3 863
Gain/loss from cash flow hedging	(18 759)	(21 145)
Commodity swap contracts	(2 747)	(13 265)
Currency forward contracts	(30)	1 014
Interest rate swap contracts	(15 982)	(8 894)
Income tax applicable to gains/losses recognised through equity	4 315	-
Transfer to profit/loss	21 145	(3 863)
Currency forward contracts	(1 014)	-
Commodity forward contracts	-	-
Commodity swap contracts	13 265	333
Interest rate swap contracts	8 894	(4 196)
Income tax applicable to gains/losses recognised through profit/loss	-	-
Transfer to initial carrying amount of the hedged item	-	-
Currency forward contracts	-	-
Commodity forward contracts	-	-
Commodity swap contracts	-	-
Interest rate swap contracts	-	-
Income tax applicable to amounts transferred to the initial carrying amount of the hedged item	-	-
Closing balance	(14 444)	(21 145)

A hedging reserve represents a cumulative accrued portion of gains and losses arising from a change in the fair value of hedging instruments concluded for cash flow hedging purposes. A cumulative gain or loss arising from a change in the fair value of hedging derivatives recognised and accrued in the hedging reserve is reclassified to profit or loss provided that the hedged transaction has an effect on the income statement or is included as an adjustment of the base in the hedged non-financial item in accordance with the applicable accounting procedures.

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

	Year ended 31 December 2012	Year ended 31 December 2011
Sale of natural gas	12 251	333
Lease of gas assets and other sales	-	-
Purchases of natural gas, consumables and energy consumption	-	-
Other costs, net	-	-
Finance (costs)/revenues	8 894	(4 196)
Income tax charged to expenses	-	-
Total	21 145	(3 863)

20. STAFF COSTS

	Year ended 31 December 2012	Year ended 31 December 2011
Wages, salaries and bonuses	25 310	27 354
Social security costs	12 276	14 543
Total staff costs	37 586	41 897

The Company is required to make social security contributions, amounting to 35.2% of the salary bases as determined by law, up to the maximum amount ranging from EUR 1–3.08 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.

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21. INVESTMENT INCOME

	<i>Year ended 31 December 2012</i>	<i>Year ended 31 December 2011</i>
Interest income	13 200	10 029
Profit/(loss) on the sale of investments	435	-
Derivatives	(25 114)	(38 326)
Dividends	377 446	728 681
Other net investment income/ (losses)	(1 800)	(151 016)
Total investment income	364 167	549 368

In 2011, income from dividends includes dividend in the amount of EUR 141 295 thousand paid by SPP Bohemia, a.s. following its financial year end as at 30 November 2011.

22. FINANCE COSTS/(REVENUES)

	<i>Year ended 31 December 2012</i>	<i>Year ended 31 December 2011</i>
Interest expense	(17 623)	21 048
Foreign exchange differences – loss/(gain) (Note 24)	(79)	(673)
Other	(781)	253
Total finance costs/(revenues)	(18 483)	20 628

23. COSTS OF AUDIT SERVICES

	<i>Year ended 31 December 2012</i>	<i>Year ended 31 December 2011</i>
Audit of financial statements	47	56
Other assurance services	27	8
Tax advisory services	34	3
Other related services provided by the auditor	643	182
Total	751	249

24. FOREIGN EXCHANGE DIFFERENCES

	<i>Year ended 31 December 2012</i>	<i>Year ended 31 December 2011</i>
Foreign exchange losses (gains) arising from:		
– Operating activities recognised in other operating expenses	8 537	7 619
– Financing activities (Note 22)	(79)	673
Total foreign exchange losses (gains)	8 458	8 292

25. TAXATION

25.1. Income Tax

Income tax comprises the following:

	<i>Year ended 31 December 2012</i>	<i>Year ended 31 December 2011</i>
Current income tax	23 974	65 686
Special levy on business in regulated industries	6 364	-
Deferred income tax (Note 25.2)		
– current year	1 373	(86 100)
Total	31 711	(20 414)

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The reconciliation between the reported income tax and the theoretical amount calculated using the standard tax rates is as follows:

	<i>Year ended 31 December 2012</i>	<i>Year ended 31 December 2011</i>
Profit before taxation	397 036	726 458
Income tax at 19%	75 437	138 027
Effect of adjustments from permanent differences between carrying amount and tax value of assets and liabilities	(44 482)	(105 569)
Reversal of a deferred tax due to planned contribution of a part of business to eustream	-	(54 406)
Tax impact due to the change in the tax rate from 19% to 23%	(5 917)	-
Special levy on business in regulated industries	6 364	-
Other adjustments	309	1 534
Income tax for the year	31 711	(20 414)

The actually-recognised tax rate differs from the tax rate stipulated by law of 19% in 2012 mainly due to the adaption of the change in the tax rate for deferred income tax valid as of 1 January 2013 to 23% and due to the adjustments of the tax base in respect of the current income tax for items increasing and decreasing the tax base pursuant to the valid tax legislation. Such adjustments mainly include dividends, tax non-deductible provisions for liabilities and provisions for assets, a loss reported from other than hedging derivatives and a difference between tax and accounting depreciation charges of non-current assets.

Pursuant to the requirements of IFRS, the income tax also includes a special levy on business in regulated industries pursuant to a special regulation (Note 3, p).

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

25.2. 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:

	<i>At 1 January 2012</i>	<i>(Charge)/Credit to Other Comprehensive Income/Losses</i>	<i>(Charge)/Credit to Profit for the Period</i>	<i>At 31 December 2012</i>
Difference in NBV of non-current assets	1 399	415	(9 635)	(7 821)
Change in the fair value of financial investments	-	(6 149)	-	(6 149)
Items adjusting tax base only when paid	171	-	(232)	(61)
Provisions and employee benefits	10 999	-	7 470	18 469
Provisions for receivables	8 743	-	1 062	9 805
Impairment loss	3 242	-	(78)	3 164
Other	3 223	4 315	40	7 578
Total	27 777	(1 419)	(1 373)	24 985

	<i>At 1 January 2011</i>	<i>(Charge)/Credit to Other Comprehensive Income/Losses</i>	<i>(Charge)/Credit to Profit for the Period</i>	<i>At 31 December 2011</i>
Difference in NBV of non-current assets	(439 377)	358 020	82 756	1 399
Items adjusting tax base only when paid	(667)	-	838	171
Change in fair value of derivatives	-	-	-	-
Provisions and employee benefits	3 731	-	7 268	10 999
Provisions for receivables	12 577	-	(3 834)	8 743
Impairment loss	6 672	-	(3 430)	3 242
Other	721	-	2 502	3 223
Total	(416 343)	358 020	86 100	27 777

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

	31 December 2012	31 December 2011
Deferred tax asset/(liability)	24 985	27 777
Total	24 985	27 777

26. TAX EFFECTS IN THE STATEMENT OF OTHER COMPREHENSIVE INCOME

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

At 31 December 2012	Before tax	Tax	After tax
Increase/(decrease) in gas assets revaluation reserve	(37 387)	415	(36 972)
Decrease in revaluation reserve for changes in fair value	-	-	-
Increase/(decrease) in financial investment revaluation reserves	26 736	(6 149)	20 587
Hedging derivatives (Cash flow hedging)	2 386	4 315	6 701
Other	-	-	-
Other comprehensive income for the period	(8 265)	(1 419)	(9 684)

At 31 December 2011	Before tax	Tax	After tax
Increase/(decrease) in gas assets revaluation reserve	(16 347)	3 106	(13 241)
Decrease in revaluation reserve for changes in fair value	(43 963)	8 353	(35 610)
Hedging derivatives (Cash flow hedging)	(25 008)	-	(25 008)
Other	-	346 561	346 561
Other comprehensive income for the period	(85 318)	358 020	272 702

As at 31 December 2011, the Company released deferred tax recorded with respect to the difference between the tax net book value and the carrying amount of gas assets, the realisation of which is expected through a non-monetary contribution to the subsidiary – eustream, a.s. (see also Note 28).

27. CASH FLOWS FROM OPERATING ACTIVITIES

	Year ended 31 December 2012	Year ended 31 December 2011
Profit before tax	397 036	726 458
Adjustments for:		
Depreciation and amortisation	110 062	153 297
Interest income, net	4 424	11 019
Income from financial investments	(377 882)	(728 681)
FX differences	(307)	(967)
Derivatives	(38 276)	37 913
Provisions and other non-cash items	37 681	160 307
Impairment losses	15 673	15 753
Loss/(profit) from sale of non-current assets	2 345	(4 762)
(Increase)/decrease in receivables and prepayments	179 370	(121 299)
(Increase)/decrease in inventories	(38 935)	5 839
Increase/(decrease) in trade and other payables	136 663	(82 289)
Cash flows from operating activities	427 854	172 588

28. COMMITMENTS AND CONTINGENCIES

Capital Expenditure Commitments

As at 31 December 2012, capital expenditure of EUR 97 869 thousand (31 December 2011: EUR 103 443 thousand) had been committed under contractual arrangements for the acquisition of non-current assets but were not recognised in the financial statements.

Operating Lease Arrangements

In 2011 and 2012, SPP leased its international transmission pipeline network to its subsidiary eustream, a.s. under a six-year agreement. Under the requirements of the EU's third energy package, SPP may not own the transmission network. SPP must therefore transfer the transmission assets to its subsidiary, eustream, a.s., which is currently the only licensed gas transmission operator in the Slovak Republic (see also Note 28).

In 2012, income on the lease of assets earned by SPP amounted to EUR 306 193 thousand (2011: EUR 340 641 thousand).

Future non-cancellable operating lease income amounts to:

Period	2012	2011
Within 1 year	51 032	170 320
From 1 to 5 years	-	-
More than 5 years	-	-
Total	51 032	170 320

The Company leases means of transport under an operating lease agreement. The contract is made for four years and the Company has no pre-emptive right to purchase the assets after the expiry of the term of the lease. The lease payments amounted to EUR 1 279 thousand in the year ended 31 December 2012.

Non-cancellable operating lease payables amount to:

Period	2012	2011
Within 1 year	1 279	1 578
From 1 to 5 years	746	2 499
Total	2 025	4 077

Natural Gas Purchase

The majority of natural gas supplies for SPP were performed from the Russian Federation in 2012. The supplies were continuous in line with SPP's requirements pursuant to the agreed terms and conditions of the long-term agreement with Gazprom export LLC. No significant shortcomings in the supplies were observed on the side of the Russian business partner. In the event of an emergency situation (gas crisis), SPP is able to provide gas supplies through the diversification of resources up to 20% of the Slovak needs by means of a reverse flow via the Czech Republic.

The purchase price for natural gas from the Russian supplier is determined on a monthly basis using an agreed formula. The formula is based on basic prices adjusted by movements in the market prices of competitive hydrocarbon products on the exchange (light and heavy heating oil).

In 2011, SPP initiated the gas purchase price revision process in compliance with the terms and conditions of a long-term natural gas purchase contract. On 27 December 2011, the Company signed a final and binding agreement with Gazprom export LLC. It resulted in an adjustment of the natural gas purchase price effective from 1 January 2011.

Natural Gas Storage Contracts

The Company stores natural gas at two storage locations in the Slovak Republic. The gas storage facilities are operated by subsidiary NAFTA, a.s. and the joint venture Pozagas, a.s., and are used for the deposit and extraction of natural gas as per seasonal demand, as well as to secure the safe provision of supplies as regulated by law. Storage fees are agreed for the term of the contracts. The storage fee is based primarily on the capacity rented per year and the annual price indices.

Gas Sales Contracts

Sales of natural gas to medium- and large-sized customers are subject to gas supplies contracts, which are generally agreed for one or more years. The prices agreed in the contracts usually include capacity and commodity components.

Taxation

The Company has significant transactions with several subsidiaries and associated companies, the shareholders and other related parties. The tax environment in which the Company operates in the Slovak Republic is dependent on the prevailing tax legislation and practice, which is relatively imperfect and has relatively little existing precedent. 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.

Litigation and Potential Losses

The Company is involved in a number of legal disputes relating to disputed bills of exchange and alleged breaches of contracts. In addition to the bills of exchange and disputes described below, the Company is also involved in other litigation arising in the normal course of business that is not expected, either individually or in the aggregate, to have a significant adverse effect on the accompanying financial statements. The final outcome of such litigation may result in liabilities higher than the provisions recognised, and such differences may be significant.

Bills of exchange

The management of the Company is aware of the existence of bills of exchange that were allegedly signed by the former General Director of SPP prior to 1999. SPP announced publicly that it would repudiate the validity of these bills of exchange signed by the former General Director before the court, on the basis of the suspicion that these bills are fraudulent and are in no way related to any contractual relations of SPP.

At present, 11 bills of exchange totalling EUR 116 million are at different stages of legal proceedings in courts in the Slovak Republic. In three other cases related to the bills of exchange amounting to approximately EUR 63 million a final and binding decision of a court was adopted in favour of SPP. Efforts of the counterparties to overturn the positive result for SPP by use of extraordinary remedies cannot be excluded.

The management of SPP, following the advice of its legal counsel, defends the interests of the Company in these cases by all legitimate means available. SPP recorded a provision for potential losses related to several bills of exchange. The amount of the provision has not been disclosed separately, as the management of SPP believes that any such disclosure could seriously jeopardise the position of SPP in the relevant litigation. These financial statements do not include any other provisions for potential losses related to the bills of exchange as the final outcome of the remaining cases is uncertain and cannot currently be predicted.

Other legal cases and disputes

SPP is a defendant in other legal cases or disputes in respect of alleged breaches of the contract for significant amounts.

The amounts of the provisions and other information relating to these individual legal cases and disputes have not been disclosed separately as the management of SPP believes this could seriously jeopardise the position of SPP in the disputes.

Legislative Conditions for Business Activities in the Energy Sector

Third Energy Package of the EU

In 2009, the European Union adopted Directives 2009/72/EC and 2009/73/EC and related regulations concerning common rules for the internal market in natural gas and electricity known as the "Third Energy Package" that Member States were required to transpose into their national laws no later than 3 March 2012. One of the most important requirements of the Third Energy Package is, inter alia, to determine the regime of the unbundling of transmission networks and distribution network operators, with the EU Member States being allowed to opt for the implementation of one of the following alternatives in the gas sector:

- Ownership unbundling;
- Independent system operator; or
- Independent transmission operator and/or the "ITO model".

Legal and Regulatory Framework for the Natural Gas Market in the Slovak Republic and the Implementation of the EU Energy Legislation

The Third Energy Package was transposed into Slovak law through the new Act No. 251/2012 Coll. on Energy and on Amendments to and Supplementation of Certain Acts and the new Act No. 250/2012 Coll. on Regulation in Network Industries that became effective on 1 September 2012 and that represent a basic legal framework for business in the energy sector.

Based on Resolution No. 656/2012 dated 28 November 2012 and pursuant to the provision of Article 50 (8) of Act No. 251/2012 Coll. on Energy and on Amendment to and Supplementation of Certain Acts, the Government of the Slovak Republic determined that for a transmission network operator that is part of a vertically-integrated gas undertaking, the ownership unbundling of such transmission network operator will not be applied pursuant to Article 50 (1 - 7) of the Act. Thus, the provisions of the Act stipulating the conditions of implementing the so-called ITO model apply to eustream, a.s., without prejudice to the right of the vertically-integrated undertaking to implement the ownership unbundling.

New acts transpose the requirements of the Third Energy Package that extend the requirements for the independence and unbundling of commercial, financial, operational and investment activities of transmission network operators and, simultaneously, strengthen the powers of the Regulatory Office for Network Industries ("RONI") in relation to vertically-integrated undertakings. One of the principal requirements under Directive No. 2009/73/EC also in the case of the ITO model implementation is the ownership of the transmission network by its operator. Additionally, new obligations apply to the independent transmission operator; the said obligations relate to the creation of the so-called supervisory commission as a special supervisory body, certification as part of which the Regulatory Office for Network Industries together with the European Commission will examine its independence and compliance with the ITO model requirements and other obligations to provide for the independence in the operation, maintenance and management of the transmission network. On 14 February 2013, the Extraordinary General Meeting of the Company approved the transfer of transmission assets to the subsidiary eustream, a.s., in the form of an in-kind contribution of a part of business effective as of 28 February 2013. The transfer of assets will have a significant impact on the Company's financial statements. The in-kind contribution will be recognised as decrease in values of property, plant, machinery and equipment and an increase of the financial investment in the subsidiary eustream, a.s.; the contract for the lease of gas assets will also be terminated. As at 31 December 2012, the carrying amount of such assets was EUR 2 439 million, the related depreciation charges amounted to EUR 94 million and revenues from the lease of gas assets to EUR 306 million.

Price Regulation

The basic framework in the price regulation of gas supplies is comprised by Act No. 250/2012 Coll. on Regulation in Network Industries and the Regulation Policy for the upcoming 2012 - 2016 regulation period. Details related to the scope and method of conducting price regulation are determined in the generally-binding legal regulations issued by the Regulatory Office for Network Industries based on the above acts. In 2012, gas supplies to households, gas supplies for the production of heat for households and gas supplies to suppliers of last resort continue to be subject to price regulation. On one hand, price regulation in gas supplies for the production of heat for households was cancelled with effect from 2013 and, on the other hand, price regulation in gas supply to small businesses (with an annual consumption of up to 100 thousand kWh/year) was re-introduced in addition to price regulation in gas supplies to households and last resort supplies being preserved. In 2013, the same scope of price regulation will also apply to electricity supplies (in this case, a small business is a customer with maximum annual consumption of 30 thousand kWh). Price regulation in the above areas is stipulated in Decree of the Regulatory Office for Network Industries No. 189/2011 Coll. on the Extent of Price Regulation in Network Industries and on the Manner of its Implementation, Decree No. 216/2011 Coll. providing for price regulation in the gas sector, Decree No. 285/2012 providing for price regulation of gas supplies to small businesses, Decree No. 225/2012 Coll. providing for price regulation in the electricity sector, and Decree No. 283/2012 Coll. providing for price regulation of electricity supplies to small businesses.

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29. RELATED PARTY TRANSACTIONS

Slovak Gas Holding (as at 31 December 2012, an indirect joint venture of GDF SUEZ SA and E.ON Ruhrgas) exercises management control over SPP with a 49% shareholding. Since January 2013, Energetický průmyslový holding, a.s. (EPH) is the new investor and indirect owner of 49% share in SPP. SPP is owned by the Slovak National Property Fund with a 51% shareholding.

During the year, the Company entered into the following transactions with related parties:

	Year ended 31 December 2012				31 December 2012			
	Revenues	Creation/ (reversal) of provisions for receivables	Expenses	Dividends	Other	Receivables	Provisions for receivables	Payables
Slovak Gas Holding	-	-	-	365 967	-	-	-	-
National Property Fund	-	-	-	380 905	-	-	-	-
SPP's subsidiaries	814 755	-	494 757	-	2	110 473	-	333 488
Associates	2	-	-	-	-	-	-	-
Joint ventures	5 722	-	400	-	-	38	-	91
Other related parties	103 335	-	18 785	-	4	35 132	17 485	10 686

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

Transactions with Slovak Gas Holding and the National Property Fund represent dividend payments.

Transactions with subsidiaries, associates and other related parties represent mainly services related to purchases, sales and transmission of natural gas, lease of property, plant and equipment, storage of natural gas and other services.

	Year ended 31 December 2011				31 December 2011			
	Revenues	Creation/ (reversal) of provisions for receivables	Expenses	Dividends	Other	Receivables	Provisions for receivables	Payables
Slovak Gas Holding	-	-	-	280 500	-	-	-	-
National Property Fund	-	-	-	269 500	-	-	-	-
SPP's subsidiaries	1 273 665	2	623 474	-	1 991	117 833	1	415 271
Associates	2	-	45	-	-	-	-	54
Joint ventures	6 668	-	4 903	-	-	-	-	61
Other related parties	301 606	-	220 491	-	13	35 371	14 640	5 357

These notes form an integral part of the separate financial statements.

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

	Year ended 31 December 2012	Year ended 31 December 2011
Remuneration to members of the Board of Directors, Supervisory Board, executive management and former members of the bodies - total	2 359	2 707
<i>Of which:</i>		
<i>Board of Directors and executive management</i>	1 960	2 308
<i>Supervisory Board</i>	399	399
Other long-term benefits to members of the Board of Directors, Supervisory Board, executive management and former members of the bodies - total	1	-
<i>Of which:</i>		
<i>Board of Directors and executive management</i>	-	-
Benefits in kind to members of the Board of Directors and executive management - total	64	75
<i>Of which:</i>		
<i>Board of Directors and executive management</i>	64	75
Other payments to members of the Board of Directors, Supervisory Board, executive management and former members - total	417	-
<i>Of which:</i>		
<i>Board of Directors and executive management</i>	417	-

30. 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	Dr. Hans-Gilbert Meyer – since 1 Jul 2012
	Chairman	Dipl. Ing. Jean-Jacques Ciazynski – until 30 Jun 2012
	Vice-Chairman	Mgr. Alexander Sako – since 31 May 2012
	Vice-Chairman	Ing. Štefan Slezák, MBA – until 30 May 2012
	Member	Mgr. Ing. Andreas Rau
	Member	Dipl. ekonom Frédérique Dufresnoy, MBA
	Member	Dipl. Ing. Jean-Jacques Ciazynski – since 1 Jul 2012
	Member	Dr. Hans-Gilbert Meyer – until 30 Jun 2012
	Member	JUDr. Marián Valko – since 31 May 2012
	Member	Ing. Milan Hargaš – since 31 May 2012
	Member	Ing. Juraj Ondris, MBA – until 30 May 2012
	Member	Ing. Vladimír Klimeš – until 30 May 2012
Supervisory Board	Chairman	Michal Ďurkovič – since 28 Jun 2012
	Chairman	Prof. Ing. Peter Baláž, PhD. – until 30 May 2012
	Vice-Chairman	Dipl. ekonóm Eric Stab – since 1 Jul 2012
	Vice-Chairman	Nicole Otterberg – until 30 Jun 2012
	Member	Michal Ďurkovič – from 31 May 2012 until 27 Jun 2012
	Member	Ing. Peter Kováč
	Member	Ing. Robert Maguth
	Member	Ing. Jozef Polačko
	Member	Viera Uhrová
	Member	Ing. Valéria Janočková
	Member	MUDr. Martin Kováč – since 31 May 2012
	Member	Ing. Robert Zemánek – since 31 May 2012
	Member	Ing. arch. Tomáš Gál, PhD. – since 31 May 2012
	Member	Prof. Ing. Juraj Janočko, CSc., Dr. Scient. – since 31 May 2012
	Member	Ing. Dušan Žák – since 31 May 2012
	Member	Ing. Ján Mandulák – until 30 May 2012
	Member	JUDr. Karol Šiška – until 30 May 2012
Member	JUDr. Juraj Bizoň – until 30 May 2012	
Member	Arpád Csuri – until 30 May 2012	
Member	Ing. Juraj Horváth – until 30 May 2012	
Executive management	Director of Finance Division, authorised to act on behalf of the General Director	Ing. Libor Briška
	Director of Trade Division	Ing. Dušan Randuška, MBA
	Director of Corporate Affairs and Services Division	Ing. Rastislav Bráblík
	Director of Customer Services Division	Ing. Stanislav Hodek – until 30 Sep 2012 Ing. Rastislav Bráblík – since 1 Oct 2012 appointed to act on behalf of the director

b) Consolidated Financial Statements

As at 31 December 2012, SPP submits consolidated financial information as a consolidated reporting entity to E.ON Ruhrgas International AG with its seat at Huttropstrasse 60, 45138 Essen, Germany, and to GDF SUEZ SA with its seat at 16-26, rue du Docteur Lancereaux, 75008 Paris, France.

The ultimate reporting entities that consolidate SPP as at 31 December 2012 are GDF SUEZ SA and E.ON AG.

The consolidated and separate financial statements are published in the Slovak Commercial Journal and on the Company's website (www.spp.sk).

The consolidated and separate financial statements of SPP are filed with the Commercial Register of the District Court Bratislava 1, Záhradnícka 10, 811 07 Bratislava. The separate and consolidated financial statements of subsidiaries, joint ventures, and associated undertakings are available at the relevant Courts of Record based on their official address.

31. POST-BALANCE SHEET EVENTS

In January 2013, the Company initiated price negotiations on the natural gas purchase price valid for the 2013 supplies with Gazprom export LLC.

In January 2013, the sale of minority interests in Severomoravská plynárenská, a.s. and Východočeská plynárenská, a.s. was completed and they were transferred to the new owner.

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

In connection with the change in the shareholders structure, the Extraordinary General Meeting of shareholders held on 23 January 2013 approved the following personnel changes in the senior bodies of Slovenský plynárenský priemysel, a.s., effective as of 24 January 2013:

- JUDr. Daniel Křetínský replaced Mr. Hans-Gilbert Meyer in the office of the Chairman of the Board of Directors;
- Ing. Jan Špringl, Mgr. Pavel Horský and Ing. Ladislav Bartoníček, MBA, replaced the following members of the Board of Directors: Jean-Jacques Ciazynski, Frédérique Dufresnoy and Andreas Rau.

Changes in the Supervisory Board of SPP took effect as of 24 January 2013. Mr. Peter Korbačka became the new member and replaced Mr. Eric Stab.

In the Contract on the SPP Group Restructuring between the National Property Fund (hereinafter the "FNM") and the Ministry of Economy of the SR (hereinafter the "MH SR") and EPH dated 14 December 2012 and in the Shareholders Agreement signed by the FNM, the MH SR, EPH and EPH Gas Holding B.V. dated 14 December 2012, the parties agreed on the terms and conditions of the SPP Group's restructuring. The restructuring will be carried out in 2013 and will be completed by 31 December 2013. The restructuring may have a significant impact on the Company's separate financial statements in the future.

On 14 February 2013, the Extraordinary General Meeting of the Company approved the contribution of a part of business consisting of transmission assets to the subsidiary eustream, a.s. effective as of 28 February 2013.

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

Prepared on: 13 March 2013	<i>Signature of a member of the statutory body of the reporting entity or a natural person acting as a reporting entity:</i>  JUDr. Daniel Křetínský Chairman of the Board of Directors	<i>Signature of the person responsible for the preparation of the financial statements:</i>  Ing. Libor Briška Director of Finance Division	<i>Signature of the person responsible for bookkeeping:</i>  Ing. Miroslav Jankovič Director of Accounting and Taxes Section
Approved on:	 Mgr. Alexander Špako Vice-Chairman of the Board of Directors		

Slovenský plynárenský priemysel, a.s.

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

For the year ended 31 December 2012

Slovenský plynárenský priemysel, a.s.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of Slovenský plynárenský priemysel, a.s.:

We have audited the accompanying consolidated financial statements of Slovenský plynárenský priemysel, a.s. and subsidiaries (the "Company"), which comprise the consolidated statement of balance sheet as at 31 December 2012, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated 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 consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the statutory body, as well as evaluating the overall presentation of the consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of Slovenský plynárenský priemysel, a.s. and subsidiaries as of 31 December 2012, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Emphasis of Matter


We draw attention to Note 28 to the consolidated financial statements, which describes the implementation process of the requirements for the new energy legislation of the Slovak Republic.

We draw attention to Note 31 to the consolidated financial statements, which describes change in the parent company's ownership and in the Company's Board of Directors and Supervisory Board subsequent to the balance sheet date.

Our opinion is not modified in respect of these matters.

Bratislava, 13 March 2013


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


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

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Slovenský plynárenský priemysel, a.s.
CONSOLIDATED BALANCE SHEETS
31 December 2012 and 31 December 2011
(in million EUR)

	<i>Note</i>	31 December 2012	31 December 2011
ASSETS:			
NON-CURRENT ASSETS			
Property, plant and equipment	10	6 543	6 673
Investments recognised using the equity method	7	92	95
Available-for-sale and other investments	8 a)	8	9
Non-current intangible	11	109	111
Other non-current assets		118	22
Total non-current assets		6 870	6 910
CURRENT ASSETS			
Inventories	12	535	480
Receivables and prepayments	13	401	602
Income tax assets		-	-
Available-for-sale investments	8 b)	186	188
Cash and cash equivalents		224	122
Total current assets		1 346	1 392
Assets held for sale	9	1	-
TOTAL ASSETS		8 217	8 302
EQUITY AND LIABILITIES:			
CAPITAL AND RESERVES			
Registered capital	19	1 735	1 735
Legal and other reserves	20	369	359
Revaluation reserves	20	3 027	3 327
Retained earnings		220	415
Share in equity attributable to SPP's shareholders		5 351	5 836
Minority interests of other owners of subsidiaries		351	349
Total equity		5 702	6 185
NON-CURRENT LIABILITIES			
Deferred income	14	56	53
Provisions for liabilities	16	148	129
Non-current interest-bearing borrowings	17	484	646
Retirement and other long-term employee benefits	15	9	8
Deferred tax liability	25.2	1 053	882
Other non-current liabilities		4	3
Total non-current liabilities		1 754	1 721
CURRENT LIABILITIES			
Trade and other payables	18	518	290
Current portion of non-current interest-bearing borrowings	17	143	-
Current income tax		13	44
Provisions and other current liabilities		87	62
Total current liabilities		761	396
Total liabilities		2 515	2 117
TOTAL EQUITY AND LIABILITIES		8 217	8 302

The financial statements on pages 3 to 50 were signed on 13 March 2013 on behalf of the Board of Directors:


JUDr. Daniel Křečanský
 Chairman of the Board of Directors


Mgr. Alexander Sako
 Vice-Chairman of the Board of Directors

Slovenský plynárenský priemysel, a.s.
CONSOLIDATED INCOME STATEMENTS
Years ended 31 December 2012 and 31 December 2011
(in million EUR)

	<i>Note</i>	<i>Year ended 31 December 2012</i>	<i>Year ended 31 December 2011</i>
Revenues from sales of products and services:			
Distribution and sale of natural gas and electricity		1 915	2 322
Natural gas transmission and storage, exploration and other		824	841
Total revenues		2 739	3 163
Operating expenses:			
Own work capitalised		18	18
Purchases of natural gas, electricity and consumables and services		(1 528)	(1 858)
Depreciation and amortisation	10, 11	(253)	(298)
Storage of natural gas and other services		(101)	(109)
Staff costs	21	(146)	(145)
Provisions for bad and doubtful debts, obsolete and slow-moving inventories, net	12, 13	(9)	12
Provisions and impairment losses, net	10, 11, 16	(104)	(93)
Other, net		8	9
Total operating expenses		(2 115)	(2 464)
Operating profit		624	699
Gain/(loss) on investments	22	(4)	(2)
Share in profit of associated undertakings and joint ventures	7	12	13
Gain on de-recognition of joint venture	7		
Finance costs	23	(19)	(25)
Profit before income taxes		613	685
Income tax	25.1	(165)	(121)
NET PROFIT FOR THE PERIOD		448	564
Profit attributable to:			
SPP shareholders		409	522
Minority interests of other owners of subsidiaries		39	42
Total		448	564

Slovenský plynárenský priemysel, a.s.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended 31 December 2012 and 31 December 2011
(in million EUR)

	<i>Note</i>	<i>Year ended 31 December 2012</i>	<i>Year ended 31 December 2011</i>
Profit for the period		448	564
Other comprehensive income:	26		
Movement in FX translation reserve		2	(4)
Movement in the gas assets revaluation reserve		29	208
Movement in financial investment revaluation reserve		(3)	-
Decrease in the revaluation reserve due to changes in fair value		10	(45)
Hedging derivatives (Cash flow hedging):		(4)	(18)
<i>Gains (losses) for the period</i>		17	(13)
<i>Less: reclassification of comprehensive income (loss) in the income statement</i>		(21)	(5)
<i>Less: other adjustments</i>		-	-
Reclassified to profit/loss upon derecognition of an entity with substantial influence		-	-
Other		-	-
Deferred tax related to items of other comprehensive income for the period		(172)	(32)
Other net comprehensive income for the period		(138)	109
Total net comprehensive income for the period		310	673
Net comprehensive income attributable to:			
SPP shareholders		262	614
Minority interests of other owners of subsidiaries		48	59
Total		310	673

Slovenský plynárenský priemysel, a.s.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
Years ended 31 December 2012 and 31 December 2011
(in million EUR)

	Registered capital	Legal reserve fund and other funds	Financial investment revaluation reserves	Foreign currency translation reserve	Hedging reserves	Revaluation reserves	Retained earnings	Equity attributable to SPP shareholders	Minority interests of other owners of subsidiaries	Total
At 31 December 2010	1 735	369	20	2	4	3 365	277	5 772	311	6 083
Net profit for the period	-	-	-	-	-	-	522	522	42	564
Other comprehensive income for the period	-	-	-	(4)	(19)	115	-	92	17	109
Dividends paid	-	-	-	-	-	-	(550)	(550)	(21)	(571)
Transfer to retained earnings	-	(13)	-	-	-	(153)	166	-	-	-
At 31 December 2011	1 735	356	20	(2)	(15)	3 327	415	5 836	349	6 185
Net profit for the period	-	-	-	-	-	-	409	409	39	448
Other comprehensive income for the period	-	-	(3)	2	2	(148)	-	(147)	9	(138)
Dividends paid	-	-	-	-	-	-	(747)	(747)	(46)	(793)
Transfer to retained earnings	-	9	-	-	-	(152)	143	-	-	-
At 31 December 2012	1 735	365	17	-	(13)	3 027	220	5 351	351	5 702

Slovenský plynárenský priemysel, a.s.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended 31 December 2012 and 31 December 2011
(in million EUR)

	<i>Note</i>	<i>Year ended 31 December 2012</i>	<i>Year ended 31 December 2011</i>
Operating activities			
Cash flows from operating activities	27	1 222	875
Interest paid		(18)	(21)
Interest received		2	2
Income tax paid		(192)	(98)
Net cash flows from operating activities		<u>1 014</u>	<u>758</u>
Investing activities			
Net cash outflow upon the acquisition of financial investments	8	(8)	-
Proceeds from the sale of financial investments		1	-
Purchase of property, plant and equipment		(142)	(143)
Proceeds from sales of property, plant and equipment and intangible assets		18	14
Dividends received		33	39
Net cash inflow/(outflow) from investing activities		<u>(98)</u>	<u>(90)</u>
Financing activities			
Proceeds from interest-bearing borrowings		143	-
Expenses for interest-bearing borrowings		(162)	(68)
Dividends paid		(793)	(571)
Net cash flows from financing activities		<u>(812)</u>	<u>(639)</u>
Net (decrease)/increase in cash and cash equivalents		<u>104</u>	<u>29</u>
Cash and cash equivalents at the beginning of the period		122	91
Effects of foreign exchange fluctuations		(2)	2
Cash and cash equivalents at the end of the period		<u>224</u>	<u>122</u>

1. GENERAL

1.1. General Information

The consolidated financial statements for the year ended 31 December 2012 have been prepared by Slovenský plynárenský priemysel, a.s. ("SPP") and its subsidiaries, associated undertakings and joint ventures (the "Group") in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union (the "EU"). The reporting currency of the Group is the Euro (EUR). The consolidated financial statements were prepared under the going-concern assumption.

The consolidated financial statements for the year ended 31 December 2012 have been prepared pursuant to Article 22 of Act No. 431/2002 Coll. on Accounting, as amended, for the reporting period from 1 January 2012 until 31 December 2012.

SPP (formerly Slovenský plynárenský priemysel, š. p.) was founded on 21 December 1988 by a Memorandum of Association as a 100% state-owned enterprise in Slovakia. On 1 July 2001, SPP was transformed into a joint-stock company (akciová spoločnosť) that was 100% owned by the National Property Fund of the Slovak Republic. A consortium of strategic investors acquired a 49% share in SPP with management control with effect from 11 July 2002. As at 31 December 2012, SPP's shares were held by the National Property Fund of the Slovak Republic (51%) and Slovak Gas Holding, B. V., the Netherlands (49%) (jointly held indirectly by GDF SUEZ SA and E.ON Ruhrgas). On 15 January 2013, GDF International SAS, E.ON Ruhrgas International GmbH and E.ON SE signed an agreement with Energetický a Průmyslový Holding ("EPH"), a key player on the heat, coal and electricity market in Central Europe, on the sale of their shares in Slovak Gas Holding, B.V. ("SGH"), which owns a 49% share in SPP (the parent company) and also carries out operating and management control. The transaction was completed on 23 January 2013.

Identification number (IČO)	35 815 256
Tax identification number (DIČ)	2020259802

1.2. Principal Activities

The Group is organised into the following operating segments: natural gas and electricity distribution and sale, gas transmission, gas storage, and gas and crude oil exploration.

The distribution segment includes the distribution of natural gas covering all of Slovakia. The proposed prices are subject to review and approval by the Regulatory Office for Network Industries ("RONI").

The transmission segment is responsible for the transmission of natural gas from the Ukrainian border to the western borders of Slovakia and to a virtual domestic point in Slovakia.

The gas storage segment includes storage in underground storage facilities located in Slovakia and the Czech Republic.

The exploration segment includes the exploration and sale of natural gas and crude oil in Slovakia.

1.3. Employees

The average number of the Group's employees for the year ended 31 December 2012 was 4 292, of which 28 were executive management (for the year ended 31 December 2011: 4 573, of which 28 were executive management).

1.4. Registered Address

Mlynské nivy 44/a
825 11 Bratislava
Slovakia

1.5 Costs of Audit Services

The costs for the audit of the financial statements by the auditor amounted to EUR 168 thousand (2011: EUR 210 thousand), the costs of other assurance services amounted to EUR 27 thousand (2011: EUR 8 thousand), tax advisory amounted to EUR 41 thousand (2011: EUR 12 thousand), and the costs of other related services rendered by this auditor amounted to EUR 645 thousand (2011: EUR 196 thousand).

2. NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS AND CHANGES IN ESTIMATES

2.1. Application of New and Revised International Financial Reporting Standards

The Group 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, that are relevant to its operations and that are effective for accounting periods beginning on 1 January 2012.

The following amendments to the existing standards issued by the International Accounting Standards Board and adopted by the EU are effective for the current accounting period:

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

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

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

- IFRS 10 "Consolidated Financial Statements", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014);
- IFRS 11 "Joint Arrangements", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014);
- IFRS 12 "Disclosures of Interests in Other Entities", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014);
- IFRS 13 "Fair Value Measurement", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013);
- IAS 27 (revised in 2011) "Separate Financial Statements", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014);
- IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014);
- Amendments to IFRS 1 "First-time Adoption of IFRS" - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013);
- Amendments to IFRS 7 "Financial Instruments: Disclosures" - Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2013);
- Amendments to IAS 1 "Presentation of Financial Statements" – Presentation of Items of Other Comprehensive Income, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 July 2012);
- Amendments to IAS 12 "Income Taxes" - Deferred Tax: Recovery of Underlying Assets, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013);
- Amendments to IAS 19 "Employee Benefits" - Improvements to the Accounting for Post-employment Benefits, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 January 2013);
- Amendments to IAS 32 "Financial Instruments: Presentation" - Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014); and
- IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).

Slovenský plynárenský priemysel, a.s.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2012
(in million EUR)

The Group has elected not to adopt these standards, revisions, and interpretations in advance of their effective dates. The Group anticipates that adopting these standards, revisions, and interpretations will have no material impact on its 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 and amendments to the existing standards and interpretations, which were not endorsed for use as at 31 December 2012.

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2015);
- Amendments to IFRS 1 "First-time Adoption of IFRS" - Government Loans (effective for annual periods beginning on or after 1 January 2013);
- Amendments to IFRS 9 "Financial Instruments" and IFRS 7 "Financial Instruments: Disclosures" - Mandatory Effective Date and Transition Disclosures;
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosures of Interests in Other Entities" - Transition Guidance (effective for annual periods beginning on or after 1 January 2013);
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosures of Interests in Other Entities" and IAS 27 "Separate Financial Statements" - Investment Entities (effective for annual periods beginning on or after 1 January 2014);
- Amendments to various standards "Improvements to IFRS (2012)" resulting from the annual improvement project of IFRS published on 17 May 2012 (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2013).

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 SPP's estimates, applying hedge accounting for the portfolio of financial assets or liabilities pursuant to IAS 39: "Financial Instruments: Recognition and Measurement" would not significantly impact the financial statements, if applied as at the reporting date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Accounting

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

The consolidated financial statements are prepared under the historical cost convention, except for the specified categories of property, plant and equipment and certain financial instruments. The principal accounting policies adopted are detailed below. The accompanying consolidated financial statements reflect certain adjustments and reclassifications not recorded in the accounting records of certain Group companies in order to conform the Slovak statutory and other financial statements to financial statements prepared in accordance with IFRS as adopted by the EU.

Certain comparatives for the previous reporting period have been reclassified to conform to the current year's presentation.

b) Business Combinations

(1) Subsidiaries

Those business undertakings in which SPP, directly or indirectly, has an interest of usually more than one half of the voting rights or otherwise has power to exercise control over the operations are defined as subsidiary undertakings (subsidiaries) and have been fully consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to SPP and they are no longer consolidated from the date when such control ceases.

Slovenský plynárenský priemysel, a.s.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2012
(in million EUR)

The acquisition of subsidiaries is accounted for using the purchase method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the interests in equity issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

Identifiable acquired assets and assumed liabilities are recognised at fair value as at the acquisition date, except for:

- Deferred tax assets or liabilities, and liabilities or assets related to employee benefit arrangements, which are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits*, respectively;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree, or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree, which are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date; and
- Assets (or disposal groups of assets and liabilities) that are classified as held for sale in accordance with IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations*, which are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously-held equity interest in the acquiree over the net of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously-held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that represent the existing equity securities and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may initially be measured either at fair value or at the non-controlling interest's proportional share in the acquiree's identifiable net assets. The selection of the measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interest are measured at fair value or, when applicable, on the basis specified in other IFRS.

When a business combination is carried out in stages, the Group's previously-held interest in the acquiree is remeasured to fair value at the acquisition date (ie the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that had previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

Business combinations that took place prior to 1 January 2010 were accounted for in accordance with the previous version of IFRS 3.

Goodwill arising on consolidation is recognised as an asset and represents the excess of the cost of the business combination over the Group's interest in the fair value of the identifiable assets, liabilities, and contingent liabilities.

Goodwill is initially recognised at cost, is subsequently not depreciated and is measured at cost less accumulated impairment losses. Goodwill is tested for impairment annually, or more frequently if there is an indication that it may be impaired. An impairment loss recognised for goodwill is not reversed in a subsequent period.

All transactions, balances, and unrealised profits and losses on transactions within the Group have been eliminated upon consolidation.

(2) Investments in Associated Undertakings and Joint Ventures

Financial investments in associated undertakings and joint ventures are accounted for using the equity method.

Associated undertakings are entities in which SPP exercises substantial, but not controlling, influence. Joint ventures are entities in which SPP exercises joint control with other owners. Owing to their impairment, a provision is recorded.

When applying the equity method, investments in associated undertakings and joint ventures are recognised in the balance sheet at cost adjusted for subsequent changes in the Group's share in the net assets of an associated undertaking or a joint venture. Goodwill related to associated undertakings and joint ventures is recognised in the carrying amount of an investment and is not depreciated. The income statement reflects a share in the associated undertakings' and joint ventures' operating results. If a change occurs that was recognised directly in the associated undertakings' and joint ventures' equity, the Group will recognise its share in such change and if necessary, recognise it in the statement of changes in equity. Profits and losses from transactions between the Group and associated undertakings and the Group and joint ventures are eliminated to the extent of the Group's investment in associated undertakings and joint ventures.

c) Financial Instruments

Financial assets and liabilities are recognised on the Group's balance sheet when the Group as a contractual party is subject to the provisions concerning the given instrument.

d) Trade Receivables

Trade receivables are stated at the expected realisable value, net of provisions for debtors in bankruptcy or restructuring proceedings, and net of provisions for overdue bad and doubtful receivables at risk of full or partial non-settlement.

e) Derivative Financial Instruments

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

Cash flow hedging

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 Group documents the relationship between a hedging instrument and the hedged item, risk management objectives, and the strategy for the realisation of various hedging transactions. As of the hedging origination, the Group continuously monitors whether the hedging instrument used in the hedging relationship is effective in compensating for cash flow changes in the hedged item. The amounts recognised in equity are recognised in the income statement at the same period when the hedged fixed liability is incurred or the anticipated transaction affects the profit or loss.

The effective part of changes in the fair value of derivative financial instruments that are designated and qualifying as effective cash flow hedges is recognised in other comprehensive income and accumulated in equity as hedging reserves. Gains or losses relating to the ineffective portion are recognised immediately in the income statement. Amounts previously recognised in other comprehensive income and accumulated in hedging reserves will be transferred to the income statement at the moment the hedged item is recognised in the income statement in the same line of the statement as the hedged item.

Fair value hedging

Changes in the fair value of derivative financial instruments that qualify for fair value hedge accounting of natural gas prices and changes in the fair value of hedged contracts are recognised in the income statement together with any changes in the fair value of the hedged item (representing inventories of natural gas) related to the hedged risk. Changes in the fair value of a hedging instrument and changes in the hedged item related to the hedged risk are recognised in the consolidated income statement line of the relevant hedged item.

Derivative financial instruments that do not qualify for hedge accounting

Changes in the fair value of derivative financial instruments that do not qualify for effective hedging are recognised through profit and loss.

These items are mainly related to derivative financial instruments used for economic hedging that were not or are no longer recorded as hedging relationships for accounting purposes. In the event that a financial derivative does not meet or no longer meets the requirements for hedge accounting, changes in the fair value are directly recognised in the income statement as "Mark-to-market" or as "Mark-to-market on commodity contracts other than trading instruments" in ordinary operating income from derivative financial instruments with non-financial assets as the underlying assets, and in financial revenues or expenses in the case of currency, interest rate or equity derivatives. Derivative financial instruments used by the Group for trading activities with own energy and energy on behalf of customers, and other derivative financial instruments that are due in less than 12 months are recognised in the consolidated statement of financial position as current assets or current liabilities, while derivative financial instruments due after this period are classified as non-current items.

f) Investments

Investments other than in subsidiaries, associated undertakings, and joint ventures are classified into one of the following categories: held-to-maturity, trading, available-for-sale. Investments with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity are classified as held-to-maturity investments. Investments acquired principally for the purpose of generating a profit from short-term price fluctuations are classified as for trading. All other investments, other than loans and receivables, are classified as available-for-sale.

Held-to-maturity investments are included in non-current assets unless they mature within 12 months of the reporting date. Held-to-maturity investments are carried at amortised cost using the effective interest rate method. For investments carried at amortised cost, gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Available-for-sale investments are classified as current assets if management intends to sell them within 12 months of the reporting date. These investments are initially measured at cost, which is the fair value of the consideration given for them, including transaction costs.

After initial recognition, investments that are classified as available-for-sale and held for trading are measured at fair value. Gains or losses on investments held for trading are recognised in the income statement. Gains or losses on available-for-sale investments are recognised as a separate component of equity, until the investment is sold or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in the equity will be recognised in the income statement.

For investments that are actively traded in organised financial markets, fair value is determined by reference to the quoted market prices as at the reporting date. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument that is substantially the same, or is calculated based on the expected cash flows of the underlying net asset base of the investment. If the fair value cannot be reasonably determined, investments are measured at cost less impairment losses.

Purchases and sales of investments are recognised on the transaction date, which is the date when the asset is delivered to the counterparty.

g) Property, Plant and Equipment and Intangible Assets

In 2012, property, plant, and equipment used for gas transmission, distribution and storage are disclosed at their revalued amount, ie the fair value as at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The revaluation is performed by independent valuation experts or by internal estimates. Revaluation is performed with sufficient regularity (at least every five years) so that the net book value does not differ materially from that which would be disclosed using fair values at the reporting date.

Any revaluation increase arising on the revaluation of the property, plant, and equipment is credited to a revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in the income statement, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in the net book value arising on the revaluation of the property plant and equipment is charged to the income statement to the extent that it exceeds the balance, if any, held in the assets revaluation reserve relating to a previous revaluation of that asset. Depreciation on revalued property, plant, and equipment is charged as an expense in the income statement. Any revaluation surplus is gradually released to retained earnings over the depreciation period of the related assets. On the subsequent sale or disposal of a revalued asset, the attributable revaluation surplus remaining in the revaluation reserve is transferred directly to retained earnings.

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Other property, plant, and equipment and intangible assets are stated at cost less accumulated depreciation. Cost includes all costs attributable to placing the asset into service for its intended use and, in respect of exploration and storage wells, the estimated cost of dismantling and removing the asset and restoring the site (capitalised decommissioning costs).

Expenditures related to natural hydrocarbon deposit geological surveys are accounted for in accordance with the successful efforts method. Under this method, geological exploration expenditures (exploration wells) are capitalised under assets in the course of construction when incurred and certain expenditures, such as geological and geophysical exploration costs, are expensed. A review is carried out at least annually, on a field-by-field basis, to ascertain whether proven reserves have been confirmed. When proven reserves are determined and production commenced, the relevant expenditures are transferred from assets in the course of construction to the relevant category of property, plant, and equipment. Exploration wells that are expected to be unsuccessful are provided for.

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

Estimated costs of dismantling, restoration and re-cultivation related to production wells are depreciated over the term of proved extractable reserves on a unit-of-production basis. Production wells and related centres are depreciated over the life of the proved extractable reserves on a unit-of-production basis. Other items of property, plant, and equipment are depreciated on a straight-line basis over the estimated useful lives. Depreciation is charged to the income statement computed so as to amortise the cost of the assets to their estimated residual values over their residual useful lives. The useful lives used are as follows:

	2012	2011
Buildings and structures used for natural gas storage	25 – 80	25 – 80
Compressor stations	11 – 55	25 – 55
Regulation stations	15 – 50	15 – 50
Border and domestic delivery stations	15 – 50	15 – 50
Gas pipelines	60	60
Plant and machinery	4 – 40	4 – 40
Other non-current assets	2 – 8	3 – 8

The residual useful life of some gas assets is shorter than as specified in the table above, since there are considerations of discontinuing their operation between 2013 – 2016.

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 realisable value of the Group's property, plant, and equipment and intangible assets is less than the carrying amount. When such an indication occurs, the realisable value of the asset, being the higher of the asset's fair value less costs of disposal and the present value of future cash flows ("value-in-use"), is estimated. The resulting impairment loss provision is recognised in full in the income statement in the year in which the impairment occurs. The discount rates used to calculate the present value of the future cash flows reflect the 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 its planned completion date, the carrying amount of the asset is reviewed for potential impairment and a provision recorded, if appropriate.

Cushion gas represents gas that is needed to run the underground reservoirs of natural gas. Its production would affect the underground reservoirs' ability to operate. Cushion gas is disclosed as part of the underground reservoirs of natural gas.

Expenditures relating to an item of property, plant, and equipment and intangible assets after being placed into service 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 enterprise. All other expenditures are treated as repairs and maintenance and are expensed in the period in which they are incurred.

h) Non-Current Tangible Assets Acquired Through Free-of-Charge Transfers

Free-of-charge transfers of gas facilities by municipalities to the Group'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.

i) Research and Development

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

j) Inventories

Inventories are stated at the lower of cost and 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 natural gas, 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.

k) Cash and Cash Equivalents

Cash and cash equivalents consist of cash in hand and cash in bank, and highly-liquid securities with insignificant risk of changes in value and original maturities of three months or less from the date of issue.

l) Provisions for Liabilities

A provision is recognised when the Group 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.

Provision for Environmental Expenditures

A provision for environmental expenditures is recognised when environmental clean-ups are probable and the associated costs can be reasonably estimated. Generally, the timing of these provisions coincides with a commitment to a formal plan of action or the divestment or closure of unused assets. The provision recognised is the best estimate of the expenditure required. If the liability is not settled in the following years, the amount recognised is the present value of the estimated future expenditure.

The Group estimates the costs relating to the abandonment of its production, exploration, and storage wells (including related centres and pipelines) and any related restoration costs. Additionally the Group estimates costs relating to the abandonment and restoration of sites related to waste dumps. Estimated abandonment and restoration costs are based on current legislation, technology, and price levels. In respect of production wells and related centres, the estimated cost is recognised over the life of the proved extractable reserves on a unit-of-production basis. The provision for abandonment and restoration is created in an amount that includes all anticipated future costs related to abandonment and restoration discounted to their present value and reflecting the inflation. The discount rate used reflects current market assessments of the time value of money and the risks specific to the liability.

Changes in the provisions for dismantling and site restoration that relate to assets carried under the revaluation model under IAS 16, except for the unwinding of the discount, alter the related revaluation surplus or deficit in accordance with IFRIC 1 "Changes in Existing Decommissioning, Restoration and Similar Liabilities". Such a change in the liability will also result in the revaluation of dismantled assets which were previously recognised so that the assets are presented in their fair values as at the reporting date.

Provision for Various Litigation and Potential Disputes

The financial statements include a provision for various litigation and potential disputes which were estimated using available information and an assessment of the achievable outcome of the individual disputes. The provision is not recognised unless a reasonable estimate can be made.

m) Loans

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

n) Greenhouse Gas Emissions

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

o) Revenue Recognition

Sales are recorded upon the delivery of products or the performance of services, net of value added tax and discounts. The Group records revenues from gas sales, distribution, transmission, and storage services and other activities on the accrual basis. Revenues include estimates of gas supplied but not invoiced as at the reporting date.

p) Borrowing Costs

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

q) Social Security and Pension Schemes

The Group 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.

r) Retirement and Other Long-Term Employee Benefits

The Group has a long-term employee benefit program comprising a lump-sum retirement benefit, loyalty benefit for years worked, 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.

s) Leases

Finance lease

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

Operating lease

An operating lease is a lease other than a finance 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.

Sales and operating leaseback

If the leaseback is classified as an operating lease, profit is recognised immediately if the terms and conditions of the sale and leaseback transaction are clearly stated at fair value. If this is not the case, the sale and leaseback are recognised as follows:

- If the price is equal to or lower than the fair value, gains and losses are recognised immediately. However, if the loss is compensated by future lease payments that are below the market value, the loss will be deferred and depreciated over the period over which the assets are expected to be used.

- If the selling price is higher than the fair value, the resulting profit will be deferred and depreciated over the useful life of the assets.
- If the fair value is lower than the carrying amount of the assets as at the transaction date, such difference is recognised immediately as an impairment loss.

t) Taxation

Income tax is calculated from the profit/loss before tax recognised under IFRS adjusted to profit/loss recognised under the accounting procedures valid in the Slovak Republic after adjustments for individual items increasing and decreasing the tax base pursuant to Act No. 595/2003 Coll. on Income Tax, as amended, using the valid income 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 charged or credited to the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also recorded in equity. The income tax rate valid from 1 January 2004 to 31 December 2012 is 19%. The income tax rate valid as of 1 January 2013 is 23%.

The principal temporary differences arise from revaluations and depreciations on property, plant, and equipment 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 deductible temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associated undertakings, and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not be reversed in the foreseeable future.

Current and deferred tax for the year

Current and deferred tax are recognised through profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively. Where current tax and deferred tax arise from the initial recognition of a business combination, the tax effect is included in the recognition of the business combination.

Special Levy on Business in Regulated Industries

Pursuant to the requirements of the IFRS, the Group's income tax also includes a special levy as per Act No. 235/2012 Coll. on Special Levy on Business in Regulated Industries and on Amendment to and Supplementation of Certain Acts. It is recognised through profit or loss.

Some Group companies are regulated entities obliged to pay a special levy from September 2012 to December 2013. The levy period is a calendar month and the levy rate amounts to 0.00363. The base for the levy is the profit/loss before tax recognised in accordance with IFRS and adjusted to the profit/loss recognised under the accounting procedures valid in the Slovak Republic and further adjusted pursuant to the Special Levy Act.

u) Foreign Currencies

Transactions in foreign currencies are initially recorded at the exchange rates of the European Central Bank (ECB) valid on the transaction dates. Monetary assets and payables denominated in foreign currencies are retranslated at the ECB exchange rates valid on the reporting date. Foreign exchange gains and losses are included in the income statement.

On consolidation, the assets and liabilities of the foreign subsidiaries are translated at the ECB exchange rates prevailing on the reporting date. Revenues and expenses are translated at the average exchange rates for the period. Foreign exchange differences, if any, are classified as equity as foreign exchange translation reserve. Such reserve is recognised as income or as an expense at the moment the financial investment in a subsidiary is disposed of.

v) Non-Current Assets Held for Sale

Non-current assets and the disposal groups of assets and liabilities are classified as held for sale if their carrying amount can be recovered through a sale transaction rather than through continuing use. This condition is considered fulfilled only when the sale is highly probable and the non-current asset (or the group of assets and liabilities held for sale) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and the groups of assets and liabilities held for sale) classified as held for sale are measured at the lower of their previous carrying amount and the fair value less costs to sell.

w) Government Grants and Subsidies Provided by the European Union

Grants and subsidies are not recognised unless there is reasonable assurance that (i) the company will comply with the conditions related to the receipt of grants and subsidies, and (ii) the grants and subsidies will be received.

Grants and subsidies are recognised in the income statement on a systematic basis over the periods in which the company recognises expenses that were to offset the grants and subsidies. Specifically, grants and subsidies whose primary purpose is to enable the company to purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the balance sheet, and are recognised in the income statement on a systematic and rational basis during the useful life of the related assets.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, as described in Note 3, the Group has made the following decisions concerning uncertainties and estimates that have a significant impact on the amounts recognised in the financial statements. There is a significant risk of material adjustments in future periods relating to such matters, including the following:

Litigation

The Group is involved in various legal proceedings for which management has assessed the probability of loss that may result in cash outflow. In making this assessment, the Group has relied on the advice of external legal counsel, the latest available information on the status of the court proceedings, and an internal evaluation of the likely outcome. The final amount of any potential losses in relation to the legal proceedings is not known and may result in a material adjustment to the previous estimates. Details of the legal cases are included in Note 28.

Revaluation of Property, Plant and Equipment

The core operating assets of the Group represent its gas transmission, distribution, and storage assets. Since 1 January 2006, the Group has been adopting the revaluation model under IAS 16 for its property, plant, and equipment used for natural gas transmission, distribution and storage of natural gas. The revaluation of assets was performed by independent appraisers using the depreciated replacement cost approach. The gas storage assets at joint ventures (recorded under the equity method) were revalued on the basis of the Group's professional estimates under the discounted cash flow method. The revaluation of assets used for natural gas transmission, distribution and storage resulted in an increase in the value of the assets and a corresponding increase in equity. The assumptions used in the revaluation model are based upon an expert independent valuation report. The resulting reported amounts for these assets and the related revaluation reserve do not necessarily represent values at which these assets could or would be sold.

As at 1 August 2012, SPP performed a new revaluation of the property, plant, and equipment used for natural gas transmission under IAS 16, on the basis of the findings of the significant changes in the assumptions applied in the revaluation model performed by independent appraisers. As in the first revaluation, the depreciated replacement cost approach was used in the revaluation model. The revaluation of the assets used for gas transmission resulted in decrease in the value of the assets and a related decrease in equity. On the basis of an independent appraisal, SPP adjusted the useful lives of property, plant, and equipment used for gas transmission.

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The Nafta Group performed the revaluation of property, plant, and equipment used for natural gas storage based on the identified balance of assets and the replacement costs of assets as at 31 August 2012, by reference to documents of recent market transactions for similar items of assets and replacement cost estimate methodology. Replacement costs are based on costs of Modern Equivalent Assets (MEA) and represent an estimate of the net book value of assets from the MEA costs, useful life and the age of the existing assets and the depletion ratio (Depreciated Replacement Cost methodology). In certain instances the amounts recognised as a result of the revaluation are adjusted based on the results of profitability tests using the discounted cash flow method.

There are inherent uncertainties about future business conditions, changes in technology, and the competitive environment within the industry that could require future adjustments to the estimated revalued amounts and useful lives of assets, which may result in material changes in the reported financial position, equity, and profit. Refer to Note 10 for further details.

Impairment of Property, Plant and Equipment

The Group calculated and recorded significant amounts for the impairment of property, plant, and equipment on the basis of an evaluation of their future use, planned liquidation or sale. For certain items no final decision has been made and, therefore, assumptions related to the use, liquidation or sale of assets may change. For more information on the impairment of property, plant and equipment, see Note 10.

Un-Billed Gas Sales

SPP records significant amounts as revenues from gas sales on the basis of estimated gas consumption by small industrial customers and residential customers. SPP makes an estimate of these revenues by allocating actual measured gas consumption to the individual categories of customers on the basis of past consumption trends and applying the valid natural gas prices. Actual consumption by customers in the different categories may vary and so the amounts recorded as revenues may change, given the price differences between categories of customer.

Environmental Provision

The consolidated financial statements include significant amounts recorded as an environmental provision. The provision is based on estimates of the future costs of dismantling, restoration and re-cultivation, and is also significantly impacted by the estimate of the timing of cash flows and the Group's estimate of the discount rate used. The provision takes into account the estimated costs for the abandonment of production and storage wells at a subsidiary, for dismantling old gas facilities and compressor stations, decontaminating the soil and restoring the sites to their original condition after dismantling old gas facilities in compressor stations on the basis of past costs for similar activities. Refer to Note 16 for further details.

Provision for Onerous Contracts

As at 31 December 2012 and 31 December 2011, the consolidated financial statements include significant amounts recognised as provisions for onerous contracts in connection with non-cancellable contractual commitments to supply natural gas to customers based on the sales contracts. These provisions are based on current market information on the future development of natural gas prices in spot markets, EUR/USD exchange rates and indices monitored on the crude oil market, which are volatile. For more information, see Note 16.

5. STRUCTURE OF THE GROUP

Consolidated Subsidiaries

The consolidated subsidiaries as at 31 December 2012 are as follows:

Name	Seat	Ownership share %		Principal activity
		2012	2011	
Subsidiaries				
eustream, a.s.	Votrubova 11/A, Bratislava, Slovakia	100.00	100.00	Transmission pipeline operation
SPP – distribúcia, a.s.	Mlynské nivy 44/b, Bratislava, Slovakia	100.00	100.00	Distribution pipeline operation
SPP CZ, a.s.	Novodvorská 803/82, Prague, Czech Republic	100.00	100.00	Gas purchase and sale
SPP Bohemia a.s. ⁽²⁾	Sokolovská 651/136A, Prague, Czech Republic	100.00	100.00	Holding company
SPP Storage, s.r.o. ⁽³⁾	Sokolovská 651/136A, Prague, Czech Republic	100.00	100.00	Storage of natural gas
NAFTA a.s. („NAFTA“)	Votrubova 1, Bratislava, Slovakia	56.15	56.15	Natural gas storage and hydrocarbon exploration and production
Nafta Exploration, s.r.o. ⁽¹⁾	Plavecký Štvrtok 900, Slovakia	56.15	56.15	Exploration
Karotáže a cementace, s. r. o.	Velkomoravská 2606/83, Hodonín, Czech Republic	28.64	28.64	Logging and cementation
GEOTERM KOŠICE, a. s.	Moldavská č. 12, Košice, Slovakia	95.82	95.82	Utilisation of geothermal energy

(1) 100% shareholding held directly by NAFTA a.s.

(2) Acquired as at 29 July 2010, recognised previously as a joint venture.

(3) Established by the sole shareholder on 22 February 2011.

Naftárska leasingová spoločnosť, a 100 % subsidiary of NAFTA, was deleted from the Commercial Register in 2012. As at the date of deletion, the subsidiary was deconsolidated. The aforementioned change had no significant impact on the consolidated financial statements.

On 29 July 2010, the Group acquired a 50% share in the SPP Bohemia Group, which was originally accounted for as a joint venture, and thus acquired a 100% share and full control over the entity. This day is considered the moment of the first consolidation. As part of the transaction, the SPP Bohemia Group's assets related to hydrocarbon production (Moravské Naftové Doly, a.s. Group) were spun off and transferred to the former owner of SPP Bohemia – the KKCG Group.

On 22 February 2011, SPPB, s.r.o. was established by the decision of the sole shareholder (SPP). As at 1 April 2011, all assets and liabilities related to operating the underground storage facility in SPP Bohemia a.s. were transferred to the newly-established SPPB, s.r.o. The registration of SPP Bohemia a.s.'s division came into effect as at 1 September 2011. On 30 September 2011, SPPB, s.r.o. was renamed to SPP Storage, s.r.o. As at 30 September 2011, SPP made monetary and non-monetary contributions to the registered capital and legal reserve fund of SPP Storage, s.r.o. The subject of the monetary contribution was the capitalisation of a loan in the amount of EUR 48.4 million; the subject of the non-monetary contribution was items of assets related to the gas pipeline connected to the underground storage facility in Dolní Bojanovice, located in the Czech Republic, in the amount of EUR 12.7 million.

6. FINANCIAL INSTRUMENTS

a) Financial Risk Factors

The Group is exposed to a variety of financial risks, including the effects of changes in foreign currency exchange rates, interest rates of loans and gas purchase and selling prices. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. In 2012 and 2011, the Group entered into derivative transactions, for example, swap interest contracts, hedging commodity swaps, forward and option currency contracts in order to manage certain risks. The purpose of forward currency contracts is to eliminate the effects of changes in the USD/EUR and CZK/EUR exchange rate owing to future payments and revenues in foreign currency. The purpose of swap interest contracts is to fix interest rates on loans. The purpose of hedging commodity swaps is to limit the price risks of sales contracts made with customers as well as purchase contracts with suppliers.

The main risks arising from the Group's financial instruments are foreign currency risk, commodity price risk, interest rate risk, credit risk, and liquidity risk. Risk management is decentralised and performed by the risk management section, using policies approved by the Board of Directors or the management of individual group companies.

(1) Foreign Currency Risk

The Group operates internationally and has been exposed to foreign currency risk arising from transactions in foreign currencies, primarily in US dollars (USD) and Czech Crowns (CZK). As a significant percentage of the Group's revenues, purchases, and funding were denominated in USD, there was a certain level of natural hedging.

Analysis of financial assets and financial liabilities denominated in foreign currency:

<i>In million EUR</i>	<i>Financial assets</i>		<i>Financial liabilities</i>	
	<i>As at 31 December 2012</i>	<i>As at 31 December 2011</i>	<i>As at 31 December 2012</i>	<i>As at 31 December 2011</i>
USD	6	211	229	36
CZK	52	56	31	42

The Group has entered into forward currency contracts to hedge against foreign exchange risk on anticipated future transactions associated with the Group's revenues denominated in USD and CZK in 2012.

The effective portion of these forward currency contracts is recognised in equity (see Note 20).

The following table details the open forward currency contracts at the reporting date.

<i>Open forward foreign currency contracts</i>	<i>Fair value</i>			
	<i>2012 Cash flow hedges</i>	<i>2012 Held for trading</i>	<i>2011 Cash flow hedges</i>	<i>2011 Held for trading</i>
<u>Sale CZK</u>				
Less than 3 months	-	-	-	-
3 to 12 months	-	-	1	-
More than 12 months	-	-	-	-
<u>Purchase USD</u>				
Less than 3 months	-	(4)	-	-
3 to 12 months	-	-	-	-
More than 12 months	-	-	-	-

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Sensitivity to foreign currency changes

The following tables show the Group's sensitivity to a 3% weakening of the Euro against the USD and CZK. The sensitivity analysis includes items denominated in a foreign currency and adjusts the currency translation at the end of the reporting period by the 3% FX change. A positive value indicates an increase in the income statement if the Euro weakens with regard to the relevant currency.

	Impact of USD	
	As at 31 December 2012	As at 31 December 2011
Effect on profit/loss before tax	(7)	5

	Impact of CZK	
	As at 31 December 2012	As at 31 December 2011
Effect on profit/loss before tax	1	-

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

(2) Commodity Price Risk

The Group is a party to framework agreements for the purchase of natural gas and other services and materials in connection with facilities for natural gas underground storage and for gas and oil production. In addition, the Group enters into contracts for the sale of crude oil and natural gas and natural gas storage. The Group covers a portion of the risks related to changes in oil and natural gas prices by commodity derivative instruments. Contracts for natural gas storage are at fixed prices, which are escalated based on price indices every year.

To hedge against movements in commodity prices, the Group also uses a EUA/CER quotas swap within a 7% limit stipulated by law.

As at 31 December 2012 and 31 December 2011, the Group also used commodity swap contracts to manage the risk of commodity price fluctuations. Changes in the fair value are recognised in the income statement.

The following table details the open swap and commodity forward contracts at the reporting date.

Open swap and commodity forward contracts	2012		2012	
	Nominal value		Fair value	
	Fair value hedging	Held for trading	Fair value hedging	Held for trading
In million EUR				
<u>Sell gas</u>				
Less than 3 months	172	190	(2)	10
3 to 12 months	243	299	(3)	(12)
Over 12 months	18	-	-	-
<u>Sell crude oil</u>				
Less than 3 months	1	-	-	-
3 to 12 months	4	-	-	-
Over 12 months	-	-	-	-
<u>Sell gasoline</u>				
Less than 3 months	-	-	-	-
3 to 12 months	1	-	-	-
Over 12 months	-	-	-	-

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<i>Open swap a commodity forward contracts</i>	2011		2011	
	<i>Nominal value</i>		<i>Fair value</i>	
	<i>Fair value hedging</i>	<i>Held for trading</i>	<i>Fair value hedging</i>	<i>Held for trading</i>
<i>In million EUR</i>				
<u>Sell gas</u>				
Less than 3 months	103	181	(4)	(53)
3 to 12 months	183	21	-	-
Over 12 months	2	132	-	3
<u>Sell crude oil</u>				
Less than 3 months	1	-	-	-
3 to 12 months	4	-	-	-
Over 12 months	-	-	-	-

The Group has entered into swap and forward commodity contracts to hedge against the market risk arising from crude oil, natural gas and gasoline price changes in anticipated future transactions associated with the Group's revenues in 2013.

In recent years, EU natural gas markets experienced market decoupling – the disassociation of natural gas prices from the development of oil product prices denominated in USD. This trend resulted in the prices being denominated in euros on these markets for spot natural gas purchases/sales, which are significantly lower than the purchase/selling prices of the long-term contracts usually linked to the development of oil product indices. The future development of the natural gas market is currently very unpredictable. The SPP's strategy is to optimise natural gas resources using spot purchases and sales in order to minimise risks of losses related to the current market development.

(3) Interest Rate Risk

The Group's exposure to interest rate risk is significant, as it drew long-term loans. This risk is hedged by interest rate swaps for all long-term loans in the full amount (100%) of the drawn loan.

The following table displays the open interest swap contracts at the reporting date.

<i>Interest swaps</i>	<i>Average fixed interest rate</i>		<i>Nominal value</i>		<i>Fair value</i>	
	2012	2011	2012	2011	2012	2011
	Recognised as hedging	1.86%	1.86%	400	412	(16)
- Less than 3 months	-	-	-	-	(2)	-
- 3 to 12 months	-	-	-	-	(5)	(3)
- Over 12 months	-	-	-	-	(9)	(6)
Held for trading	2.3%	2.3%	150	150	(2)	(3)
- Less than 3 months	-	-	-	-	-	-
- 3 to 12 months	-	-	-	-	(2)	(1)
- Over 12 months	-	-	-	-	-	(2)

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

(4) Credit Risk

As at 31 December 2012, the Group drew credit facilities totalling EUR 627 million (2011: EUR 646 million) of which short-term credit facilities amounted to EUR 143 million (2011: EUR 0) and long-term credit facilities amounted to EUR 484 million (2011: EUR 646 million).

Interest-bearing borrowings are denominated in EUR with both fixed and variable rates.

SPP's interest-bearing borrowings are drawn in EUR with a variable interest rate linked to EURIBOR (according to the interest period agreed at the drawdown, for long-term loans usually 3M, for loans with shorter maturities 1M or O/N for overdraft facilities). The long-term assignable loan from Deutsche Bank (EUR 83.7 million, due in July 2020) bears a fixed interest rate of 4.125% p.a. (coupon) or 4.348% p.a. (effective interest rate).

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The bulk of short-term credit lines include an automatic loan extension clause, provided that none of the parties concerned cancel the loan within the specified period. Long- or medium-term loans have a fixed maturity date, while in all instances the loan is payable in a lump sum as at the final maturity date, ie in the year 2013/2015/2020.

Interest-bearing borrowings are provided without any collateral, using common market provisions (pari-passu, ban to pledge assets, substantial negative impact). If necessary, maturing credit facilities may be paid off from undrawn credit facilities, as well as from available funds and tradable securities.

(5) Credit risk related to receivables

The Group sells its products and services to various customers that, neither individually nor jointly in terms of volume and solvency, represent significant risk that the receivable will not be settled. The Group has policies in place that ensure that products and services are sold to customers with an appropriate credit history and that an acceptable limit to credit exposure is not exceeded.

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

(6) Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash with an appropriate due date and marketable securities, the availability of funding through an adequate amount of committed credit lines, and the ability to close open market positions. Due to the dynamic nature of the underlying business, Treasury management aims to maintain flexibility by keeping committed credit lines available and synchronising the maturity of financial assets with financial needs. To settle outstanding liabilities, the Group has funds and undrawn credit lines at its disposal.

The table below summarises the maturity of financial liabilities at 31 December 2012 and 31 December 2011 based on contractual undiscounted payments:

	<i>On demand</i>	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>> 5 years</i>	<i>Total</i>
31 December 2012						
Trade payables	-	420	-	1	-	421
Other liabilities	-	89	-	3	-	92
Variable interest rate instruments	-	143	-	400	-	543
Fixed interest rate instruments	-	-	-	-	84	84
31 December 2011						
Trade payables	-	146	-	1	-	147
Other liabilities	-	130	-	-	-	130
Variable interest rate instruments	-	-	-	562	-	562
Fixed interest rate instruments	-	-	-	-	84	84

b) Capital Risk Management

The Group manages its capital to ensure that the Group companies are able to continue as a going concern while maximising the return to shareholders through optimising the debt and equity ratio, as well as through ensuring a high credit rating and sound capital ratios.

The capital structure of the Group consists of debt, ie borrowings disclosed in Note 17, cash and cash equivalents and equity attributable to the owners of the parent company, which comprise the registered capital, legal and other reserves, revaluation reserves, and retained earnings as disclosed in Notes 19 and 20. The gearing ratio at the year-end of 2012 was 7% (2011: 8%).

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

	<i>At 31 December 2012</i>	<i>At 31 December 2011</i>
Debt (i)	627	646
Cash and cash equivalents	224	122
Net debt	403	524
Equity (ii)	5 702	6 185
Net debt to equity ratio	7%	8%

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

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c) Categories of Financial Instruments

	<i>At 31 December 2012</i>	<i>At 31 December 2011</i>
Financial assets	933	922
Financial derivatives recognised as hedging	11	16
Financial derivatives held for trading	17	5
Investments held to maturity	-	-
Loans and receivables (including cash and cash equivalents)	712	704
Available-for-sale financial assets	193	197
Available-for-sale investments	-	-
Financial liabilities	1 139	922
Fair value through profit and loss	-	-
Financial derivatives recognised as hedging	27	30
Financial derivatives held for trading	26	58
Financial liabilities carried at amortised costs	1 086	834

d) Estimated Fair Value

The fair values of publicly-traded derivatives, investments at fair value through profit and loss, and available-for-sale securities are based on the quoted market prices at the reporting date. The fair value of interest swaps is calculated as the present value of estimated future cash flows. The fair value of forward currency contracts was determined using forward exchange rates at the reporting date. The fair value of interest swap contracts is determined using forward interest rates at the reporting date. The fair value of commodity swaps is determined using forward commodity prices and forward exchange rates as at the reporting date.

The fair value of ordinary shares not in a book-entry form has been estimated using a valuation technique based on assumptions that they are not supported by observable market prices. The valuation requires management to make estimates of the expected future cash flows from shares that are discounted at current rates.

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 revaluation, 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 derived from the prices of similar assets or liabilities quoted on active markets.

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

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

<i>Year 2012</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Financial assets at fair value	-	28	194	222
Financial derivatives held for trading	-	17	-	17
Financial derivatives recognised as hedging	-	11	-	11
Available-for-sale financial assets	-	-	194	194
Financial liabilities at fair value	-	53	-	53
Financial derivatives held for trading	-	26	-	26
Financial derivatives recognised as hedging	-	27	-	27
Year 2011	Level 1	Level 2	Level 3	Total
Financial assets at fair value	-	21	197	218
Financial derivatives held for trading	-	5	-	5
Financial derivatives recognised as hedging	-	16	-	16
Available-for-sale financial assets	-	-	197	197
Financial liabilities at fair value	-	88	-	88
Financial derivatives held for trading	-	58	-	58
Financial derivatives recognised as hedging	-	30	-	30

Embedded Derivative Instruments

SPP entered into long-term contracts for natural gas transmission denominated in USD and EUR.

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

The Group signed a long-term contract for the purchase of natural gas denominated in USD. The US dollar is the currency commonly used in international commerce for trading in natural gas. Both the economic characteristics and risks of embedded forward derivative instruments (USD to EUR), and natural gas prices are generally believed to be closely related to the economic characteristics and risks of the underlying purchase agreements. Hence, in accordance with IAS 39 (as revised in December 2003), SPP does not recognise embedded derivatives separately from the host contract.

The Group has assessed all other significant contracts and agreements for embedded derivatives that should be recorded. The Group concluded that there are no embedded derivatives in these contracts and agreements that are required to be measured and recognised separately as at 31 December 2012 and 31 December 2011 under the requirements of IAS 39 (as revised in December 2009).

Derivative instruments recognised as hedges and held for trading

The Group uses the following financial derivatives to decrease risks resulting from fluctuations in both foreign currency exchange rates, interest rates and commodity market prices:

Forward and option currency contracts

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

Commodity swaps

Commodity swaps are entered into for the purposes of hedging against risk of future movements in prices of crude oil, natural gas, emission rights, and for the purposes of hedging the fair value of sales contracts entered into with customers as well as purchase contracts with suppliers.

Effective hedging includes commodity swaps, which are used to hedge against crude oil and natural gas commodity risks.

7. INVESTMENTS RECOGNISED USING THE EQUITY METHOD

	<i>Joint ventures</i>	<i>Associated undertakings</i>	<i>At 31 December 2012</i>	<i>At 31 December 2011</i>
Cost	19	-	19	19
Share in post-acquisition profit, net of dividends received	73	-	73	76
Net book value	92	-	92	95

Details of the Group's associated undertakings as at 31 December 2012 can be summarised as follows:

<i>Name</i>	<i>Seat</i>	<i>Ownership interest %</i>	<i>Principal activity</i>	<i>Value under equity method at 31 December 2012</i>
SLOVGEOTERM, a. s.	Palisády 39, Bratislava, Slovakia	50.00	Geothermal energy	EUR 115 thousand

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Details of the Group's joint ventures as at 31 December 2012 can be summarised as follows:

Name	Seat	Ownership interest %	Principal activity	Value under equity method at 31 December 2012
POZAGAS a. s. ⁽¹⁾	Malé námestie 1, Malacky, Slovakia	54.65	Gas storage	91
P R O B U G A S, a. s.	Miletičova 23, Bratislava, Slovakia	50.00	LPG retail	1
Total				92

⁽¹⁾ Shareholding held directly by SPP, a. s. (35%), NAFTA a.s. (35%), and GDF SUEZ SA (30%)

As at 31 December 2012 and 31 December 2011, property, plant, and equipment used to store natural gas at POZAGAS a.s. (a joint venture recognised using the equity method) were revalued to a fair value using an estimate derived from a discounted cash flow calculation. The future cash flows related to such property, plant, and equipment were discounted using an estimated discount rate that SPP believes approximates the time value of money, represented by the current market risk-free rate of interest and the price for bearing the uncertainty and risks inherent in the asset. The discount rate was estimated to be 10%. SPP's share of the resulting revaluation reserve amounts to EUR 56 million (2011: EUR 55 million) net of deferred tax.

SPP's share in non-current assets as at 31 December 2012 would be EUR 54 million (2011: EUR 53 million) if such assets were not revalued.

The following amounts represent the Group's share of the assets, liabilities, revenues, and expenses of joint ventures:

	At 31 December 2012	At 31 December 2011
Property, plant and equipment	113	112
Investments in securities	-	-
Non-current receivables	-	-
Current assets	10	11
Total assets	123	123
Minority interest	-	-
Non-current interest-bearing borrowings	-	-
Provisions for liabilities and other long-term liabilities	(29)	(24)
Current liabilities	(2)	(4)
Total liabilities	(31)	(28)
Net assets	92	95
	Year ended 31 December 2012	Year ended 31 December 2011
Revenues	27	28
Profit before income taxes	8	8
Income tax including deferred tax	(2)	(2)
Profit after tax	6	6

8. AVAILABLE-FOR-SALE AND OTHER INVESTMENTS

8. a) Available-for-Sale Non-Current Investments and Other Investments comprise:

	At 31 December 2012	At 31 December 2011
Cost	18	15
Impairment	(10)	(6)
Closing balance, net	8	9

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Shareholdings represent equity investments in the following companies:

Name	Seat	Ownership interest %		Principal activity
		2012	2011	
AUTOKAC, s. r. o., Hodonín ⁽¹⁾	Velkomoravská 83, Hodonín, Czech Republic	28.64	28.64	Dormant
GALANTATERM, spol. s r. o.	Vodárenská ul. č. 1608/1, Galanta, Slovakia	17.50	17.50	Geothermal energy
AG Banka, a. s. v konkurze ⁽¹⁾	Coboriho 2, Nitra, Slovakia	21.90	21.90	Dormant, in bankruptcy
SPP Servis, a.s. ⁽²⁾	Oslobodenia 1068/50, Malacky, Slovakia	100.00	100.00	Production and service of gas facilities
SPP – distribúcia Servis, s.r.o. ⁽³⁾	Oslobodenia 1068/50, Malacky, Slovensko	100.00	n/a	Production and service of gas facilities
Central European Gas HUB AG ("CEGH") ⁽⁴⁾	Austria	15.00	n/a	Mediation of trade in natural gas

⁽¹⁾ shareholding held by NAFTA a. s.

⁽²⁾ shareholding held by SPP Bohemia a. s.

⁽³⁾ shareholding held by SPP – distribúcia, a. s.

⁽⁴⁾ shareholding held by eustream, a. s.

THERMO-SHIELD EUROPA, a. s., where NAFTA held a 30% shareholding was dissolved without liquidation in 2011. Eurographia S.A. was dissolved and deleted from the Commercial Register.

Energotel, a.s., in which the Group held a 16.66% shareholding, was sold in 2012.

8. b) Available-for-Sale Current Investments and Other Investments comprise:

	At 31 December 2012	At 31 December 2011
Cost	186	188
Impairment	-	-
Closing balance, net	186	188

Shareholdings represent equity investments in the following companies:

Name	Seat	Ownership interest %		Principal activity
		2012	2011	
Severomoravská plynárenská, a. s. ⁽¹⁾	Czech Republic	29.17	29.17	Gas distribution
Východočeská plynárenská, a. s. ⁽¹⁾	Czech Republic	28.89	28.89	Gas distribution
Jihomoravská plynárenská, a. s. ^{(1), (2)}	Czech Republic	2.33	2.33	Gas distribution

⁽¹⁾ listed companies

⁽²⁾ shareholding held by SPP Bohemia a.s.

In December 2012, the Group signed an agreement on the sale of shareholdings in Severomoravská plynárenská, a.s., Východočeská plynárenská, a.s. and Jihomoravská plynárenská, a.s. with a new investor. The transaction was completed and the shareholdings were transferred in January 2013.

9. HELD-FOR-SALE INVESTMENTS

Held-for-sale investments include the following:

	Held for sale financial investments	Other	At 31 December 2012	At 31 December 2011
Cost	-	1	1	2
Impairment	-	-	-	(2)
Closing balance, net	-	1	1	-

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10. PROPERTY, PLANT AND EQUIPMENT

	Regulation stations	Compressor stations	In-let and market delivery stations	Gas pipelines	Underground storage facilities	Land and buildings	Plant, machinery and equipment	Other non-current tangible assets	Assets in the course of construction	Total
Year ended 31 December 2011										
Opening net book value	134	563	59	4 470	938	255	26	5	281	6 731
Revaluation	(14)	(88)	-	225	51	-	-	-	-	174
Additions	-	-	-	-	14	-	-	1	142	157
Placed into service	5	94	3	75	14	7	11	1	(210)	-
Reclassifications	(2)	(1)	2	(3)	-	(2)	-	-	2	(4)
Disposals	-	-	-	(18)	(7)	(5)	(2)	-	(11)	(43)
Depreciation charge	(9)	(69)	(3)	(155)	(27)	(9)	(9)	(2)	-	(283)
Change of provisions	-	-	-	5	(2)	(12)	(1)	-	2	(8)
FX gains/losses	-	-	-	-	(5)	-	-	-	-	(5)
Change in revaluation surplus	-	(38)	-	(6)	(2)	-	-	-	-	(46)
Closing net book value	114	461	61	4 593	974	234	25	5	206	6 673
31 December 2011										
Cost	154	463	61	4 884	986	469	130	44	241	7 432
Provisions and accumulated depreciation	(40)	(2)	-	(291)	(12)	(235)	(105)	(39)	(35)	(759)
Net book value	114	461	61	4 593	974	234	25	5	206	6 673
Historical NBV at 31 December 2011, if no revaluation was performed	47	304	32	1 444	241	234	25	5	206	2 538
Year ended 31 December 2012										
Opening net book value	114	461	61	4 593	974	234	25	5	206	6 673
Revaluation	-	(34)	(2)	(17)	65	-	-	-	-	12
Additions	-	-	-	-	8	1	-	1	124	134
Placed into service	3	22	15	61	90	7	12	-	(210)	-
Reclassifications	-	(1)	(1)	9	(10)	27	1	-	(24)	1
Disposals	-	-	-	-	(15)	(7)	-	-	(6)	(28)
Depreciation charge	(9)	(34)	(3)	(163)	(26)	(10)	(8)	(3)	-	(256)
Change of provisions	-	-	-	9	4	-	1	-	(1)	13
FX gains/losses	-	-	-	-	4	-	-	-	-	4
Change in revaluation surplus	-	-	-	(10)	-	-	-	-	-	(10)
Closing net book value	108	414	70	4 482	1 090	256	31	3	89	6 543
31 December 2012										
Cost	157	477	74	4 897	1 104	523	151	46	124	7 553
Provisions and accumulated depreciation	(49)	(63)	(4)	(415)	(14)	(267)	(120)	(43)	(35)	(1 010)
Net book value	108	414	70	4 482	1 090	256	31	3	89	6 543
Historical NBV at 31 December 2012, if no revaluation was performed	60	295	44	1 312	323	256	31	3	89	2 413

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

<i>Insured assets</i>	<i>Type of insurance</i>	<i>Cost of insured assets</i>		<i>Name and seat of the insurance company</i>
		<i>2012</i>	<i>2011</i>	
Buildings, halls, structures, machinery, equipment, fittings & fixtures, low-value TFA, other TFA, works of art, inventories (except for gas pipelines)	Insurance of assets	1 939	1 869	Allianz-Slovenská poisťovňa, a.s. Kooperativa, a.s., ČSOB Poisťovňa, a.s.
Movables, assets, inventories	Insurance of assets	34	77	Allianz-Slovenská poisťovňa, a.s. Kooperativa, a.s., ČSOB Poisťovňa, a.s.
Motor vehicles	MTPL, motor vehicle insurance against damage, destruction, theft	21	21	Allianz-Slovenská poisťovňa, a.s.

The Group records assets that are in use but not yet registered in the land registry in the net book value of EUR 10 thousand.

Revaluation of Non-Current Assets for Use in Gas Transmission, Distribution and Storage

Property, plant, and equipment used for natural gas transmission, distribution and storage are recognised at revalued amounts. The last revaluation for the segments of natural gas transmission and storage was performed in 2012 (for the segment of natural gas distribution in 2011) based on the assets' condition as observed and the assets' replacement cost with reference to the market evidence of recent transactions for similar assets and replacement cost estimate methodologies. Replacement costs were based on the costs of Equivalent Assets (EA) and estimate the net book value of assets from the EA cost, useful life and age of existing assets (Depreciated Replacement Cost methodology).

In accordance with IAS 16, in revaluing the assets, accumulated depreciation was accounted for with the cost of the assets.

Exploratory wells are recorded in land, buildings, and structures and a provision is created in the event that the success of the wells is uncertain or otherwise impaired. In 2012, NAFTA capitalised the amount of EUR 5 million regarding the costs of hydrocarbon reserves exploration (31 December 2011: EUR 5 million).

As at 31 December 2012 and 31 December 2011, NAFTA has reassessed the impairment of property, plant and equipment in accordance with IAS 36 "Impairment of Assets" on the basis of an evaluation of their future use, liquidation, or sale. NAFTA has determined the amount of the provision on the basis of expert valuations, liquidation plan, estimated sale price or the estimated sale price of different assets.

As at 31 December 2012 and 31 December 2011, NAFTA had no restricted right to handle non-current tangible assets.

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11. NON-CURRENT INTANGIBLE AND OTHER ASSETS

	<i>Software</i>	<i>Goodwill</i>	<i>Other non-current intangible assets</i>	<i>Assets in course of construction</i>	<i>Total</i>
Year ended 31 December 2011					
Opening net book value	17	92	13	4	126
Additions	-	-	-	9	9
Placed into service	7	-	2	(9)	-
Reclassifications	-	-	(1)	1	-
Disposals	(2)	-	(10)	-	(12)
Depreciation	(10)	-	(1)	-	(11)
Effect of FX gains/losses	-	(2)	-	-	(2)
Change of provisions	-	-	-	1	1
Closing net book value	12	90	3	6	111
At 31 December 2011					
Cost	100	90	11	8	209
Provisions and accumulated depreciation	(88)	-	(8)	(2)	(98)
Net book value	12	90	3	6	111
	<i>Software</i>	<i>Goodwill</i>	<i>Other non-current intangible assets</i>	<i>Assets in course of construction</i>	<i>Total</i>
Year ended 31 December 2012					
Opening net book value	12	90	3	6	111
Additions	-	-	-	9	9
Placed into service	6	-	4	(10)	-
Reclassifications	-	-	-	-	-
Disposals	-	-	(2)	-	(2)
Depreciation	(9)	-	(2)	-	(11)
Effect of FX gains/losses	-	2	-	-	2
Change of provisions	-	-	-	-	-
Closing net book value	9	92	3	5	109
At 31 December 2012					
Cost	103	92	12	7	214
Provisions and accumulated depreciation	(94)	-	(9)	(2)	(105)
Net book value	9	92	3	5	109

The Group is involved in development projects: utilisation of geothermal energy in eastern Slovakia (geothermal project), utilisation of natural gas in co-generation units, implementation of active anti-corrosion protection of the distribution network, establishment of universal communication interface for comprehensive monitoring and management of the distribution network, and the development of daily consumption curves for the need of distribution network evaluation.

The Group has also carried out research activities reflected in these consolidated financial statements. Research costs are recognised in the income statement immediately when incurred. No significant research costs were incurred during 2012 and 2011.

Goodwill related to the SPP Bohemia Group arose as at 29 July 2010 when the Group acquired control over the SPP Bohemia Group.

As at 31 December 2012 and 2011, the Group assessed the recoverable amount of goodwill and identified no impairment. For impairment testing, goodwill was allocated to a cash-generating unit, ie the segment of natural gas storage in SPP Storage.

The recoverable amount of the natural gas storage segment was determined based on the calculation of fair value less costs of sale. To determine the fair value, SPP Storage's financial plan for 2013 – 2017 and the discount rate of 7.42% (2011: 8.4%) were taken into account. Cash flows were calculated for the period of 2013 – 2017, while the terminal value was calculated using the perpetuity based on the 2017 cash flows and terminal growth of 0% (2011: 1%).

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Main assumptions considered in the fair value calculation less costs of sale are as follows:

- Estimated annual revenue growth rate of 0.05%;
- Estimated annual savings in operating expenses;
- Anticipated growth of expenses for repairs, maintenance and depreciation charges.

12. INVENTORIES

	<i>At 31 December 2012</i>	<i>At 31 December 2011</i>
Natural gas	530	477
Raw materials and other inventories	19	18
Provisions	(14)	(15)
Total	535	480

As at 31 December 2012, a provision was recorded for raw materials and natural gas related to the adjustment of the cost of natural gas to its net realisable value in the amount of EUR 14 million (31 December 2011: EUR 15 million).

13. RECEIVABLES AND PREPAYMENTS

	<i>At 31 December 2012</i>	<i>At 31 December 2011</i>
Trade receivables from transmission activities	43	6
Trade receivables from the sale of natural gas and electricity	245	511
Receivables from distribution activities	11	4
Receivables from storage and other activities	4	6
Receivables from financial derivatives (Note 6 d)	27	21
Prepayments and other receivables	71	54
Other tax assets	-	-
Total	401	602

All amounts are receivable within one year.

Trade receivables from the sale of natural gas and electricity are shown net, and represent receivables from billed and unbilled gas and electricity supplies.

Receivables and prepayments are shown net of provisions for bad and doubtful receivables in the amount of EUR 180 million (31 December 2011: EUR 173 million).

As at 31 December 2012, the Group recorded receivables within maturity in the amount of EUR 404 million and receivables overdue in the amount of EUR 177 million, excluding provisions. As at 31 December 2011, the Group recorded receivables within maturity and overdue in the amount of EUR 586 million and EUR 189 million, respectively, excluding provisions.

Movements in the provision for bad and doubtful receivables were as follows:

	<i>At 31 December 2012</i>	<i>At 31 December 2011</i>
Balance at 1 January	173	227
Use of provision	(6)	(41)
Release of provision	(2)	(23)
Additions to provision	15	10
Closing balance	180	173

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Receivables overdue that were not provided for:

	2012	2011
Less than 2 months	16	34
2 to 3 months	-	-
3 to 6 months	-	-
6 to 9 months	-	-
9 to 12 months	-	-
More than 12 months	-	-
Total	16	34

Receivables overdue that were provided for:

	2012	2011
Less than 2 months	-	-
2 to 3 months	2	2
3 to 6 months	5	5
6 to 9 months	6	4
9 to 12 months	4	4
More than 12 months	144	140
Total	161	155

14. DEFERRED INCOME

	At 31 December 2012	At 31 December 2011
Net opening balance	53	74
Assets acquired during the period	4	1
Amortisation during the period	(1)	(2)
Other deferred income	-	(20)
Net closing balance	56	53

Several items of gas equipment were obtained "free of charge" from municipal and local authorities. This equipment was recorded as property, plant, and equipment at the costs incurred by the municipal and local authorities with a corresponding amount recorded as deferred income. 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.

Deferred income also includes the current portions of grants allocated by the European Commission for the reverse flow projects of the KS 4 and Plavecký Peter gas pipelines, and the cross-border interconnection points between Poland and Slovakia and between Hungary and Slovakia.

A non-current portion of the grant allocated for the reverse flow projects of the KS 4 and Plavecký Peter gas pipelines and the cross-border interconnection points between Hungary and Slovakia is recognised as other non-current assets.

15. RETIREMENT AND OTHER LONG-TERM EMPLOYEE BENEFITS

The long-term employee benefits program at SPP was originally launched in 1995. This is a defined benefit program, under which 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, SPP signed a new collective agreement under which employees are entitled to a retirement benefit based on the number of years with SPP at the date of retirement. The benefits range from one month to five months of the employee's average salary. As at 31 December 2012 and 31 December 2011, the obligation relating to retirement and other long-term employee benefits was calculated on the basis of valid collective agreements in the given years.

As at 31 December 2012, 3 402 (31 December 2011: 3 767) employees of SPP were covered by this program. As of that date, it was an unfunded program, with no separately-allocated assets to cover the program's liabilities.

The long-term employee benefits program at the Nafta Group is a defined benefit program, under which employees are entitled to a lump-sum payment upon old age or disability retirement as a multiple of the employee's average salary and subject to vesting conditions. As of 31 December 2012 there were 723 employees at the Nafta Group covered by this program (31 December 2011: 748). To date it has been an unfunded program, with no separately-allocated assets to cover the program's liabilities.

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Movements in the net liability recognised in the balance sheet for the year ended 31 December 2012 are as follows:

	Long-term benefits	Post-employment benefits	Total benefits at 31 December 2012	Total benefits at 31 December 2011
Net liability at 1 January	1	7	8	9
Net expense recognised	-	1	1	(1)
Benefits paid	-	-	-	-
Net liabilities	1	8	9	8

	Current liabilities (included in other current liabilities)	Non-current liabilities	Total
At 31 December 2011	-	8	8
At 31 December 2012	-	9	9

Key assumptions used in the actuarial valuation:

	At 31 December 2012	At 31 December 2011
Market yield on government bonds	3.68%	5.18%
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

16. PROVISIONS FOR LIABILITIES

Movements in the provisions for liabilities are summarised as follows:

	Environmental provisions	Provision for onerous contracts	Other provisions	Total provisions at 31 December 2012	Total provisions at 31 December 2011
Balance at 1 January	110	51	29	190	135
Effect of discounting	3	-	-	3	3
Additions	8	77	9	94	76
Use	(1)	(28)	(1)	(30)	(24)
Reversal	-	(21)	(3)	(24)	-
Closing balance	120	79	34	233	190

The provisions are included in liabilities as follows:

	Current provisions (included in provisions and other current liabilities)	Non-current provisions	Total provisions
At 31 December 2011	61	129	190
At 31 December 2012	85	148	233

a) Environmental Provisions

Provisions in the amount of EUR 120 million as at 31 December 2012 (31 December 2011: EUR 110 million) are recorded in respect of the decontamination of contaminated soil, liquidation of exploration and storage wells, and the re-cultivation and restoration of sites to their original condition. SPP has obligations in respect of decontaminating contaminated soil caused by compressor stations and old natural gas facilities powered by coal. NAFTA has obligations in respect of liquidating exploration and storage wells, re-cultivating and restoring sites, and dismantling a distillation unit.

Obligations of SPP

As part of the project "Remediation of Old Environmental Burdens", SPP deals with the decontamination of polluted sites. In all sites of former coal-gas production, the remediation was completed, the decontamination through the after-the-remediation monitoring was confirmed, and successful implementation was confirmed by the Ministry of Environment of the Slovak Republic pursuant to the Act on Environmental Burdens. In 2011, the project of environmental burden identification was implemented in all compressor stations (KS01 Veľké Kapušany, KS02 Jablonov nad Turňou, KS03 Veľké Zlievce and KS04 Ivánka pri Nitre) operated by eustream. In all compressor stations, the pollution caused by oil substances and gas transmission condensate was confirmed. Three of them (KS01, KS02, KS03) were subject to partial decontamination, which could be carried out outside the used gas facilities. In all compressor stations, the said pollution affects the site under the 6MW turbo-generator sets.

SPP estimated the provision for decontamination and restoration using the existing technology and current prices adjusted for expected future inflation and discounted using a discount rate that reflects the current market assessment of the time value of money and risks specific to the liability (approximately 1.49%). The provision is included in the transmission gas assets group, and will be transferred to eustream a.s. (See also Note 28).

Obligations of NAFTA

NAFTA currently has 186 production wells in addition to 252 storage wells. Production wells that are currently in production or are being used for other purposes are expected to be abandoned after reserves have been fully produced or when it has been determined that the wells will not be used for any other purposes. Storage wells are expected to be abandoned after the end of their useful lives. NAFTA has the obligation to dismantle the production and storage wells, decontaminate contaminated soil, restore the area, and restore the site to its original condition to the extent as stipulated by law.

The provision for abandonment and restoration has been estimated using existing technology and reflects expected future inflation. The present value of these costs was calculated using a discount rate, which reflects the current market assessment of the time value of money and risks specific to the liability (2.4%). The provision takes into account the estimated costs for the abandonment of production and storage wells and centres, and the costs of restoring the sites to their original condition. These costs are expected to be incurred between 2012 and 2092.

Obligations of SPP Storage

SPP Storage currently has 41 production wells. SPP Storage's provision for decontamination and restoration resulted from a legislative requirement to dismantle an underground storage facility, mainly production wells and storage wells after the operation of the underground storage facility is discontinued.

b) Provision for Onerous Contracts

The Group identified and recorded a provision for onerous contracts in connection with non-cancellable contractual commitments to supply natural gas to customers under sales contracts in 2013 and beyond. These provisions are based on an assumption that future costs to purchase natural gas, which are mainly influenced by the long-term purchase contract with Gazprom export, to provide natural gas to these customers will exceed economic benefits obtained at the sale. The calculation of the provision is subject to various assumptions of current market information relating to the future development of natural gas prices in spot markets, USD/EUR exchange rates, and indices monitored in the gas market, which are volatile. The actual losses generated with regard to these contracts may vary and such differences may be material.

c) Other Provisions

Other provisions include an amount of EUR 33 million (31 December 2011: EUR 25 million) for various litigation and potential disputes. Refer also to Note 28.

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17. INTEREST-BEARING BORROWINGS

	31 December 2012 Secured	31 December 2012 Unsecured	31 December 2012 Total	31 December 2011 Secured	31 December 2011 Unsecured	31 December 2011 Total
Bank loans and borrowings	-	627	627	-	646	646
Bonds	-	-	-	-	-	-
Total loans	-	627	627	-	646	646
Loans by currency						
CZK						
- with fixed interest rate	-	-	-	-	-	-
- with variable interest rate	-	-	-	-	-	-
EUR						
- with fixed interest rate	-	84	84	-	84	84
- with variable interest rate	-	543	543	-	562	562
Total loans	-	627	627	-	646	646
Loans are due as follows:						
Less than 1 year	-	143	143	-	-	-
1 to 2 years	-	-	-	-	162	162
2 to 5 years	-	400	400	-	400	400
More than 5 years	-	84	84	-	84	84
Total loans	-	627	627	-	646	646

The Nafta Group has opened credit lines amounting to EUR 30 million. In 2012, the Nafta Group drew down loans denominated in EUR at floating interest rates. In 2012, NAFTA fully repaid the long-term loan and the related interest rate swap contract was settled.

In 2012 and 2011, SPP drew loans denominated in EUR bearing both variable and fixed interest rates. The average interest rate of loans drawn as at 31 December 2012 was 1.416% p.a. (or 3.033% p.a. reflecting interest rate swaps; as at 31 December 2011: 2.619% p.a., or 3.093 % p.a. reflecting interest rate swaps), while the increase in the average interest rate in comparison to the previous year resulted from the increase in interbank interest rates. The average loan maturity as at 31 December 2012 was 2.58 years (3.69 in 2011).

Except for the long-term assignable loan from Deutsche Bank, the existing loans are drawn on a revolving basis with an interest period of 1–3 months; occasionally, loans were also drawn in the form of an overdraft facility during the year. SPP's loans were not secured by any pledges over assets.

Interest rates on loans:

Loans	2012	2011
EUR		
- with a fixed rate	4.125%	4.125%
- with a variable rate	1M EURIBOR plus margin 3M EURIBOR plus margin	1M EURIBOR plus margin 3M EURIBOR plus margin

The carrying amount and face value of loans:

	Carrying amount		Face value	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Loans	627	646	628	647
Bonds	-	-	-	-
Total	627	646	628	647

The Group has the following outstanding credit facilities:

	At 31 December 2012	At 31 December 2011
Variable rate:		
- due within 1 year	427	30
- due after more than 1 year	105	360
	532	390

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Based on the existing medium-/long-term loan agreements, SPP is required to comply with the agreed financial covenants, ie on each relevant day of each calendar year over the term of the loan agreement, the net debt of the Group on the respective relevant day of the relevant calendar year against the Group's EBITDA for the previous 12 months prior to that relevant day may not be higher than 2.

Furthermore, under the long-term assignable loan from Deutsche Bank, SPP is required to ensure that in the event of the transfer of the relevant assets (ie eustream/SPP - distribúcia/another significant subsidiary, ie a subsidiary that accounts for at least 15% of the Group's total sales or assets) that results from the requirement to adapt to the new energy legislation ("unbundling"), SPP must immediately after the transfer of such assets comply with the defined level of debt, ie the Group's equity to total assets may not be lower than 0.15. As at 31 December 2012, SPP complied with these covenants.

18. TRADE AND OTHER PAYABLES

	<i>At 31 December 2012</i>	<i>At 31 December 2011</i>
Payables from purchases and supplies of natural gas and electricity	332	51
Other trade payables and other payables	89	95
Other liabilities	6	12
Employee liabilities	20	20
Social security and other taxes	19	24
Payables from financial derivatives	52	88
Total	518	290

The payables arising from purchases and sales of natural gas and electricity represent current liabilities resulting from the purchase of natural gas and a liability for unconsumed natural gas for 2012.

As at 31 December 2012, the Group recorded payables within maturity in the amount of EUR 517.6 million (31 December 2011: EUR 289.6 million) and overdue payables in the amount of EUR 0.4 million (31 December 2011: EUR 0.4 million).

The Group has no significant liability secured by a pledge or any other form of collateral.

Social fund payables:

	<i>Amount</i>
Opening balance as at 1 January 2012	1
Total additions:	1
<i>from expenses</i>	1
<i>from profit</i>	-
Total drawing:	-
<i>monetary rewards and gifts</i>	-
<i>life jubilee benefits</i>	-
<i>work jubilee benefits</i>	-
<i>catering allowance</i>	-
<i>other</i>	-
Closing balance as at 31 December 2012	2

19. REGISTERED CAPITAL

At 31 December 2012 and 31 December 2011, the registered capital represented a total of 52 287 322 fully paid shares (with a face amount of EUR 33.19) held by the National Property Fund of the Slovak Republic (51%) and Slovak Gas Holding B. V., the Netherlands (49%). The registered capital was incorporated in the Commercial Register in the full amount.

In accordance with the Articles of Association, the General Meeting adopts decisions with a voting majority of 52% of all votes. In certain cases, as defined by both Slovak law and the Articles of Association, a two-thirds voting majority is required.

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20. NON-DISTRIBUTABLE RESERVES

Since 1 January 2006, SPP has been required to prepare IFRS financial statements (both separate and consolidated) only. Distributable profit represents retained earnings only as stated in the separate financial statements.

The legal reserve fund in the amount of EUR 365 million (31 December 2011: EUR 356 million) is recorded in accordance with Slovak law and is not distributable to the shareholders. The reserve is created from retained earnings to cover possible future losses or increases in the registered capital. Transfers of at least 10% of the current year's profit (as presented in the individual financial statements) are required to be made until the reserve is equal to at least 20% of the registered capital.

SPP has assessed that there are no clear rules or legislation on the distribution of the amounts included in the asset revaluation reserve to the shareholders. SPP is of an opinion that the asset revaluation reserve is not immediately available for distribution to SPP's shareholders. Portions of the revaluation reserve are transferred to retained earnings according to the differences between the depreciation charges from the revalued amounts and the original acquisition costs of the assets. The revaluation reserve is also transferred to retained earnings if the related asset is sold or disposed of. These transfers to retained earnings are distributable.

Other funds and reserves in equity are not distributable to SPP's shareholders.

Hedging reserves represent gains and losses arising from cash flow hedging.

	<i>Year ended</i> 31 December 2012	<i>Year ended</i> 31 December 2011
Opening balance	(15)	4
Gain/loss from cash flow hedging	-	-
Currency forward contracts	-	1
Commodity forward contracts	(8)	(4)
Commodity swap contracts	-	-
Interest rate swap contracts	(16)	(9)
Income tax applicable to gains/losses recognised through equity	6	(2)
Transfers to profit and loss		
Currency forward contracts	(1)	-
Commodity swap contracts	13	-
Commodity forward contracts	-	(1)
Interest rate swap contracts	9	(4)
Income tax applicable to gains/losses recognised through profit/loss	(1)	-
Transfer to initial carrying amount of the hedged item	-	-
Currency forward contracts	-	-
Commodity forward contracts	-	-
Commodity swap contracts	-	-
Income tax applicable to amounts transferred to the initial carrying amount of the hedged item	-	-
Closing balance	(13)	(15)

A hedging reserve represents a cumulative accrued portion of gains and losses arising from a change in the fair value of hedging instruments concluded for cash flow hedging purposes. A cumulative gain or loss arising from a change in the fair value of hedging derivatives recognised and accrued in the hedging reserve is reclassified to profit or loss provided that the hedged transaction has an effect on the income statement or is included as an adjustment of the base in the hedged non-financial item in accordance with the applicable accounting procedures.

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

	<i>Year ended</i> 31 December 2012	<i>Year ended</i> 31 December 2011
Distribution and sale of natural gas and electricity	14	1
Natural gas transmission and storage, exploration and other	(2)	(2)
Purchase of natural gas and electricity, consumables and energy consumption	-	-
Other costs, net	-	-
Finance (costs)/revenues	9	(4)
Income tax charged to expenses	(1)	-
Total	20	(5)

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21. STAFF COSTS

	<i>Year ended</i> 31 December 2012	<i>Year ended</i> 31 December 2011
Wages, salaries and bonuses	96	95
Social security costs	31	32
Other social security costs and severance pay	19	18
Total staff costs	146	145

The Group is required to make social security contributions, amounting to 35.2% of salary bases as determined by law, up to the 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.

22. INVESTMENT INCOME

	<i>Year ended</i> 31 December 2012	<i>Year ended</i> 31 December 2011
Interest income	2	2
Gain/(loss) on the sale of investments	-	-
Derivatives	(24)	(38)
Dividends	23	34
Other net investment income	(5)	-
Total investment income	(4)	(2)

23. FINANCE COSTS/INCOME

	<i>Year ended</i> 31 December 2012	<i>Year ended</i> 31 December 2011
Interest expense	20	22
Foreign exchange differences – loss/(gain) (Note 24)	(2)	3
Other	1	-
Total finance costs	19	25

24. FOREIGN EXCHANGE DIFFERENCES

	<i>Year ended</i> 31 December 2012	<i>Year ended</i> 31 December 2011
Foreign exchange losses (gains) arising from:		
– Operating activities recognised in other operating expenses	(9)	(9)
– Financing activities recognised in finance costs/income (Note 23)	(2)	3
Total foreign exchange losses (gains)	(11)	(6)

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25. TAXATION

25.1. Income Tax

Income tax comprises the following:

	<i>Year ended</i> 31 December 2012	<i>Year ended</i> 31 December 2011
Current income tax	149	166
Special levy on business in regulated industries	15	-
Share in income tax of associated undertakings and joint ventures	3	3
Deferred income tax (Note 25.2)		
– current year	(13)	(48)
– effect of the change in the tax rate on deferred tax	11	-
Total	165	121

The reconciliation between the reported income tax and the theoretical amount calculated using the standard tax rates is as follows:

	<i>Year ended</i> 31 December 2012	<i>Year ended</i> 31 December 2011
Profit before taxation	613	685
Income tax at 19%	116	130
Effect of adjustments from permanent differences between carrying amount and tax value of assets and liabilities	20	(4)
Withholding tax	1	1
Tax impact due to the change in the tax rate from 19% to 23%	11	-
Special levy on business in regulated industries	15	-
Additional tax charges	(1)	-
Other adjustments	3	(6)
Income tax for the year	165	121

The actually recognised tax rate differs from the tax rate stipulated by law of 19% in 2012, mainly due to the adaption of the change in the tax rate for deferred income tax valid as of 1 January 2013 to 23%, and due to the adjustments of the tax base in respect of the current income tax for items increasing and decreasing the tax base pursuant to the valid tax legislation. Such adjustments mainly include tax non-deductible provisions for liabilities and provisions for assets, a loss reported from other than hedging derivatives, and a difference between tax and accounting depreciation charges of non-current assets.

Pursuant to the requirements of IFRS, the income tax also includes a special levy on business in regulated industries pursuant to a special regulation (Note 3, t).

For a part of the deferred income tax calculation, the Group applied the income tax rate of 23% that has been valid in Slovakia as of 1 January 2013.

25.2. Deferred Income Tax

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

	<i>At 1 January</i> 2011	<i>Charge to</i> <i>equity for the</i> <i>period</i>	<i>Acquisition a</i> <i>of subsidiary</i>	<i>(Charge)/credit</i> <i>to profit for the</i> <i>period</i>	<i>At 31 December</i> 2011
Difference in NBV of non-current assets	(945)	(23)	-	45	(923)
Revaluation of financial investments held for sale	(5)	-	-	-	(5)
Revaluation of derivatives	-	(2)	-	-	(2)
Provisions and employee benefits	18	-	-	9	27
Provisions for receivables	13	-	-	(4)	9
Impairment loss	10	-	-	(4)	6
Other	3	1	-	2	6
Total	(906)	(24)	-	48	(882)

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	<i>At 1 January 2012</i>	<i>Charge to equity for the period</i>	<i>Acquisition a of subsidiary</i>	<i>(Charge)/credit to profit for the period</i>	<i>At 31 December 2012</i>
Difference in NBV of non-current assets	(923)	(178)	-	(18)	(1 119)
Revaluation of financial investments available for sale	(5)	-	-	-	(5)
Revaluation of derivatives	(2)	6	-	(2)	2
Provisions and employee benefits	27	-	-	13	40
Provisions for receivables	9	-	-	2	11
Impairment loss	6	-	-	2	8
Other	6	-	-	4	10
Total	(882)	(172)	-	1	(1 053)

In accordance with the Group'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:

	<i>At 31 December 2012</i>	<i>At 31 December 2011</i>
Deferred tax asset	-	-
Deferred tax liability	(1 053)	(882)
Total	(1 053)	(882)

26. TAX EFFECTS IN THE STATEMENT OF OTHER COMPREHENSIVE INCOME

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

<i>At 31 December 2011</i>	<i>Before tax</i>	<i>Tax</i>	<i>After tax</i>
Change in FX translation reserve	(4)	-	(4)
Increase in gas assets revaluation reserve (after effect of deferred tax)	208	(39)	169
Decrease in revaluation reserve due to changes in fair value (after effect of deferred tax)	(45)	9	36
Hedging derivatives (Cash flow hedging)	(18)	(2)	(20)
Change in financial investments revaluation reserve	-	-	-
Other	-	-	-
Other comprehensive income for the period	141	(32)	109

<i>At 31 December 2012</i>	<i>Before tax</i>	<i>Tax</i>	<i>After tax</i>
Change in FX translation reserve	2	-	2
Increase in gas assets revaluation reserve (after effect of deferred tax)	29	(176)	147
Change in the revaluation reserve due to changes in fair value (after effect of deferred tax)	10	(2)	8
Hedging derivatives (Cash flow hedging)	(4)	6	2
Change in financial investments revaluation reserve	(3)	-	(3)
Other	-	-	-
Other comprehensive income for the period	34	(172)	(138)

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27. CASH FLOWS FROM OPERATING ACTIVITIES

	<i>Year ended 31 December 2012</i>	<i>Year ended 31 December 2011</i>
Profit before tax	613	685
Adjustments for:		
Depreciation and amortisation	253	298
Effect from revaluation	16	20
Provisions and other non-cash items	64	27
Impairment losses	8	11
Release of deferred income	1	-
Profit from sale of non-current assets	(4)	(4)
Mark-to-market on commodity contracts	(42)	36
Interest expense/(income), net	18	20
Share in profit of associated undertakings and joint ventures	(12)	(13)
Revenues from financial investments	(23)	(35)
Other financial revenues, net	27	42
(Increase)/decrease in receivables and prepayments	188	(125)
(Increase)/decrease in inventories	(54)	(3)
Increase/(decrease) in trade and other payables	169	(84)
Cash flows from operating activities	1 222	875

Non-Cash Transactions

Other non-cash items mainly include depreciation and amortisation charges, provisions for litigation, foreign exchange differences from translation of balances denominated in foreign currencies at the reporting date, and the write-off of receivables.

28. COMMITMENTS AND CONTINGENCIES

Capital Expenditure Commitments

As at 31 December 2012, capital expenditure of EUR 209 million (31 December 2011: EUR 212 million) had been committed under contractual arrangements for the acquisition of non-current assets, but were not recognised in these consolidated financial statements.

Operating Lease Arrangements

The Group leases means of transport under an operating lease agreement. The contract is made for four years and the Group has no pre-emptive right to purchase the assets after the expiry of the term of the lease. The lease payments amounted to EUR 9 million in the year ended 31 December 2012 (31 December 2011: EUR 9 million).

Non-cancellable operating lease payables amount to:

<i>Period</i>	<i>2012</i>	<i>2011</i>
Within 1 year	9	9
From 1 to 5 years	5	15
More than 5 years	-	-
Total	14	24

Natural Gas Purchase

The majority of natural gas supplies for SPP were performed from the Russian Federation in 2012. The supplies were continuous in line with SPP's requirements pursuant to the agreed terms and conditions of the long-term agreement with Gazprom export LLC. No significant shortcomings in supplies were observed on the side of the Russian business partner. In the event of an emergency situation (gas crisis), SPP is able to provide gas supplies through the diversification of resources of up to 20% of Slovak needs by means of a reverse flow via the Czech Republic.

The purchase price for natural gas from the Russian supplier is determined on a monthly basis using an agreed formula. The formula is based on basic prices adjusted by movements in the market prices of competitive hydrocarbon products on the exchange (light and heavy heating oil).

In 2011, SPP initiated the gas purchase price revision process in compliance with the terms and conditions of a long-term natural gas purchase contract. On 27 December 2011, the SPP signed a final and binding agreement with Gazprom export LLC. It resulted in an adjustment of the natural gas purchase price effective from 1 January 2011. See also Note 31 on the initiation of price revision related to the natural gas supplies in 2013.

Natural Gas Transmission

In 2012, the Group fully implemented a long-term contract for natural gas transmission (with *ship-or-pay* conditions) through Slovakia with Gazprom export LLC, a Russian natural gas exporter. This contract enables the use of gas pipelines owned by the Group, in line with the transmission capacity required by Gazprom export LLC, to execute long-term export contracts signed with customers in Central and Western Europe. Since 1 July 2006, eustream, a.s. has been a contracting party to this long-term contract.

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

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

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

Natural Gas Storage Contracts

The Group stores natural gas at two storage locations in Slovakia and the Czech Republic. The gas storage facilities are operated by the subsidiary NAFTA a.s. and the joint venture POZAGAS a.s. in Slovakia and by subsidiary the SPP Storage, s.r.o. in the Czech Republic, for the deposit and extraction of natural gas as per seasonal demand, as well as to secure the safe provision of supplies as regulated by law. Storage fees are agreed for the term of the contracts. The storage fee is based primarily on the capacity rented per year and the annual price indices.

Gas Sales Contracts

Sales of natural gas to medium- and large-sized customers are subject to gas supplies contracts, which are generally agreed for one or more years. The prices agreed in the contracts usually include capacity and commodity components.

Taxation

The Group has significant transactions with several subsidiaries and associated undertakings, the shareholders and other related parties. The tax environment in which the Group operates in Slovakia is dependent on the prevailing tax legislation and practice and has relatively little existing precedent. 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. Corporate income tax in Slovakia is levied on each individual legal entity and, as a consequence, there is no concept of Group taxation or relief. The tax authorities in Slovakia 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.

Litigation and Potential Losses

The Group is involved in a number of legal disputes relating to disputed bills of exchange and alleged breaches of contracts. In addition to the bills of exchange and disputes described below, the Group is also involved in other litigation arising in the normal course of business that is not expected, either individually or in the aggregate, to have a significant adverse effect on the accompanying financial statements. The final outcome of such litigation may result in liabilities higher than the provisions recognised, and such differences may be significant.

Bills of exchange

SPP's management is aware of the existence of bills of exchange that were allegedly signed by the former General Director of SPP prior to 1999. SPP announced publicly that it would repudiate the validity of these bills of exchange signed by the former General Director before the court, on the basis of the suspicion that these bills are fraudulent and are in no way related to any contractual relations of SPP.

At present, 11 bills of exchange totalling EUR 116 million are at different stages of legal proceedings at courts in the Slovak Republic. In three other cases related to the bills of exchange amounting to approximately EUR 63 million, a final and binding decision of a court was adopted in favour of SPP. Efforts of the counterparties to overturn the positive result for SPP by using extraordinary remedies cannot be excluded.

The management of SPP, following the advice of its legal counsel, defends the interests of SPP in these cases by all legitimate means available. SPP recorded a provision for potential losses related to several bills of exchange. The amount of the provision has not been disclosed separately, as the management of SPP believes that any such disclosure could seriously jeopardise the position of SPP in the relevant litigation. These financial statements do not include any other provisions for potential losses related to the bills of exchange as the final outcome of the remaining cases is uncertain and cannot currently be predicted.

Other legal cases and disputes

SPP is a defendant in other legal cases or disputes in respect of alleged breaches of the contract for significant amounts.

The amounts of the provisions and other information relating to these individual legal cases and disputes have not been disclosed separately as the management of SPP believes this could seriously jeopardise the position of SPP in the disputes.

The Group has entered into long-term storage contracts with various customers operating in Europe. The prices and other contractual conditions stipulated in these contracts are subject to change due to various contractually defined factors. In this regard, in 2012 NAFTA entered into price arbitration, the effect of which is adequately reflected in these financial statements. The final outcome as well as timing of the price arbitration is uncertain. The Group decided not to disclose additional data on this matter since the management believes that this would breach the confidentiality of information and/or trade secrets and/or could cause damage to the Group.

Legislative Conditions for Business Activities in the Energy Sector

Third Energy Package of the EU

In 2009, the European Union adopted Directives 2009/72/EC and 2009/73/EC and related regulations concerning common rules for the internal market in natural gas and electricity known as the "Third Energy Package" that Member States were required to transpose into their national laws no later than 3 March 2012. One of the most important requirements of the Third Energy Package is, inter alia, to determine the regime of the unbundling of transmission networks and transmission network operators, with the EU Member States being allowed to opt for the implementation of one of the following alternatives in the gas sector:

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

Legal and Regulatory Framework for the Natural Gas Market in the Slovak Republic and the Implementation of the EU Energy Legislation

The Third Energy Package was transposed into Slovak law through the new Act No. 251/2012 Coll. on Energy and on Amendments to and Supplementation of Certain Acts and the new Act No. 250/2012 Coll. on Regulation in Network Industries that became effective on 1 September 2012 and that represent a basic legal framework for business in the energy sector.

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Based on Resolution No. 656/2012 dated 28 November 2012 and pursuant to the provision of Article 50 (8) of Act No. 251/2012 Coll. on Energy and on Amendment to and Supplementation of Certain Acts, the Government of the Slovak Republic determined that for a transmission network operator that is part of a vertically-integrated gas undertaking, the ownership unbundling of such transmission network operator will not be applied pursuant to Article 50 (1 - 7) of the Act. Thus, the provisions of the Act stipulating the conditions of implementing the so-called ITO model apply to eustream, a.s., without prejudice to the right of the vertically-integrated undertaking to implement the ownership unbundling. Eustream, a.s. is obliged to meet the requirements of the Act no later than by 1 March 2013.

New energy acts transpose the requirements of the Third Energy Package that extend the requirements for the independence and unbundling of commercial, financial, operational and investment activities of transmission network operators and, simultaneously, strengthen the powers of the Regulatory Office for Network Industries ("RONI") in relation to vertically-integrated undertakings. One of the principal requirements under Directive No. 2009/73/EC and also in the case of the ITO model implementation is the ownership of the transmission network by its operator. Additionally, new obligations apply to the independent transmission operator; the said obligations relate to the creation of the so-called supervisory commission as a special supervisory body, certification as part of which the Regulatory Office for Network Industries together with the European Commission will examine its independence and compliance with the ITO model requirements and other obligations to provide for the independence in the operation, maintenance and management of the transmission network. To meet the requirement of the ownership of the transmission network, including transmission assets, by the transmission network operator, Slovenský plynárenský priemysel, a.s. has suggested to the Company's shareholders that the General Meeting approve the transfer of transmission assets to eustream, a.s., in the form of an in-kind contribution of a part of business. On 14 February 2013, the Extraordinary General Meeting of SPP approved the transfer of the transmission network to eustream, a.s. in the form of an in-kind contribution of a part of business effective as of 28 February 2013. It is expected that the transfer of transmission assets from the parent company to the subsidiary, eustream, will have no significant impact on the consolidated financial statements, but it will have a significant impact on the separate financial statements of the parent company and eustream, a.s.

In connection with the newly-adopted acts on energy and regulation in network industries, some related generally-binding legal regulations in secondary legislation were adopted in 2012. By its Decision 0003/2013/P dated 10 October 2012, the RONI approved the Company's proposal of prices for access to the transmission network and for gas transmission for 2013. On 17 August 2012, by its Decision No. 0005/2012/P-PP, the RONI approved the amendments to and supplementation of the Company's operating rules through which it launches new products, namely the Virtual Trading Point service and the Bundled day-ahead service, supporting the even greater liquidity and flexibility of the gas market.

Price Regulation

The basic framework in the price regulation of gas supplies is comprised by Act No. 250/2012 Coll. on Regulation in Network Industries and the Regulation Policy for the upcoming 2012 – 2016 regulation period. Details related to the scope and method of conducting price regulation are determined in the generally-binding legal regulations issued by the Regulatory Office for Network Industries based on the above mentioned acts. In 2012, gas supplies to households, gas supplies for the production of heat for households and gas supplies to suppliers of last resort continue to be subject to price regulation. On one hand, price regulation in gas supplies for the production of heat for households was cancelled with effect from 2013 and, on the other hand, price regulation in gas supply to small businesses (with an annual consumption of up to 100 thousand kWh/year) was re-introduced in addition to price regulation in gas supplies to households and last resort supplies being preserved. In 2013, the same scope of price regulation will also apply to electricity supplies (in this case, a small business is a customer with maximum annual consumption of 30 thousand kWh). Price regulation in the above mentioned areas is stipulated in Decree of the Regulatory Office for Network Industries No. 189/2011 Coll. on the Extent of Price Regulation in Network Industries and on the Manner of its Implementation, Decree No. 216/2011 Coll. providing for price regulation in the gas sector, Decree No. 285/2012 providing for price regulation of gas supplies to small businesses, Decree No. 225/2012 Coll. providing for price regulation in the electricity sector, and Decree No. 283/2012 Coll. providing for price regulation of electricity supplies to small businesses.

Tariffs for Regulated Activities

Every year RONI approves tariffs for access to the transmission network and natural gas transmission. These tariffs are determined based on an analysis of gas transmission price benchmarking in the other EU Member States. The 2012 tariffs for access to the transmission network and natural gas transmission were approved by RONI Ruling 0003/2012/P dated 29 September 2011.

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Every year RONI approves tariffs for access to the distribution network and gas distribution and for the provision of auxiliary services, as well as for connection to the distribution network. 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 maximum price for the year, calculated pursuant to RONI's Decree No. 216/2011 which stipulates price regulation in the gas industry. The maximum approved revenue is determined based on eligible costs, including depreciation charges derived from the regulated base of assets set by RONI and the profit margin. The regulated base of assets and the residual useful life of such assets determined by RONI differ from the carrying amount of non-current tangible assets and their useful lives as recognised by the Group. The management, therefore, believes that non-current tangible assets are not impaired based on present indicators. There are inherent uncertainties that could have an impact on the determination of future tariffs by RONI and the future realisable value of assets.

The maximum price for connection to the distribution network in the relevant year of the regulation period, ie for 2012, for gas consumers was determined on the basis of the planned average costs related to the issue of technical conditions for the connection, for the processing of the application for connection and for the planned average costs related to the processing of the application for connecting the gas delivery equipment to the distribution network incurred by the distribution network operator as part of the standard-scope activities necessary for connecting the gas delivery equipment.

Under the Decree of the RONI No. 216/2011 Coll., the maximum price for connection to the distribution network for the 2013 regulation period and beyond is calculated by the indexation of the base price for 2012, reflecting the effect of inflation. The calculation of the maximum price for connection to the distribution network and gas distribution for the 2013 regulation period and beyond is also partly based on the basic parameter indexation.

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29. RELATED PARTY TRANSACTIONS

Slovak Gas Holding (at 31 December 2012 an indirect joint venture of GDF SUEZ SA and E.ON Ruhrgas) exercises management control over SPP with a 49% shareholding. Since January 2013, Energetický průmyslový holding, a.s. (EPH) is the new investor and indirect owner of 49 % share in SPP. SPP is owned by the Slovak National Property Fund with a 51% shareholding.

During the year, the Group entered into the following transactions with related parties that are not consolidated entities in these consolidated financial statements:

	2012						31 December 2012		
	Revenues	Creation/ (reversal) of provisions for receivables	Expenses	Dividends	Other	Receivables	Provisions for receivables	Payables	
Slovak Gas Holding	-	-	-	366	-	-	-	-	
Slovak National Property Fund	-	-	-	381	-	-	-	-	
Other companies	1	-	4	-	1	2	-	1	
Joint ventures	9	-	3	-	-	1	-	-	
Other related parties	132	-	28	-	1	35	17	13	

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

Transactions with Slovak Gas Holding and the National Property Fund represent dividend payments.

Transactions with joint ventures represent services related to natural gas.

Transactions with other companies and other related parties represent mainly services related to purchases and sales of natural gas, advisory and consulting services, and other services.

	2011						31 December 2011		
	Revenues	Creation/ (reversal) of provisions for receivables	Expenses	Dividends	Other	Receivables	Provisions for receivables	Payables	
Slovak Gas Holding	-	-	-	269.5	-	-	-	-	
Slovak National Property Fund	-	-	-	280.5	-	-	-	-	
Other companies	-	-	3	-	2	-	-	2	
Joint ventures	11	-	7	-	-	-	-	1	
Other related parties	332	-	232	-	-	35	15	7	

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The compensation of the members of the bodies and executive management was as follows:

	Year ended 31 December 2012	Year ended 31 December 2011
Remuneration to members of the Board of Directors, Supervisory Board, executive management and former members of the bodies - total	7	6
<i>Of which - Board of Directors and executive management</i>	<i>6</i>	<i>5</i>
<i>- Supervisory Board</i>	<i>1</i>	<i>1</i>
Benefits after termination of employment to members of the Board of Directors, Supervisory Board, executive management and former members of the bodies - total	-	-
<i>Of which - Board of Directors and executive management</i>	<i>-</i>	<i>-</i>
Other long-term benefits to members of the Board of Directors, Supervisory Board, executive management and former members of the bodies - total	-	-
<i>Of which - Board of Directors and executive management</i>	<i>-</i>	<i>-</i>
Benefits after termination of employment of members of the Board of Directors, Supervisory Board, executive management and former members of the bodies - total	-	-
<i>Of which - Board of Directors and executive management</i>	<i>-</i>	<i>-</i>
Benefits in kind to members of the Board of Directors and executive management - total	-	-
<i>Of which - Board of Directors and executive management</i>	<i>-</i>	<i>-</i>

30. SUPPLEMENTARY INFORMATION TO COMPLY WITH OTHER STATUTORY REQUIREMENTS FOR CONSOLIDATED FINANCIAL STATEMENTS

a) Consolidated Financial Statements

As at 31 December 2012, SPP submits consolidated financial information as a consolidated reporting entity to E.ON Ruhrgas International AG with its seat at Huttropstrasse 60, 45138 Essen, Germany, and to GDF SUEZ SA with its seat at 16-26, rue du Docteur Lancereaux, 75008 Paris, France.

The ultimate reporting entities that consolidate the SPP Group are as at 31 December 2012 GDF SUEZ SA and E.ON AG.

SPP also prepares consolidated financial statements for its group of companies. Refer to Note 5, 7 and 8 for details on these companies.

Summary financial information on SPP that was derived from its separate and consolidated financial statements is published in the Slovak Commercial Journal.

The consolidated and separate financial statements of SPP are published on SPP's website: www.spp.sk, and are filed with the Commercial Register of Bratislava 1 District Court (Záhradnícka 10, 811 07 Bratislava). The consolidated and separate financial statements of subsidiaries, joint ventures and associated undertakings are available at the relevant Courts of Record based on their registered seat.

For more details on the consolidated and consolidating companies, refer to Notes 1, 5, and 7.

For information on the entities in which SPP has an ownership interest but which do not meet the conditions for being included in the consolidation group, refer to Note 8.

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b) Members of the Company's Bodies

Body	Function	Name
Board of Directors	Chairman	Dr. Hans-Gilbert Meyer – since 1 Jul 2012
	Chairman	Dipl. Ing. Jean-Jacques Ciazynski – until 30 Jun 2012
	Vice-Chairman	Mgr. Alexander Sako – since 31 May 2012
	Vice-Chairman	Ing. Štefan Slezák, MBA – until 30 May 2012
	Member	Mgr. Ing. Andreas Rau
	Member	Dipl. ekonom Frédérique Dufresnoy, MBA
	Member	Dipl. Ing. Jean-Jacques Ciazynski – since 1 Jul 2012
	Member	Dr. Hans-Gilbert Meyer – until 30 Jun 2012
	Member	JUDr. Marián Valko – since 31 May 2012
	Member	Ing. Milan Hargaš – since 31 May 2012
	Member	Ing. Juraj Ondris, MBA – until 30 May 2012
	Member	Ing. Vladimír Klimeš – until 30 May 2012
Supervisory Board	Chairman	Michal Ďurkovič – since 28 Jun 2012
	Chairman	Prof. Ing. Peter Baláž, PhD. – until 30 May 2012
	Vice-Chairman	Dipl. ekonom Eric Stab – since 1 Jul 2012
	Vice-Chairman	Nicole Otterberg – until 30 Jun 2012
	Member	Michal Ďurkovič – from 31 May 2012 until 27 Jun 2012
	Member	Ing. Peter Kováč
	Member	Ing. Robert Maguth
	Member	Ing. Jozef Polačko
	Member	Viera Uhrová
	Member	Ing. Valéria Janočková
	Member	MUDr. Martin Kováč – since 31 May 2012
	Member	Ing. Robert Zemánek – since 31 May 2012
	Member	Ing. arch. Tomáš Gál, PhD. – since 31 May 2012
	Member	Prof. Ing. Juraj Janočko, CSc., Dr. Scient. – since 31 May 2012
	Member	Ing. Dušan Žák – since 31 May 2012
	Member	Ing. Ján Maňdulák – until 30 May 2012
Member	JUDr. Karol Šiška – until 30 May 2012	
Member	JUDr. Juraj Bizoň – until 30 May 2012	
Member	Arpád Csuri – until 30 May 2012	
Member	Ing. Juraj Horváth – until 30 May 2012	
Executive management	Director of Finance Division, authorised to act on behalf of the General Director	Ing. Libor Briška
	Director of Trade Division	Ing. Dušan Randuška, MBA
	Director of Corporate Affairs Division and Services	Ing. Rastislav Bráblik
	Director of Customer Services Division	Ing. Stanislav Hodek – until 30 Sep 2012 Ing. Rastislav Bráblik – since 1 Oct 2012 appointed to act on behalf of the director

31. POST-BALANCE SHEET EVENTS

In January 2013, SPP initiated price negotiations on the natural gas purchase price valid for the 2013 supplies with Gazprom export LLC.

In January 2013, the sale of minority interests in Severomoravská plynárenská, a.s., Východočeská plynárenská, a.s. and Jihomoravská plynárenská, a.s. was completed and they were transferred to the new owner.

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

Following the change in the shareholder structure, the Extraordinary General Meeting of the Shareholders held on 23 January 2013 adopted the following personnel changes in the senior management boards of Slovenský plynárenský priemysel, a.s., (SPP) effective as of 24 January 2013:

- JUDr. Daniel Křetínský replaced Mr Hans-Gilbert Meyer in the office of the Chairman of the Board of Directors;
- Ing. Jan Špringl, Mgr. Pavel Horský and Ing. Ladislav Bartoníček, MBA, replaced the following members of the Board of Directors: Jean-Jacques Ciazynski, Frédérique Dufresnoy and Andreas Rau.

Changes in the Supervisory Board of SPP took effect as of 24 January 2013. Mr Peter Korbačka became the new member and replaced Mr Eric Stab.

In the Contract on the SPP Group Restructuring between the National Property Fund (hereinafter the "FNM") and the Ministry of Economy of the SR (hereinafter the "MH SR") and EPH dated 14 December 2012 and in the Shareholders Agreement signed by the FNM, the MH SR, EPH and EPH Gas Holding B.V. dated 14 December 2012, the parties agreed on the terms and conditions of the SPP Group's restructuring. The restructuring will be carried out in 2013 and will be completed by 31 December 2013.

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

Prepared on:

13 March 2013

Approved on:

Signature of a member of the statutory body of the reporting entity or a natural person acting as a reporting entity:


JuDr. Daniel Křetínský
Chairman of the Board of Directors


Mgr. Alexander Sako
Vice-Chairman of the Board of Directors

Signature of the person responsible for the preparation of the financial statements:


Ing. Libor Briška
Director of Finance Division

Signature of the person responsible for bookkeeping:


Ing. Miroslav Jankovič
Director of Accounting and Taxes Section

Proposal of the profit distribution for the year 2012

The proposal of profit distribution for the year 2012 is prepared in line with the Articles of Association of Slovenský plynárenský priemysel, a.s. Article XX. PROFIT DISTRIBUTION, Article XIX. 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 2012 is based on the audited individual financial statements for the year 2012.

I.	Net profit	365,324,712.46 €
II.	Allocation to the statutory reserve fund in accordance with the Article XIX. of the Articles of Association the reserve fund reached the level of 20% of registered capital	0.00 €
III.	The amount of net profit determined as dividends	365,324,712.46 €
IV.	Tantiems to the members of the bodies (to be discussed)	0.00 €

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