

# Annual Report 2004

## SUMMARY OF PRIMARY INDICATORS

<b>General data</b>		<b>2004</b>	<b>2003</b>
Supplied area	km <sup>2</sup>	15 746	15 746
Electricity sold	GWh	4 815	4 498
Take-off points	Number	595 728	594 576
<b>Financial data</b>			
Total revenues	mSKK	13 214	13 025
- electricity sales	mSKK	13 163	12 940
EBITDA*	mSKK	2 237	2 013
Net profit for the period	mSKK	1 499	1 148
Total assets	mSKK	8 110	6 985
Non-current assets	mSKK	4 800	4 383
Equity	mSKK	6 521	4 998
Share capital	mSKK	3 363	3 363
Net financial debt**	mSKK	-1 826	-820
Operating Cash Flow	mSKK	1 973	1 707
Free Cash Flow I ***	mSKK	919	1 010
Investment	mSKK	1 048	716
Average number of employees	Number	1 845	1 994

\* EBITDA = Earnings before Interest, Tax, Depreciation and Amortization

\*\* Net financial debt = difference between financial liabilities and financial assets

\*\*\* Free cash flow I = Cash Flow from operation reduced by capital expenditure in tangible and intangible assets

## TABLE OF CONTENTS

<b>SUMMARY OF PRIMARY INDICATORS</b> .....	<b>1</b>
<b>[1] ADDRESS OF THE CHAIRMAN OF THE BOARD OF DIRECTORS</b> .....	<b>4</b>
<b>[2] REPORT OF THE SUPERVISORY BOARD</b> .....	<b>5</b>
<b>[3] ESSENTIAL DATA OF THE COMPANY</b> .....	<b>6</b>
[3.1.] FORMATION AND FOUNDING OF THE COMPANY .....	6
[3.2] COMPANY HISTORY .....	6
[3.3] BUSINESS ACTIVITIES .....	7
[3.4] SHAREHOLDERS.....	7
[3.5] COMPANY BODIES .....	7
<b>[4] TRADE IN LIGHT OF PREPARATION FOR LIBERALIZATION</b> .....	<b>9</b>
[4.1] SUBSTANTIAL CHANGES IN THE ELECTRICITY PURCHASE .....	9
[4.2] ELECTRICITY SALE .....	10
<b>[5] WE HAVE INTENSIFIED CUSTOMER ORIENTATION</b> .....	<b>12</b>
<b>[6] OUR EMERGENCY READINESS WAS TESTED BY TWO NATURAL CATASTROPHES</b> .....	<b>12</b>
<b>[7] WE HAVE DOUBLED INVESTMENT IN NETWORKS</b> .....	<b>13</b>
<b>[8] EMPLOYEES</b> .....	<b>14</b>
<b>[9] WITH RESPECT TO NATURE</b> .....	<b>15</b>
<b>[10] CAPITAL SHARES</b> .....	<b>16</b>
[10.1] SUBSIDIARIES .....	16
[10.2] ASSOCIATED COMPANY .....	17
[10.3] JOINT VENTURES .....	17
<b>[11] ECONOMIC SITUATION</b> .....	<b>19</b>
[11.1] DEVELOPMENT OF REVENUES, COSTS AND PROFIT .....	19
[11.2] STRUCTURE OF ASSETS, EQUITY AND LIABILITIES .....	22
[11.3] FINANCING.....	22
<b>[12] COMPANY BUSINESS PLANS FOR 2005</b> .....	<b>24</b>
<b>[13] FINANCIAL STATEMENTS</b> .....	<b>25</b>
[13.1] INDEPENDENT AUDITOR'S REPORT.....	25
[13.2] BALANCE SHEET .....	26
[13.3] INCOME STATEMENT.....	32
[13.4] NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2004 .....	36
ANNEX 1: MOVEMENTS IN NON-CURRENT TANGIBLE AND INTANGIBLE ASSETS .....	59
ANNEX 2: CASH FLOW STATEMENT .....	60

## [1] ADDRESS OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

Dear Readers,

The year 2004 was a year of economic growth of the sector in which our Company operates. This gives us hope that the development process, which is getting more and more stable, will bring more notably positive signals. Growing number of production companies proves that the region of eastern Slovakia is becoming more attractive for potential investors.

Fiscal year 2004 was marked by preparations of regulatory and legislative framework conditions for further liberalization of the electric energy market in Slovakia. From January 1, 2005, all customers, excluding households, have the right to select their electric energy supplier. Our Company has always welcome the challenge of competition, therefore we focus on the success of our Company also under the new conditions.

Previously mentioned facts and a thorough implementation of the long-term strategic orientation of the Company which we launched in 2003, as well as measures to reduce costs, have all made a contribution to the success of the past year for VSE a.s.

One of the biggest challenges in the operative implementation of strategic ideas in the past year was the separation of non-core business activities and the sale of assets not necessary for the operation of the Company.

The structure of the Slovak electric energy market will change in the following years. The first step towards such change was the implementation of the European Union legislation into the national legislation. Constant changes both in the legislation and the regulation area, along with related reactions of the market, require high adaptability of the market participants. By meeting the requirements of the transparent corporate structure and optimized cost items we would like to accomplish a comprehensive implementation of the long-term corporate strategy and a significant co-participation in the market development. We are convinced that as long as we keep following the route we started in 2003, we will remain an ideal and reliable partner for our customers.

Last but not least it is the expertise of the RWE Energy AG and its holding companies from market liberalization in Germany and Europe which we are applying and which provide us with an active support by means of know-how transfer. It is our task to use this expertise with advance we have over our competition.

Last fiscal year has proved the fact that both the management and the employees of the Company are facing new challenges and future tasks: This is an important condition for further successful development of VSE a.s.

My acknowledgements also belong to our co-workers and staff representatives. By successful completion of their tasks they have proved they are ready for competition in the constantly changing business environment.

Carl – Ernst Giesting  
Chairman of the Board of Directors and Chief Executive Officer

## [2] REPORT OF THE SUPERVISORY BOARD

In 2004, the Supervisory Board supervised the performance of the Board of Directors, business activities of the company, Company management as well as the fulfillment of corporate Statutes, all in compliance with the Slovak legislation and the corporate Statutes. The Supervisory Board had 5 regular meetings in 2004.

Regular agenda of the meetings of the Supervisory Board included information on the economic results of the company, resolutions from the meetings of the Board of Directors, and information on contracts concluded between related persons.

The Supervisory Board discussed and took on board the reduction of the share capital, closing of individual and consolidated accounts for 2003, profit distribution, and it has recommended the General Meeting to accept the resolutions.

The Supervisory Board initiated, discussed, and took on board the controlling mechanism concerning the agreements between related persons, among others, it took on board the information on establishment of the Association of the Slovak energy companies, ...

Among others, the Supervisory Board approved the following:

- Business plan of VSE a.s. for 2004
- Strategic plan of VSE a.s. for 2005 – 2007
- designation of PricewaterhouseCoopers Slovensko, s.r.o. to perform the audit of Financial Statements for 2004
- participation of VSE a.s. in founding of SPX, s.r.o. with deposit of 1mSKK
- organization structure of VSE a.s. from 1<sup>st</sup> January 2005

Throughout the year, the Supervisory Board was informed by the Board of Directors, both orally and in writing, about the situation in the electric energy market, trading, company situation and development, investment intentions, human resources situation, trends of costs and revenues, and financial planning. In addition to that, the Chairman of the Supervisory Board consulted and discussed the issues of corporate strategy and commercial policy outside the Supervisory Board meetings.

The Auditor's report and the Annual Financial Statements consisting of Balance Sheet, Income Statement, and Notes were discussed by the Supervisory Board members at the meeting on 4 March, 2005.

The Supervisory Board viewed the Annual Financial Statements as of 31 December, 2004 and it recommends the General Meeting to adopt this Annual Financial Statements.

The Supervisory Board joins the proposal of the Board of Directors concerning the distribution of profit. It recommends the General Meeting to adopt the resolution on the distribution of profit as proposed by the Board of Directors.

Košice, 4 March, 2005

Ing. Michal Duranko  
Chairman of Supervisory Board

## [3] ESSENTIAL DATA OF THE COMPANY

### [3.1.] FORMATION AND FOUNDING OF THE COMPANY

The joint-stock company Východoslovenská energetika (hereinafter referred to as „Company“, „VSE“) was founded on the basis of a decision of the founder (National Property Fund of SR) by the Foundation Charter dated 17.12.2001 in accordance with the decision of the Government of SR No. 645 dated 11.7.2001 on the privatization of Východoslovenské energetické závody, š.p. Košice. Východoslovenská energetika a.s. took over all assets, titles, duties, and liabilities of the state enterprise Východoslovenské energetické závody Košice, closed down without liquidation on the basis of the decision of Ministry of Economy SR No. 288/2001 dated 14.12.2001.

Východoslovenská energetika a.s. was founded on 1.1.2002 by registration in the Commercial Register of the District Court Košice I, Part Sa, File No. 1203/V, as follows:

Business name:

**Východoslovenská energetika a.s.**

Headquarters::

**Mlynská 31**

**042 91 Košice**

Identification number:

**36 211 222**

Východoslovenská energetika a.s. operates in the regions of Košice, Prešov, and partially Banská Bystrica. It provides electricity supplies for almost 600 thousand customers.

### [3.2] COMPANY HISTORY

#### **1929**

Foundation of the stock-holding company Východoslovenské elektrárne, the legal predecessor of Východoslovenská energetika a.s. In the same year it was declared as the company of general need.

#### **1942**

Upon the decision of the Boards of Directors of the other electric utility companies in the territory of Slovakia, Východoslovenské elektrárne joined the stock-holding company Slovenské elektrárne.

#### **1946**

After nationalization, the assets of the stock-holding company Východoslovenské elektrárne were transferred to the hands of the state.

#### **1949**

Východoslovenské elektrárne become national enterprise with a legal person status.

#### **1969**

Východoslovenské elektrárne become a part of the Slovenské energetické podniky.

#### **1990**

Východoslovenské energetické závody become independent state enterprise.

#### **2002**

Východoslovenské energetické závody were transformed into the state joint-stock company Východoslovenská energetika.

#### **2003**

Purchase agreement and the shareholder's agreement between the National Property Fund of SR and RWE Plus AG<sup>1</sup> on the sale of 49% shares of the joint-stock company Východoslovenská energetika to the German company RWE Plus AG was closed on January 23.

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<sup>1</sup> The trade name of RWE Plus AG was changed as of 1. 10. 2003 to RWE Rhein-Ruhr AG. RWE Energy AG became the owner of the 49 % share of VSE on the basis of the agreement on split-off and take-over.

### **[3.3] BUSINESS ACTIVITIES**

Business activities of VSE mainly include the following:

- purchase, transit and distribution of electric energy
- construction of energy and heat plants, equipment required for their operation, including control room and regulation technology, technical means for control of electric energy consumption,
- maintenance, repairs, reconstruction and modernization of energy and heat utilities, and control room and regulation technology,
- control of the distribution network 110 kV and lower voltage levels
- design of electric equipment
- design and production of machinery products: connection parts, distributors
- installation of electric equipment up to 110 kV
- revision controls of electric equipment
- repairs of transformers
- repairs of electric meters
- production, assembly and repair of electric distributors and equipment for electric heating
- development, production, and service of instrumentation for energy industry
- erection of constructions and their modifications
- installation and operation of public telecommunication network, providing of public telecommunication services, installation and operation of radio equipment, Internet providing

### **[3.4] SHAREHOLDERS**

As of 31.12.2004, the share capital of the Company in the amount of 3 363 000 000 SKK consisted of 3 363 000 pieces of registered shares in nominal value of 1 000 SKK per share.

As of 31. 12. 2004 the VSE shareholders were:

- National Property Fund SR – owner of 1 715 130 shares in nominal value 1 715 130 000 SKK, i.e. 51 % share of the share capital and voting rights
- RWE Energy AG – owner of 1 647 870 shares in nominal value 1 647 870 000 SKK, i.e. 49 % share of the share capital and voting rights

### **[3.5] COMPANY BODIES**

#### **Board of Directors**

##### **Carl-Ernst Giesting**

CEO and Chairman of Board of Directors

##### **Ing. Valentín Stanislav ( till 12. 3. 2004)**

Vice-chairman of Board of Directors

##### **Ing. Peter Oravský ( from 12. 3. 2004)**

Vice-chairman of Board of Directors

##### **Ing. Slavomír Brudňák ( till 12. 3. 2004)**

##### **Ing. Peter Koval ( from 12. 3. 2004)**

##### **Dr. Frank Kreuzer**

##### **Ing. Vojtech Kusý**

The extraordinary General Meeting on 20 December, 2004 recalled Ing. Vojtech Kusý from the position of the Board of Directors member effective as of 31 December 2004. At the same time it elected Dr. Peter Birkner for the position of the Board of Directors member with effect as of 1 January 2005.

## **Supervisory Board**

### **Ing. Michal Duranko**

Ministry of Economy SR, Bratislava  
Chairman

### **Dr. Andreas Radmacher**

RWE Energy AG, Dortmund, FRG  
Vice-Chairman

### **Elemír Jakab**

Mayor, Veľké Raškovce

### **Ing. Ľudovít Mydlo\***

Východoslovenská energetika a.s., Košice

### **Ing. Anton Novák**

ZTS a.s., Sabinov

### **Ing. Emil Pečík ( till 12. 3. 2004)**

Tax Consultant, Žilina

### **Ing. Stanislav Kočíš ( from 12. 3. 2004)**

Freelance occupation

### **Ladislav Perun\***

Východoslovenská energetika a.s., Košice

### **Ing. Jarmila Répássyová**

National Property Fund SR, Bratislava

### **Ing. Ľubomír Valko\***

Východoslovenská energetika a.s., Košice

*\* Employee representative in the Supervisory Board*

## [4] TRADE IN LIGHT OF PREPARATION FOR LIBERALIZATION

The 2004 has brought several changes in the energy legislation. The Sales Division has made thorough preparations for the next level of liberalization of the electricity market as of 1 January 2005. From this date on, all customers, excluding households, will have the possibility to select their electricity supplier.

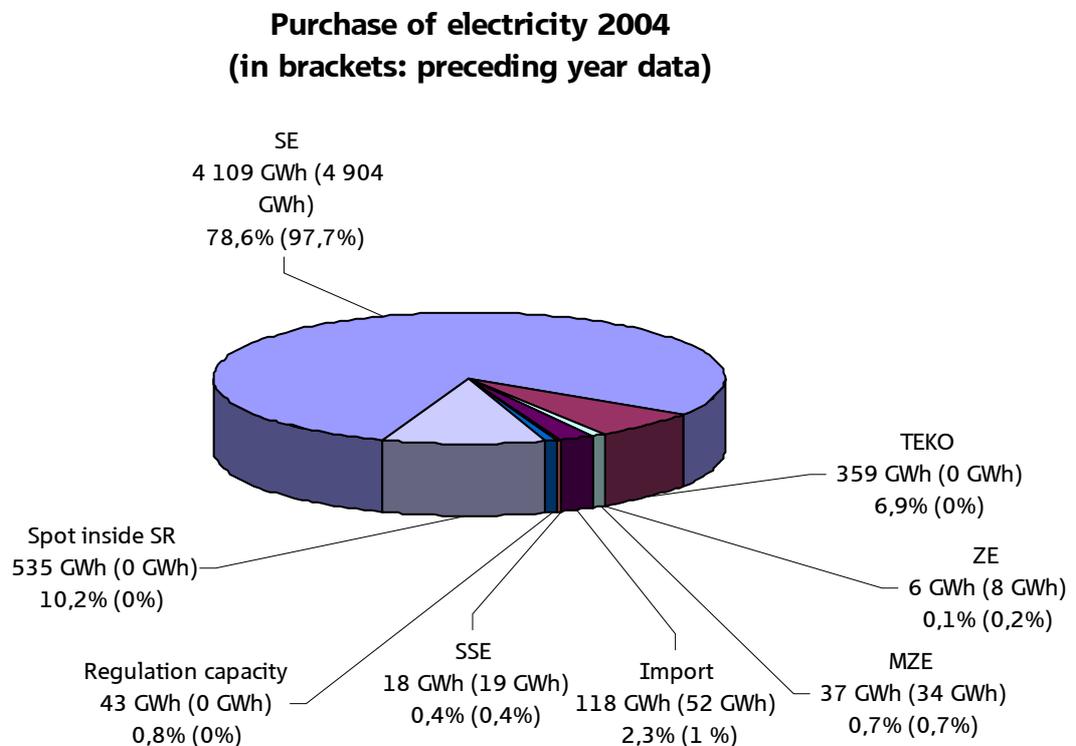
We have developed new product lines for relevant customer segments which replace the tariff rate system. We have focused on the interest of our customers who wish to optimize their electric energy costs to the maximum extent.

Among others, we have done comprehensive changes to the VSE IT structure which were needed in order to cope with the demands imposed on us by opening of the market, and to offer a faster and higher quality service to our customers. By the end of the year we completed the preparations for the launching of VSE call center. The VSE hotline is another step in the efforts of VSE to improve its customer orientation. The above mentioned measures required from VSE and its employees strong efforts, as these changes were running in parallel with daily routine work.

### [4.1] SUBSTANTIAL CHANGES IN THE ELECTRICITY PURCHASE

Gradual liberalization of the electricity market in 2004 had a specific impact on electricity purchase. Since our company does not possess any production technology, VSE purchases the entire electricity volume externally. In 2004 this volume reached 5 225 GWh compared to 5 017 GWh in the preceding year. Slovenské elektrárne, a.s. was still the biggest supplier, with the share of ca 78.6%.

An important change in comparison with previous years was the purchase of electricity from Teplárne Košice, a.s. (TEKO). Among this we purchased electricity manufactured from renewable energy sources and co-generation units. As of 1.1.2004, VSE is subject to settlement of deviations which led to the need for a short-term correction of required capacity in the spot market. The difference between purchase and consumption of electricity was balanced by the regulation capacity.



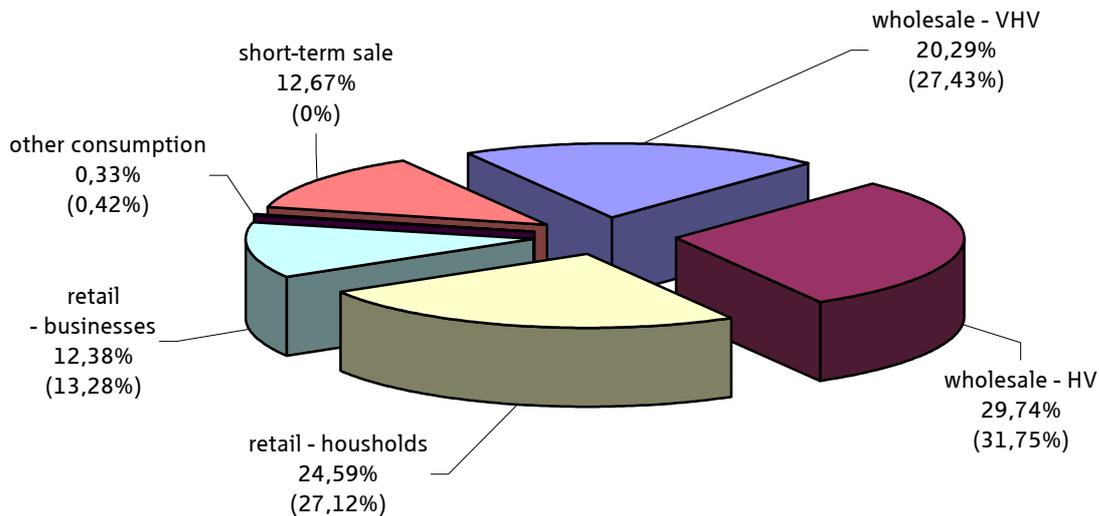
## [4.2] ELECTRICITY SALE

In course of 2004, we sold 4 203 GWh in total to our customers in the segments wholesale, retail – businesses and households. In comparison with the preceding year it means a drop by 6.56%. In addition to that, we sold 612 GWh on the short-term spot market which is not sale to the final customer. Network losses represent 8.6% (2003: 8.4%) that is 408 GWh (2003: 428 GWh).

Wholesale supply dropped by 9.58% mainly due to a lower consumption of our largest customer. Retail supply dropped by 2.13%. This drop results mainly from economical measures of our customers but also from reduced consumption of heating during relatively warm winter months.

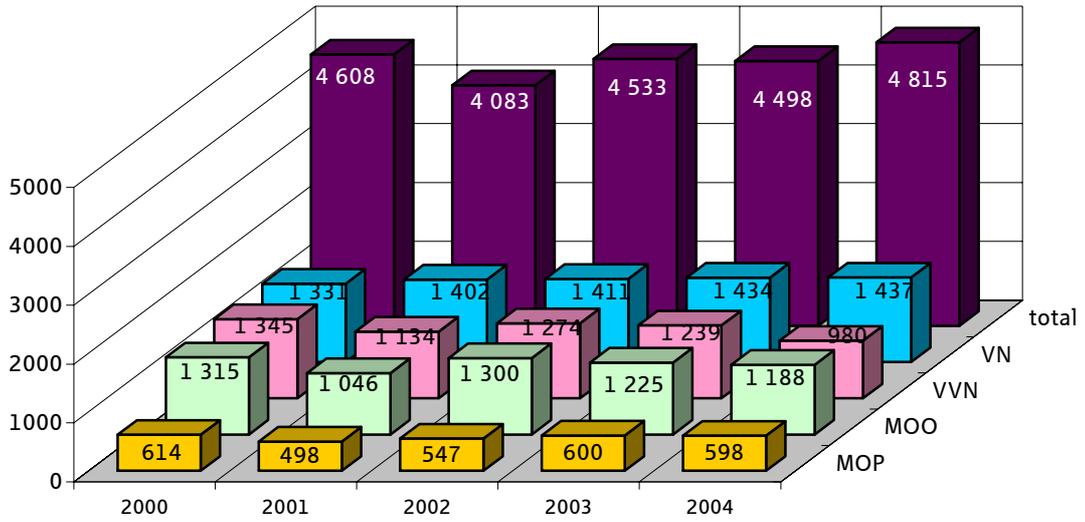
At the beginning of the year we have changed the prices in accordance with the decision of the Office for regulation of network industries of the SR. The average price of useful electricity supply has increased by 4.41%.

### Breakdown of electricity sales in 2004 (in brackets: preceding year data)



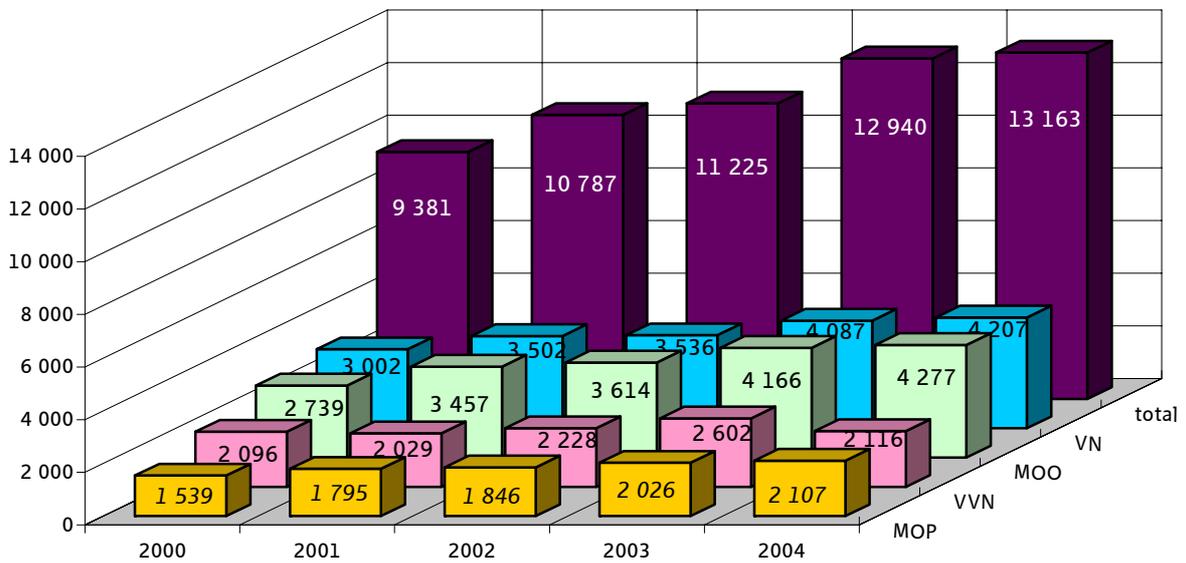
\* the segment titled other consumption includes the internal consumption of VSE of 16 GWh (2003:19 GWh)

### Sales in GWh in 2000 - 2004



\* in 2000-2002 the column also includes other supplies from the state energy utilities  
 \*\*the total column also includes the short-term sale of 612 GWh in 2004

### Sales in mSKK in 2000 - 2004



\*2000-2002 the column also includes other supplies from the state energy utilities  
 \*\*the total sales include the other revenues from electricity sale in amount of 66 mSKK (2003: 59 mSKK)  
 \*\*\* the total column also includes the short-term sale in the spot market in amount of 390 mSKK in 2004

## [5] WE HAVE INTENSIFIED CUSTOMER ORIENTATION

Mutual communication is one of the most important tasks in the process of building partner relations with the customers. We have developed new communication channels for all customer segments.

We have founded Business Club VSE which offers our key customers and business partners a unique opportunity to express their requirements for the quality of services provided by us, and exchange views on serious economic topics.

By traditional participation in regional exhibitions we have established a direct personal contact with the customers.

By publishing the customer magazines for wholesalers and households we helped to increase the knowledge of the mentioned customer groups about the situation in the energy market and about our Company. The information campaign we have launched in the regional and national media focused on informing the public about the liberalization process.

### **We helped those who needed it**

Due to the stable position in the region we are fully aware of our responsibility for public matters too. We have greatly participated in the assistance to the municipalities suffering from floods through the foundation of Východoslovenská energetika a.s. – The Pontis Foundation. We have supported children talented in sports and arts, hearing and sight handicapped people. We assisted in the installation of multimedia language laboratories for the students of the Košice Technical University. We have contributed to the preservation and protection of the cultural heritage of the eastern Slovak region by installation of illumination at the Staroľubovniansky castle.

## [6] OUR EMERGENCY READINESS WAS TESTED BY TWO NATURAL CATASTROPHES

Východoslovenská energetika a.s. supplies electricity to the entire territory of eastern Slovakia. It covers mainly the Košice and Prešov regions. Východoslovenská energetika a.s. operates electric power networks at the voltage level of 110 kV (very high voltage), 22 kV (high voltage), and 0.4 kV (low voltage).

Networks of very high voltage are connected by five large transformer stations to the Slovak national electric transmission system. VSE uses these networks to supply the majority of its customers. For monitoring and control of the electric network, we operate four regional control rooms and one central control room. These control rooms, together with field staff, greatly participate in the reliability of the supplies.

In the discussed period we recorded two extreme situations related to bad weather which have disturbed the electricity supply on the supply side of our company. In July it was the flood on rivers Ondava and Hornád, and in November a whirlwind in the territory of High Tatras and southern Zemplin. Thanks to the extraordinary involvement of our staff we have managed to reduce the negative consequences to minimum and we were able to recover the electricity supplies in a short time.

In this period we have recorded 315 failures (high voltage networks) leading to longer interruption of electricity supply. Even with this two major failures the supply reliability on the customer side was 99.98%.

In connection with the organization of network trading we worked on the preparation and implementation of the European Union requirements. In order to improve the transparency and efficiency we introduced the so called customer-supplier principle in our Company. The preparations for implementation of the Asset management methods continued. This way we wish to achieve optimum use and target-oriented network development, and continuous quality improvement of supplies to our customers.

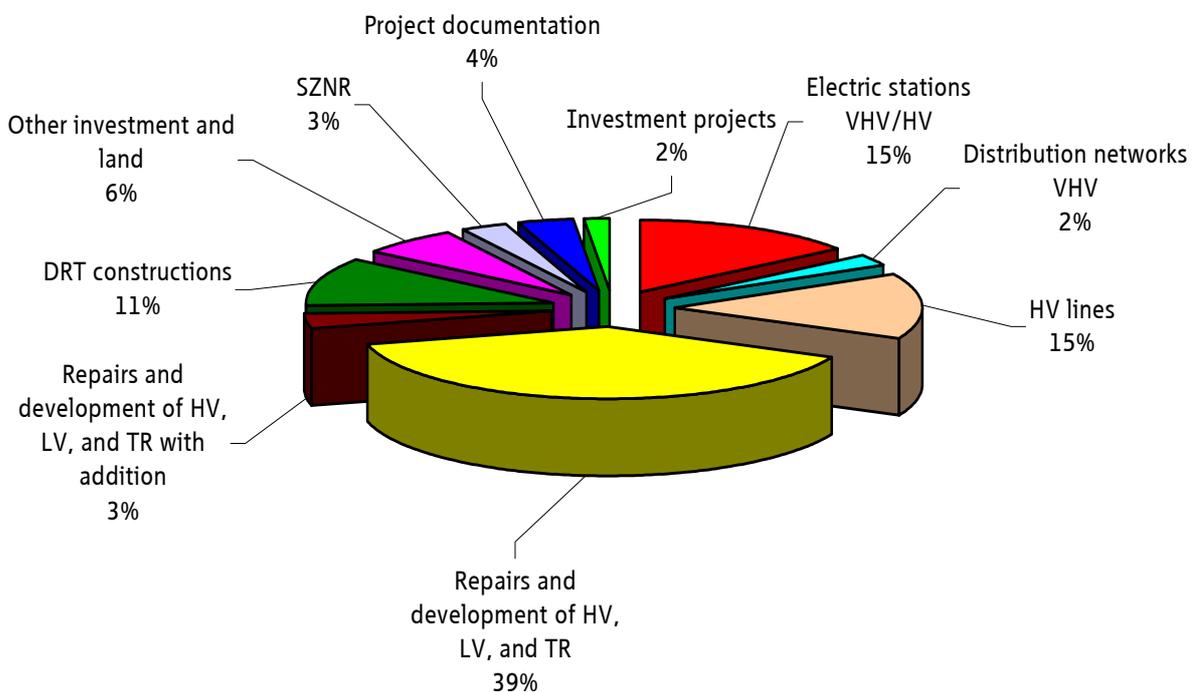
## [7] WE HAVE DOUBLED INVESTMENT IN NETWORKS

One of the most decisive conditions of reliable supplies to our customers are high-performing networks. Current situation of operation means and the improvement possibilities brought by technical progress have resulted in higher investment compared to the previous years. Network projects have taken 816 mSKK, i.e. 78% of the total investment funding of Východoslovenská energetika a.s.

List of the most important investment projects

- **Reconstruction of 22 kV distributor in ES Haniska** - it has improved the reliability of supply in the surrounding business-residential area
- **ES Snina** required a thorough reconstruction including replacement of the 110/22 kV transformer
- **22 kV Line Slovinky** – Prakovce represents an important element in the distribution system of this region
- **Replacement of 110 kV protections in ES Lemešany** - it is a part of the modernization of one of the most important 110 kV nodes in Východoslovenská energetika a.s.
- **Reconstruction of isolators of double line 110 kV – Jablonov – Moldava** shall generally enhance the reliability of the very high voltage network
- **Reconstruction of the secondary technology** in ES Lemešany, Lopušná dolina, and Lubeník was part of the modernization activities. 2004

### Network investment in 2004 by investment areas



## [8] EMPLOYEES

To ensure the success of our company in the liberalized market we need highly qualified employees. That is why, traditionally, we pay high attention to human resources. We manage to support our employees and enhance their qualification and skills in accordance with their job requirements by both, the internal and external education and training activities. Trainings of managers were one of the key elements of our training projects aimed to improve their management skills. Great part of our human resources projects involved language courses, trainings in information technology, and trainings specified by law.

In autumn 2004 we introduced a management tool, the so called structured staff interviews . Managers and managing staff were prepared for these interviews by comprehensive trainings and documentation. Each managing person has interviewed their staff and the interviews were focused on their abilities and personal development opportunities. The feedback we got from managers, staff, and the trade union representatives has convinced us that their implementation was meaningful. The interviews shall be carried out every year in autumn. We will use the information we gained in these interviews for the adoption of suitable measures in VSE human resources policy.

Within the cooperation with our strategic partner, RWE Energy, our managing staff participated in international development programs organized by RWE concern. Global thinking and acting, including understanding of cultural differences, are equally important as modern management methods. Ten selected potential-holders had the possibility to extend their international expertise. In the following years, we would like to develop this program more.

Another key point in our activities was the cooperation with universities and high schools in our region. We participated in the so called „job fair“ in Košice and Bratislava and it was a possibility to find candidates for our internal „Trainee“ program.

By 31.12.2004 we had 1 753 employees (preceding year: 1 953). Thereof 24.2% are women (preceding year: 23.6%) and 75.8% are men (preceding year: 76.4%). The fluctuation rate in the discussed period was 18.7%. 283 employees have left the company and we have welcome 83 new colleagues. The headcount reduction was strongly influenced by separation of IT Services into our subsidiary VSE IT Services, s.r.o. 44 employees have been transferred to the new company.

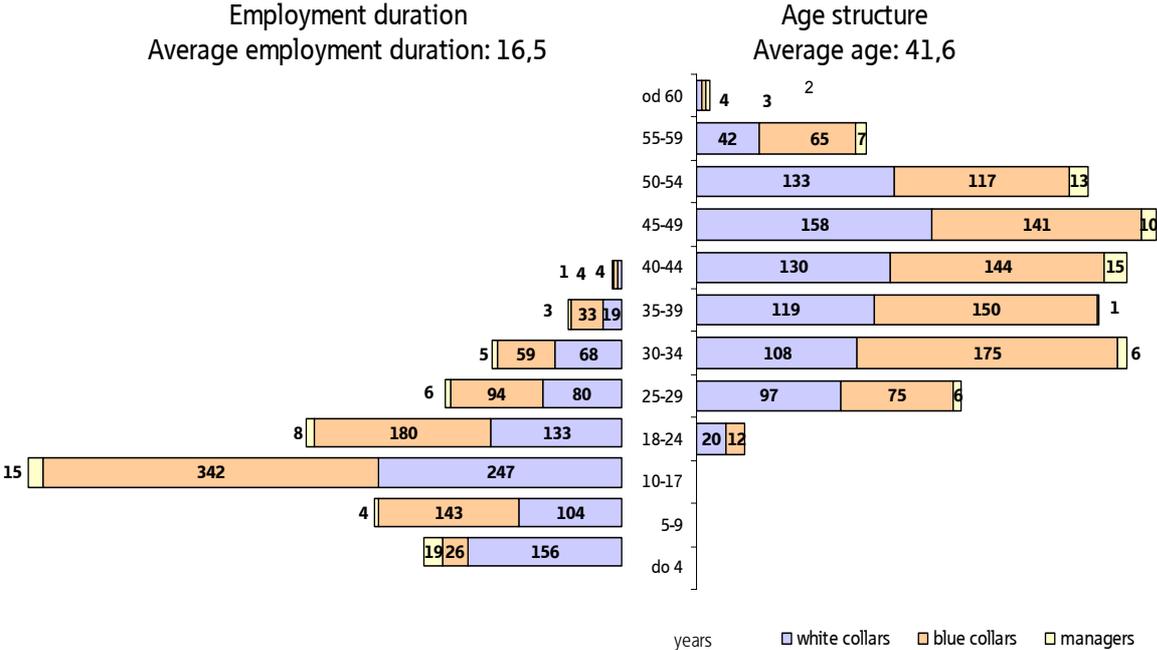
<b>Staff structure</b>	<b>31. 12. 2004</b>	<b>31. 12. 2003</b>
Blue collars	881	1 075
White collars	872	878
Men	1 329	1 492
Women	424	461
Part time	6	9
Full time	1 747	1 944
<b>Total staff</b>	<b>1 753</b>	<b>1 953</b>

Average age of our employees is around 41.6 years of age; average length of the employment agreement with our company is around 16.5 years. Average monthly wage has increased from 22 894SKK/month to 26 307SKK/month (14.9%). The reason for such increase is within the wage growth trend we have agreed with the trade unions for 2004. Another influence factor was the change in the structure of blue collars´ and white-collars´ positions as a part of the headcount reduction. Among that, the market liberalization required hiring of new specialists whose remuneration in the competitive market is above the average wage level of employees in eastern Slovakia.

As of 1. January 2005 we met the requirement of the energy act and we have adjusted our organization structure to meet the unbundling conditions. All staffing and organization changes took place in a very tight time schedule. We managed to adopt these measures thanks to the fact that our staff has adopted this challenge and participated in the changes with full involvement. We consulted all staffing and social

issues with the representatives of the trade unions and we have solved them on the basis of a mutual agreement. Our acknowledgements go to the trade unions representatives for fair approach.

**Age pyramid – balance as of 31.12.2004**



**[9] WITH RESPECT TO NATURE**

In environmental issues, our orientation in 2004 was determined by the Corporate Concept which respects the needs of the region where we operate. We paid more attention to waste management – we focused on its minimization and in some cases on higher recycling ratio. We showed equal responsibility for water protection by gradual reconstruction of the transformer sites at the electric stations. We managed to solve one ecological accident – an oil release – which occurred as a consequence of the damaging summer floods in the territory where our Company is operating. In the discussed period we also improved the protection of nature and landscape. In cooperation with the State Environmental Office we have installed a system of ridge barriers and we have intensified the works aiming to prevent bird deaths on electric poles.

## [10] CAPITAL SHARES

### [10.1] SUBSIDIARIES

#### **VSE IT služby, s.r.o.**

Address:

**Mlynská 31  
042 91 Košice**

Equity:

**200 000 SKK**

VSE share:

**100 %**

#### **Business activities:**

- complete solutions for information and computing systems
- automated data processing
- design and delivery of information systems and computer networks
- software development – sale of ready-made programs on the basis of author's agreement

Net profit for 2004 :

**383 000 SKK.**

#### **VSE Sieťové služby, s.r.o.**

Address:

**Mlynská 31  
042 91 Košice**

Equity:

**200 000 SKK**

VSE share:

**100 %**

#### **Business activities:**

- assembly, maintenance, and repair of the control room and telecommunications technology
- assembly, repairs, reconstruction, and maintenance of optical cables and their accessories
- engineering activity and related technical consultancy

Net loss for 2004 :

**- 8 000 SKK.**

## [10.2] ASSOCIATED COMPANY

**Transelektro, spoločnosť s ručením obmedzeným Košice**

Address:

**Hollého 3**

**040 01 Košice**

Equity:

**1 000 000 SKK**

VSE share:

**25,5 %**

### **Business activities:**

- repair of transport means and machinery
- repair of electric equipment
- construction of electric power networks and stations
- installation and leasing of telecommunication technology
- leasing of electric power lines and electric power stations – constructions

Net profit for 2004:

**2 866 000 SKK.**

## [10.3] JOINT VENTURES

**Energotel, a.s. Bratislava**

Address:

**Miletičova 7**

**821 08 Bratislava**

Equity:

**66 000 000 SKK**

VSE share :

**16,67 %**

### **Business activities:**

- installation and operation of the fixed public telecommunication network
- providing of telecommunication services, except the public telephone service and within its scope:
  - leasing of telecommunication circuits to the public telecommunication service providers
  - leasing of telecommunication circuits for end users
  - leasing of non-active optical fibres

Net profit for 2004:

**4 801 000 SKK.**

**SPX, s.r.o.**

Address:

**Ulica republiky 5  
010 47 Žilina**

Equity:

**3 000 000 SKK**

VSE share:

**33,33 %**

**Business activities:**

- agent activities in the scope of business license,
- entrepreneurial consulting in energy sector
- market research.

Company was founded on 2. 12. 2004.

By 31. 12. 2004 it was not registered in the Commercial Register.

## [11] ECONOMIC SITUATION

### [11.1] DEVELOPMENT OF REVENUES, COSTS AND PROFIT

The positive trend in the development of the economy of the company from 2003 continued in 2004.

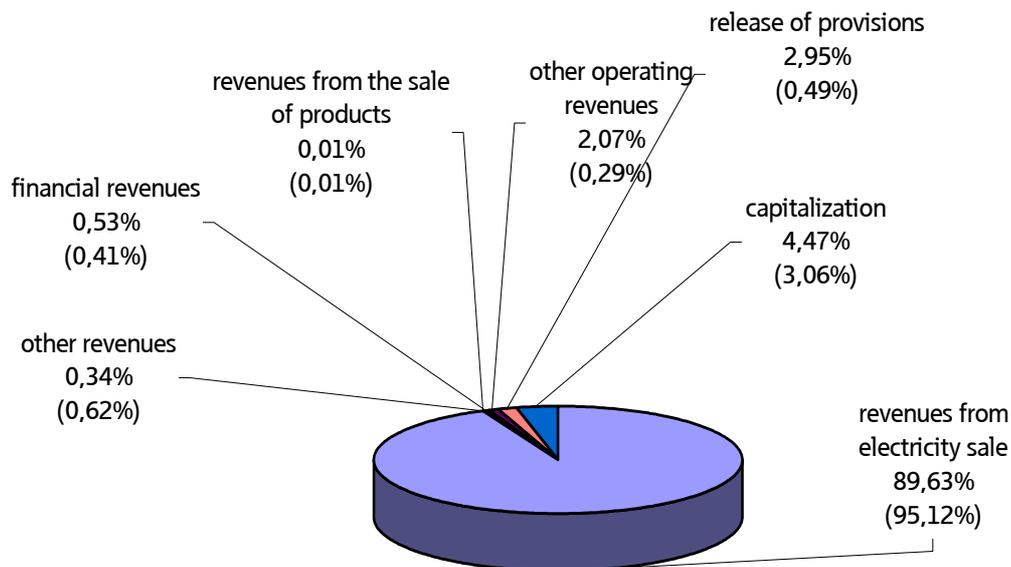
**Total income** (14 685 mSKK) increased by 1 081 mSKK (by 7,9 %).

The operating income increased by 1 060 mSKK compared to the preceding year. Along the moderate increase of sales this growth was mainly caused by higher revenues from capitalization, which is a consequence of higher investment into the networks. Another growth factor of this income was the release of provisions to the receivables after maturity date, the substantial part of which were provisions to receivables from health-care institutions. In the fourth quarter, the majority of these old receivables was settled on the basis of an agreement with the state company Veriteř a.s.

The increase of financial revenues by 21 mSKK is related to higher interest income. Since the financial statements for 2003 has not been approved, no dividends could have been paid out, therefore these funds were freely available in the course of the whole year.

Total electricity sales have grown by 223 mSKK due to the 4% increase of average prices and due to short-term sale of electricity at the spot market where we have sold surplus capacities of power.

#### Structure of revenues in 2004 (in brackets: data for the preceding period)

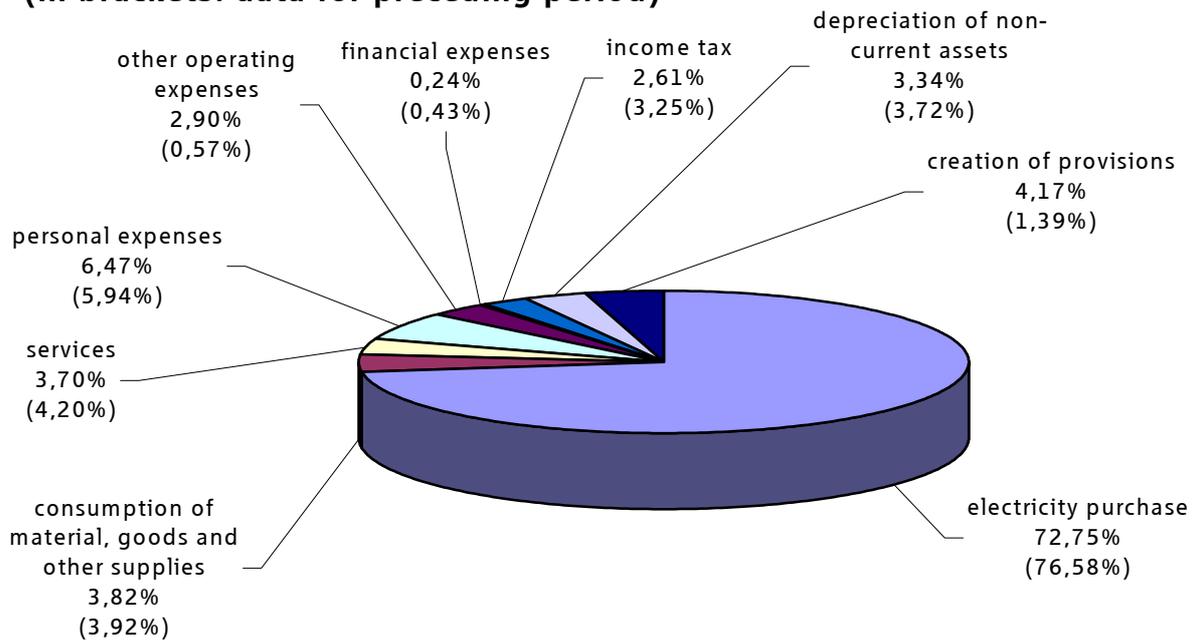


**Total expenses** (12 842 mSKK) have grown by 791 mSKK ( 6.6 %).

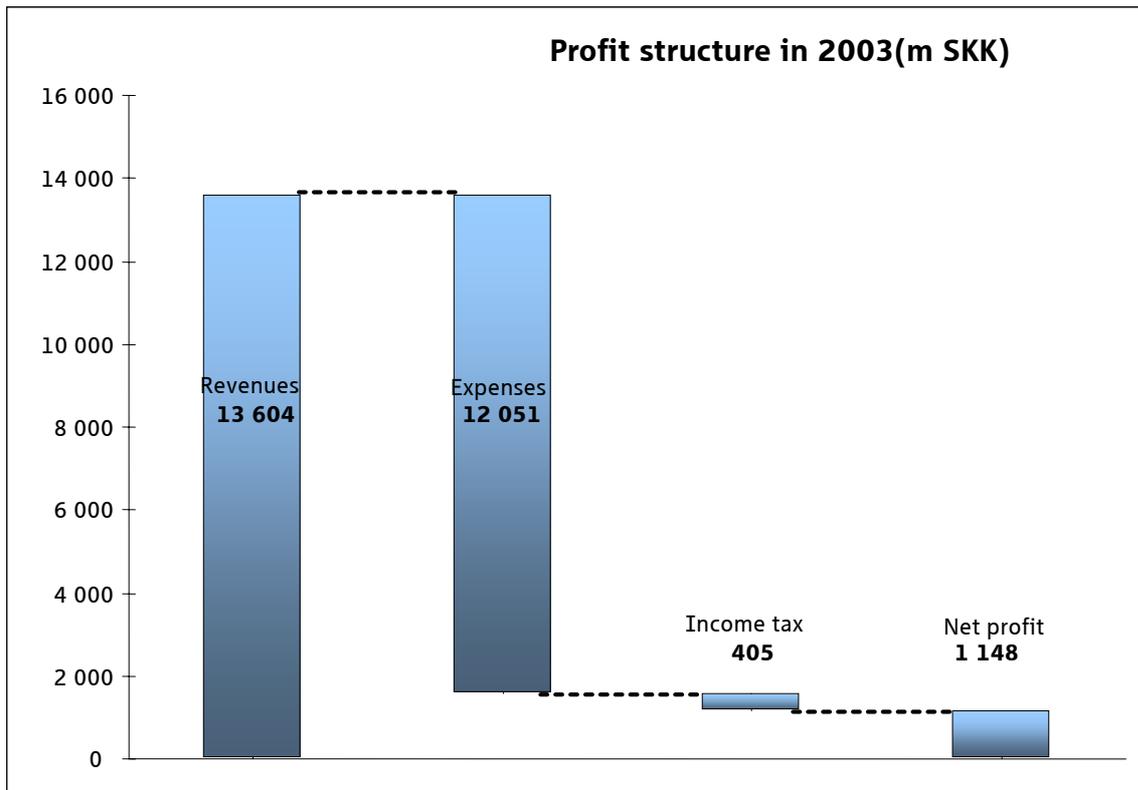
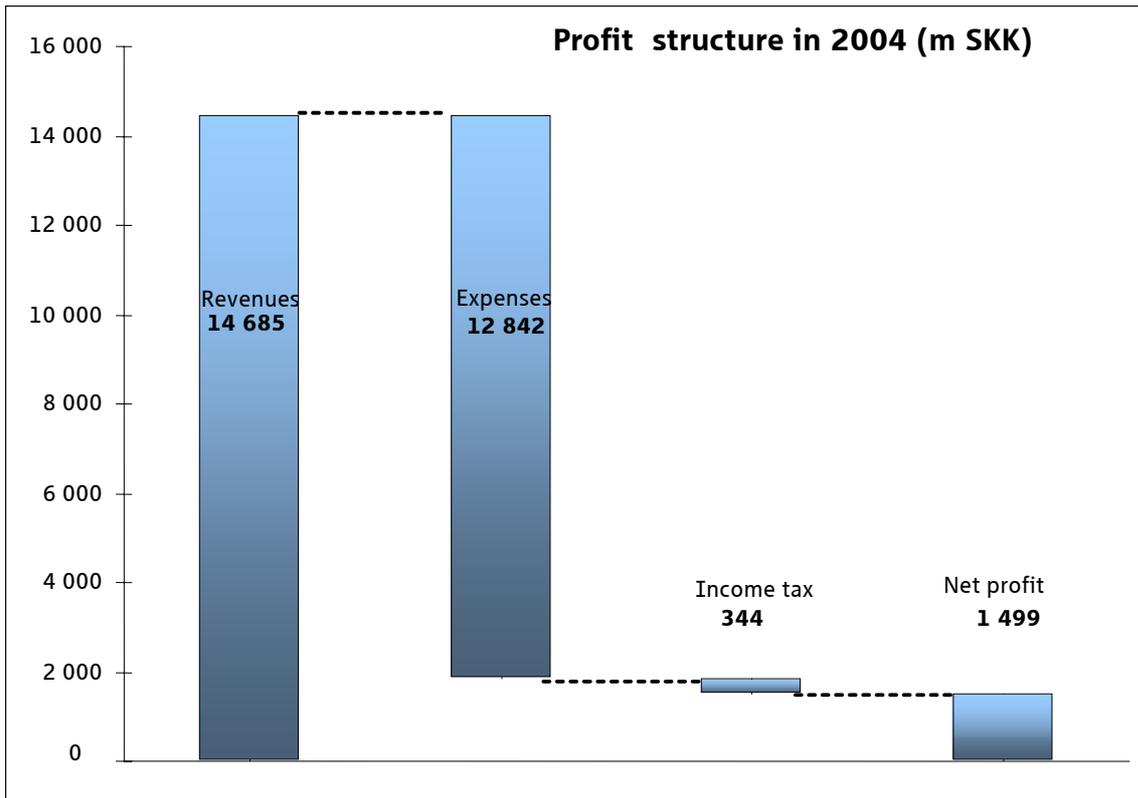
Higher operating expenses by 813 mSKK were mainly caused by creation of provisions. Using this method we have revalued our assets not utilized for long time, especially the administration building in Prešov. In addition to that, there was a need to make a provision for intended restructuring.

Total costs for purchase of electricity have grown by 55 mSKK compared to preceding year. Financial expenses have decreased by 22 mSKK mainly caused by lower interest expenses resulting from gradual reduction of loans.

**Structure of costs in 2004**  
(in brackets: data for preceding period)



Profit after taxation reached 1 499 mSKK, an increase by 351 mSKK compared to the preceding year. Such moderate increase was influenced, among the above mentioned factors, by the reduction of income tax rate (from 25% in 2003 to 19% in 2005) resulting in higher profit after taxation.



## **[11.2] STRUCTURE OF ASSETS, EQUITY AND LIABILITIES**

Total assets as of 31.12.2004 was 8 110 mSKK, which means an increase by 1 125 mSKK (16.11%). Non-current assets have grown by 417 mSKK (9.51%), and the current assets by 708 mSKK (27.21%). The growth of the current assets was mainly caused by the financial situation. This increase by 873 mSKK resulted from the fact that dividends for 2003 could not have been paid out at that time, and from a single effect of settlement of the debts of the state health care facilities on the basis of an agreement with state company Veriteľ a.s.

Increase of the non-current assets was mainly caused by the non-current tangible and intangible assets in use (by 759 mSKK). In addition to that, the procured non-current tangible and intangible assets was reduced (by 338 mSKK) because we focused on a substantial speeding up of the internal processes in the discussed period.

Non-current financial assets changed due to SPX, s.r.o, a company we have founded together with the other distribution companies SSE and ZSE (an increase by 1m SKK). Shares in Transelektro s.r.o. and Energotel a.s. were revalued using equity-method. This resulted in creation of the provision to the interest in Transelektro resulting from temporary reduction of its value, finally leading to a decrease by 5m SKK.

Growth of the current assets was mainly influenced by the above mentioned increase of financial means, and the increase of inventory by 3m SKK. In addition to that, the deferred tax receivable was reduced by 17m SKK and the short-term receivables were reduced by 151m SKK (decrease of the trade receivables by 77m SKK was caused by the settlement of debts of state health care facilities by the state company Veriteľ a.s.

Equity has grown by 1 523 mSKK (30.47%) compared to 2003 and its share in the total liabilities represents 80.41%. The most important growth factor of the equity was the achieved profit for 2004 in amount of 1 499m SKK.

The level of liabilities has dropped by 398m SKK (20.03%). Thereof provisions have grown by 57m SKK and simultaneously the current liabilities dropped by 322m SKK (mainly due to lower income tax caused by tax rate decrease) and bank loans dropped by 133m SKK.

## **[11.3] FINANCING**

Positive financial results in 2004 had an impact on the financial situation of the company.

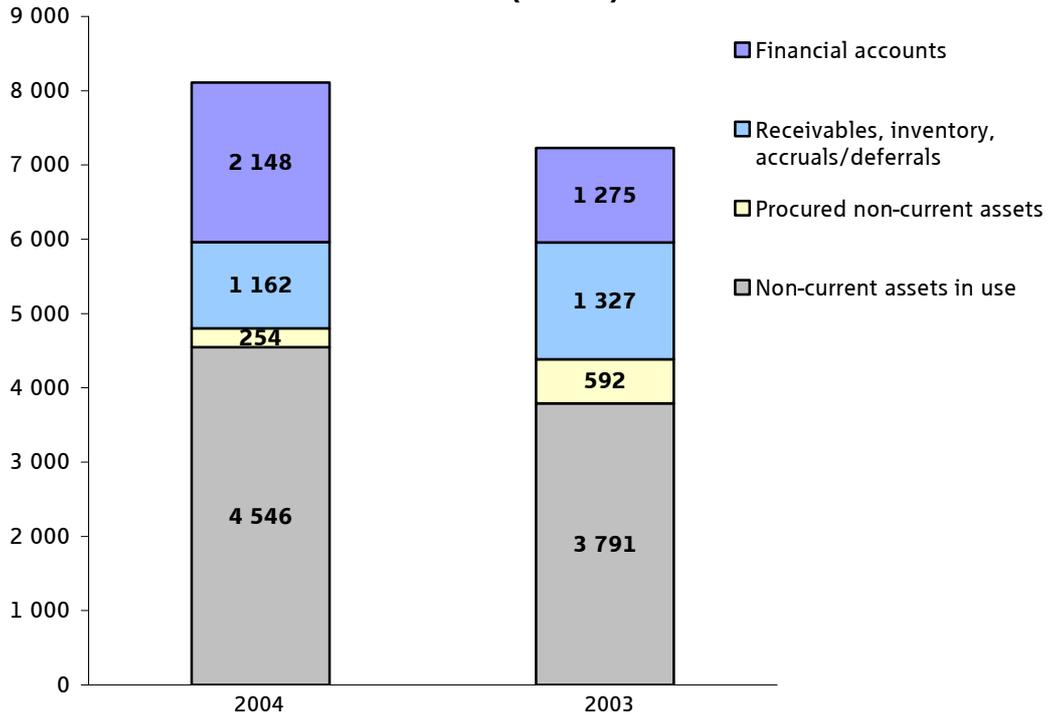
The balance of financial accounts of the company reached 2 148m SKK, a growth by 873m SKK (68.5%) compared to 2003.

Balance of loans by December 2004 was 322.3m SKK, thereof current loans payable within one year 99.4m SKK. Balance of loans compared to 2003 has decreased by 132.7m SKK. No new loans were taken in 2004.

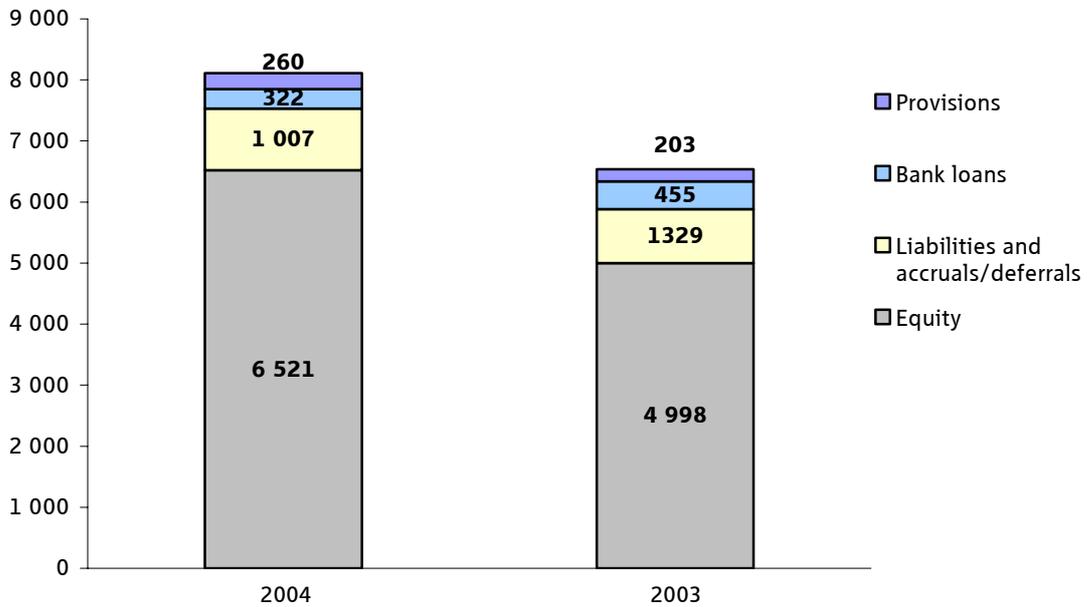
In 2004, the National Bank of Slovakia made four decisions concerning reduction of the basic interest rate, a total of 2.0 percent points. These decisions had a positive impact on the reduction of interest rates of the existing loans based on 3-month BRIBOR, which has brought results in the second half of the year.

We have used our non-allocated available funding for short-time deposits, the major part was invested in Repo tenders of the National Bank of Slovakia. Interest income was positively influenced by individual interest rates of the Company accounts balances, namely the rate fixed to the fixing of interest rates in the inter-bank deposit market.

### Assets (m SKK)



### Equity and Liabilities (m SKK)



## [12] COMPANY BUSINESS PLANS FOR 2005

We see the year 2005 as a break-through in the liberalization of the electricity market. From 1 January there will be full liberalization of industrial customers and businesses, i.e. all customers except households. In 2003 VSE had just one contractually liberalized customer, as of 1.1.2005 there will be 26 thousand of them. At the same time, as of 2005, electricity purchase shall be fully liberalized.

Liberalization is related to restructuring of the Company in accordance with the national and EU legislation, namely the separation of distribution activities from electricity sale (the so called unbundling). In course of 2004, we completed the preparation for the accounting unbundling of both activities, and we shall implement a new organization structure from 1.1.2005 in connection with the requested functional unbundling. Furthermore, concerning the preparation for legal unbundling coming into force in 2007, in October 2004 we externalized IT staff into the 100% subsidiary VSE IT Služby, s.r.o. and for 2005 we prepare the separation of Network services. We gradually plan to separate more activities which are not core business of VSE.

In 2005, we expect the total supplies of electricity and its sales at the level of the previous period. In 2005, we plan to increase the investment to the total amount of 1.1bn SKK, where the major part will be invested in reconstruction and development of distribution network (over 70%) aiming to improve the quality of distribution network and reliability of electricity supplies.

In order to improve the efficiency and achieve growth, we mainly focus on redesign of the key processes, management and recovery of receivables, sale of useless assets, and on general cost reduction.

The most important motto of all our staff will be to improve the quality of our services and customer satisfaction.

## [13] FINANCIAL STATEMENTS

### [13.1] INDEPENDENT AUDITOR'S REPORT

PricewaterhouseCoopers

**PricewaterhouseCoopers  
Slovensko, s.r.o.**  
Hviezdoslavovo nám. 20  
815 32 Bratislava  
Slovak Republic  
Telephone + 421 (0)2 5935 0111  
Facsimile +421 (0)2 5935 0222

#### REPORT OF INDEPENDENT AUDITORS

To the shareholders of Východoslovenská energetika a.s.:

1. We have audited the accompanying financial statements of Východoslovenská energetika a.s. ("the Company") for the year 2004 which consist of balance sheet as of 31 December 2004, related income statement for the year then ended and notes. The Board of Directors of the Company is responsible for the preparation of the financial statements. Our responsibility is to express an opinion on these financial statements based on results of our audit.
2. Our audit has been carried out in accordance with International Standards on Auditing. In accordance with these Standards our audit was planned and performed so as to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles applied and significant estimates made by the Company's management, and an evaluation of the overall presentation of those financial statements. We believe that our audit provides a reasonable basis for our opinion.
3. In our opinion the financial statements present fairly, in all material respects, the financial position of Východoslovenská energetika, a.s. as of 31 December 2004 and the result of its operations for the year then ended in accordance with the Accounting Act of Slovak Republic and relating accounting regulations.
4. Without modification of our opinion we draw attention to Note L and description of transactions from previous periods in connection with privatisation of Ukrainian electricity distribution companies. During the year 2003 the Company gave up possible claims in connection with these transactions. Our opinion on the financial statements for the year 2003 was qualified due to limitation of scope of our audit because we were unable to ascertain whether the Company has properly accounted for these transactions.

PricewaterhouseCoopers Slovensko, s.r.o.  
Licencia SKAU č. 161

Ing. Eva Hupková  
icencia SKAU č. 672

Bratislava, 25 January 2005

[13.2] BALANCE SHEET

Balance Sheet Úč POD 1-01

**BALANCE SHEET**

as at 31 December 2004 (SKK '000)

for the period from Month Year to Month Year  
 0 1 2 0 0 4 to 1 2 2 0 0 4

Financial statements \*)      Financial statements \*)  
 - ordinary                       - prepared  
 - extraordinary                       - approved  
 - interim  
 \*) check                                     

Identification number (IČO)

3 6 2 1 1 2 2 2

Legal name (designation) of the accounting entity

V Ý C H O D O S L O V E N S K Á E N E R G E T I K A a . s .

Legal form of the accounting entity

a k c i o v á s p o l o ě n o s f

Registered office of the accounting entity, street and number

M l y n s k á 3 1

Zip code                      Municipality

0 4 2 9 1      K o š i c e

Phone area code

Telephone number

Fax number

e-mail

Prepared on: 24.1.2005	Signature of the accounting entity's statutory body or a sole trader who is the accounting entity: 	Signature of the person responsible for the preparation of the financial statements: 	Signature of the person responsible for bookkeeping: 
Approved on: 27.6.2005			

Designation a	ASSETS b	Line No. c	Current accounting period			Preceding accounting period
			Gross 1	Correction 2	Net 3	Net 4
	Total assets line 002 + line 003 + line 032 + line 062	001	14 495 954	6 386 181	8 109 773	6 984 948
A.	Receivables related to unpaid share capital (353)	002				0
B.	Non-current assets line 004 + line 013 + line 023	003	10 625 123	5 825 607	4 799 516	4 382 860
B.I.	Non-current intangible assets - total (lines 005 to 012)	004	575 000	415 723	159 277	156 764
B.I.1.	Incorporation expenses (011) - /071, 091A/	005				0
2.	Capitalized development costs (012) - /072, 091A/	006				0
3.	Software (013)-/073, 091A/	007	558 935	414 236	144 699	98 924
4.	Valuable rights (014) - /074, 091A/	008				0
5.	Goodwill (015) - /075, 091A/	009				0
6.	Other non-current intangible assets (019, 01X) - /079, 07X, 091A/	010	5 353	1 487	3 866	5 205
7.	Acquisition of non-current intangible assets (041) - 093	011	10 712		10 712	52 635
8.	Advance payments made for non-current intangible assets (051) - 095A	012				0
B.II.	Property, plant and equipment - total (lines 014 to 022)	013	10 034 965	5 409 629	4 625 336	4 206 569
B.II.1.	Land (031) - 092A	014	233 428		233 428	226 053
2.	Structures (021) - /081, 092A/	015	5 595 190	2 798 061	2 797 129	2 418 659
3.	Individual movable assets and sets of movable assets (022) - /082, 092A/	016	3 948 238	2 601 933	1 346 305	1 015 349
4.	Perennial crops (025) - /085, 092A/	017				0
5.	Livestock (026) - /086,092A/	018				0
6.	Other property, plant and equipment (029, 02X, 032) - /089, 08X, 092A/	019	610		610	610
7.	Acquisition of property, plant and equipment (042) - 094	020	243 324		243 324	539 588
8.	Advance payments made for property, plant and equipment (052) - 095A	021	1 042		1 042	1 936
9.	Value adjustment to acquired assets (+/- 097) +/- 098	022	13 133	9 635	3 498	4 374
B.III.	Non-current financial assets - total (lines 024 to 031)	023	15 158	255	14 903	19 527
B.III.1.	Shares and ownership interests in a controlled entity (061) - 096A	024	400		400	400
2.	Shares and ownership interests with significant influence over enterprises (062) - 096A	025	1 000		1 000	0
3.	Other long-term shares and ownership interests (063, 065) - 096A	026	13 758	255	13 503	19 127
4.	Intercompany loans (066A) - 096A	027				0
5.	Other non-current financial assets (067A, 069, 06XA) - 096A	028				0

6.	Loans with maturity up to one year (066A,067A,06XA)-096A	029				0
7.	Acquisition of non-current financial assets (043) - 096A	030				0
8.	Advance payments made for non-current financial assets (053) - 095A	031				0
<b>C.</b>	<b>Current assets - line 033 + line 041 + line 048 + line 056</b>	<b>032</b>	<b>3 863 838</b>	<b>560 574</b>	<b>3 303 264</b>	<b>2 598 216</b>
<b>C.I.</b>	<b>Inventory - total (lines 034 to 040)</b>	<b>033</b>	<b>63 839</b>	<b>5 167</b>	<b>58 672</b>	<b>56 227</b>
C.I.1.	Raw material (112, 119, 11X) - /191, 19X/	034	52 441	5 167	47 274	49 977
2.	Work in progress and semi-finished products (121, 122, 12X) - /192, 193, 19X/	035	2 528		2 528	2 380
3.	Construction contracts where the expected time of completion exceeds one year 12X-192A	036				0
4.	Finished goods (123) - 194	037	8 608		8 608	3 549
5.	Animals (124) - 195	038				0
6.	Merchandise (132, 13X, 139) - /196, 19X/	039	262		262	321
7.	Advance payments made for inventory (314A) - 391A	040				0
<b>C.II.</b>	<b>Non-current receivables - total (lines 042 to 047)</b>	<b>041</b>	<b>13 496</b>	<b>0</b>	<b>13 496</b>	<b>29 931</b>
C.II.1.	Trade receivables (311A, 312A, 313A, 314A, 315A, 31XA) - 391A	042				0
2.	Receivables from a controlled entity and a controlling entity (351A) - 391A	043				0
3.	Other intercompany receivables (351A) - 391A	044				0
4.	Receivables from participants, members, and association (354A, 355A, 358A, 35XA) - 391A	045				0
5.	Other receivables (335A, 33XA, 371A, 373A, 374A, 375A, 376A, 378A) - 391A	046				0
6.	Deferred tax asset ( 481 A)	047	13 496		13 496	29 931
<b>C.III.</b>	<b>Current receivables - total (lines 049 to 055)</b>	<b>048</b>	<b>1 638 484</b>	<b>555 407</b>	<b>1 083 077</b>	<b>1 237 303</b>
C.III.1.	Trade receivables (311A, 312A, 313A, 314A, 315A, 31XA) - 391A	049	1 592 239	555 407	1 036 832	1 114 120
2.	Receivables from a controlled entity and a controlling entity (351A) - 391A	050	7 234		7 234	0
3.	Other intercompany receivables (351A) - 391A	051				0
4.	Receivables from participants, members, and association (354A, 355A, 358A, 35XA) - 391A	052				0
5.	Social security (336) - 391A	053				0
6.	Tax assets (341, 342, 343, 345) - 391A	054	36 905		36 905	120 128
7.	Other receivables (335A, 33XA, 371A, 373A, 374A, 375A, 376A, 378A) - 391A	055	2 106		2 106	3 055
<b>C.IV.</b>	<b>Financial accounts - total (lines 057 to 061)</b>	<b>056</b>	<b>2 148 019</b>	<b>0</b>	<b>2 148 019</b>	<b>1 274 755</b>
C.IV.1.	Cash on hand (211, 213, 21X)	057	688		688	1 337

2.	Bank accounts (221A, 22X +/-261)	058	2 147 331		2 147 331	1 273 418
3.	Bank accounts with notice period exceeding one year 22XA	059				0
4.	Current financial assets (251, 253, 256, 257, 25X) - /291, 29X)	060				0
5.	Acquisition of current financial assets (259) - 291	061				0
<b>D.</b>	<b>Accruals/deferrals - line 063 and line 064</b>	<b>062</b>	<b>6 993</b>	<b>0</b>	<b>6 993</b>	<b>3 872</b>
D.1.	Prepaid expenses (381, 382)	063	6 035		6 035	2 865
2.	Accrued income (385)	064	958		958	1 007
	<b>Control number - total ( lines 001 to 064)</b>	<b>888</b>	<b>57 976 823</b>	<b>25 544 724</b>	<b>32 432 099</b>	<b>27 935 920</b>

Designation a	LIABILITIES AND EQUITY b	Line No. c	Current accounting period 5	Preceding accounting period 6
	Total equity and liabilities line 066 + line 086 + line 116	065	8 109 773	6 984 948
A.	Equity line 067 + line 071 + line 078 + line 082 + line 085	066	6 521 485	4 997 871
A.I.	Share capital - total (lines 068 to 070)	067	3 363 000	3 363 000
A.I.1.	Share capital (411 or +/- 491)	068	3 363 000	3 363 000
	2. Own shares and own ownership interests (/-/252)	069		
	3. Change in share capital +/- 419	070		
A.II.	Capital funds - total (lines 072 to 077)	071	630 417	605 303
A.II.1.	Share premium (412)	072		
	2. Other capital funds (413)	073	131 909	102 446
	3. Legal reserve fund (Non-distributable fund) from capital contributions (417, 418)	074	496 481	496 481
	4. Differences from revaluation of assets and liabilities (+/- 414)	075	2 027	6 376
	5. Investment revaluation reserves (+/- 415)	076		
	6. Differences from revaluation in the event of amalgamation into a separate accounting entity or demerger (+/- 416)	077		
A.III.	Funds created from profit - total (lines 079 to 081)	078	0	0
A.III.1.	Legal reserve fund (421)	079		0
	2. Non-distributable fund (422)	080		
	3. Statutory funds and other funds (423, 427, 42X)	081		
A.IV.	Net profit/loss of previous years line 083 and line 084	082	1 029 394	-118 808
A.IV.1.	Retained earnings from previous years (428)	083	1 208 261	60 059
	2. Accumulated losses from previous years (/-/429)	084	-178 867	-178 867
A.V.	Net profit/loss for the accounting period +/- line 001 - (line 067 + line 071 + line 078 + line 082 + line 086 + line 116)	085	1 498 674	1 148 376
B.	Liabilities line 87 + line 91 + line 102 + line 112	086	1 585 562	1 982 938
B.I.	Provisions - total (lines 088 to 090)	087	260 145	202 909
B.I.1.	Legal provisions (451A)	088		
	2. Other long-term provisions (459 A, 45XA)	089	127 505	113 367
	3. Short-term provisions (323, 32X, 451A, 459A, 45XA)	090	132 640	89 542
B.II.	Non-current liabilities - total (lines 092 to 101)	091	2 321	2 355

B.II.1.	Non-current trade liabilities (479A)	092		
2.	Unbilled long-term supplies (476A)	093		
3.	Non-current liabilities to a controlled entity and a controlling entity (471A)	094		
4.	Other non-current intercompany liabilities (471A)	095		
5.	Long-term advance payments received (475A)	096		
6.	Long-term bills of exchange to be paid (478A)	097		
7.	Bonds issued (473A/-/255A)	098		
8.	Liabilities related to social fund (472)	099	2 321	2 355
9.	Other non-current liabilities (474A, 479A, 47XA, 372A, 373A, 377A)	100		
10.	Deferred tax liability (481A)	101		0
<b>B.III.</b>	<b>Current liabilities - total (lines 103 to 111)</b>	<b>102</b>	<b>1 000 784</b>	<b>1 322 690</b>
B.III.1.	Trade liabilities (321, 322, 324, 325, 32X, 475A, 478A, 479A, 47XA)	103	603 005	1 016 773
2.	Unbilled supplies (326, 476A)	104	314 430	24 089
3.	Liabilities to a controlled entity and a controlling entity (361A, 471A)	105		
4.	Other intercompany liabilities (361A, 36XA, 471A, 47XA)	106		
5.	Liabilities to partners and association (364, 365, 366, 367, 368, 398A, 478A, 479A)	107		
6.	Liabilities to employees (331,333,33X,479A)	108	34 466	29 543
7.	Liabilities related to social security (336, 479A)	109	19 814	21 077
8.	Tax liabilities and subsidies (341, 342, 343, 345, 346, 347, 34X)	110	29 069	229 721
9.	Other liabilities (372A, 373A, 377A, 379A, 474A, 479A, 47X)	111		1 487
<b>B.IV.</b>	<b>Bank loans and financial assistance - total (lines 113 to 115)</b>	<b>112</b>	<b>322 312</b>	<b>454 984</b>
B.IV.1.	Long-term bank loans (461A, 46XA)	113	222 918	329 345
2.	Current bank loans (221A, 231, 232, 23X, 461A, 46XA)	114	99 394	125 639
3.	Short-term financial assistance (241, 249, 24X, 473A, -/255A)	115		
<b>C.</b>	<b>Accruals/deferrals - total (lines 117 and 118)</b>	<b>116</b>	<b>2 726</b>	<b>4 139</b>
C.1.	Accrued expenses (383)	117	2 726	4 139
2.	Deferred income (384)	118		
	<b>Control number - total (lines 065 to 118)</b>	<b>999</b>	<b>30 937 692</b>	<b>26 787 277</b>



Designation a	Text b	Line No. c	Actual data	
			Current accounting period 1	Preceding accounting period 2
			I.	Revenue from the sale of merchandise (604)
A.	Cost of merchandise sold ( 504)	02	357	671
	+ Trade margin line 01- line 02	03	497	275
II.	Production line 05 + line 06 + line 07	04	13 874 682	13 441 015
II.1.	Revenue from the sale of own products and services (601, 602)	05	13 213 487	13 024 418
	2. Changes in internal inventory (+/- account group 61)	06	5 207	682
	3. Own work capitalized (account group 62)	07	655 988	415 915
B.	Production line 09 + line 10	08	10 585 945	10 549 972
B.1.	Consumed raw materials, energy consumption, and consumption of other non-inventory supplies (501, 502, 503)	09	10 097 567	10 026 502
	2. Services (account group 51)	10	488 378	523 470
	+ Added value line 03 + line 04 -line 08	11	3 289 234	2 891 318
C.	Personnel expenses total (lines 13 to 16)	12	852 914	739 564
C.1.	Wages and salaries (521, 522)	13	626 979	532 935
	2. Remuneration of board members of company or cooperative (523)	14	9 051	263
	3. Social security expenses (524, 525, 526)	15	188 501	182 161
	4. Social expenses (527, 528)	16	28 383	24 205
D.	Taxes and fees (account group 53)	17	15 654	14 999
E.	Amortization of non-current intangible assets and depreciation of property, plant and equipment (551)	18	440 381	462 526
III.	Revenue from the sale of non-current assets and raw materials (641, 642)	19	28 674	9 656
F.	Carrying value of non-current assets sold and raw materials sold (541, 542)	20	8 559	4 275

IV.	Use and reversal of provisions against operating income and accounting for complex deferred expenses (652, 654, 655)	21	165 612	5 109
G.	Creation of provisions for operations and accounting for complex deferred expenses (552, 554, 555)	22	228 062	113 346
V.	Use and reversal of value adjustments against operating income (657, 658, 659)	23	267 338	61 604
H.	Creation of value adjustments against operating expenses (557,558,559)	24	321 947	59 686
VI.	Other operating income (644, 645, 646, 648)	25	270 927	29 717
I.	Other operating expenses (543 to 546, 548, 549)	26	358 043	52 882
VII.	Transfer of operating income (-) (697)	27		0
J.	Transfer of operating expenses (-) (597)	28		0
*	<b>Profit/loss from operations line 11 - line 12 - line 17 - line 18 + line 19 - line 20 + line 21 - line 22 + line 23 - line 24 + line 25 - line 26 + (-line 27) - (-line 28)</b>	<b>29</b>	<b>1 796 225</b>	<b>1 550 126</b>
VIII.	Revenue from the sale of securities and shares (661)	30		
K.	Securities and shares sold (561)	31		
IX.	Income from non-current financial assets line 33 + line 34 + line 35	32	946	1 543
IX.1.	Income from securities and ownership interests in a controlled entity and in a company where significant influence is held (665A)	33	946	1 543
2.	Income from other long-term securities and shares (665A)	34		
3.	Income from other non-current financial assets (665A)	35		
X.	Income from current financial assets (666)	36		
L.	Expenses related to current financial assets (566 )	37		
XI.	Gains on revaluation of securities and income from derivative transactions (664, 667)	38		
M.	Loss on revaluation of securities and expenses related to derivative transactions (564, 567)	39		
XII.	Interest income (662)	40	63 649	38 177
N.	Interest expense (562)	41	21 316	40 594
XIII.	Exchange rate gains (663)	42	12 673	16 329

O.	Exchange rate losses (563)	43	7 628	8 070
XIV.	Other income from financial activities (668)	44	10	25
P.	Other expenses related to financial activities (568, 569)	45	1 813	4 596
XV.	Use and reversal of provisions against income from financial activities (674)	46		0
Q.	Creation of provisions for financial activities (574)	47		0
XVI.	Use and reversal of value adjustments against income from financial activities (679)	48		0
R.	Creation of value adjustments against expenses related to financial activities (579)	49	255	0
XVII.	Transfer of financial income (-) (698)	50		0
S.	Transfer of financial expenses (-) (598)	51		0
*	Profit/loss from financial activities line 30 + line 31 + line 32 + line 36 -line 37 + line 38 - line 39 + line 40 - line 41 + line 42 - line 43 + line 44 - line 45 + line 46 - line 47 + line 48 - line 49 + (-line 50) - (-line 51)	52	46 266	2 814
T.	Income tax on ordinary activities line 54+ line 55	53	343 817	404 564
T.1.	- current (591,595)	54	326 362	390 580
2.	- deferred (+/-592)	55	17 455	13 984
**	Profit/loss from ordinary activities line 29 + line 52 - line 53	56	1 498 674	1 148 376
XVIII.	Extraordinary income (account group 68)	57		
U.	Extraordinary expenses (account group 58)	58		
V.	Income tax on extraordinary activities line 60 + line 61	59		0
V.1.	- current (593)	60		
2.	- deferred (+/- 594)	61		
*	Profit/loss from extraordinary activities line 57 - line 58 - line 59	62	0	0
Z.	Transfer of net profit/net loss shares to partners (+/-596)	63		
***	Profit/loss for the accounting period (+/-) line 56 + line 62 - line 63	64	1 498 674	1 148 376
	Control number total (lines 01 to 64)	99	61 659 930	57 937 809

## [13.4] NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2004

### A. BASIC DATA OF THE ACCOUNTING ENTITY

#### 1. Business name and the address of the Company:

##### Name and address:

Východoslovenská energetika a. s. (further „VSE“ or „Company“)

Mlynská 31, 042 91 Košice

##### Legal form:

Joint-stock company

##### Date of founding:

17 December 2001

##### Date of registration in Commercial Register, date of incorporation:

1 January 2002 (Commercial Register of the District court Košice I, Section Sa, file No. 1203/V)

##### Company ID:

36 211 222

##### VAT No.:

SK2020062319

#### 2. Main activities of the Company:

- production of electricity and heat
- construction of power and heat plants, equipment needed for their operation, including network control technology and technical means for management of power consumption
- maintenance, repairs, reconstructions, and modernizations of power and heat technology, network control technology
- control and management of the distribution network 110 kV and lower voltage levels
- design of electric equipment
- research and development within the scope of core business
- design and production of machinery products: connection parts, distributors, spare parts for tools, industrial pipes, air conditioning technology, spare parts of trailers, transport equipment for transport of pouring materials, transport carriages, transport means – pallets and containers, boilers, industrial and ship water turbines and accessories for hydro power plants, machines and equipment for processing of mineral materials, metal furniture
- installation of 110 kV electric equipment
- revisions of electric equipment
- repairs of transformers
- repairs of electric meters
- production, assembly and repairs of electric distributors and technology for electric heating
- development, production and service of instrumentation for power industry
- repairs of transport and machinery equipment
- leasing of transport and machinery means
- services of computing and copy technology
- software providing
- trading and agent activities with industrial and consuming goods
- accommodation services
- catering services, canteen and café operation
- organization of trainings and seminars
- waste management activities
- spatial and cartographic works
- repairs of instrumentation and control devices
- operation of railway carriages
- checks of electric meters and transformers of current and voltage
- repair of motor transport vehicles, motor carriages
- chassis repairs
- construction design
- construction supervision activities
- leasing of technology and equipment
- operation of stand-by platforms
- provision of technical service to protect property and people
- purchase, transit and distribution of electric power and heat
- erection of constructions and their alterations

- erection of simple construction, small constructions, and their alterations
- development of project documentation for simple constructions, small constructions, and their alterations
- installation and operation of public telecommunications network, providing of public telecommunications services, installation and operation of radio technology, Internet providing

### 3. Average number of employees

	2004	2003
Average number of employees	1 845	1 994
thereof managers	21	19

### 4. Unlimited liability

Company has no interest in companies with unlimited liability.

### 5. Legal basis for financial statements

Financial statements of the Company as of 31 December 2004 were made as a ordinary financial statements pursuant to § 17 par. 6 Act of NR SR No. 431/2002 Coll. on accounting for the accounting period from 1 January 2004 till 31 December 2004.

### 6. Date of approval of the financial statements for the preceding accounting period

The Company's financial statements as of 31 December 2003, i.e. for the preceding accounting period, were not approved by the Company General Meeting by the date on which the financial statements for 2004 shall be prepared.

## B. BODIES OF THE ACCOUNTING ENTITY

Statutory bodies of Company consist of the following persons:

#### Board of Directors:

Chairman of the Board	Carl-Ernst Giesting
Vice chairman of the Board	Ing. Valentín Stanislav (till 12. 3. 2004) Ing. Peter Oravský (from 12. 3. 2004 )
Members	Ing. Slavomír Brudňák (till 12. 3. 2004) Ing. Peter Koval (from 12. 3. 2004) Dr. Frank Kreuzer Ing. Vojtech Kusý

#### Supervisory Board:

Chairman	Ing. Michal Duranko
Vice chairman	Dr. Andreas Radmacher
Members	Elemír Jakab Ing. Ľudovít Mydlo Ing. Anton Novák Ing. Emil Pečík (till 12. 3. 2004) Ing. Stanislav Kočíš (from 12. 3. 2004) Ladislav Perun Ing. Jarmila Répássyová Ing. Ľubomír Valko

## C. SHAREHOLDERS OF THE ACCOUNTING ENTITY

Structure of Company shareholders by 31 December 2004:

	Equity share thsd.SKK	%	Voting right
RWE Energy AG, Germany*	1 647 870	49	49
NPF SR	1 715 130	51	51
<b>Total</b>	<b>3 363 000</b>	<b>100</b>	<b>100</b>

The Shareholders' Agreement and the Company Statutes determine, that any important decisions concerning the Company must be agreed by the representatives of both shareholders.

## D. CONSOLIDATED GROUP

VSE a.s. is included, as an associated company, in the consolidated financial statements of RWE Energy AG, Rheinlanddamm 24, 441 39 Dortmund, Germany, which is further included in the financial statements of RWE AG, Opernplatz 1, 451 28 Essen, Germany. Both consolidated financial statements are available directly at the headquarters of the above mentioned companies, or at VSE headquarters.

## E. ACCOUNTING PRINCIPLES AND ACCOUNTING POLICIES

### a) Bases applied in financial statements

The financial statements were prepared on a going concern basis of the Company.

The Company applies accounting principles and procedures in accordance with the Act on Accounting and the accounting principles for business applicable in the Slovak Republic. Accounting records are maintained in the Slovak currency units, i.e. Slovak crowns.

Accounting records are maintained on an accrual basis. All costs and revenues related to the accounting period are taken into account, regardless of their fulfillment date.

The principle of prudence is applied in valuation of assets and liabilities, i.e. all risks, impairments and losses concerning the assets and liabilities known at the date of preparation of financial statements, are taken into account.

Accounting methods and general accounting principles were applied by the accounting entity on a consistent basis.

### b) Non-current tangible and intangible assets

Purchased non-current tangible and intangible assets are valued in purchase prices which includes the purchase price and the costs related to the purchase (duty, transport, assembly, insurance, etc.). Internally developed non-current assets (capitalization of own production) are valued by actual own costs, such as: direct material, direct labour costs, and overhead costs of production.

Research costs are expensed in the period in which they are incurred.

Amortization of non-current intangible assets is based on the expected useful lives. Amortization starts from the first day of the month in which the intangible asset was put into use.

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\* The change of the owner of 49% of Company shares was registered on 8 March 2004 in the Slovak Central Depository of securities, where, on the basis of agreement on split-off and takeover, RWE Energy AG based in Dortmund, Germany, was registered. RWE AG is the owner of these 49% shares at the top level.

Low-value non-current intangible assets with purchase price (or own costs) equal or less than 50 000 SKK are written off when asset is put into use.

Estimated useful life, amortization methods, and amortization rates are shown in the following table:

Type of non current intangible assets	Useful life (years)	Annual amortization rate (%)	Amortization method
Software	2 - 4	25 - 50	Linear

Depreciation of non-current tangible assets is based on the expected useful lives. Depreciation starts from the first day of the month in which the tangible asset was put into use.

Low-value non-current tangible assets with purchase price (or own costs) equal or less than 30 000 SKK are written off when asset is put into use.

Land is not depreciated.

Estimated useful life, depreciation methods and depreciation rates are shown in the following chart:

Type of non-current tangible asset	Useful life (years)	Annual depreciation rate (%)
Buildings, halls, and structures	30; 40	3,33; 2,5
Machines, devices, and equipment	4; 8; 15	25; 12,5; 6,67
Transport means	4; 8; 15	25; 12,5; 6,67
Inventory	8	12,5

Company applies the following depreciation methods for non-current tangible assets:

- accelerated depreciation – transport vehicles, control room technology and instrumentation and transformers put into use from 1992 to 1997
- proportional depreciation – all other technology and equipment including transport means, control room technology and instrumentation and transformers put into use before 1998 inclusive.

In case of temporary diminution in value of the non-current tangible and intangible assets, provision is created in such way, that the value shall reflect its net realisable value.

#### c) Securities and shares

Securities are valued at purchase prices, including purchase costs. Diminution in value of securities is deducted from the purchase price to reflect the net realisable value.

Equity shares owned by the Company are valued using the equity-method.

#### d) Inventory

Purchased inventory is valued at purchase price consisting of purchase price and purchase costs (duty, transport, assembly, insurance, etc.).

Internally developed inventory is valued by actual own costs (direct material, direct labor costs, other direct costs and part of indirect costs related to internally developed inventory – overhead costs of production).

The value of consumed inventory is calculated by weighted arithmetic average.

Diminution in value of the inventory is deducted from the purchase price to reflect the net realisable value.

In 2004, the Company created provision to inventory in the following way:

Slow-moving inventory

- up to 12 months 0 %

- each month over 12 months 2,08 %

Provision is created up to maximum of 90%, as the inventory did not loose value and it is possible to sell it, and the estimated revenue from such sale is at least 10%.

Useless inventory

- inventory, which the Company assumes to be disposed 100%
- inventory, which the Company assumes to sell 50%

#### e) Receivables

Upon their origin, receivables are valued at their nominal value. In case of doubtful and irrecoverable receivables this valuation is reduced by creation of provisions to the net realisable value of receivables.

In 2004, the Company created provisions to receivables in the following way:

#### Wholesale

Receivables being the subject of legal recovery and other specifically identified irrecoverable claims	100%
Hospitals	Specific judgment of probability and return time
Other receivables based on historic data of the Company in the following age structure:	
Up to maturity date and up to 30 days after maturity	2 %
31 - 60 days after maturity	15 %
61 - 120 days after maturity	20 %
121 - 150 days after maturity	30 %
151 - 360 days after maturity	50 %
Over 360 days after maturity	100 %

#### Retail – households

Specifically identified irrecoverable receivables	100 %
Other receivables based on historic data of the Company in the following age structure:	
Up to maturity and up to 90 days after maturity	4 %
91 - 180 days after maturity	50 %
181 - 360 days after maturity	80 %
Over 360 days after maturity	100 %

#### Retail – commercial

Specifically identified irrecoverable receivables	100 %
Other receivables based on historic data of the Company in the following age structure:	
Up to maturity and up to 60 days after maturity	6 %
61 - 120 days after maturity	44 %
121 - 210 days after maturity	80 %
211 - 330 days after maturity	90 %
over 330 days after maturity	100 %

The above mentioned rates are subject to regular review of the Company respecting the changing payment discipline of the customers and the success rate of recovery of receivables.

#### f) Cash and vouchers

Cash and vouchers are valued at their nominal value.

#### g) Prepaid expenses and accrued income

Prepaid expenses and accrued income are booked in the amount required to follow the matching principle in terms of substance and time.

#### h) Provisions

Provisions are liabilities with uncertain timing or amount. They are created to cover known risks or losses and valued at the expected value of liability.

**i) Liabilities**

Upon their origin, liabilities are valued at their nominal value. Payables, loans and borrowings with remaining time to maturity over 12 months are presented as non-current and with time to maturity up to 12 months are presented as current liabilities.

**j) Accrued expenses and deferred income**

Accrued expenses and deferred income are booked in the amount required to follow the matching principle in terms of substance and time.

**k) Leasing**

Assets leased on the basis of financial and operating leasing are presented by the owner as his assets. The Company as a lessee does not present the leased assets in the balance sheet, they are only listed in the off-balance sheet account. Prepayment in financial leasing is accrued and expensed during the leasing period, because these are contracts closed before 31.12 2003.

**l) Foreign currency**

Assets and liabilities denominated in foreign currency are translated into Slovak currency at the exchange rate of the National Bank of Slovakia valid at the day of the transaction, and in the financial statement valid at the balance sheet date and they are recorded with the impact on profit or loss.

**m) Deferred taxes**

Deferred taxes (deferred tax asset and deferred tax liability) relate to:

- a) temporary differences between the book value of assets and book value of liabilities presented in the Balance Sheet and their tax base
- b) possibilities to carry forward the tax loss to future periods which means the possibility to deduct tax loss from the tax base in the future,
- c) possibilities to carry forward unused tax deductions and other tax claims to the future periods.

Deferred taxes which relate to the revaluation of capital shares using the equity-method are booked against equity.

Deferred tax asset is booked only up to the amount which is probable on the basis of the possibility to settle the temporary differences against the future tax base.

For calculation of the deferred tax, the income tax rate applied shall be the one, which is expected to be valid at the time of settlement of the deferred tax.

**n) Additional pension plan**

The Company offers pension plan on the basis of the supplementary pension plan in accordance with the Act of NR SR No. 123/1996 Coll. on the Supplementary Pension Fund for employees. The Company contributes to the state pension plan by regular legal payments to the state budget.

### **o) Provision for employee jubilee and retirement payments**

According to the valid collective agreement for 2004 and 2005, the Company is obliged, based on the number of years in service, to pay its retiring employees the following multiples of their average monthly wage :

	Number of average monthly wages
up to 10 years	2x
10-15	3x
15-20	4x
20-25	5x
25-30	6x
30-35	7x
Over 35 years	8x

The minimum requirement of the Labour Code of one-month average wage is included in the multiples stated above.

Besides that, the Company is committed to certain obligations on the occasion of work and life jubilees and to disability benefits.

The Company has adopted such obligations in each collective agreement since 1994 and it is not realistic to cease providing them when this collective agreement expires. Therefore, in accordance with the Act on Accounting No. 431/2002 to reflect the expected risks and losses concerning assets and liabilities which are known at the date of preparation of financial statements, the Company is obliged to record a provision for expected payments to all present employees where it is highly probable that these will be entitled to such payments in the future. Provision in total amount of 132 260 thousand SKK (2003: 129 379 thousand SKK) is limited to claims which occurred during employment before 31.12.2004, and it is reduced by the future amortization of such costs by 30 902 thousand SKK (2003: 21 148 thousand SKK).

Provision for such liability was calculated by an actuary taking into account the following most important assumptions:

Number of employees - average	1 845
Percentage of employees annually leaving VSE prior to retirement	Approximately 3 % p.a., depending on age and gender
Expected wage increase	5 % per year
Discount rate reflecting value of money in time	5 % per year

### **p) Assets recorded in off-balance sheet accounts**

The Company records the following in the off-balance sheet accounts:

- a) bills of exchange issued as guarantees for received bank loans
- b) bills of exchange issued as payment for supplied technical components
- c) pledged assets (movable assets and property) to guarantee received loans
- d) assets used under lease agreements
- e) loans from social fund provided to employees
- f) received bank guarantees

## F. DATA ON THE ASSETS SIDE OF THE BALANCE SHEET

### 1. Non-current intangible and tangible assets

Table of movements in the non-current tangible and intangible assets is provided in Appendix No. 1.

As of 31.12.2004, Ludová banka has the collateral right in amount of 55 030 thousand SKK (2003: 106 190 thousand SKK) for the administration building in Prešov and lands.

Company assets were insured in 2004 for the amount of 13 185 789 thousand SKK (2003: 11 834 333 thousand SKK, insurance premium is 12 948 thousand SKK (2003: 13 756 thousand SKK).

Subject of insurance	Type of insurance	Insurance company
Passenger vehicles	Legal insurance	Česká poisťovňa Slovensko a.s.
Passenger vehicles	Insurance of accidents	Allianz - Slovenská poisťovňa a.s., Kooperativa, poisťovňa a.s.
Non-current tangible assets	Random and sudden damage or destruction of insured objects (FLEXA)	Kooperativa, poisťovňa a.s.

As of 31.12. 2004, the Company uses the non-current property with the purchase value 11 676 thousand SKK (net book value is 4 016 thousand SKK), for which it does not possess the ownership right registered at the Property Register.

In 2004, the amount of low-value intangible and tangible assets was 20 117 thousand SKK booked directly in costs (2003: 20 620 thousand SKK).

### 2. Non-current financial assets

As to 31.12.2004 the Company possessed shares in the following companies:

Name and address of the company	Equity share %	Profit/Loss		Equity		Book value in the balance sheet	
		thsd. SKK		thsd. SKK		thsd. SKK	
		2004	2003	2004	2003	2004	2003
<b>Subsidiaries:</b>							
VSE Sieťové služby, s.r.o.	100	-8	-	192	200	200	200
VSE IT služby, s.r.o.	100	383	-	583	200	200	200
<b>Associated companies:</b>							
Transelektro s.r.o.	25,5	3 780	4 605	26 048	22 885	-	5 836
<b>Joint ventures:</b>							
Energotel, a.s.	16,67	6 028	8 222	81 000	79 732	13 503	13 291
SPX s. r.o.	33,33	-	-	3 000	-	1 000	-
<b>Total</b>		<b>10 183</b>	<b>12 827</b>	<b>110 823</b>	<b>103 017</b>	<b>14 903</b>	<b>19 257</b>

On 3.10.2003, the Company has founded the subsidiary with limited liability VSE IT Služby, registered in the Commercial Register on 22.10.2003. Till 21.4. 2004, the directors of this company were Ing. Osvald

Körner and Carl-Ernst Giesting. From 22.4.2004, the directors are Ing.Osvald Körner and Olaf Wilhelm Baumann.

On 3.10.2003, the Company has founded a subsidiary with limited liability VSE Sieťové služby, registered in the Commercial Register on 24.11.2003. Till 28.7.2004, the directors of this company were Ing. Vladimír Roják and Dr. Frank Kreuzer. From 29. 7. 2004, the directors are Ing. Vladimír Roják and Ing. Martin Hrežo.

In the above mentioned companies, VSE a.s. owns 100% of the share capital.

On 2.12.2004, SPX s.r.o. was founded in Žilina. Partners in SPX, s.r.o. are: Západoslovenská energetika a.s., Stredoslovenská energetika a.s., Východoslovenská energetika a.s. VSE a.s. owns 33% of the share capital of this company. This company was not registered in the Commercial Register in 2004.

Shares in Transelektro s r.o and Energotel a.s. were valued using equity-method as of 31. 12. 2004. In 2005, the Company assumes reduction of the fair value of the share in the associated company Transelektro s.r.o., and therefore in 2004 it has created a provision to the tradable securities in amount of 255 thousand SKK to the debit of costs and in amount of 5 327 thousand SKK to the debit of valuation differences from the revaluation of assets and liabilities.

The difference occurred from revaluation of other shares was, together with the effect on deferred tax, credited to the account of valuation differences from revaluation of assets and liabilities.

### 3. Inventory

Inventory in book value of 58 672 thousand SKK (2003: 56 227 thousand SKK) are presented reflecting the provision to slow-moving and useless inventory in amount 5 167 thousand SKK (2003: 7 008 thousand SKK). Movements of the provision to inventory in 2004 were as follows:

	2004 thsd. SKK	2003 thsd. SKK
Balance as of 1 January	7 008	6 871
Creation of provision	2 497	514
Release of provision	-4 338	-377
Balance as of 31 December	5 167	7 008

In 2004, the inventory of the Company was insured for random and sudden damage or destruction (FLEXA) in Kooperatíva, poisťovňa a.s. (till 31. 7. 2004) and in Česká poisťovňa Slovensko a.s. (from 1. 8. 2004). Value of insured inventory: 63 527 thousand SKK, (2003: 95 000 thousand SKK) and insurance premium:22 thousand SKK (2003: 33 thousand SKK).

### 4. Receivables

The following chart shows movements in the provision:

	2004 thsd. SKK	2003 thsd. SKK
Balance as of 1 January	687 384	649 195
Creation of provision	130 663	57 936
Release of provision	-262 640	-19 747
Balance as of 31 December	555 407	687 384

The following chart shows age structure of receivables:

	31.12.2004 (thsd. SKK)			31.12.2003 (thsd. SKK)		
	Due	Overdue	Total	Due	Overdue	Total
Receivables from electricity sales	507 923	536 255	1 044 178	525 353	783 875	1 309 228
Unbilled electricity	304 836	-	304 836	220 799	-	220 799
Receivables from other activities	55 944	25 998	81 942	26 127	33 159	59 286
Tax assets	36 905	-	36 905	120 128	-	120 128
Other receivables	11 949	-	11 949	3 055	-	3 055
Intercompany receivables in the group	7 234	-	7 234	-	-	-
Advance payments	151 440	-	151 440	212 191	-	212 191
Total	1 076 231	562 253	1 638 484	1 107 653	817 034	1 924 687

Company has no receivables covered by collateral rights.

#### 5. Deferred tax asset

	2004 thsd. SKK	2003 thsd. SKK
Difference between book and tax value of assets	- 241 066	- 191 749
Difference between tax and book value of provisions	177 375	133 761
Provisions to bad debt	132 060	201 994
Provisions to inventory	5 167	7 008
Other differences between the book and tax value of assets and book value of liabilities and their tax base	-	14 389
Revaluation of Company interests in other companies	- 2 503	-7 872
Total	71 033	157 531
Income tax rate (v %)	19 %	19 %
Deferred tax asset/(liability)	13 496	29 931

Balance of deferred tax asset/(liability) is shown in the following chart:

	thsd. SKK
Balance as of 31 December 2004	13 496
Balance as of 31 December 2003	29 931
Balance difference	-16 435

Thereof:

	thsd. SKK
Booked as expense in the accounting period 2004	-17 455
Booked on the equity accounts	1 020

#### 6. Financial accounts

	31.12.2004 thsd. SKK	31.12.2003 thsd. SKK
Cash	688	1 337
Bank accounts	2 147 331	1 273 418
Total	2 148 019	1 274 755

As of 31 December 2004, the balance on bank accounts in amount of 2 105 841 thousand SKK was deposited in time deposits with the longest time to maturity within 1 month (2003: 729 900 thousand SKK).

## 7. Accruals/Deferrals

	31.12.2004 thsd. SKK	31.12.2003 thsd. SKK
Prepaid expenses	6 035	2 865
Accrued income	958	1 007
Total	6 993	3 872

Prepaid expenses include financial leasing.

Deferred income mainly consists of interest income from time deposits at the end of the accounting period.

## G. DATA ON THE LIABILITIES AND EQUITY SIDE OF THE BALANCE SHEET

### 1. Equity

The following chart shows the overview of the share capital flow during the accounting period:

	Share capital	Other capital funds	Legal reserve fund from capital contributions	Difference from revaluation of assets and liabilities	Retained earnings from previous years	Accumulated loss from previous years	Net profit for the accounting period	Total
	'''SKK	'''SKK	'''SKK	'''SKK	'''SKK	'''SKK	'''SKK	'''SKK
Balance at 31. 12. 2003	3 363 000	102 446	496 481	6 376	60 059	-178 867	1 148 376	4 997 871
Revaluation of assets and liabilities	-	-	-	-4 349	-174	-	-	-4 523
Contributions of municipalities and businesses	-	29 463	-	-	-	-	-	29 463
Transfer of profit from 2003 to retained earnings from previous years	-	-	-	-	1 148 376	-	-1 148 376	-
Net profit for the accounting period	-	-	-	-	-	-	1 498 674	1 498 674
Balance at 31. 12. 2004	3 363 000	131 909	496 481	2 027	1 208 261	-178 867	1 498 674	6 521 485

The amount of subscribed and paid share capital as of 31. 12. 2004 is 3 363 000 thousand SKK (31. 12. 2003: 3 363 000 thousand SKK). Nominal value of each share is 1 000 SKK.

No changes in the Company share capital occurred in 2004 and there is no share capital not listed in the Commercial Register as of 31. 12. 2004.

The increase of the other capital funds resulted from the increased income from municipalities and businesses for network construction.

The item Differences from revaluation of assets and liabilities also includes the revaluation of interests in Transelektro s.r.o. and Energotel a.s. using equity-method, reduced by impact of deferred tax.

In 2004, the Company achieved net earnings per share in amount of around 446 SKK (2003: 341 SKK).

Company intends to reduce the share capital by 178 239 thousand SKK to cover the accumulated loss from previous years. At the same time the Company intends to use retained earnings from previous years as at 1.1.2003 in amount of 628 thousand SKK to cover the remaining part of accumulated loss from previous years and in amount of 59 431 thousand SKK for contribution to the legal reserve fund.

General Meeting of the Company made no decision concerning distribution of the profit for fiscal year 2003 till 31.12.2004. The proposal of the Board of Directors of the Company to the General Meeting is as follows:

- contribution to the legal reserve fund in amount of 81 040 thousand SKK
- payment of dividends to shareholders in amount of 1 067 336 thousand SKK

Distribution of the profit in amount of 1 498 674 thousand SKK for fiscal year 2004 shall be decided at by General Meeting of the Company. Proposal of the Board of Directors to General Meeting is as follows:

- contribution to the fund for investment support in the region 390 000 thousand SKK
- payment of dividends to shareholders in amount of 1 108 674 thousand SKK

## 2. Provisions

The following table shows structure of provisions:

Provisions	31.12.2003 thsd. SKK	Creation thsd. SKK	Use thsd. SKK	31.12.2004 thsd. SKK
Severance payment	20 530	64 264	-20 530	64 264
Compensation for not-taken vacation	22 183	64 000	-70 879	15 304
Bonuses for employees	34 607	71 347	-61 229	44 725
Remuneration of Board of Directors members	4 861	2 580	-2 444	4 997
Remuneration of Supervisory Board members	2 147	1 500	-2 147	1 500
Employee benefits (Note E(o))	108 231	-	-6 871	101 360
Unbilled supplies and services	214	-	-214	-
Passive litigations (Note L)	5 136	15 117	-862	19 391
Preparation, verification, and publication of Financial Statements	5 000	2 500	-5 650	1 850
Environment audits (Note L)	-	6 754	-	6 754
Provisions total	202 909	228 062	-170 826	260 145

## 3. Other provisions

Provision for severance payment was made in connection with the reduction of headcount in 2005.

Accounting for provision for employee benefits is described in Note E (o).

Provision for passive litigations was made on the basis of the fact that Company participates in several passive judicial disputes where it is highly probable that the Company will have to settle financial claims of the counterparty.

	31.12.2004 thsd. SKK with remaining maturity period up to 1 year	31.12.2003 thsd. SKK with remaining maturity period up to 1 year
Trade liabilities	603 005	1 016 773
Unbilled supplies	314 430	24 089
Liabilities to employees	34 466	29 543
Liabilities related to social security	19 814	21 077
Tax liabilities and subsidies	29 069	229 721
Other liabilities	-	1 487
Current liabilities total	1 000 784	1 322 690

All above mentioned liabilities do not exceed the maturity date.

#### 4. Social fund

	2004 (thsd. SKK)	2003 (thsd. SKK)
Opening balance as of 1 January	2 355	2 759
Creation total	7 801	8 126
Thereof: expensed	7 516	7 222
from profit	-	-
from re-paid loans	285	904
Use total	-7 835	-8 530
thereof: contribution for canteen	-2 480	-2 431
loans for employees	-	-
contribution for recreation, culture and sport	-5 125	-5 881
other	-230	-281
Closing balance as of 31 December	2 321	2 355

#### 5. Bank loans

List of bank loans is shown in the following chart:

	Currency	Interest rate	Maturity	Guarantee	31.12.2004 ''''SKK	31.12.2003 ''''SKK
Ľudová banka	SKK	7,1	20.11.2004	bill of exchange, property	-	15 880
Ľudová banka	SKK	3,93	20.05.2006	bill of exchange, property	27 440	46 880
Ľudová banka	SKK	3,93	20.09.2006	bill of exchange, property	27 950	43 430
HVB Bank Slovakia	SKK	7,75	01.06.2004	bill of exchange	-	8 000
Dexia banka Slovensko	SKK	4,97	10.12.2010	bill of exchange	151 905	177 223
Calyon SA*	EUR	4,43	08.08.2007	-	115 377	163 571
Long-term loans total					322 312	454 984

\* In May 2004, Nordkap Bank AG has made a financial transfer to Calyon SA in Paris

#### Loan structure by maturity date:.

	31.12.2004 thsd. SKK	31.12.2003 thsd. SKK
Installments of long-term loans mature within 1 year	99 394	125 639
Installments of long-term loans with maturity from 1 to 5 years	97 603	78 712
Installments of long-term loans with maturity over 5 years	25 315	50 633
Total	322 312	454 984

**Interest expenses:**

Loan type	31.12.2004 thsd. SKK	31.12.2003 thsd. SKK
<i>Investment loans</i>		
Ludová banka	4 843	11 596
Dexia	10 177	14 594
HVB	257	1 646
Calyon SA	5 897	8 843
Other	-	645
<i>Operating loans</i>		
Tatra banka	142	3 270
Total	21 316	40 594

**6. Accruals/Deferrals**

Accrued expenses include interest expenses payable in 2005 in amount of 2 726 thousand SKK (2003: 4 139 thousand SKK).

## H. INCOME

### 1. Revenues from sales of own services and products

Revenues from sale of own services and products are shown in the following chart:

	2004 thsd. SKK domestic	2004 thsd. SKK foreign	2004 thsd. SKK total	2003 thsd. SKK domestic	2003 thsd. SKK foreign	2003 thsd. SKK total
Revenues from sale of merchandise	854	-	854	946	-	946
Revenues from electricity sale :						
- Wholesale (VO)	6 322 474	-	6 322 474	6 688 942	247	6 689 189
- Retail – commercial (MOP)	2 107 372	222	2 107 597	2 025 615	230	2 025 845
- Retail – households (MOO)	4 276 646	-	4 276 646	4 166 742	-	4 166 742
- Other revenues from electricity sale	13 705	-	13 705	58 091	-	58 091
- Short-term electricity sale	151 990	237 681	389 671	-	-	-
Other services	103 397	-	103 397	74 450	10 101	84 551
Total	12 976 438	237 903	13 214 341	13 014 786	10 578	13 025 364

Other services mainly include sales from telecommunication services.

### 2. Change in internal inventory

Change in internal inventory presented in the Income Statement shows an increase of revenues by 5 207 thousand SKK, thereof: increase of work in progress by 148 thousand SKK, and increase of finished products by 5 059 thousand SKK.

	2004 thsd. SKK	2003 thsd. SKK
Balance as of 1 January		
Work in progress	2 380	5 247
Finished products	3 549	-
Total	5 929	5 247
Work in progress change	148	-2 867
Finished products change	5 059	3 549
Inventory change total	5 207	682
Balance as of 1 December		
Work in progress	2 528	2 380
Finished products	8 608	3 549
Total	11 136	5 929

### 3. Own work capitalized

Capitalization overview is shown in the following chart:

	2004 thsd. SKK	2003 thsd. SKK
Non-current tangible assets completed by own activities	625 378	391 693
Other capitalization of own work	30 610	24 222
Total	655 988	415 915

#### 4. Exchange rate gains

The following chart shows exchange rate gains:

	2004 thsd. SKK	2003 thsd. SKK
Realised exchange rate gains	8 819	14 294
Unrealised exchange rate gains	3 854	2 035
Total	12 673	16 329

### I. EXPENSES

#### 1. Consumed purchases

	2004 thsd. SKK	2003 thsd. SKK
Consumption of material, heat, water and gas	503 845	487 178
Electricity purchase	6 496 477	6 127 092
Fees for electricity transit, system and supporting services	3 097 245	3 412 232
Total	10 097 567	10 026 502

#### 2. Costs for services

	2004 thsd. SKK	2003 thsd. SKK
Repairs and maintenance	50 509	62 696
Rental fee for IT systems	22 508	26 864
Expenses on external works and services	88 151	58 732
Rental fee (incl. leasing)	61 635	71 934
Telecommunication services expenses	34 616	24 813
Expenses for bill collection	30 702	30 960
Other costs	200 257	247 471
Total	488 378	523 470

#### 3. Exchange rate losses

The following chart shows exchange rate losses:

	2004 thsd. SKK	2003 thsd. SKK
Realised exchange rate losses	5 900	7 614
Unrealised exchange rate losses	1 728	456
Total	7 628	8 070

## J. INCOME TAXES

The following chart shows the transfer from theoretical tax to actually stated tax:

	2004 thsd. SKK	2003 thsd. SKK
Profit before tax	1 842 491	1 552 940
Thereof theoretical tax 19 % rate(2003:25%)	350 073	388 235
Non-deductible expenses at 19 % rate(2003:25%)	84 505	39 130
Revenues not subject to taxation at 19 % rate: (2003: 25 %)	-108 630	-36 564
	325 948	390 801
Additional tax payment	414	-
Other items reducing tax	-	-221
Payable tax 19 % (2003: 25 %)	326 362	390 580
Deferred tax (Note F5)	17 455	13 984
Income tax total	343 817	404 564

## K. OFF-BALANCE SHEET ACCOUNTS

Company records the following assets in off-balance sheet accounts:

- a) bills of exchange issued as a guarantee for received bank loans in amount of 252 510 thousand SKK (including blank bills included in the relevant loans)
- b) bills of exchange issued as payment for leased technical components in amount of 236 thousand EUR
- c) pledged property listed as guaranty for received loans in amount of 55 030 thousand SKK
- d) loans from social fund to employees in amount of 57 thousand SKK
- e) assets obtained by leasing (mainly equipment for electricity network control and transport means)
- f) received bank guarantees in amount of 1 581 thousand EUR

## L. OFF-BALANCE SHEET ASSETS AND OFF-BALANCE SHEET LIABILITIES

### **Privatization of energy distribution companies in Ukraine**

In 2001, the Company, at that time still being the state company Východoslovenské energetické závody Košice, participated in privatization of Ukrainian companies involved in transit and distribution of electric power - Žitomir OblEnergo, Cherson OblEnergo, Sevastopol Energo a Kirovograd, OblEnergo („Ukrainian distribution companies“), („Ukrainian privatization“), where it acted in favour of a consortium of investors, known as Ukrainian Energy Partners („UEP I“), on the basis of a contract.

As of 1 August 2002, the shares of Ukrainian electricity distributors were transferred to VSE International B.V. („VSEI“), upon the agreement of the National Property Fund of Ukraine – at that time, VSEI being a subsidiary of VSE domiciled in the Netherlands.

The consent of the National Property Fund of Ukraine was given under the condition that VSE shall control VSEI at least till 31 May 2003. On 1 August 2002, VSE entered into a „Performance Agreement“ with UEP I and Alkahn Power Company based in Malaysia („Alkahn“) by which VSE obtained indemnification for any breaches of its mandate from UEP I and obtained a confirmation of its indemnifications against losses arising from the Ukrainian privatization. „Performance Agreement“ has also provided for transfer of all VSE I shares owned by VSE to the Alkahn Power Company. These shares were transferred on 12 August 2003 and from this date VSE has neither ownership rights nor influence in the Ukrainian distribution companies or VSEI.

The Company did not account for transactions related to acquisition of shares of the Ukrainian distribution companies, founding of VSEI, and its follow-up sale, with the exception of costs for legal counsel and other consultancy and their re-billing.

The Company may be subject to liabilities and risks occurring from the proceeding with the National Property Fund of Ukraine and in connection with the concluded privatization agreements.

In case of any claims which may arise from the above mentioned transaction, the Company management is strongly willing to defend the position of VSE, it will request damage compensation from UEP I and from Alkahn. The Company management is also strongly willing to claim the compensation of expenses that occurred or will occur to VSE in connection with the ownership or transfer of ownership of share in the Ukrainian distribution companies or VSEI.

Management is not able to judge the probability of unfavorable process and it is not able to estimate the value or scope of possible losses.

### **Environment**

Company made environmental audits of selected locations and facilities. Results of these audits show that in the future it might be necessary for the Company to have capital and operating expenses to solve the existing environmental problems resulting from its activities. In 2004, Company create a provision of 6 754 thousand SKK for operating costs (Note G2). Company has decided to continue in elimination of environmental problems, especially by future capital projects.

### **Taxation and accounting legislation**

As the taxation periods from 1999 till 2004 are still open for tax review, there may still be some tax risk. Even if the Company has provided its taxation documents in its best, the tax office may adopt decisions on taxation of activities which must not be the same as the understanding of the Company.

### **Liabilities from litigations**

At present, Company participates in several passive judicial disputes. Company management has evaluated these judicial disputes for the purposes of this financial statements, and it accounts for a provision of 19 391 thousand SKK (2003: 5 136 thousand SKK) for litigations where the Company will probably have to meet financial claims of the counterparty. (Note G2).

For 2005, Company plans the following structure of investments

	2004 thsd. SKK	2003 thsd. SKK
Network	650	796
Information technology	110	85
Other	110	232
<b>Total</b>	<b>1 070</b>	<b>1 113</b>

As of 31. December 2004, Company concluded agreements on investment of ca. 45 million SKK (2003: 40 mil SKK).

#### M. INCOME AND PRIVILEGES OF THE MEMBERS OF THE STATUTORY BODIES, SUPERVISORY BODIES, AND OTHER BODIES OF THE ACCOUNTING ENTITY

Body	Number of persons		Remuneration funds	
	2004	2003	2004 thsd. SKK	2003 thsd. SKK
Supervisory Board	9	9	4 037	167
Board of Directors*	5	5	5 014	4 774
Management*	23	19	64 510	30 236
<b>Total</b>	<b>37</b>	<b>33</b>	<b>73 561</b>	<b>35 177</b>

\* 3 members of the Board of Directors are also executive managers and they are included in both bodies (2003: 4 members of the Board of Directors were also executive managers).

The remuneration for the functions in Supervisory Board and Board of Directors for 2003 was paid as late as 2004, as the mandate agreements were approved at the end of 2003 and a provision was made for the relevant amount.

In 2003, due to organization changes, management also included several managing staff who started to work for the Company as of the second half of 2003.

In addition to the above mentioned remuneration, members of the statutory bodies were not granted any other income or privileges in connection with their functions.

#### N. TRANSACTIONS OF THE ACCOUNTING ENTITY AND RELATED PARTIES

Company made transactions with Slovenské elektrárne, a.s., SEPS, a.s., Transelektro s.r.o Košice, Energotel, a.s.Bratislava, ZSE a.s. Bratislava, SSE a.s. Žilina, Tepláreň Košice a.s., VSE IT služby s r.o, VSE Sieťové služby s r.o., RWE Energy AG a RWE Systems AG, RWE Systems Computing GmbH, RWE Systems Applications GmbH.

The following shows the transactions with relevant partners during the year:

	2004 thsd. SKK	2003 thsd. SKK
<b>SEPS, a.s.</b>		
Sale of services	104 009	52 452
Purchase of services	2 821 617	3 412 232
<b>SE, a.s.</b>		
Sale of services	697	1 890
Purchase of services	5 133 371	5 972 325
<b>Transelektro s.r.o.</b>		
Sale of services	20	400
Purchase of services	9 600	9 637

<b>Energotel, a.s.</b>		
Sale of services	11 956	14 289
Purchase of services	11 262	3 555
<b>SSE, a.s.</b>		
Sale of services	11 262	176
Purchase of services	34 051	23 924
<b>ZSE a.s.</b>		
Sale of services	2 423	-
Purchase of services	2 095	-
<b>Tepláreň Košice a.s.</b>		
Sale of services	8 959	-
Purchase of services	478 757	-
<b>RWE Energy AG*</b>		
Sale of services	-	9 032
Purchase of services	53 698	30 439
<b>RWE Systems AG</b>		
Sale of services	1 598	-
Purchase of services	77	33 728
<b>RWE Systems Computing GmbH</b>		
Sale of services	-	-
Purchase of services	912	-
<b>RWE Systems Applications GmbH</b>		
Sale of services	59	-
Purchase of services	6 430	-
<b>VSE IT služby s r.o.</b>		
Sale of services	-	-
Purchase of services	7 565	-
Interest income for granted loan	53	-
<b>SEPS, a.s.</b>		
Receivables	4 732	4 487
Trade receivables	4 732	4 487
Liabilities	132	375 486
Trade liabilities	132	375 486
<b>SE, a.s.</b>		
Receivables	-	-
Trade receivables	-	-
Liabilities	227 287	308 527
Trade liabilities	227 287	308 527
<b>Transelektro s.r.o</b>		
Receivables	-	-
Trade receivables	-	-
Liabilities	-	960
Trade liabilities	-	960
<b>Energotel, a.s.</b>		
Receivables	-	2 535
Trade receivables	-	2 535
Liabilities	-	-
Trade liabilities	-	-

<b>SSE, a.s.</b>		
Receivables	91	-
Trade receivables	91	-
Liabilities	5 264	2 609
Trade liabilities	5 264	2 609
<b>ZSE a.s.</b>		
Receivables	51	-
Trade receivables	51	-
Liabilities	-	-
Trade liabilities	-	-
<b>Tepláreň Košice a.s.</b>		
Receivables	1 652	-
Trade receivables	1 652	-
Liabilities	89 541	-
Trade liabilities	89 541	-
<b>RWE Energy AG*</b>		
Receivables	-	123
Trade receivables	-	123
Liabilities	15 478	59 929
Trade liabilities	15 478	59 929
<b>RWE Systems Applications GmbH</b>		
Receivables	-	-
Trade receivables	-	-
Liabilities	4 741	-
Trade liabilities	4 741	-
<b>RWE Systems AG</b>		
Receivables	2 085	-
Trade receivables	2 085	-
Liabilities	-	-
Trade liabilities	-	-
<b>VSE IT služby s r.o.</b>		
Receivables	7 415	-
Trade receivables	181	-
Receivables from granted loan	7 234	-
Liabilities	3 847	-
Trade liabilities	3 847	-

\*data for 2003 in relation to RWE Plus AG ,which in 2003 owned 49% share of VSE a.s., which was transferred over to the company RWE Energy AG in 2004.

## O. EVENTS THAT OCCURRED BETWEEN THE BALANCE SHEET DATE AND THE DATE OF PREPARATION OF FINANCIAL STATEMENTS

After 31 December 2004, the following events occurred which had an important impact on the true view on facts subject to accounting:

On 20 December 2004, an Extraordinary General Meeting has recalled Ing. Vojtech Kusý from the position of the member of the Board of Directors, with effect from 31 December 2004. At the same time it has elected Dr. Peter Birkner as the member of the Board of Directors, with effect from 1 January 2005.

### Appendices:

Appendix 1: Table of movements in non-current tangible and intangible assets

Appendix 2: Cash flow statement

Prepared on: 24.1.2005	Signature of the accounting entity's statutory body or a sole trader who is the accounting entity: 	Signature of the person responsible for the preparation of the financial statements: 	Signature of the person responsible for bookkeeping: 
Approved on: 27.6.2005			

## APPENDIX 1: MOVEMENTS IN NON-CURRENT TANGIBLE AND INTANGIBLE ASSETS

Name	Acquisition price						Accumulated depreciation/provisions (OP)						Net book value	
	31. 12. 2003	Increase	Decrease	Transfers	Rebooking	31.12.2004	31. 12.2003	Depreciation	Increase	Decrease	OP net	31. 12.2004	31.12.2003	31. 12.2004
Software	475 296	-	-45 321	128 960		558 935	-376 372	-83 010	-15	45 161		-414 236	<b>98 924</b>	<b>144 699</b>
Other non-current intangible assets	5 353	-	-			5 353	-148	-1 339	-	-	-	-1 487	<b>5 205</b>	<b>3 866</b>
Acquired non-current intangible assets	52 635	86 525	-	-128 960	512	10 712	-	-	-	-	-	-	<b>52 635</b>	<b>10 712</b>
<b>Non-current intangible assets total</b>	<b>533 284</b>	<b>86 525</b>	<b>-45 321</b>	<b>0</b>	<b>512</b>	<b>575 000</b>	<b>-376 520</b>	<b>-84 349</b>	<b>-15</b>	<b>45 161</b>		<b>-415 723</b>	<b>156 764</b>	<b>159 277</b>
Land	226 053	1 412	-3 511	9 474		233 428	-	-	-	-	-	-	<b>226 053</b>	<b>233 428</b>
Artistic works	610	-	-			610	-	-	-	-	-	-	<b>610</b>	<b>610</b>
Structures	4 927 254	13	-38 544	706 478	-11	5 595 190	-2 508 595	-137 432	-13	35 875	-187 896	-2 798 061	<b>2 418 659</b>	<b>2 797 129</b>
Individual movable assets and sets of movable assets	3 194 697	-	-51 172	477 655	11	3 621 191	-2 253 116	-193 030		50 997	345	-2 394 804	<b>941 581</b>	<b>1 226 387</b>
Individual movable assets and sets of movable assets – transport means	313 867	-	-66 489	72 692		320 070	-242 458	-24 945		65 542	-	-201 861	<b>71 409</b>	<b>118 209</b>
Other non-current tangible assets	7 232	-	-255			6 977	-4 873	-625	-	230	-	-5 268	<b>2 359</b>	<b>1 709</b>
Acquired non-current tangible assets	539 588	973 684	-3 137	-1 266 299	-512	243 324	-	-	-	-	-	-	<b>539 588</b>	<b>243 324</b>
Advance payments made for non-current tangible assets	1 936	2365	-3 259			1 042	-	-	-	-	-	-	<b>1 936</b>	<b>1 042</b>
Value adjustment to acquired assets	13 133	-	-	-		13 133	-8 759	-876	-	-	-	-9 635	<b>4 374</b>	<b>3 498</b>
<b>Non-current tangible assets total</b>	<b>9 224 370</b>	<b>977 474</b>	<b>-166 367</b>	<b>0</b>	<b>-512</b>	<b>10 034 965</b>	<b>-5 017 801</b>	<b>-356 908</b>	<b>-13</b>	<b>152 644</b>	<b>-187 551</b>	<b>-5 409 629</b>	<b>4 206 569</b>	<b>4 625 336</b>
<b>Total</b>	<b>9 757 654</b>	<b>1 063 999</b>	<b>-211 688</b>	<b>0</b>	<b>0</b>	<b>10 609 965</b>	<b>-5 394 321</b>	<b>-441 257</b>	<b>-28</b>	<b>197 805</b>	<b>-187 551</b>	<b>-5 825 352</b>	<b>4 363 333</b>	<b>4 784 613</b>

## APPENDIX 2: CASH FLOW STATEMENT

	2004 thsd. SKK	2003 thsd. SKK
<i>Cash flow from operating activities:</i>		
Profit from ordinary activities in fiscal period	1 498 674	1 148 376
Income tax current and deferred	343 817	404 564
Profit from ordinary activities before income tax	1 842 491	1 552 940
Non-cash operations having impact on profit :		
Amortization of non-current intangible assets and depreciation of plant, property and equipment	440 381	462 525
Amortization of value adjustment to acquired assets	876	875
Receivables written-off	56 019	39 822
Change in provisions	57 236	42 649
Change in accruals/deferrals of expenses and income	-3 169	-10 752
Change in provisions to non-current assets	187 806	-41 120
Profit/loss on sale of non-current assets	-3 310	-17 623
Dividends and other profit shares included in income	-947	-
Interest expenses	21 316	40 594
Interest income	-63 649	-38 177
Other non-cash transactions	6 629	2 959
Change in working capital :		
Change in receivables	96 665	636 318
Change in liabilities	-119 676	-715 789
Change in inventory	-2 445	-66
Profit from ordinary activities before income tax adjusted by impact of non-cash transactions, changes in working capital, and interests	2 501 910	1 969 468
Income tax paid	-528 626	-262 632
Net cash flow from operating activities	1 973 284	1 706 836

	2004 thsd. SKK	2003 thsd. SKK
<i>Cash flow from investment activities:</i>		
Expenditures for acquisition of non-current assets	-1 055 133	-696 611
Proceeds from sale of non-current assets	24 731	6 126
Dividends received	2 489	1 543
Net cash flow from investment activities	-1 027 913	688 942
<i>Cash flow from financial activities:</i>		
Repayment of bank loans	-132 672	-320 589
Received financial gifts and subsidies into equity	19 597	6 867
Interest received	63 697	38 177
Interest paid	-22 729	-44 734
Net cash flow from financial activities	-72 107	-320 279
Net increase / decrease of cash and cash equivalents (+/-)	873 264	697 615
Cash and cash equivalents at the beginning of accounting period	1 274 755	577 140
Cash and cash equivalents at the end of accounting period	2 148 019	1 274 755