Východoslovenská distribučná, a. s.

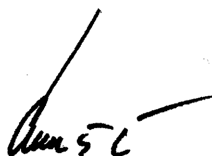
Financial Statements
for the year ended 31 December 2010

prepared in accordance with
International Financial Reporting Standards
as adopted by the European Union

Východoslovenská distribučná, a.s.

Financial statements for the year ended 31 December 2010 prepared in accordance with International Financial Reporting Standards as adopted by the European Union were approved and authorized for issue on 25 February 2011by the Board of Directors.

Dr. Steffen Schattner
Chairman of the Board of Directors, Chief Executive Officer



Ing. Jaroslav Hrušč
Member of the Board of Directors

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in EUR thousand	Note	31 December 2010	31 December 2009	1 January 2009
ASSETS				
Non-current assets				
Non-current tangible assets	6	659,428	664,186	662,945
Non-current intangible assets	7	2,427	1,818	1,936
		661,855	**666,004**	**664,881**
Current assets				
Inventories	9	317	210	-
Trade and other receivables	8,10	32,866	27,067	27,281
Cash and cash equivalents	8,11	4,918	2,556	2,785
		38,101	**29,833**	**30,066**
Total assets		**699,956**	**695,837**	**694,947**
LIABILITIES AND EQUITY				
EQUITY				
Capital and reserves attributable to equity holders of the Company				
Share capital	12	432,815	432,815	432,815
Legal reserve fund	12	86,573	86,573	86,573
Retained earnings	12	30,715	36,221	39,343
Total equity		**550,103**	**555,609**	**558,731**
LIABILITIES				
Non-current liabilities				
Borrowings and loans	8,15	5,400	12,211	11,950
Deferred revenues	14	14,393	7,801	4,427
Deferred income tax liabilities	16	78,330	83,005	88,377
Provisions	17,18	2,070	1,515	2,393
		100,193	**104,532**	**107,147**
Current liabilities				
Trade and other payables	8,13	41,050	28,753	16,594
Borrowings and loans	8,15	6,811	6,739	3,246
Current income tax liabilities	8	1,759	204	9,229
Provisions	17	40	-	-
		49,660	**35,696**	**29,069**
Total liabilities		**149,853**	**140,228**	**136,216**
Total equity and liabilities		**699,956**	**695,837**	**694, 947**

in EUR thousand	Note	Year ended 31 December 2010	2009
Revenue	19	267,880	248,151
Purchase of electricity for losses and transmission costs	20	(124,992)	(110,234)
Employee benefit expense	20	(2,780)	(2,508)
Services	20	(54,575)	(49,802)
Depreciation and amortization expense	6,7,20	(46,084)	(44,004)
Other operating income	20	1,341	2,913
Other operating expenses	20	(2,000)	(1,180)
Profit from operations		**38,790**	**43,336**
Financial income/(expenses)			
Interest income	21	11	84
Interest expense	21	(284)	(732)
Net Financial income/(expenses)		**(273)**	**(648)**
Profit before income tax		**38,517**	**42,688**
Income tax expense	22	(7,609)	(7,647)
Profit for the year		**30,908**	**35,041**
Other comprehensive income		-	-
Total comprehensive income for the year		**30,908**	**35,041**

in EUR thousand	Share capital	Legal reserve fund	Retained earnings	Total equity
Balance at 1 January 2009	**432,815**	**86,573**	**39,343**	**558,731**
Dividends paid			(38,163)	(38,163)
Total comprehensive income	-	-	35,041	35,041
Balance at 31 December 2009	**432,815**	**86,573**	**36,221**	**555,609**
Dividends paid	-	-	(36,429)	(36,429)
Total comprehensive income	-	-	30,908	30,908
Other	-	-	15	15
Balance at 31 December 2010	**432,815**	**86,573**	**30,715**	**550,103**

in EUR thousand		Year ended 31 december	
	Note	2010	2009
Cash flows from operating activities			
Cash generated from operations	23	98,347	101,982
Interest paid	21	(284)	(732)
Interest received	21	11	84
Income tax paid		(10,729)	(22,045)
Net cash from operating activities		**87,345**	**79,289**
Cash flows from investing activities			
Purchase of property, plant and equipment (PPE) and intangible assets	6, 7	(41,937)	(45,127)
›ceeds from sale of PPE		122	18
Net cash used in investing activities		**(41,815)**	**(45,109)**
Cash flows from financing activities			
Received borrowings and loans	8,15	-	7,000
Repaid borrowings and loans	8,15	(6,739)	(3,246)
Dividends paid	12	(36,429)	(38,163)
Net cash used in financing activities		**(43,168)**	**(34,409)**
Net increase/(decrease) in cash, cash equivalents and bank overdrafts	8,11	**2,362**	**(229)**
Cash, cash equivalents and bank overdrafts at the beginning of the year	8,11	**2,556**	**2,785**
Cash, cash equivalents and bank overdrafts at the end of the year	8,11	**4,918**	**2,556**

1. General information

The company Východoslovenská distribučná, s.r.o. was established by a deed of foundation on October 14, 2005 as a subsidiary of Východoslovenská energetika a.s. (VSE). The registration of the company in the commercial register at the District Court Košice I. was performed on November 4, 2005 in the section Sro, file No. 17263/V.

By the decision of the General Assembly of the company Východoslovenská distribučná, s.r.o. from January 30, 2007 the legal form of the company was changed from a limited liability company to a joint-stock company. The registration of the company Východoslovenská distribučná a.s. in the commercial register of the District Court Košice I. was performed as to February 15, 2007 in the section Sa, file No. 1411/V.

The enactment of the Energy Act no. 656/2004 Coll. as amended, stated the legal obligation to separate operation of distribution grid as of 1 July 2007.

After consideration of available options, VSE has decided to fulfil legislation requirements for legal separation of distribution grid operations via establishing the 100% subsidiary Východoslovenská distribučná, a.s. (VSD) followed by non-monetary contribution in the form of a part of business of Východoslovenská energetika a.s. (including distribution grid) into the equity and reserve fund of this company.

Východoslovenská distribučná, a.s. started its operation as of July 1, 2007. As a result of legal unbundling of the vertically integrated company VSE, VSD has taken over all the assets and liabilities, all rights and obligations related to the distribution part of business of the parent company VSE existing as of that date.

The Company as a subsidiary is included in the consolidated financial statements of Východoslovenská energetika a.s., Mlynská 31 042 91 Košice. The consolidated financial statements are available directly at the seat of the Company.

The Company operates as provider of distribution of electricity based on licence issued by national regulator URSO in the region of Eastern Slovakia. It is obliged to connect and distribute electricity to all participants in Slovak electricity market. The Company owns the electricity grid. After the unbundling process that occurred in 2007 as described above, there is price regulation for the distribution of electricity in Slovakia while the electricity commodity market is not regulated anymore with the exception of household customers. Distribution prices are approved by the state regulatory body URSO on annual basis for calendar year.

The Company's customers consist mainly of the parent company VSE and other electricity traders. Intercompany revenues towards VSE represent majority of revenues of the Company. VSE and other electricity traders are contracting final users of the electricity and billing them for both trade and distribution part of electricity supply. Such contracts are called integrated contracts. The Company recognizes revenues from the distribution services as a subcontractor of VSE and other electricity traders.

The Company's shareholder structure as at 31 December 2010 was as follows:

	Interest in share capital in EUR thousand	%
Východoslovenská energetika a.s.	432,815	100
Total	**432,815**	**100**

In average, the Company employed 90 employees in 2010 (2009: 88 employees).

Members of the statutory bodies of the Company

The members of the Company's statutory bodies were as follows:

Board of Directors:	Status as at k 31 December 2010	At 31 December 2009
Chairman	Dr. Steffen Schattner	Dr. Steffen Schattner
Vice Chairman	Prof.Ing. Michal Kolcun, PhD	Prof.Ing.Michal Kolcun, PhD
Members	Ing. Jaroslav Hrušč Ing. Marcel Fitere Ing. Jozef Sedlák	Ing. Jaroslav Hrušč Ing. Marcel Fitere Ing. Jozef Sedlák

Supervisory board	Status as at k 31 December 2010	At 31 December 2009
Chairman	Ing. Ján Džugan	Ing. Ján Džugan
Vice Chairman	Mgr. Juraj Drahovský	Mgr. Juraj Drahovský
Members	Ing. František Barnáš Ing. Ladislav Porubec Mgr. Ján Kuba Doc.Ing. Ľubomír Sapák, PhD Ing. Melánia Kožejová Ing. Zuzana Kisidayová Ing. Slavomír Veseleňák	Ing. František Barnáš Ing. Ladislav Porubec Mgr. Ján Kuba Doc.Ing. Ľubomír Sapák, PhD František Barta Ing. Zuzana Kisidayová Ing. Slavomír Veseleňák

As noted above, the Company is a 100% subsidiary of VSE. VSE has the authority to govern the accounting policies and operations of the Company.

As part of the sale of 49% of shares of VSE, National Property Fund of Slovak Republic and RWE AG have entered into a shareholders' agreement which sets out the areas of responsibility and decision making for the General Meeting, the Board of Directors and the Supervisory Board of VSE as well as the rules for nomination of members of the Board of Directors and Supervisory Board.

The General Meeting of VSE decides within the competencies provided by the statutes of VSE.

The Board of Directors manages the operations of VSE and decides on all matters of the Company unless these are assigned to competencies of the General Meeting or the Supervisory Board by the statutes of VSE or by other legislation. The Board of Directors consists of five members. The chairman and two members of the Board of Directors are nominated by RWE AG. National Property Fund of Slovak Republic nominates one vice-chairman and one member of the Board of Directors.

Competencies of the Board of Directors include:

(a) The Board of Directors submits proposals related to matters stated below in notes (a) to (f) which fall into the competencies of the Supervisory Board;
(b) The Board of Directors submits the separate and consolidated financial statements of VSE and proposal for the profit distribution or loss settlement to the General Meeting;
(c) The Board of Directors immediately informs the Supervisory Board on all matters that can significantly influence the development of business activities and assets of VSE, and its liquidity;
(d) The Board of Directors nominates and removes the Chief Executive Officer, supervises his activities and empowers him with management of VSE to the extent of his competencies, duties and responsibilities;

(e) The Board of Directors executes the shareholder rights in its subsidiary Východoslovenská distribučná, a.s. with the approval of the General Meeting in case such approval is necessary.
(f) The Board of Directors nominates the representatives of VSE to the bodies of the subsidiaries in accordance with the statutes of VSE, and
(g) The Board of Directors submits the proposal for appointment, removal or replacement of the auditors to VSE to the General Meeting.

The Supervisory Board is the supreme controlling body of VSE. It supervises the activities of the Board of Directors and business activities of VSE. The Supervisory Board consists of nine members. The vice-chairman of the Supervisory Board is nominated by RWE AG. National Property Fund is represented by the chairman and four members. The employees are represented by three members.

Competencies of the Supervisory Board include:

(a) The Supervisory Board approves the strategic plan and its changes;
(b) The Supervisory Board approves all decisions on a matter or a series of matters that are included in the strategic plan and that have or that could have the value exceeding the value stated in the statutes of VSE;
(c) The Supervisory Board approves set-up of any company, that would become a subsidiary as of the date of its set-up, acquisition of any shares in a subsidiary or in a company that would become subsidiary after the acquisition of shares, and manipulation with any shares in subsidiaries.
(d) The Supervisory Board approves the restructuring or any substantial change in the operations of VSE;
(e) The Supervisory Board initiates the bankruptcy or similar procedures in case of insolvency of VSE or any of its subsidiaries;
(f) The Supervisory Board nominates and removes the auditor of VSE.

Registered address

The registered address of the Company is:

Mlynská 31
042 91 Košice
Slovak Republic

Company number: 36 599 361
VAT number: SK2022082997

The Company has not unlimited liability in other accounting entities.

The General Meeting held on 28 June 2010 approved the financial statements for 2009.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless stated otherwise.

2.1. Basis for preparation

The Act on Accounting of the Slovak republic no 431/2002 as amended requires certain companies to prepare financial statements for the year ended 31 December 2010 in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

The Company`s financial statements at 31 December 2010 have been prepared as ordinary financial statements under § 17 Sec. 6 of the Slovak Act No. 431/2002 Coll. ("Accounting Act") for the accounting period from 1 January 2010 to 31 December 2010.

These financial statements have been prepared in compliance with IFRS as adopted by European Union (EU). The Company applies all IFRS and interpretations issued by International Accounting Standards Board (hereinafter "IASB"), as amended by European Union, which were in force as of 31 December 2010. They relate to the consolidated financial statements of the Group Východoslovenská energetika a. s. Consolidated financial statements of the Group Východoslovenská energetika a.s. are available at seat of the Company, stated in Note 1.

For purposes of preparation of these financial statements according to IFRS the management of the Company defines critical assumptions and estimates which have an influence on recognized amounts of assets and liabilities in the balance sheet and on expenses and revenues recognized in the profit or loss. At the application of accounting policies of the Company the management makes certain critical judgments. The areas which require a more complex decision making process and areas where the critical assumptions and estimates are material to these financial statements are presented in Note 4.

The financial statements have been prepared under the historical cost convention.

The financial statements have been prepared on accrual basis and under going concern assumption. The transactions are recognized in the financial statements in the related period.

The Board of Directors may propose to the Company`s shareholder to amend the financial statements after their approval by General Shareholder Meeting. However, § 16, points 9 to 11 of the Accounting Act prohibit reopening an entity's accounting records after the financial statements are prepared and approved. If, after the financial statements are approved, management identifies that comparative information would not be consistent with the current period information, the Accounting Act allows entities to restate comparative information in the accounting period in which the relevant facts are identified

Till 31 December 2009, financial statements of the Company have been prepared in accordance with Slovak Generally Agreed Accounting Standards (GAAP). Some of these are different from IFRS as adopted in EU. In process of preparation of these financial statements in accordance with IFRS, management of the Company have changed some accounting and measurement methods applied in financial statements prepared according to Slovak GAAP, in order to achieve compliance with IFRS as adopted by EU.

Standards, amendments and interpretations to existing standards that are effective after 31 December 2010 and have been early adopted by the Company

Amendment to IAS 24, Related Party Disclosures (effective for annual periods beginning on or after 1 January 2011). IAS 24 introduces a partial exemption from the disclosure requirements for government-related entities and simplifies the definition of a related party. This amendment has been endorsed by the EU on 19 July 2010. Early adoption of this standard by the Company resulted in changes in related party disclosures (Note 26).

Standards, amendments and interpretations to existing standards that are effective after 31 December 2010 and have not been early adopted by the Company

None of the following standards, amendments and interpretations to existing standards has significant impact nor has been early adopted by the Company in the preparation of financial statements for the year ended 31 December 2010:

Amendment to IAS 1, Presentation of Financial Statements (issued in May 2010 as part of Improving International Financial Reporting Standards). The amendment clarifies requirements for the presentation and disclosure of the statement of changes in equity. Reconciliation between the carrying amount of each component of equity at the beginning and end of accounting period must be disclosed in the Statement of Changes in Equity, but the extent of this reconciliation is simplified by the requirement to disclose the analysis of items of the other comprehensive income for each component of equity in the Notes to the financial statements. This amendment has been endorsed by the European Union on 19 February 2011. Application of revised IAS 1 has no effect on these financial statements.

Amendment to IAS 32 - Financial instruments: presentation (effective for annual periods beginning on or after 1 February 2010 or later). This amendment changes the accounting treatment of shareholders' rights to participate proportionally on the increase of the share capital of a joint stock company, if this increase is denominated in other than the functional currency of the issuer. Before this amendment those rights were recognized as financial derivatives. This amendment has been endorsed by the EU on 23 December 2009.

Amendment to IFRS 1, First-time Adoption of International Financial Reporting Standards (effective for annual periods beginning on or after 1 July 2010). The amendment is titled limited exemption from comparative IFRS 7 disclosures for first-time adopters. Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by amendments to IFRS 7, Financial Instruments: Disclosures. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. This amendment has been endorsed by the EU on 30 June 2010.

IFRS 9, Financial Instruments Part 1: Classification and Measurement (effective from 1 January 2013). IFRS 9 was issued in November 2009, updated in October 2010 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.

The Company is currently assessing the impact of the standard on its financial statements. This standard has not been endorsed yet by the EU.

Amendments to IFRS 7, Disclosures—Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011.). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. This standard has not been endorsed yet by the EU.

Amendment IFRIC 14, IAS 19, The limit on the defined benefit assets, minimum funding requirement and their interaction (effective for annual periods beginning on or after 2011). The amendment is applied when an accounting unit is liable to the minimum pension plan funding requirement, and pays advances on contributions to the pension plan. The amendment clarifies when an entity may recognize this advance as an asset. This amendment has been endorsed by the EU on 23 July 2010.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This interpretation clarifies the IFRS requirements for when an entity settles its liabilities with its own shares, and requires the issued shares to be measured at fair value. This amendment has been endorsed by the EU on 23 July 2010.

Deferred Tax: Recovery of Underlying Assets – Amendment to IAS 12 (effective for annual periods beginning on or after 1 January 2012). The amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. This standard is not expected to have a material effect on the Company. This standard has not yet been adopted by the EU.

Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1

exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The Company is currentlz considering the impact of these improvements on its financial statements. These improvements were adopted by the EU on 14 February 2011.

Unless otherwise stated above, the new standards and interpretations are not expected to have a material effect on the financial statements of the Company.

2.2. Foreign currency translation

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). Company's functional and presentation currency is euro.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit or loss.

2.3. Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation less accumulated impairment loss.

Historical cost includes expenditure that is directly attributable to the acquisition. Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009. The commencement date for capitalisation is when (a) the Company incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale. Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Repairs and maintenance costs are charged to the profit or loss during the financial period in which they are incurred.

The depreciation of property, plant and equipment begins in the month when the property, plant and equipment is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. It is depreciated in line with the approved depreciation plan. Property, plant and equipment is depreciated using the straight-line method. Monthly depreciation charge is stated as the difference between acquisition costs and residual value, divided by estimated useful life of the property, plant and equipment. The residual value of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual values in the moment of disposal and estimated useful life of non-current asset are subject to reassessment at each end of the reporting period and adjusted, if necessary.

The estimated useful lives of individual groups of assets are as follows:

Buildings and constructions	
- electric stations	25 years
- lines on pylons, pylons	25 years
- underground lines	35 years
- other buildings and constructions	8 – 35 years
Machinery and equipment	
- transformers	20 years
- technology part of electrostations	20 years
- switches and protection parts	15 years
- data collection and processing devices	5 years
- cars	5 years
- fixtures and fittings	8 years

Each component of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. The Company allocates the amount initially recognized in respect of an item of property, plant and equipment proportionally to its significant components and depreciates separately each such component.

Land and assets under construction are not depreciated.

The most significant items of property, plant and equipment are represented by electricity grid components.

Gains and losses from disposal of property, plant and equipment are determined as difference between proceeds from disposal and the asset's carrying amount and are recognized in profit or loss.

2.4. Intangible assets

Intangible assets are stated at historical cost less accumulated amortization and accumulated impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the items including costs needed to bring the intangible assets to a condition so that the intangible assets can be used as intended by management.

The amortization of an intangible asset begins in the month when the intangible asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. It is amortized in line with the approved amortization plan. Intangible assets are amortized using the straight-line method. Monthly amortization charge is stated as the difference between acquisition costs and residual value, divided by estimated useful life of the intangible assets. Residual value of intangible assets is assumed to be zero unless (a) there is a commitment by a third party to purchase the asset at the end of its useful life, or (b) there is an active market for the asset and residual value can be determined by the reference to that market and it is probable that such a market will exist at the end of the asset's useful life.

The Company does not have intangible asset with indefinite useful life. The Company does not have any internally generated intangible assets.

Costs associated with maintaining computer software programs are recognized as an expense as incurred.

Subsequent expenditure which enhances or extends the performance of computer software programs beyond their original specifications and meets criteria for recognizing it as an intangible asset according to IAS 38 is recognized as a capital improvement and added to the original cost of the software.

The estimated useful lives of individual groups of intangible assets are as follows:

Software	3 years
Other non-current intangible assets	3 years
Valuable rights	3 years

2.5. Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are individually identifiable cash flows (cash-generating units). The Company is considered to be one cash-generating unit. Non-financial assets other than goodwill that were impaired are reviewed for possible reversal of the impairment at each end of the reporting period.

2.6. Financial assets

The Company does not have financial assets at fair value through profit or loss nor available-for-sale financial assets. If the Company had such financial assets, their classification would depend on the purpose for which these financial assets were acquired and on the intention of management of the Company. Management determines the classification of its financial assets at initial recognition.

Cash pooling financing was implemented within the consolidated group of VSE. The Company has recognized receivable from cash pooling to the parent company VSE in amount of EUR 4,533 thousand (2009: EUR 2,424 thousand). This balance is included in Cash and cash equivalents (see note 11).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are incurred, if the Company supplies cash, goods or services directly to the debtor without intention to trade with receivables. Loans and receivables are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. In the balance sheet receivables are presented as “Trade and other receivables”. The Company does not have any loans.

2.7. Leases

IAS 17 defines a lease as being an agreement whereby the lessor conveys to the lessee in return for a payment, or series of payments, the right to use the asset for an agreed period of time.

The Company does not have any assets acquired through finance lease.

Operating leases

Leases in which a significant portion of the risks and rewards of the ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease.

2.8. Financial liabilities

The Company classifies its Financial liabilities according to IAS 39 “Financial Instruments: Recognition and Measurement” as other financial liabilities held at amortised costs. The classification depends on the contractual provisions of the instrument and the intentions with which management entered into the contract.

Management determines the classification of its financial liabilities at initial recognition.

When a financial liability is recognised initially, the Company measures it at its fair value adjusted for transaction costs that are directly attributable to the acquisition of the financial liability.

After recognition, the Company measures all financial liabilities at amortised cost using the effective interest rate method.

The gain or loss from financial liabilities is recognised in the income statement when the financial liability is derecognised.

Financial liability (or a part of financial liability) is removed from the Company’s balance sheet when, and only when it is extinguished – i.e. when the obligation specified in the contracts is discharged or cancelled or expires.

2.9. Inventories

Inventories are stated at the lower of cost and net realisable value. Weighted average method is used for the measurement at the disposal of inventories. The cost of material includes purchase price and directly attributable acquisition costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling costs.

2.10. Trade and other receivables, and loans

Trade and other receivables, and loans are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method, less provision for impairment. Revenue recognition policy is described in the Note 2.21.

A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all the amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy or financial reorganization, default or any delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flow discounted by the original effective interest rate.

Impairment of trade receivables is recognized on the account of provision for receivables. Set-up and release of the provision is recognized in the profit or loss within "Other operating (expenses) / income". Trade receivables that cannot be collected are written off against the provision account for trade receivables and are recognized in the profit or loss also within "Other operating (expenses)/income".

Trade receivables that were written off and subsequently paid by the debtors are recognized in the profit or loss within "Other operating (expenses)/income".

The Company reviews monthly trade receivables balance and creation of bad debt provisions for receivables overdue.

Bad debt provisions for loans are created in the same way as bad debt provisions for trade receivables.

2.11. Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, overdrafts, and receivables from cash-pooling within the group VSE.

2.12. Equity

Ordinary shares are considered as equity. Additional costs attributable to issuing of new ordinary shares are presented in equity as decrease in equity, net of income tax.

2.13. Dividends

Dividends are disclosed in the notes to financial statements, if declared after the end of the reporting period, however before financial statements are authorized for issue by Board of Directors. Dividend payout is recognized as liability, and decreases equity as of the end of the reporting period only if it has been declared by the end of the reporting period.

2.14 Legal reserve fund

Legal reserve fund is created in accordance with Commercial Code, based on financial statements, in amount of 10 % of profit after tax, up to 20 % of share capital. Legal reserve fund can be used only for increase of share capital, or cover the losses.

2.15. Trade payables

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using effective interest rate method.

2.16. Borrowings

Borrowings are recognized initially at fair value, net of transaction cost incurred. Borrowings are subsequently stated at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the profit or loss over the period of the borrowings using the effective interest rate method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.17. Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset in accordance with IAS 23. To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization is determined by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.
The amount of borrowing costs capitalized during a period does not exceed the amount of borrowing costs incurred during that period.

2.18 Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax not accounted for, if it arises from initial recognition of an asset or liability in a transaction other than a business combination and that at the time of the transaction affects neither accounting, nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

The Company shall offset deferred tax assets and deferred tax liabilities if the Company has a legally enforceable right to set off them and they are concerned income taxes to be paid to the tax authorities.

2.19 Employee benefits

Pension plans and jubilee awards

The Company has both defined benefit and defined contribution plans.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Unfunded defined benefit pension plan

According to the contract with the Trade Unions, valid as at 31 December 2010, the Company is obliged, based on the number of years in service, to pay its employees on retirement or disability the following multiples of their average monthly salary:

Years of service	Multiple of the average monthly salary
Up to 10 years	2x
10-15 years	3x
15-20 years	4x
20-25 years	5x
25-30 years	6x
30-35 years	7x
Over 35 years	8x

The minimum requirement of the Labour Code of one-month average salary payment on retirement and disability is included in the above multiples.

One average monthly salary will be added to the retirement benefits when more than 35 years worked and when the Company was the only one employer of employee.

The Company also pays life jubilees benefits. Jubilee benefits when the employee reaches age of 50 years depend on the length of the service within the Company and are as follows:

Years of service	Benefit
Up to 10 years	EUR 330
Over 10	EUR 500
Over 20	EUR 670

Within legal unbundling the Company took over the staff of the parent company (VSE a.s.), where the same or similar liability had been included in the contracts with the Trade Unions since 1994. The Company had created expectations on the part of its employees that it will continue to provide the benefits and according to the management, it is not realistic for Company to cease providing them.

The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period, together with the adjustments for unrecognised actuarial gains/losses and past service costs (except for jubilee benefits for which the past service costs and actuarial gains/losses are expensed immediately when incurred).

The defined benefit obligation is calculated annually by independent actuaries using the Projected Unit Credit Method. The present value for determined using discount rate derived from the yield curve for high quality Euro corporate bonds quoted as at 7 December 2010 (source: Bloomberg). Subsequently the figures were adjusted by “bootstrapping” to spot line to calculate forward discont rate used. The discount rate used for calculation as at 31 December 2010 was yield curve of Euro public securities quoted as at 11 December 2010 (source: European Central Bank). The discount rate was increased by difference (spread) by 0.5% as a result of difference between yields from securities of AA rated companies and state bonds.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the profit or loss when incurred. Amendments to the pension plans are charged or credited to the profit or loss over the average remaining service lives of the related employees. Amendments to the jubilee benefits plans are accounted at its inception for in the profit or loss.

Defined contribution pension plans

The Company contributes to the government and private defined contribution pension plans.

The Company makes contributions to the government health, retirement benefit, accidental and guaranty insurance, solidarity reserve funds and unemployment schemes at the statutory rates being in force during the year, based on the gross salary payments.

Throughout the year, the Company contributed to such schemes in amount of 35.2% (2009: 35.2%) of actual paid gross salaries up to a monthly salary, which is defined by the relevant law together with the contributions of the employees of a further 13.4 % (2009: 13.4%). The costs of payments contributed by the Company are charged to the profit or loss in the same period as the related salary costs.

In addition, with respect to employees who have chosen to participate in a supplementary pension scheme, the Company contributed to the supplementary scheme based on tariff wages and years of service provided in the Company in the following way:

Benefit	Years of service
1.5%	Up to 5 years
2.0%	5 – 10 years
2.5%	10 -15 years
3.0%	Over 15 years

Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date. The Company recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

2. 20. Provisions and contingent liabilities

A provision is recognized by the Company when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognized for future operating losses. An entity may expect reimbursement of some or all expenditure required to settle a provision (e.g. through insurance contracts), it should recognize a reimbursement when, and only when, it is virtually certain that reimbursement will be received.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.
A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Contingent liability is defined as (a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity, or (b) a present obligation that arises from past events but is not recognized, because: (i) it is not probable that an outflow of resources

embodying economic benefits will be required to settle the obligation, or (ii) the amount of the obligation cannot be measured with sufficient reliability.

2.21. Revenue recognition

Revenues represent fair value of the consideration received or receivable for the distribution of electricity, for services and connection fees. Revenue is stated net of value-added tax, returns, rebates and discounts. Furthermore, the Company recognizes income from dividends and interest.

The Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Company and specific criteria will be met for each of the Company's activities as described below.

Revenue from distribution of electricity

The Company's customers are parent company VSE and other electricity traders. These companies are contracting final users of the electricity and billing them for both trade and distribution part of electricity supply. Such contracts are called integrated contracts. The Company invoices VSE and other electricity traders for distribution services. Revenue from distribution of electricity is recognized when the electricity is delivered to the customer.

Distribution to wholesale customers is metered and billed on monthly basis.

Distribution to retail customers in the segment of small entrepreneurs is billed on the annual basis from 1 January till 31 December.

Distribution to retail customers in households segment is metered and billed on annual basis for each of eleven billing cycles. Each customer is allocated to one of these eleven billing cycles. Annual metering of billing cycles is phased during the year, each month until January to November approximately one eleventh of the customers is measured. The Company uses type diagrams of delivery (TDO) for estimate of monthly supply to the household segment between the date of last measurement and the end of the reporting period. Retail customers in household segment are billed on a monthly basis in the form of advance payments. Final bill is issued after measurement once a year.

Revenue from sale of electricity from renewables

The Company purchases electricity from producers of electricity from renewable sources (RES) and from combined heat and electricity producters (CHP) for covering network losses. As in particular time intervals it can happen that delivered electricity is higher than volume of losses, based on the Service Level Agreement the Company is selling this surplus to VSE and revenues from such sales are reported on monthly basis according to realized transactions in a particular month.

Revenues from connection fees

The Company receives contribution from the customers to connect them to electricity grid. Revenues from such contribution are recognized as deferred revenue and are released to revenues in the profit or loss according to average useful life of related assets (20 years).

Interest income

Interest income is recognized on accrual basis using the effective interest rate method in the period when it is incurred, independent from the actual payments of the interest.

2.22. Related party disclosures

The Company applies exemptions under IAS 24 and discloses only qualitative and selected quantitative disclosures with entities under control of government.

3. Financial risk factors

The Company's activities are exposed to a variety of financial risks, mainly credit risk and liquidity risk. The strategy of risk management of the Company is focused on the mitigation of potential negative impacts on financial results of the Company. The assessment of credit risk associated with customers of the Company is covered in a part of Rule of operations of the Company – Business conditions for distribution of electricity for framework distribution contract.

3.1. Credit risk

Majority of Company's receivables are intercompany receivables towards the parent company VSE. VSE bears the credit risk related to recoverability of these receivables and therefore there is no credit risk for the Company from these receivables. In respect of other electricity traders, credit risk is concentrated mainly within several electricity traders.

The process of evaluation of customers in view of credit risk is stated in internal directive ("Rule of operations") of the Company. For this purpose, "customer" is defined as distribution grid user which delivers electricity to its customers using the distribution grid based on contract with the Company.

As result of credit risk evaluation, two groups of customers have been establishes. The "A" group (no collateral required) and the "B" group (collateral required).

The customer is classified into the „A“ group in case:

- There has been no overdue receivable towards the customer within last 12 months more than 5 days
- The registered share capital of the customer is at least double the amount of expected payments in 2 months, resulting from frame distribution contract, and at least one of following conditions has been met :

  a) The customer has been granted long-term credit rating at least at level of A- from S&P, or at least at A3 level from Moody's,

  b) The customer has been granted with Quality Index („Index bonity“) with level „good“ or better. The Quality index is a part of paid business information, which is purchased by the Company in order to evaluate credit risk connected to particular customer. The Company submits the business information to customer in case it represents a basis for requirement of collateral from customer.

In case the customer does not fulfill conditions set in the Rule of operations, it is classified into „B“ group, and the Company requires collateral from the customer. Possible collaterals are as follows:

1. cash deposited at bank at the Company's bank account in defined amount
2. bank guarantee in a bank with granted long-term rating at least A- (S&P) or A3 (Moody's)
3. guarantee of parent company of customer, in case it has been granted at least with A-(S&P) or A3 (Moody's) long-term rating.

The customer is obliged to provide required collateral within 20 days after the delivery of requirement for collateral by the Company. The Company is entitled to apply penalty in amount of 0.04 % of outstanding amount for each day of collateral condition breach.

Credit risk is important risk category and it creates a part of business activities of the Company.

Credit risk also originates from cash and bank accounts. Risk resulting from bank accounts is reduced through diversification of deposits in 3 banks. A long-term global rating of bank accounts in the local currency is stable for all banks. As a result, the Company evaluates the risk of bank accounts as standard.

The table below shows the amounts of cash and bank accounts (in EUR thousand):

Bank	Rating	31 December 2010	31 December 2009	1 January 2009
Tatra banka	A1	-	17	-
Tatra banka	A2	7	-	-
Tatra banka	A1/P-1	-	-	31
VÚB	Aa3	-	110	-
VÚB	A1/P-1	92	-	
VUB	Aa3/P-1	-	-	90
Citibank	A2/P-1	279	-	-
Citibank	A2/P-1	-	-	2,347
Total		**378**	**127**	**2,468**

The company has not stated any credit limit for these banks.

The Company has also receivables from cash-pooling within the group VSE. These are considered to be part of Cash and cash equivalents and are presented on the balance sheet accordingly. Due to the fact that these receivables are within VSE group, there is no credit risk for the Company.

3.2. Liquidity risk

Prudent liquidity risk management means maintaining sufficient cash and marketable securities, availability of credit facilities and the ability to close out market positions. The Company's financing position management is focused on maintaining flexibility of financing by ensuring availability of credit lines. Management monitors interim liquidity forecasts based on expected cash flows that are presented in cash and cash equivalents.

The table below shows the analysis of financial liabilities of the Company according to residual maturities. The amounts in the table present the non discounted cash flows. The amounts due up to 12 months are equal to their carrying amount, as the impact of discounting is not significant.

in EUR thousand	Less than 1 year	1 to 2 year	2 to 5 years	Total
31 December 2010				
Borrowings from parent company	6,811	5,400	-	12,211
Trade and other payables	40,892	-	-	40,892
Liabilities from cash pooling	-	-	-	-
Total	**47,703**	**5,400**	**-**	**53,103**
31 December 2009				
Borrowings from parent company	6,739	6,811	5,400	18,950
Trade and other payables	28,577	-	-	28,577
Liabilities from cash pooling	-	-	-	-
Total	**35,316**	**6,811**	**5,400**	**47,527**
1 January 2009				
Borrowings from parent company	3,246	6,639	5,311	15,196
Trade and other payables	16,594	-	-	16,594
Liabilities from cash pooling	-	-	-	-
Total	**19,840**	**6,639**	**5,311**	**31,790**

3.3. Cash flow interest rate risk

As the Company has no other significant interest earning assets besides bank accounts, the interest income and operating cash-flows are dependent on the changes of market interest rates only to a small extent.

The Company's interest expense and financing cash flows depend on changes in market interest rates as the majority of existing borrowings are frequently re-priced. As the interest paid is not significant for the Company, the impact of the interest rate risk is limited.

The interest rate for borrowings is stated as 6M EURIBOR plus 0.25% (related to EUR 5,311 thousand from the balance as of 31 December 2010) and 6M EURIBOR plus 1.3% (related to EUR 6,900 from the balance as of 31 December 2010). In case the interest rate would increase by one percentage point, the interest costs would increase by EUR 147 thousand.

The Company did not have any bank loans in 2010 and 2009.

3.4. Foreign exchange risk

Management does not consider foreign exchange risk as a significant exposure to the Company's operations as it has only immaterial volume of transactions in currency other than its functional currency.

3.5. Capital management

The Company's capital management objective is focused on maintaining optimal structure of debt and own capital (debt/equity ratio) on the consolidated level of VSE. The Company defines capital as equity increased by loans and decreased by cash and cash equivalents. The targeted proportion in medium-term is 45:55 debt/equity ratio, which approximates the actual ratio on consolidated level of VSE.

The amounts of borrowings and cash, capital and liabilities in the financial statements are as follows:

in EUR thousand	31 December 2010	31 December 2009	1 January 2009
Borrowings	12,211	18,950	15,196
Cash and cash equivalents	(4,918)	(2,556)	(2,785)
Net debt	**7,293**	**16,394**	**12,411**
Equity	550,103	555,609	558,731
Liabilities	149,853	140,228	136,216
Liabilities / equity ratio	**27.24%**	**25.24 %**	**24.38 %**
Debt / equity ratio	**1.33%**	**2.95%**	**2.22%**

4. Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1. Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. Estimates and assumptions

that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

Unbilled revenues from electricity distribution

As a result of the fact that the retail customers in the household segment are metered at one of the eleven cycles which are phased between January and November of a calendar year (closer described in Note 2.21), remaining part of electricity distribution for the reporting period gives rise to unbilled revenues from electricity distribution. It is an accounting estimate, which is based on:

- the estimate of the distributed volume to households in technical units (MWh) between the date of last metering and the end of the reporting period, and
- the estimate of the unit price of EUR/MWh which will be used for billing for the distribution in the future. Price is based on actual price list valid for calendar year.

Net balance of unbilled revenues from electricity distribution is determined as the estimated delivery in EUR calculated as estimated delivery in MWh multiplied by unit price in EUR/MWh deducted by the amount of advance billing to VSE and other electricity traders.

In case the estimated delivery to households would be higher by 1% representing 12 GWh, the amount of unbilled revenues from electricity distribution in the profit or loss would be credited by EUR 848 thousand.

In case the estimate of unit price of unbilled electricity distribution would be higher by 1% representing 0.71 EUR/MWh, the amount of unbilled revenues from electricity distribution in the profit or loss would be credited by EUR 855 thousand.

In current accounting period, the Company has upgraded its IT environment. This enabled management to increase the precision in estimating the volume of unbilled delivery in GWh and to use unit price for groups of customers in the household segment. This was not possible in previous accounting periods. As a result, management of the Company was able to estimate the amount of unbilled electricity more precisely, which resulted in the change of estimate of unbilled electricity by EUR 2,422 thousand. This change of estimate was applied prospectively in accordance with IAS 8 and resulted in additional revenues in 2010.

The balance of unbilled revenues from electricity distribution is stated in Note 10.

Economic useful life of tangible fixed assets

The economic useful life of tangible fixed assets stated in Note 2.3 was based on the best estimate of the Company's management. Should the estimated residual useful life of tangible fixed assets be shorter by 10%, the Company would record additional annual depreciation charge of tangible fixed assets of EUR 4,396 thousand. Should the estimated residual useful life of tangible fixed assets be longer by 10%, the Company would record depreciation charge lower by EUR 4,396 thousand.

5. Transition to IFRS

These are the Company's first financial statements prepared in accordance with IFRS. The accounting policies set out in Note 2 have been applied in preparing the financial statements for the year ended 31 December 2010, the comparative information presented in these financial statements for the year ended 31 December 2009 and in the preparation of an opening IFRS balance sheet at 1 January 2009 (the Company's date of transition).

In preparing its opening IFRS balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Slovak Accounting Act and related principles. The Company became a first-time adopter later than its parent VSE. The Company selected to measure its assets and liabilitites in these financial statements in the carrying amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRSs, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the Company.

An explanation of how the transition from to IFRSs has affected the Company's financial position, financial performance and cash flows is set out in the following tables and notes that accompany the tables.

Mandatory exceptions and some of the voluntary exemptions from full retrospective application of IFRS, which are relevant to the Company

The Company has applied mandatory exceptions and some voluntary exemptions from retrospective application of IFRS in accordance with IFRS 1 in preparation of these financial statements.

a) Derecognition of financial assets and financial liabilities. Financial assets and financial liabilities derecognized before 1 January 2004 will not be recognized under IFRS.

b) Exception for estimates. An entity`s estimates under IFRS at the date of transition to IFRS and at 31 December 2009 shall be consistent with estimates made for the same date under previous GAAP, unless there is objective evidence that those estimates were in error.

c) Exemption for business combinations: The Company has used the exemption not to apply IFRS 3 retrospective for past business combinations. Carrying amount of assets and liabilities stated in accordance with Slovak accounting principles (fair values) was used as a purchase price for IFRS purposes immediately after transfer of part of the business.

Reconciliation of equity according to Slovak GAAP and IFRS as at 1 January 2009 and 31 December 2009 is as follows:

		As at 1 January 2009			As at 31 December 2009		
in EUR thousand	**Adj.Nr.**	**Slovak GAAP balance**	**IFRS adjustment**	**IFRS balance**	**Slovak GAAP balance**	**IFRS adjustment**	**IFRS balance**
ASSETS							
Non-current assets							
Non-current intangible assets		1,936	-	1,936	1,818	-	1,818
Non-current tangible assets	1	662,123	822	662,945	664,842	(656)	664,186
Current assets							
Inventories		-	-	-	210	-	210
Trade and other receivables	8	27,594	(313)	27,281	29,491	(2,424)	27,067
Cash and cash equivalents	8	2,472	313	2,785	132	2,424	2,556
Total assets		**694,125**	**822**	**694,947**	**696,493**	**(656)**	**695,837**
EQUITY AND LIABILITIES							
Equity							
Share capital		432,815	-	432,815	432,815	-	432,815
Legal reserve fund		86,573	-	86,573	86,573	-	86,573
Retained earnings	1,5,7	38,164	1,179	39,343	36,429	(208)	36,221
Total equity		**557,552**	**1,179**	**558,731**	**555,817**	**(208)**	**555,609**
Non-current liabilities							
Borrowings and loans		11,950	-	11,950	12,211	-	12,211
Deferred revenues		4,427	-	4,427	7,801	-	7,801
Deferred tax liability	7	88,377	-	88,377	83,417	(412)	83,005
Provisions for liabilities	5	2,750	(357)	2,393	1,551	(36)	1,515
Current liabilities							
Trade and other payables	6	10,776	5,818	16,594	24,672	4,081	28,753
Borrowings and loans		3,246	-	3,246	6,739	-	6,739
Income tax liability		9,229	-	9,229	204	-	204
Provisions for current liabilities	6	5,818	(5,818)	-	4,081	(4,081)	-
Total liabilities		**136,573**	**(357)**	**136,216**	**140,676**	**(448)**	**140,228**
Total equity and liabilities		**694,125**	**822**	**694,947**	**696,493**	**(656)**	**695,837**

Reconciliation of profit for the year according to Slovak GAAP and IFRS for the year ended 31 December 2009 is as follows:

in EUR thousand		For the year ended 31 December 2009 Slovak GAAP balance	IFRS adjustment	IFRS balance
Revenues		248,151	-	248,151
Purchases of electricity		(110,234)	-	(110,234)
Staff cost		(2,508)	-	(2,508)
Services	1,2	(51,920)	2,118	(49,802)
Depreciation and Amortisation	1	(41,422)	(2,582)	(44,004)
Other operating expenses	2,3	(163)	(1,017)	(1,180)
Other operating income	4	2,885	28	2,913
Profit from operations		**44,789**	**(1,453)**	**43,336**
Financial expenses				
Interest income		84	-	84
Interest expense	5	(410)	(322)	(732)
Other financial income	4	28	(28)	-
Other financial expenses	3	(3)	3	-
Financial income / (expenses)		**(301)**	**(347)**	**(648)**
Profit before income tax		**44,488**	**(1,800)**	**42,688**
Income tax expense		(8,059)	412	(7,647)
Profit for the year		**36,429**	**(1,388)**	**35,041**

Significant adjustments resulting from IFRS adoption are described below in more detail:

Adjustment 1 – Fixed assets:
- Capitalization of electrometers – adjustment is a result of different accounting method for electrometers according to Slovak GAAP and IFRS. According to Slovak GAAP electrometers meet the definition criteria of low-value non-current tangible assets, which if depreciated in full at the moment of its set in use or its consumption. According to IFRS electrometers meet the definition criteria of non-current tangible assets and are to be depreciated in a systematic way during the expected useful life accordingly.

– Accounting of residual value of dismissed assets for a new building – adjustment is a result of different accounting method for residual value of dismissed assets. According to Slovak GAAP the residual value is capitalized in acquisition cost of a new building, according to IFRS this part of an asset is recognized in profit or loss.

Adjustment 2 – Reclass of release of environmental provisions, which according to IFRS is recognized in services, according to Slovak GAAP they are recognized in other operating expenses.

Adjustment 5 – Discounting provision for environmental restoration performed only for IFRS purposes. According to Slovak GAAP this provision has not been discounted.

Adjustment 6 – Reclass of provisions – the reason of this reclass is a different classification of provisions according to Slovak GAAP and IFRS. According to Slovak GAAP some accrued items and unbilled supplies are recognized as provisions in balance sheet, according to IFRS these items are recognized as Trade and other payables.

Adjustment 7 – Deferred income tax liability – adjustment is caused by IFRS adjustments relating to non-current assets and provisions that represent temporary differences between tax base and carrying amount of these assets and liabilities.

Adjustment 8 – Reclass of receivables from cash pooling – according to IFRS, receivables from cash pooling are presented as Cash and cash equivalents whereas in Slovak GAAP they are presented as Trade and other receivables.

Adjustments 3 and 4 are not material for the Company and they don't have any impact on profit for the year 2009 and therefore are not described in more detail.

Cash flow statement for the year ended 31 December 2009

The following table shows the bridge between cash flow statement according to Slovak GAAP and according to IFRS:

		For the year ended 31 December 2009		
in EUR thousand		**Slovak GAAP balance**	**IFRS adjustment**	**IFRS balance**
Net cash from operating activities	1	77,495	1,794	79,289
Net cash from investing activities	1	(43,315)	(1,794)	(45,109)
Net cash from financing activities	2	(36,520)	(2,111)	(34,409)
Net increase / (decrease) in cash, cash equivalents and bank overdrafts	2	**(2,340)**	**2,111**	**(229)**
Cash, cash equivalents and bank overdrafts at the beginning of the year		**2,472**	**313**	**2,785**
Cash, cash equivalents and bank overdrafts at the end of the year		**132**	**2,424**	**2,556**

Adjustment 1 - Fixed assets:
- Capitalization of electrometers – adjustment is a result of different accounting method for electrometers according to Slovak GAAP and IFRS. According to Slovak GAAP electrometers meet the definition criteria of low-value non-current tangible assets, which if depreciated in full at the moment of its set in use or its consumption. According to IFRS electrometers meet the definition criteria of non-current tangible assets and are to be depreciated in a systematic way during the expected useful life accordingly.

– Accounting of residual value of dismissed assets for a new building – adjustment is a result of different accounting method for residual value of dismissed assets. According to Slovak GAAP the residual value is capitalized in acquisition cost of a new building, according to IFRS this part of an asset is recognized in profit or loss.

Adjustment 2 – Reclass of receivables from cash pooling – according to IFRS, receivables from cash pooling are presented as Cash and cash equivalents whereas in Slovak GAAP they are presented as Trade and other receivables. In cash flow statements as per Slovak GAAP, cash pooling is presented within financing activities.

6. Property, plant and equipment

in EUR thousand	Land	Buildings and infrastructure	Machinery, equipment, vehicles and office equipment	Construction in progress including advances (CIP)	Total
At 1 January 2009					
Cost	7,585	563,671	123,372	24,982	719,610
Accumulated depreciation and impairment	-	(44,667)	(11,998)	-	(56,665)
Net book value	**7,585**	**519,004**	**111,374**	**24,982**	**662,945**
Additions	-	-	-	44,643	44,643
Transfer from CIP	637	24,883	9,109	(34,629)	-
Net book value of disposals	(21)	-	-	(31)	(52)
Depreciation charge	-	(33,698)	(9,652)	-	(43,350)
Closing net book value	**8,201**	**510,189**	**110,831**	**34,965**	**664,186**
At 31 December 2009					
Cost	8,201	592,509	134,781,	34,965	770,456
Accumulated depreciation and impairment	-	(82,320)	(23,950)	-	(106,270)
Net book value	**8,201**	**510,189**	**110,831**	**34,965**	**664,186**
At 1 January 2010					
Cost	8,201	592,509	134,781	34,965	770,456
Accumulated depreciation and impairment	-	(82,320)	(23,950)	-	(106,270)
Net book value	**8,201**	**510,189**	**110,831,**	**34,965**	**664,186**
Additions - additional contribution of fixed assets by the parent company	50	1,543	101	-	1,694
Additions	-	-	-	40,489	40,489
Transfer from CIP	360	21,579	16,745	(38,684)	-
Net book value of disposals	(2)	(444)	(2,540)	-	(2,986)
Depreciation charge	-	(34,457)	(9,498)	-	(43,955)
Closing net book value	**8,609**	**498,410**	**115,639**	**36,770**	**659,428**
At 31 December 2010					
Cost	8,609	605,546	144,642	36,770	795,567
Accumulated depreciation and impairment	-	(107,136)	(29,003)	-	(136,139)
Net book value	**8,609**	**498,410**	**115,639**	**36,770**	**659,428**

There are no restrictions of ownership relating to property, plant and equipment. No property, plant and equipment are pledged.

The Company recognizes and uses no significant real-estates subscribed in Cadastral Register, which are not legally permitted for the usage of the Company as at the end of the reporting period.

Property, plant and equipment is insured up to the amount of EUR 375,861 thousand (2009: EUR 375,861 thousand).

7. Intangible assets

in EUR thousand	Computer software and other	Goodwill	Intangible assets not yet ready to use	Total
At 1 January 2009				
Cost	2,207	-	181	2,388
Accumulated depreciation and impairment	(452)	-	-	(452)
Net book value	**1,755**	**-**	**181**	**1,936**
Additions	-	-	484	484
Transfer from CIP	549	-	(549)	-
Amortization charge	(602)	-	-	(602)
Closing net book value	**1,702**	**-**	**116**	**1,818**
At 31 December 2009				
Cost	2,760	-	116	2,876
Accumulated amortization	(1,058)	-	-	(1,058)
Net book value	**1,702**	**-**	**116**	**1,818**

At 1 January 2010				
Cost	2,760	-	116	2,876
Accumulated amortization	(1,058)	-	-	(1,058)
Net book value	**1,702**	**-**	**116**	**1,818**
Additions - additional contribution by the parent company	-	(1,696)		(1,696)
Additions			1,448	1,448
Transfer from CIP	869	-	(869)	-
Amortization charge and negative goodwill write-off	(839)	1,696	-	857
Closing net book value	**1,732**	**-**	**695**	**2,427**
At 31 December 2010				
Cost	3,514	-	695	4,209
Accumulated amortization	(1,782)	-	-	(1,782)
Net book value	**1,732**	**-**	**695**	**2,427**

There are no restrictions of ownership relating to property, plant and equipment. No property, plant and equipment are pledged.

8. Financial instruments by category

The reconciliation of the classes and categories of financial instruments is as follows (in EUR thousand):

1 January 2009	Loans and receivables	Total
Assets as per balance sheet		
Trade receivables (Note 10)	4,605	4,605
Cash and cash equivalents (Note 11)	2,785	2,785
Total	**7,390**	**7,390**

31 December 2009	Loans and receivables	Total
Assets as per balance sheet		
Trade receivables (Note 10)	5,307	5,307
Cash and cash equivalents (Note 11)	2,556	2,556
Total	**7,863**	**7,863**

31 December 2010	Loans and receivables	Total
Assets as per balance sheet		
Trade receivables (Note 10)	18,114	18,114
Cash and cash equivalents (Note 11)	4,918	4,918
Total	**23,032**	**23,032**

1 January 2009	Other financial liabilities carried at amortised cost	Total
Liabilities as per balance sheet		
Trade payables (Note 13)	16,594	16,594
Current borrowings and loans (Note 15)	3,246	3,246
Non-current borrowings and loans (Note 15)	11,950	11,950
Total	**31,790**	**31,790**

31 December 2009	Other financial liabilities carried at amortised cost	Total
Liabilities as per balance sheet		
Trade payables (Note 13)	28,577	28,577
Current borrowings and loans (Note 15)	6,739	6,739
Non-current borrowings and loans (Note 15)	12,211	12,211
Total	**47,527**	**47,527**

31 December 2010	Other financial liabilities carried at amortised cost	Total
Liabilities as per balance sheet		
Trade payables (Note 13)	40,892	40,892
Current borrowings and loans (Note 15)	6,811	6,811
Non-current borrowings and loans (Note 15)	5,400	5,400
Total	**53,103**	**53,103**

The description of risk management process is in Note 3 Financial risk factors.

Bad debts provision is set-up by the Company as follows:

Bad debt provisions for receivables due from companies in bankruptcy are accounted up to the amount of submitted claims. In this case the provisions are tax deductible.

Bad debt provisions for receivables due from debtors, which are not in bankruptcy, are created based on the ageing structure of individual receivables, and the percentage of creation is dependent on type of customer.

Bad debt provision is not created for receivables within group VSE as these are all considered to be recoverable.

a/ Creation of bad debt provisions for receivables overdue – other operations:

1 – 90 days	5 %
91 – 180 days	10 %
181 – 360 days	20 %
361 and longer	100 %

b/ Creation of bad debt provisions for receivables overdue – distribution HV, MV (high voltage, middle voltage):

Days overdue from till	**% bad debt**
1 – 60 days	15 %
61 – 120 days	20 %
121 – 150 days	30 %
151 – 360 days	50 %
361 and longer	100 %

c/ Creation of bad debt provisions for receivables overdue LV (low voltage) – commercial:

Days overdue from till	**% bad debt**
1 – 60 days	15%
61– 120 days	44 %
121 – 210 days	80 %
211 – 330 days	90 %
331 – 360 days	100 %
361 and longer	100 %

d/ Creation of bad debt provisions for receivables overdue LV (low voltage) – households:

Days overdue from till	**% bad debt**
1 – 90 days	15 %
91 – 180 days	50 %
181 – 360 days	80 %
361 and longer	100 %

Reconciliation of changes in bad debt provision for trade and other receivables is in Note 10.

9. Inventory

in EUR thousand	31 December 2010	31 December 2009	1 January 2009
Raw material	317	210	-
Total	**317**	**210**	**-**

As at 31 December 2010, inventory in amount of EUR 317 thousand, (2009: EUR 210 thousand) has been recognized, which represents usable dismounted material from disposed technological property.

10. Trade and other receivables

in EUR thousand	31 December 2010	31 December 2009	1 January 2009
Receivables not due, not impaired	16,554	4,201	4,350
Receivables due, impaired	1,560	1,106	255
Trade receivables	**18,114**	**5,307**	**4,605**
Less: Provision for impairment of receivables	(705)	(435)	(159)
Trade receivables – net	**17,409**	**4,872**	**4,446**
Unbilled revenues from electricity distribution net of advances	9,590	15,477	13,337
Other receivables (prepayments and other accrued income)	5,867	6,718	9,498
Total	**32,866**	**27,067**	**27,281**

The carrying amounts of trade and other receivables as of 31 December 2010 are not substantially different from their fair value. The maximum exposure to credit risk is limited by the fair value of receivables.

Other receivables are not impaired.

Accounting for unbilled revenues from electricity distribution is more closely described in Note 4.1.

Ageing structure of trade receivables is as follows:

in EUR thousand	31 December 2010	31 December 2009	1 January 2009
Before maturity	16,554	4,201	4,350
Till 2 months	261	149	53
2-5 months after maturity	800	497	50
5-12 months after maturity	267	303	28
Over 12 months after maturity	232	157	124
Total	**18,114**	**5,307**	**4,605**

Trade receivables are denominated in EUR.

As at 31 December 2010, the amount of trade receivables within due has been EUR 16,554 thousand (2009: EUR 4,201 thousand), amount of overdue receivables EUR 1,560 thousand (2009: EUR 1,106 thousand). Provision has been created for overdue receivables in amount of EUR 705 thousand (2009: EUR 435 thousand).

Ageing structure of overdue receivables is as follows (in EUR thousand):

HV, MV (Wholesale)	**31 December 2010**		**31 December 2009**		**1 January 2009**	
Days overdue	Receivables	Bad debt provision	Receivables	Bad debt provision	Receivables	Bad debt provision
Till 2 months overdue	125	19	1	-	1	-
2 – 5 months overdue	-	-	45	7	2	-
5 – 12 months overdue	-	-	5	2	3	1
More than 12 months overdue	-	-	-	-	1	1
Total	**125**	**19**	**51**	**9**	**7**	**2**

LV - Retail - commercial (MOP)	**31 December 2010**		**31 December 2009**		**1 January 2009**	
Till 2 months overdue	52	7	12	2	31	5
2 – 5 months overdue	508	221	227	97	14	6
5 – 12 months overdue	65	51	87	69	12	10
More than 12 months overdue	15	15	22	22	49	49
Total	**640**	**295**	**348**	**190**	**106**	**69**

LV – Retail - households (MOO)	**31 December 2010**		**31 December 2009**		**1 January 2009**	
Till 2 months overdue	77	11	94	12	16	2
2 – 5 months overdue	125	62	127	19	32	6
5 – 12 months overdue	152	77	113	56	10	5
More than 12 months overdue	174	174	131	131	54	54
Total	**528**	**324**	**465**	**218**	**112**	**67**

Other operations	**31 December 2010**		**31 December 2009**		**1 January 2009**	
Till 2 months overdue	7	1	42	3	5	-
2 – 5 months overdue	167	16	98	4	2	-
5 – 12 months overdue	50	8	98	8	3	
More than 12 months overdue	43	43	4	4	20	20
Total	**267**	**68**	**242**	**18**	**30**	**20**
Total	**1,560**	**705**	**1,106**	**435**	**255**	**159**

The analysis of trade receivables, which are not overdue, where no provision was created, is presented below:

in EUR thousand	**31 December 2010**	**31 December 2009**	**1 January 2009**
HV, MV	2,221	315	1,312
LV - Retail - commercial	9,312	3,036	1,105
LV – Retail - households	490	733	1,930
Other trade receivables	4,531	117	3
Total	**16,554**	**4,201**	**4,350**

Analysis of receivables which are not yet due and are not impaired by classes of financial instruments as per Note 3.1. is in the following table:

in EUR thousand	31 December 2010	31 December 2009	1 January 2009
Class A – collateral required	448	-	-
Class B – no collateral required	16,106	4,201	4,350
Total	**16,554**	**4,201**	**4,350**

Movements of bad debt provision are presented in the profit or loss in line Other operating costs/income. They are shown in the following table:

in EUR thousand	2010	2009
Balance at 1 January	**435**	**158**
Creation of bad debt provision (Note 20)	624	1,359
Receivables written off during the year as uncollectible (Note 20)	-	-
Unused amounts reversed (Note 20)	(354)	(1,082)
Balance at 31 December	**705**	**435**

11. Cash and cash equivalents

in EUR thousand	31 December 2010	31 December 2009	1 January 2009
Receivables from cash pooling (Note 8)	4,533	2,424	313
Cash at bank and in hand (Note 8)	385	132	2,472
Total	**4,918**	**2,556**	**2,785**

For the purposes of the cash flow statement, the cash and cash equivalents comprise of the above items.

The Company did not allow any bank guarantees.

The Company had no restrictions related to cash and cash equivalents in 2010 and 2009.

12. Equity

The amount of subscribed and paid share capital of the Company as to December 31, 2010 is EUR 432,815 thousand (December 31, 2009: EUR 432,815 thousand).

The total authorized number of ordinary shares is 10 shares in a nominal value of EUR 3,320 thousand and one share in a nominal value of EUR EUR 432,782 thousand.

There is no share capital not listed in the Commercial Register as to December 31, 2010.

The Company created the legal reserve fund in amount of 20% of share capital established at the transformation to the joint-stock company. The Company had created as at 31 December 2010 the required amount of legal reserve fund in accordance with Commercial Code.

Financial statements of the Company for prior accounting period have been approved by General Meeting on June 28, 2010. The decision on profit distribution for accounting period 2009 has been made – payment of dividends to the shareholders in full amount of EUR 36,429 thousand.

The decision on profit distribution for accounting period 2010 will be made by the General Meeting of the Company. The Board of Directors submitted to the General Meeting the proposal to pay dividends to the shareholder in full amount of profit after tax, i.e. EUR 30,715 thousand, i.e. EUR 2,792 thousand per share (2009: EUR 3,186 thousand).

Profit after tax per share in 2010 represented EUR 2,810 thousand (2009: EUR 3,186 thousand).

The distributable retained earnings of the Company as of 31 December 2010 amounted to EUR 30,715 thousand (31 December 2009: EUR 36,221 thousand).

13. Trade and other payables

in EUR thousand	31 December 2010	31 December 2009	1 January 2009
Trade payables	40,892	28,577	16,594
Payables to employees	97	117	-
Social security and other taxes	61	59	-
Other payables	40	-	-
Total	**41,090**	**28,753**	**16,594**

The fair value of trade and other payables is not significantly different from their carrying amount.

The amount of trade payables denominated in foreign currencies is not material.

The Company recognizes no payables overdue as at 31 December 2010.

14. Deferred revenues

The Company recognizes deferred revenues from connection fees. These are amortized over 20 years. As of 31 December 2010, the amount of deferred revenues represented EUR 14,393 thousand (2009: EUR 7,801 thousand).

15. Borrowings

Borrowings received from related parties denominated in EUR are stated in the table below (in EUR'000):

in EUR thousand	31 December 2010	31 December 2009	1 January 2009
Non-current borrowings			
Long-term part of loan provided by parent company	5,400	12,211	11,950
Total	**5,400**	**12,211**	**11,950**
Current borrowings			
Short-term part of loan provide by parent company	6,811	6,739	3,246
Total	**6,811**	**6,739**	**3,246**
Total borrowings	**12,211**	**18,950**	**15,196**

The interest rate for borrowings is stated as 6M EURIBOR plus 0.25% (related to EUR 5,311 thousand from the balance as of 31 December 2010) and 6M EURIBOR plus 1.3% (related to EUR 6,900 from the balance as of 31 December 2010).

The Company did not have any bank loans in 2010 and 2009.

16. Deferred income tax

in EUR thousand	31 December 2010	31 December 2009	1 January 2009
Deferred tax assets:			
- Deferred tax asset to be recovered after more than 12 months	-	-	-
- Deferred tax asset to be recovered within 12 months	549	400	580
Total	**549**	**400**	**580**
Deferred tax liabilities:			
- Deferred tax liability to be recovered after more than 12 months	74,353	77,853	83,212
- Deferred tax liability to be recovered within 12 months	4,526	5,552	5,745
Total	**78,879**	**83,405**	**88,957**

The gross movement on the deferred income tax account is as follows:

in EUR thousand	2010	2009
Beginning of the year	(83,005)	(88,377)
Income/(expense) in profit or loss (Note 22)	4,675	5,372
Tax charged to equity	-	-
End of the year	**(78,330)**	**(83,005)**

Reconciliation of movements in deferred tax assets and liabilities during the year is as follows:

in EUR thousand	At 1 January 2009	(Charged) /credited to the profit or loss	Charged)/ credited to equity	At 31 December 2009
Difference between tax base and carrying amount of property	(88,957)	5,552	-	(83,405)
Provisions on bad debts	29	48	-	77
Provision for other liabilities and charges	551	(228)	-	323
Total	**(88,377)**	**5,372**	**-**	**(83,005)**

in EUR thousand	At 1 January 2010	(Charged) /credited to the profit or loss	(Charged) /credited to equity	At 31 December 2010
Difference between tax base and carrying amount of property	(83,405)	4,526	-	(78,879)
Provisions on bad debts	77	37	-	114
Provision for other liabilities and charges	323	112	-	435
Total	**(83,005)**	**4,675**	**-**	**(78,330)**

17. Provisions for other liabilities and charges

in EUR thousand	Termination benefits	Pensions and other employee benefits	Environmental restoration	Legal claims	Total
At 1 January 2009	**-**	**244**	**1,413**	**736**	**2,393**
Provisions creation		29	-	36	**65**
Unused amounts released			(361)	-	**(361)**
Provision discounted	-	-	-	-	-
Used/paid during year		(31)	(333)	(218)	**(582)**
At 31 December 2009	**-**	**242**	**719**	**554**	**1 515**

in EUR thousand	Termination benefits	Pensions and other employee benefits	Environmental restoration	Legal claims	Total
At 31 December 2009	**-**	**242**	**719**	**554**	**1,515**
Provisions creation	40	102	-	1,404	**1,546**
Unused amounts released	-	-	-	-	**-**
Provision discounted	-	-	-	-	-
Used/paid during year	-	(5)	(51)	(895)	(951)
At 31 December 2010	**40**	**339**	**668**	**1,063**	**2,110**

Provision for environmental restoration

The activities of the Company cause some environmental issues on its operational sites. The Company carried out environmental audits of environmental burdens. As a result of the audits and legal commitment of the Company to rectify the damages a provision is recognized for the present value of operating expenditure for the restoration of these environmental issues. The Company is currently carrying out the detailed plan for restoration of environmental damages in accordance with realized environmental audits. The amount of provision represents the best estimate of the Company at the end of the reporting period and based on the future environmental audits, this estimate can be changed. The use of the provision is depending on the plans of the Company in environmental area. There was a part of provision for environmental restoration used in 2010 and as the amount of provision was reassessed as a result of changed circumstances (an average price of decontamination of one transformer substation lower than estimated), part of provision in amount EUR 51 thousand (2009: EUR 694 thousand), released.

Provision for legal claims

The provision includes amounts in respect of certain legal claims brought against the Company by its customers. In the opinion of the Company's management, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant loss beyond the amounts provided. Use of the provision depends on decision of the court in respective cases.

Provision for retirement and other employee benefits

These provisions are described in Note 18.

18. Employee benefits

in EUR thousand	**31 December 2010**	**31 December 2009**	**1 January 2009**
Present value of unfunded retirement obligations	319	229	244
Unrecognized portion of past service cost	(13)	(18)	(26)
Present value of recognized unfunded retirement obligations	**306**	**211**	**218**
Jubilee awards	16	11	11
Disability benefits	17	20	15
Liability in the balance sheet	**339**	**242**	**244**

The amounts recognized in the profit or loss related to the defined benefit pension plan are as follows:

in EUR thousand	**2010**	**2009**
Current service cost	16	14
Interest cost	4	11
Actuarial gain	7	(13)
Past service cost	13	18
Total (credit)/ charge, included in staff costs	**40**	**30**

Movements during the year related to defined benefit pension plan are as follows:

in EUR thousand	**2010**	**2009**
At 1 January	242	244
Current service cost	16	14
Actuarial gains/(losses)	7	(13)
Past service cost	13	18
Interest cost	4	11
Benefits paid	(3)	(32)
Increase of social cost charges effective from 1.1.2011	60	-
At 31 December	**339**	**242**

Assumptions used in the calculations of provision for the defined benefit plan are as follows:

Year 2010	
Number of employees with entitlement to the benefit	93
Percentage of employees, who will terminate their employment with VSD prior to retirement (withdrawal rate)	Approximately 0.5% p.a., differing with age and sex
Expected salary increases	1 % p.a. over expected inflation
Discount rate	yield curve of euro government bonds of European Central Bank

Year 2009	
Number of employees with entitlement to the benefit	92
Percentage of employees, who will terminate their employment with VSD prior to retirement (withdrawal rate)	Approximately 0.5% p.a., differing with age and sex
Expected salary increases	1 % p.a. over expected inflation
Discount rate	Data from Bloomberg on time-structure of yield curve of high quality European corporate bonds

Amounts paid for defined contribution pension plans:

in EUR thousand	**2010**	**2009**
Defined contribution pension plan	47	46
Supplementary pension scheme	31	29
	78	**75**

Sensitivity analysis of liability for employee benefits is stated in following table:

Description of change of parameter	**Liability as at 31 December 2010**	**Change in comparison with basic scenario**	**Change in comparison with basic scenario in %**
Basic scenario	339	-	-
Increase of fluctuation by 2%	274	(73)	(21)%
Decrease of fluctuation by 2% up to 0%	416	69	20%
Increase in salaries +1% compared to principal assumptions	309	38	11%
Increase in salaries -1% compared to principal assumptions	312	(35)	(10)%
Discount rate +1% compared to principal assumptions			
Discount rate -1% compared to principal	312	(35)	(10)%
assumptions	305	42	12%

19. Revenues

Revenues include the following:

in EUR thousand	2010	2009
Revenues for distribution of electricity :		
- High voltage	18,481	18,031
- Middle voltage	92,431	80,163
- Low voltage – commercial	64,412	59,042
- Low voltage – households	88,143	87,935
- Revenues from sales of electricity from renewable sources	2,322	-
- Revenues from connection fees	622	331
Other revenues	1,469	2,649
	267,880	**248,151**

20. Profit from operations

The following amounts have been charged or credited in arriving at profit from operations:

in EUR thousand	2010	2009
Revenues	**267,880**	**248,151**
Electricity purchase for losses	(49,319)	(41,740)
Transmission	(25,135)	(21,203)
Pass-through services	(50,538)	(47,291)
Total	**(124,992)**	**(110,234)**
Employee benefit expense		
Wages and salaries	(2,118)	(1,881)
Social security costs	(573)	(534)
Other staff costs	(89)	(93)
Total	**(2,780)**	**(2,508)**
Services		
Repairs and maintenance of electric grid related assets	(23,625)	(22,419)
IT maintenance fees	(17)	(19)
Costs from other Service Level Agreements within the group	(30,381)	(27,934)
Rental and protection of property	(115)	(129)
Assurance services provided by auditor	(26)	(40)
Environmental provision – release	51	694
Other services	(462)	45
Total	**(54,575)**	**(49,802)**
Depreciation	(46,941)	(43,416)
Amortization	857	(588)
Total	**(46,084)**	**(44,004)**
Other operating income / (expenses):		
Taxes and fees	(209)	(188)
Decrease / (Increase) in bad debt provision	(270)	(276)
Profit on sale of fixed assets	63	18
Bad debt write-offs net	(10)	(6)
Other net	(233)	2,015
Total	**(659)**	**1,733**
Profit from operations	**38,790**	**43,336**

21. Interest income / (expense)

in EUR thousand	2010	2009
Interest income	11	84
Interest expense	(284)	(732)
Total	**(273)**	**(648)**

22. Income tax expense

in EUR thousand	2010	2009
Current tax	12,284	13,019
Deferred tax	(4,675)	(5,372)
Total	**7,609**	**7,647**

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

in EUR thousand	2010	2009
Profit before tax	38,517	42,688
Income tax calculated at a tax rate of 19%	7,318	8,111
Tax effects of:		
- Non taxed income – permanent differences	(391)	(357)
- Tax disallowed expenses – permanent differences	682	(37)
Tax charge	**7,609**	**7,647**
Effective tax rate	**19.3%**	**18.0%**

The tax rate applicable in 2010 is 19% (2009: 19%).

23. Cash generated from operations

in EUR thousand	2010	2009
Profit before tax	**38,517**	**42,688**
Adjustments for:		
Depreciation	46,941	43,402
Amortization	839	602
Write-off of negative goodwill	(1,696)	-
Write-off of assets damaged at disaster	-	12
Write-off of receivable	10	6
Change in provisions	595	(878)
Change in deferred revenues	6,592	3,374
Change in bad debt allowances	270	276
(Profit)/loss on sale of property and equipment	(63)	18
Interest income	(11)	(84)
Interest expense	284	732
Shortages and damages	757	706
Other non-cash transactions	(799)	(753)
Changes in working capital (excluding the effects of acquisition and disposal of subsidiaries):		
Inventories	(107)	(210)
Trade and other receivables	(6,079)	(68)
Trade and other payables	12,297	12,159
Cash generated from operations	**98,347**	**101,982**

24. Contingencies

Taxation

Due to the presence in Slovak tax legislation of provisions allowing more than one interpretation management's judgment of the Company's business activities may not coincide with interpretation of the same activities by the tax authorities. The extent of this uncertainty cannot be quantified. It will be reduced only if legal precedents or official interpretations are available.The Company's management is not aware of any circumstances that may give rise to future material expenses in this respect.

25. Commitments

Capital Commitments

As at 31 December 2010 the Company has contracted approximately EUR 39,200 thousand of the capital commitments (2009: EUR 39,600 thousand).

26. Related party transactions

Related parties are divided into following categories:

a) *Parent company*
- VSE

b) Key management personnel of the Company
- members of the Board of Directors
- members of Supervisory Board
- division directors

c) Entities under control of RWE group

d) Entities controlled by government or where government has significant influence

Routine trading transactions with the Slovak government including its departments and agencies and transactions between state-controlled entities, which are providers of public utilities, services, for which the standard terms and conditions have been applied and which do not represent a significant portion of a type of transaction.

The related party transactions were made on an arm's length basis.

The nature of relationship with related parties where the Company carried out significant transactions or had significant balances with, are described below.

a) Parent company

Transactions with parent company are stated in the following table:

in EUR thousand	**2010**	**2009**
Sale of electricity	2,322	-
Distribution of electricity	211,222	215,855
Revenues from sales of services	743	416
Revenues from rentals	234	234
Purchase of electricity/pass through	(19,858)	(54,600)
Purchase of property, plant and equipment	(41,937)	(45,127)
Material and other consumables	(12)	(12)
Services	(54,023)	(51,581)
Other costs	(179)	-
Interest income	-	-
Interest expense	(257)	410
Dividends paid	(36,429)	(38,163)

Balances with parent company are stated in the following table:

in EUR thousand	As of 31 December 2010	As of 31 December 2009
Trade receivables (gross)	24,857	18,953
Cash and cash equivalents		
- cash pooling receivables	4,533	2,424
Loans and borrowings		
- short-term financial liabilities	6,811	12,211
- long-term financial liabilities	5,400	6,739
Trade and other payables	26,958	21,831

b) Key management personnel of the Company

Transactions with key management personnel of the Company are stated in the following table:

in EUR thousand	2010	2009
Short-term employee benefits	260	275

c) Entities under control of RWE group

Transactions with entities under control of RWE Group are stated in the following table:

in EUR thousand	2010	2009
Services	179	188

d) Entities controlled by government or where government has significant influence

The Company performs collectively significant transactions with entities controlled by government or where government has significant influence. These transactions are represented by:

- purchases of electricity to cover losses. These costs of the Company amounted to EUR 81,955 thousand in 2010 (2009: EUR 57,156 thousand)
- distribution services provided to electricity traders. Revenues of the Company from such distribution services represents in 2010 EUR 7,723 thousand (2009: EUR 4,199 thousand)
- revenues from support services with the company Slovenská elektrizačná a prenosová sústava, a.s.. These revenues of the Company amounted to EUR 14,595 thousand in 2010 (2009: EUR 2,868 thousand).

27. Events after the reporting period

Effective 25 January 2011, extraordinary General meeting of the Company has removed Mgr. Juraj Drahovský from position of Vice Chairman of Supervisory Board. Effective 26 January 2011, Ing. Marián Suchý was elected to the position of Vice-Chairman of the Supervisory Board.

Effective 15 February 2011, general meeting has also re-elected Dr. Steffen Schattner to the position of Chairman of Board of Directors, and Ing. Jaroslav Hrušč to the position of member of Board of Directors.