



RWE Group

Annual Report 2007



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Basic Indicators

consolidated, elaborated according to IFRS

General Data		2007	2006
Electricity sale	GWh	3,852	3,890
Electricity distribution	GWh	4,182	4,389
Number of points of delivery		601,608	598,071

Economic data		2007	2006
Total revenues	mil. SKK	14,774	15,368
Electricity sale revenues	mil. SKK	14,712	15,216
EBITDA		3,372	3,089
EAT	mil. SKK	2,319	2,077
Balance sheet amount	mil. SKK	9,206	8,449
Fixed assets		7,007	6,126
Equity	mil. SKK	6,884	6,524
Registered capital	mil. SKK	3,363	3,363
Net financial debt		(1,203)	(1,264)
Operating Cash Flow	mil. SKK	3,272	2,843
Investments	mil. SKK	1,383	1,305
Average headcount		1,538	1,655

A Foreword from the Chairman of the Board

Dear Ladies and Gentlemen,

The implementation of the directives of the European Commission, the discussion on strategic heading of energy politics as well as the increasing competition characterized not only the energy industry in Slovakia but the happening in our company in 2007 as well. With the help of open dialogue of both shareholders we were commonly overcoming and successfully managed crucial topics and further challenges.

A significant organizational change in our company was the implementation of unbundling, i.e. the separation of the distribution grid into an individual subsidiary company. After finalizing the preparatory project stage this grid company started to fulfill successfully its activities based on the requirements of the European Directive as of July 1, 2007. The structure of our company thus meets the requirements of the European Commission.

Based on the achieved efficiency increase in the company and thanks to the growing trend in Eastern Slovakia the year 2007 can be assessed from the economic point of view as a positive one. This enables us to continue in the extensive investment activities in the future as well. We were delighted to experience a growing influx of investments, which is related to the creation of further new jobs. This is the reason why our company focused especially on new connections to grid, and renewal, maintenance and construction of equipments. An important goal also in the future will remain the reduction of failure rate. After significant increase of investment activities we spent more than five billion Slovak crowns for various projects in the last four years.

In order to improve the customer satisfaction we carried out several measures in the sales area. In order to meet the requirements of our customers, we invested significant means into the reconstruction of our largest customer office in Košice. Our largest customers can use the web center since last year, the others can choose from new energy packets. This

way we will be able to react flexibly to all customer needs. Last year we also continued in the program for increasing quality of customer servicing for those employees who are in contact with the customers. We concentrated especially on the steady improvement of customer care in all segments.

An important factor for successful establishment of the company on the market is the quality of the employees. Our employees were able to use several possibilities of further education also thanks to intensive cooperation with our strategic partner RWE Energy.

Our company also pursued activities of corporate social responsibility. We consequently supported several projects for children and youth in various areas such as education, social area and culture. The employees of VSE participated in several voluntary activities. They read and recorded fairy tales for visually impaired children, donated blood or helped in the renewal of the castle ruins in Eastern Slovakia and many others.

Let me give thanks on behalf of the Board of Directors to our customers, partners, and employees for good cooperation and engagement. Without cooperation and support of all involved parties it would be impossible to overcome successfully the above mentioned changes and measures. In the next period we will deal intensively with topics which are currently resounding on national and international level such as energy efficiency or renewables. I am positive that our company is well prepared for these and further challenges and will fulfill the expectations of all.

Košice, March 5, 2008



Norbert Schürmann
Chairman of the Board



Supervisory Board Report

In 2007, the Supervisory Board supervised the performance of the Board of Directors, business activities of the company and company management as well as the fulfillment of corporate statutes, all in compliance with Slovak legislation and the corporate statutes. The Supervisory Board had four regular meetings and two extraordinary meetings in 2007.

The regular agenda of the Supervisory Board meetings included information about the economic results of the company, resolutions from the meeting of the Board of Directors and information on contracts concluded between related parties.

The Supervisory Board discussed and took on board the closing of individual and consolidated accounts for 2006, profit distribution and it has recommended the General Assembly to approve them.

The Supervisory Board at its extraordinary meeting on May 27, 2007 approved the legal unbundling of VSE a.s. as of July 1, 2007, by:

- approving a significant change in the business activities of VSE a.s.,
- approving an increase of share capital of VSD, a.s.,
- approving a contribution in kind (part of business - DSO) into VSD, a.s.,
- approving a Framework Agreement on Services and partial agreements on services between VSE a.s. and VSD, a.s., and recommended the General Assembly to approve them.

Further the Supervisory Board discussed and approved the organizational changes resulting from the legal unbundling (dissolution of the Distribution System Operator division) as well as other organizational changes (dissolution of the Central Services department and subsequently establishment of the Purchase and Logistics department in the Finance and Customer Services division and dissolution of the Sales department in the division Sales).

Among others, the Supervisory Board approved the following:

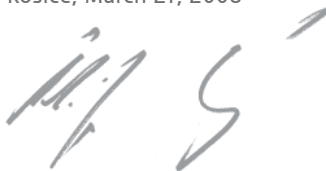
- VSE a.s. Business plan for 2008,
- VSE a.s. Strategic plan for 2008 – 2010,
- appointment of PricewaterhouseCoopers Slovensko, s.r.o. to perform the audit of Closing of Accounts for 2007,
- organization structure of VSE a.s. valid from January 1, 2008.

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 business policy outside the Supervisory Board meetings.

The Auditor's report as well as the Consolidated Closing of Accounts consisting of the Consolidated Balance Sheet, Consolidated Profit and Loss Account, Consolidated report on changes of share capital and remarks to the Consolidated Closing of Accounts were discussed by the Supervisory Board members at the meeting on March 27, 2008.

The Supervisory Board viewed the Consolidated Closing of Accounts as of December 31, 2007 and it recommends the General Assembly to adopt them.

Košice, March 27, 2008



Štefan Lasky
Chairman of the Supervisory Board

Basic Company Data

Formation and Founding of the Companies of VSE Group

Východoslovenská energetika a.s.

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 December 17, 2001 in accordance with the decision of the Government of SR No. 645 dated July 11, 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 December 14, 2001.

Východoslovenská energetika a.s. was founded on January 1, 2002 by its incorporation into the Business Register of the District Court Košice I, Section Sa, Insert No. 1203/V, as follows:

Trade name: Východoslovenská energetika a.s.
Registered seat: Mlynská 31, 042 91 Košice
Company No.: 36 211 222

Východoslovenská energetika a.s. operates in the regions of Košice, Prešov, and parts of Banská Bystrica. Until July 1, 2007 VSE provided electricity distribution and supply. After implementation of the legal unbundling, since July 1, 2007 VSE provides electricity supply for almost 600,000 customers.

Východoslovenská distribučná, a.s.

Východoslovenská distribučná, s.r.o. as a subsidiary company of Východoslovenská energetika a.s. was founded by the Foundation Charter as of October 14, 2005.

The company Východoslovenská distribučná, s.r.o. was registered into the Company register maintained by the District Court Košice I as of November 4, 2005, Section Sro, Insert No. 17263/V.

Through the decision of the General Assembly of the

company Východoslovenská distribučná, s.r.o. as of January 30, 2007 the legal form of the company was changed from limited liability to joint stock company. The company Východoslovenská distribučná, a.s. (hereinafter referred to as "Company", "VSD") was registered in the Commercial Register maintained by the District Court Košice I as of December 15, 2007, Section Sa, Insert No. 1411/V.

Východoslovenská distribučná, a.s. began its operation as of July 1, 2007. Within the legal unbundling of the vertically integrated company Východoslovenská energetika a.s. (hereinafter referred to as "VSE") it took over all its assets and liabilities, all titles and duties concerning the distribution activity of the parent company VSE as of this date.

Trade name: Východoslovenská distribučná, a.s.
Registered seat: Mlynská 31, 042 91 Košice
Company No.: 36 599 361

VSE IT služby, s.r.o.

VSE IT služby, s.r.o. as a subsidiary company of Východoslovenská energetika a.s. was founded by the Foundation Charter as of October 3, 2003.

The company VSE IT služby, s.r.o. was registered into the Company register maintained by the District Court Košice I as of October 22, 2003, Section Sro, Insert No. 14321/V as follows:

Trade name: VSE IT služby, s.r.o.
Registered seat: Mlynská 31, 042 91 Košice
Company No.: 36 573 973

Enerkos, s.r.o.

Enerkos, s.r.o. as a subsidiary company of Východoslovenská energetika a.s. was founded by the Foundation Charter as of October 3, 2003.

The company Enerkos, s.r.o. was registered into the Company register maintained by the District Court Košice I as of November 24, 2003, Section Sro, Insert No. 14391/V as follows:

Trade name: Enerkos, s.r.o.
Registered seat: Stará Prešovská cesta 6, 042 91 Košice
Company No.: 36 574 538

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 a general use company.

1942

Upon the decision of the Board of Directors of other utility companies of general use in Slovakia, Východoslovenské elektrárne was incorporated into the stock 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 became a national enterprise as an independent legal entity.

1969

Východoslovenské elektrárne became a part of Slovenské energetické podniky (Slovak energy companies).

1990

Východoslovenské energetické závody became an independent state-owned enterprise.

2002

VSE were transformed into the state joint-stock company Východoslovenská energetika.

2003

A purchase agreement and the shareholder's agreement between the National Property Fund of SR and RWE Plus AG 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.

** RWE Plus AG is a legal predecessor of the current shareholder RWE Energy AG.*

2007

Východoslovenská distribučná, a.s. began its operation as of July 1, 2007. Within the legal unbundling of the vertically integrated company Východoslovenská energetika a.s. (hereinafter referred to as "VSE") it took over all its assets and liabilities, all titles and duties concerning the distribution activity of the parent company VSE as of this date.

Business Activities of the VSE Group Members

Business activities of VSE a.s. mainly include the following:

- electricity distribution (until July 1, 2007);
- electricity supply;
- design of electric equipment;
- revisions of electric equipment;
- repairs of transformers;
- repairs of electric meters;
- production, assembly and repairs of electric distributors and equipment for electric heating;
- execution of the constructions and their modifications;
- elaboration of documentation and of project for simple constructions, small constructions and modifications of these constructions;
- production, assembly, maintenance of electric equipment;
- assembly, reconstruction, maintenance of lifting devices.

Business activities of VSD, a.s. mainly include the following:

- electricity distribution;
- purchase of goods for resale to end consumers (retail);
- purchase of goods for resale to businesses (wholesale);
- rental of movable assets, machines, devices, equipments and means of transport;
- providing electronic communication services (Act No. 610/2003 Coll.).

Related business activities are mainly:

- grid development planning;
- distribution grid dispatching;
- sales of grid connection capacity;
- supplier switching process for grid customers;
- collection and provision of energy data;
- purchase and rental of grid assets.

Business activities of VSE IT služby, s.r.o. mainly include the following:

- complex solutions of information and computer systems;
- automated data processing;
- design and supply of information systems and computer networks;
- provision of software – sales of finished programs based on the contract with the author;
- advisory and consulting services in computer technology, program equipments, telecommunication equipments and consumer electronics;
- creation of web pages.

Business activities of Enerkos, s.r.o. mainly include the following:

- assembly, maintenance, and repairs of equipment of dispatching and telecommunication technology;
- assembly, repairs, reconstruction and maintenance of optical cables and their accessories;
- engineering activities and related technical consulting.

Shareholder Structure of the VSE Group Members

VSE a.s.

As of December 31, 2007, the share capital of the company in the amount of 3,363,000,000 SKK consisted of 3,363,000 pieces of registered shares of a nominal value of 1,000 SKK per share.

As of December 31, 2007, VSE shareholders were as follows:

- National Property Fund of SR – owner of 1,715,130 pieces of registered shares, i. e. 51 % share in share capital and voting rights;
- RWE Energy AG – owner of 1,647,870 pieces of shares, i. e. 49 % share in share capital and voting rights.

VSD, a.s.

The only shareholder of the company is Východoslovenská energetika a.s., which owns 100 % of the share capital of the company.

As of December 31, 2007 the share capital of the company in the amount of 13,039,000,000 SKK consisted of 10 pieces of registered shares with the nominal value of 100,000 SKK per share and 1 piece of registered share with the nominal value of 13,038,000,000 SKK for this share.

VSE IT služby, s.r.o.

The share capital of the company VSE IT služby, s.r.o. amounts to 200,000 SKK. The only shareholder is VSE a.s., which owns 100 % of shares.

Enerkos, s.r.o.

The share capital of the company Enerkos, s.r.o. amounts to 200,000 SKK. The only shareholder is VSE a.s., which owns 100 % of shares.

Organization Structure of the Group

General Assembly

Supervisory Boards of the companies

Boards of Directors of the companies

The Group consists of:

Parent company:	VSE a.s.
Subsidiary companies:	VSD, a.s. VSE IT služby, s.r.o Enerkos, s.r.o
Affiliated companies:	Transelektro, s.r.o.
Joint ventures:	Energotel, a.s. SPX, s.r.o.

Company Bodies of the VSE Group Members

Východoslovenská energetika a.s.

Board of Directors

Norbert Schürmann,

CEO and Chairman of the Board of Directors

Ing. Roman Šipoš,

Deputy Chairman of the Board of Directors

Ing. Pavol Fandl,

Member of the Board of Directors (from December 23, 2006)

Mgr. Martin Mikláš,

Member of the Board of Directors

Dr. Peter Birkner,

Member of the Board of Directors

Supervisory Board

Štefan Lasky,

Chairman of the Supervisory Board

Berthold Bonekamp,

RWE Energy AG, Dortmund, Germany, Deputy Chairman of the Supervisory Board

Branislav Šitina,

Sole trader - entrepreneur, Bratislava, Member of the Supervisory Board

Ing. Gabriela Ostrolúcka,

Východoslovenská energetika a.s., Košice, Member of the Supervisory Board

Ing. Peter Schuster,

Sole trader - entrepreneur, Košice, Member of the Supervisory Board, (until December 6)

Ing. Drahomíra Englišová,

Euro Mail Centre Management, s.r.o., Bratislava, Member of the Supervisory Board

Andrej Macár*,

Member of the Supervisory Board (from February 21, 2007)

Ing. Ladislav Dický*,

Member of the Supervisory Board (from February 21, 2007)

Ing. Anton Kvitkovič*,

Member of the Supervisory Board (from February 21, 2007)

Ing. Ľudovít Mydlo*,

Member of the Supervisory Board (until February 20, 2007)

Ladislav Perun*,

Member of the Supervisory Board (until February 20, 2007)

Ing. Ľubomír Valko*,

Member of the Supervisory Board (until February 20, 2007)

* Supervisory Board Employee Representative

Východoslovenská distribučná, a.s.

Board of Directors

Dr. Steffen Schattner,

Chairman of the Board of Directors and CEO (from February 15, 2007)

prof. Ing. Michal Kolcun, PhD.,

Deputy Chairman of the Board of Directors (from July 1, 2007)

Ing. Jaroslav Hrušč,

Member of the Board of Directors (from February 15, 2007)

Ing. Marcel Fitere,

Member of the Board of Directors (from July 1, 2007)

Ing. Jozef Sedlák,

Member of the Board of Directors (from July 1, 2007)

Supervisory Board

Ing. Ján Džugan,

Chairman of the Supervisory Board, (from July 1, 2007)

Mgr. Juraj Drahovský,

Deputy Chairman of the Board of Directors, (from July 1, 2007)

Ing. František Barnáš,

Member of the Supervisory Board (from July 1, 2007)

Mgr. Ján Kuba,

Member of the Supervisory Board (from July 1, 2007)

Doc. Ing. Ľubomír Sapák PhD.,

Member of the Supervisory Board (from July 1, 2007)

Ing. Ladislav Porubec,

Member of the Supervisory Board (from July 1, 2007)

František Barta*,

Member of the Supervisory Board (from August 25, 2007)

Ing. Zuzana Kisidayová*,

Member of the Supervisory Board (from August 25, 2007)

Ing. Slavomír Veseleňák*,

Member of the Supervisory Board (from August 25, 2007)

JUDr. Juliana Blichárová,

Member of the Supervisory Board (from February 15 until June 30, 2007)

JUDr. Lucia Radosová,

Member of the Supervisory Board (from February 15 until June 30, 2007)

JUDr. Radoslava Staroňová,

Member of the Supervisory Board (from February 15 until June 30, 2007)

* Supervisory Board Employee Representative

VSE IT služby, s.r.o.

Managing Directors

Olaf Wilhelm Baumann,

Managing Director

Ing. Vincent Záborský,

Managing Director (from January 3, 2007)

Ing. Marián Suchý,

Managing Director (until January 2, 2007)

Enerkos, s.r.o.

Managing Directors

Ing. Vojtech László,

Managing Director

Ing. Martin Hrežo,

Managing Director

Report on Fulfillment of Compliance Program

By means of legal unbundling of activities related to electricity distribution into the company Východoslovenská distribučná, a.s. as of July 1, 2007 the requirement of legal independency of the distribution system operator stipulated by Section 25 Act 656/2004 Coll. on Energy, was fulfilled as to the time and content respectively. The company Východoslovenská distribučná, a.s. as a distribution system operator has to observe other duties concerning the independency and non-discriminatory behavior as well, for example to elaborate the Compliance Program in terms of Section 24 par. 4 of Energy Act. Such Compliance Program containing the measures securing non-discriminatory behavior of the distribution system operator was approved by the Board of Directors of Východoslovenská distribučná, a.s. at its meeting on October 16, 2007. The approved Compliance Program is published at the webpage of the company.

This Report on Fulfillment of Compliance Program is elaborated in terms of Section 24 par. 5 of Energy Act.

The most important areas where the unbundling requirements have been fulfilled as follows:

▪ Separation of IT systems

The company Východoslovenská distribučná, a.s., as well as its parent company Východoslovenská energetika a.s. use a common IS-U system (billing system and customer data base). However, based on the setup of access rights the employees of the division Sales of the company Východoslovenská energetika a.s. do not have access to sensitive data of the distribution system operator, especially to the data concerning customers who are supplied by another supplier than the company Východoslovenská energetika a.s. Currently there is an ongoing project the result of which will be the physical division of the SAP IS-U systems of the companies Východoslovenská distribučná, a.s. and Východoslovenská energetika a.s. The implementation of the two-system model is planned in the middle of 2008.

▪ Non-discriminatory access to information

Publicly accessible information as well as information which has to be published in terms of valid legislation is continuously published by the company Východoslovenská distribučná, a.s. at its webpage. Sensitive and confidential information is provided only to those subjects who are concerned by the respective information or who are entitled in terms of the valid legislation (for example the deviation settlement institution), or who provide an authorization from the person who is concerned by this confidential information.

▪ Process equality

Non-discriminatory access to all market participants at the delimited territory of the company Východoslovenská distribučná, a.s. is provided by means of process set-up, in terms of which the distribution system operator proceeds towards all subjects (for example in case of application for grid connection). These processes constitute a part of the Operation rules of the company Východoslovenská distribučná, a.s., which is being approved by the Regulatory Office for Network Industries.

Sales

According to your needs

We are listening to your requirements. We broaden our care. We want you to have simple access to the information necessary. To optimally use our services. To feel comfortably at our place.

Even after unbundling electricity distribution from electricity sale we provide complex services to our customers in the sphere of electricity consumption, namely through Contracts on Integrated Electricity Supply. Thus we continue providing a broad offer of services in the sphere of electricity sales as well as distribution for all our customers:

- households;
- companies and organizations;
- large consumption customers – with a consumption between 0.7 and 2 GWh;
- key account customers – with a consumption over 2 GWh.

We broaden the services offered

- We introduced a new toll-free e-service **WEBCENTRUM** for key account and large consumption customers of our company. This way they always have updated information concerning electricity consumption at their points of delivery available. Through **WEBCENTRUM** they can also handle their requirements related to electricity at any time. We are planning to broaden this toll-free service for all our customers.
- We re-designed the largest customer office of our company in Košice dedicated for our company customers and households. After Rožňava, Michalovce and Poprad, the office in Košice is already the fourth refurbished customer center. In order to increase availability we also extended and unified the opening hours of all 9 customer offices of our company.
- We prepared new energy packets **PREMIUM**, **BENEFIT**, and **ŠTANDARD** for our customers from the company and organization segment. These packets enable customers

to choose the required level of servicing for energy consumption. For example within the energy packet **PREMIUM** we provide individual servicing and active energy consulting to customers.

- We simplified a number of processes concerning the processing of requirements related to electricity, e.g. connection or change of owner of a point of delivery. For more simple and comfortable handling of requirements we also extended the services of the VSE Hotline.
- We introduced a uniform invoicing method in order to simplify the registration of electricity costs for our company customers. It is based on the unification of the invoicing period with the accounting year.
- We prepared an advantageous tariff rate **EKO DOM** for our customers from the household segment in order to support the environmental heating method. It is designed for households that use a heat pump and it brings the lowest average electricity price of all the tariff rates offered.
- We have been offering advantageous conditions for electricity take-off by using a heat pump to our company customers already for two years.
- We unified our product offer for customers from the segment of companies and organizations at all voltage levels. The advantage of the new offer is a better transparency of the products. At the same time customers connected to the medium and high voltage grid do not have to order the requested electricity volume quarterly.
- We updated the design and structure of our website www.vse.sk. By means of these updated sites we bring current and useful information related to electricity in the Slovak and English languages to our partners.

We strength mutual communication

The development of mutual relationships with our partners is very important for us. In order to make mutual communication more intensive, we inform our customers regularly about the current development on the electricity market. We also organize common meetings with our most important customers.

- The introduction of new services of our company was communicated to our customers by means of campaigns in the media. During the spring campaign we informed the customers about the 24/7 Emergency Service of VSE and about the ways how they can contact VSE. Then in November we introduced the new energy packets to the company customers by an extensive use of media.
- This was already the fourth year when we organized a series of technical and social events for our key accounts, namely by means of spring and fall meetings of Business Club and energy seminars. We also organized energy seminars for our large consumption customers for the first time.
- We supported three energy conferences. In June 2007 we participated in the fourth energy congress ENKO 2007 in Bratislava as the general partner and in October we participated in the conference ENERGOFORUM 2007 in Piešťany as the golden partner. We also supported the international conference Rational Production, Transfer, and Consumption of Energy that took place in October 2007 in Štrbské Pleso.
- We were continuously sending our customers the latest information on the situation on the electricity market by means of customer magazines, namely according to the individual segments:

- » **VSEnergia pre váš domov (VSEnergy for Your Home)** for approximately 500,000 households
- » **VSEnergia pre vašu firmu (VSEnergy for Your Company)**, designed for almost 22,000 customers from the segment of companies and organizations
- » **VSEnergia pre samosprávu (VSEnergy for Self-Government)**, sent to over 1,100 representatives of towns and municipalities
- » **vse:news**, e-magazine designed for key accounts of our company
- » **vse:novinky**, new e-magazine for our large consumption customers

We are regularly increasing the awareness of our customers also by sending of letters and the preparation of consulting flyers such as Explanation of Items on the Electricity Invoice or Ways of Payment for Electricity. We are trying to bring more comfort into their lives also in this way.

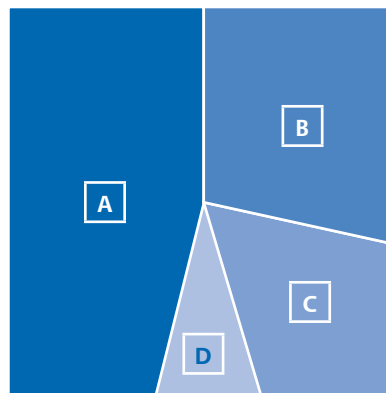
Electricity Sales

A significant event in July 2007 was the opening of the electricity market for household customers. Thus each customer can choose his own electricity supplier as of July 2007. In connection to the open electricity market its competitive environment is gradually increasing. In spite of this we managed to maintain the trust of our customers. In 2007 all customers from the segments of households and companies and organizations remained by the VSE company. In the segments of large consumption and key account customers 8 customers changed their supplier, which equals a consumption of 53 GWh in 2007. However, we managed to win over one new customer with an annual consumption of 19 GWh. In 2007 we supplied electricity into 601,538 points of delivery of our customers, which represents a growth by 0.57 % in comparison to 2006.

The volume of the electricity sold in 2007 reached 3,852 GWh. By households there was a decrease of 2.68 % in comparison to 2006, which is a consequence of an extraordinary warm winter in the beginning of 2007. The sale of electricity to customers from the segment of companies and organizations is approximately at the same level. Our company's sales decreased by approximately 26 GWh in 2007 for large consumption customers. The reason is the above-mentioned change of supplier of a small number of customers. On the contrary, we observed an increase of sales by 20 GWh by the key account customers, especially thanks to the rise of consumption of our most significant customers.

Development of electricity sales in GWh	2007	2006
Households	1,157	1,126
Companies and organizations	615	614
Large consumption customers	351	325
Key accounts	1,767	1,787
Total	3,890	3,852

Structure of electricity sales in 2007 according to the volume of electricity sold.



- A** 46.39 % Key account customers
- B** 29.23 % Households
- C** 15.94 % Companies and organizations
- D** 8.44 % Large consumption customers

Electricity Purchase

The situation on our market was influenced by the movement of electricity prices on the neighboring markets in Germany, the Czech Republic and in southeastern Europe.

The main effort of our company in the sphere of electricity procurement in 2007 was the purchase of electricity for the portfolio of our customers for competitive prices. The volume of the electricity purchased for 2007 amounts to 4,538 GWh. We managed to extend the number of business partners who supply us with electricity. In spite of the decrease of the share of electricity procured from Slovenské elektrárne, a.s. we purchased over 55 % of the total electricity volume from this company. In 2007 the share of electricity produced by means of combined heat and power generation and from renewable sources increased. We worked intensively also on the optimization of the portfolio within the framework of cross-border trading at the RWE Group which also includes our company.

Structure of the VSE purchase in 2007	GWh	%
Slovenské elektrárne, a.s.	2,504	55.2
Combined heat and power generation and renewable sources	246	5.4
Spot market	95	2.1
Others	1,693	37.3
TOTAL	4,538	

Share of primary energy sources in the electricity purchased in 2007	%
Nucleus	57.3
Water and renewable sources	9.1
Coal	31.5
Natural gas and biogas	2.1

Legal Unbundling

One of the most dramatic events of the company Východoslovenská energetika a.s. in 2007 was the so-called **legal unbundling** executed as of July 1, 2007 – i.e. legal separation of the regulated business of the grids. The company Východoslovenská energetika a.s. met its obligation resulting from the Section 25 of the Energy Act No. 656/2004 Coll. This obligation ultimately results from the requirement of the European Union, which concerns all so-called vertically integrated companies. These are such companies, given mainly by history, which also operate electricity production or electricity sales as business apart from regulated grid business.

As of July 1, 2007 through contribution in kind a part of business of the company Východoslovenská energetika a.s., specifically the division Distribution system operator (DSO) was transferred into its 100 % subsidiary company Východoslovenská distribučná, a.s. Specifically, 90 employees, all assets and liabilities – especially grid assets as well as all titles and duties of the regulated grid business were transferred from the former DSO division into the subsidiary company. Východoslovenská distribučná, a.s. began its operative business on July 1, 2007.

The legal unbundling was preceded by a preparatory stage that lasted over a year during which new statutes and contracts were drawn up for the new company. An extensive evaluation of business part for fair value was necessary as well. It was also necessary to divide the formerly integrated IT system into two separated systems. Taking into account the complexity of the whole transaction, the transfer into two companies was very smooth.

Distribution System Operation

A step ahead

We are using knowledge for benefits of the future. We are observing the dynamic development of the region. We are looking for possibilities for stable and efficient electricity distribution. We want to be prepared in time for your new needs.

We support you through stable electricity supply

Reliable electricity supply is one of the key conditions of growth and prosperity of the region. VSE distributes electricity in the regions of Košice, Prešov and parts of Banská Bystrica. The overall supplied area amounts to more than 15,000 km².

VSE is operating electrical distribution grids at voltage levels of 110 kV (HV – high voltage), 35 kV, 22 kV, 10 kV (MV – middle voltage) and 0.4 kV (LV – low voltage) with an overall length of more than 23,500 kilometers. The HV distribution system is supplied from four superior electrical substations of the transmission system (SEPS) with voltage levels of 400 kV and 220 kV. The different voltage levels are interconnected through a total of 50 electrical substations (HV/MV) and switching stations as well as 8,600 distribution transformer stations (MV/LV). The distribution system is controlled from two regional dispatching centers and one superior dispatching center with a focus on the 110 kV system.

Since the introduction of detailed monitoring of supply quality in 2006 VSE provided its grid customers with the most reliable electricity supply in Slovakia also in the second year. Even in spite of two wind storms, in January and in August, we maintained the reliability coefficient ASAI (Average Service Availability Index) for the voltage level MV at the level of 99.92 %.

We invest to meet your needs

VSE clearly recognizes the need for investment in the grids in the eastern part of Slovakia. There are two main drivers for this. First of all it is the systematic renewal and modernization program that was launched by our company

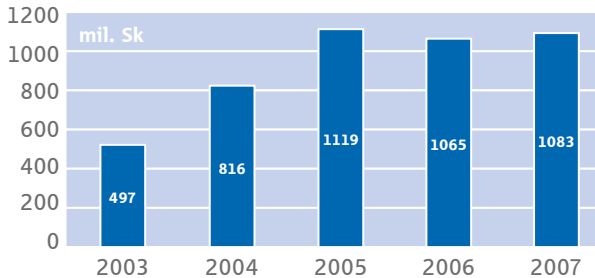
in 2005. Within this program we are implementing state of the art technology in order to secure and to further improve the quality of electricity supply in an efficient way. Apart from this, VSE started a grid extension program in order to provide sufficient power to the new investors and the growing economy in eastern part of Slovakia. We set forth this program also in 2007. Compared to the year 2002, i.e. the year before the strategic investor stepped into VSE, total investments in 2007 have nearly been tripled. Last year investment into electrical grids amounted to 1,083 million SKK, which is about 77 % of the total investments of VSE. Apart from this we are successful in using available financial means more efficiently than in the past thanks to significant savings in the sphere of the purchase of goods and services.

Major investments in 2007 were:

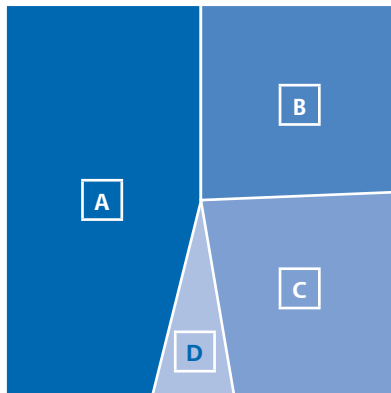
- Completion of the upgrading of the 110 kV part of the electrical substation Lemešany and connection of the second 400/110 kV transformer from SEPS into the distribution grid. The new transformer was switched on by the minister of economy of the Slovak Republic, Ľubomír Jahnátek, on December 13, 2007 and is a significant contribution to the security of supply for the whole region of Eastern Slovakia.
- The first part of the 110 kV line from the substation SNV into the substation Dobšiná was reconstructed and reinforced. This line also plays a strategic role in the electrical grid of VSE.
- In SNV and Sečovce two new service centers for Enerkos, the function unit for construction and maintenance of the company VSE, were modernized and completed. Apart from creating modern working conditions the cooperation with warehouses and logistics will also be improved.
- In order to reinforce and modernize the electrical grid about 760 mil. SKK were used for cables, overhead lines, transformer stations and substations.

We follow with the modernization of Grid

The investment program has to be continued for a mid term period in order to meet the requirement of the customers and the region.



Percentage ratio of the individual directions of investments in 2007.



- A** 46 % Renewal of HV grid
- B** 24 % Renewal of MV and LV grid
- C** 24 % Customer projects
- D** 6 % Other investments and properties

We are going new ways and searching for new solutions

In order to reduce costs and avoid negative impacts on the environment VSE managed together with SEPS to agree on the first combined transmission and distribution line in Slovakia. The new line between the electrical substations in Lemešany, U.S. Steel Košice and Moldava nad Bodvou will come into operation during 2012. It will not only have a significant positive impact on the security of supply, but will also supply the planned industrial park of Pereš with electrical energy.

We use the most modern available technology

VSE is always using the most modern tools and equipment in order to increase efficiency, reduce costs and provide the best services possible to the customers. For example we work with a whole variety of calculation and simulation tools in order to predict the development in the electrical grid as precisely as possible. This allows an optimized allocation of the available budget and avoids stranded investments.

Another example is the application of diagnostic tools such as infrared cameras or partial discharge instruments. With the help of these tools it is possible to determine when the next maintenance procedure is necessary, which consequently reduces the risk of outages and the costs.

As far as technical communication is concerned, VSE as one of the first members of the RWE group completely switched over to the new communication protocol IEC 61 850. This allows data exchange between remote control devices and protective devices of different suppliers. As a consequence proprietary standards can be excluded. This increases the flexibility for VSE substantially and simplifies the technical administration of data. With respect to the transmission of metering data VSE is using the most modern scalar technology. This web based technology allows frequent transmission of metering data from the customer (e.g. consumer or producer) to the utility and is a prerequisite for competition in the electricity sector.

We provide more detailed information

In a more and more competitive environment information also becomes more and more valuable. Information for internal and external purpose has to be distinguished. Collection of data on the position, specification and condition of assets helps to optimize budget allocation. The corresponding program of VSE is the so-called geographical information system (GIS) where we use for example GPS for data collection.

Information from electrical substations is another example of internal data. Meanwhile 27 electrical substations are equipped with remote control systems and are ready to be connected to the new central dispatching center in Košice. This system was ordered in December 2007 and it will be ready for operation in 2009.

Automated meter reading is an example for external data. So far 1,350 customers are equipped with this system. Electrical consumption or production of a customer is measured every minute and the data are transmitted once per day into the computer system of VSE. The received data are necessary to comply with the requirements of competition in the energy sector, but they can also help the customer to optimize his energy consumption.

We use the opportunities of the market

Our company is aware of an increasing demand on technical services. Due to this Enerkos, the function unit for construction and maintenance of the company VSE, achieved qualification according to ISO 9001 and in 2008 it will start to offer its services on the market actively. The concept for this new activity was developed in 2007.

Employees

With professional approach

We are a company where success is created by its employees. Expert, professional, loyal. We create a stimulating setting for such employees and help them in their further growth. Your experience is important for us.

Professional employees are the basis of the success of our company. It is thanks to them that our customers can form a positive relationship towards VSE that will be maintained also in the future. Our effort and further direction in the coming years is built on professionalism, but also on employee loyalty. Only satisfied employees are not only able, but also willing to work for customers. We understand the needs of our employees, care for them, and help them to grow professionally.

Východoslovenská energetika is one of the largest employers in the region. 1,538 employees worked for our company on average in 2007.

Loyalty of employees is very important to us. Proof of the fact that we succeed in maintaining employee loyalty is the average duration of employment, which is approximately 17 years. Overall labor turnover in 2007 reached 14.1 %, it decreased by 4.6 % in comparison with 2006. Voluntary turnover reached 2.1 %, i.e. 33 employees, which is a subtle growth in comparison with 2006. The most important reason were job offers abroad.

Updated data as to December 31, 2007

VSE Group	Dec. 31, 2007	Dec. 31, 2006
Number of employees at the end of the year	1,536	1,601
men	1,143	1,201
women	393	400
technical and economic employees	956	941
workers	580	660
VSE Group Full-time equivalent	1,538	1,655

We monitor employee satisfaction

In 2007 we performed the second employee satisfaction survey at VSE after the entry of the foreign investor in 2003. 65 % of the employees participated in the survey.

They expressed their satisfaction with the work atmosphere in teams and with the management style of their direct superiors. Their loyalty towards VSE was confirmed also by the fact that the majority would like to work for VSE in the short-term and also mid-term horizon. The employees expressed their satisfaction also with the balance of the work load and private life.

On the contrary they view the low level of work stability negatively and criticize limited opportunities for promotion in their carrier.

Based on the survey of opinions the VSE management prepared measures for the improvement of employee satisfaction that will be performed in 2008 and 2009.

We take care about working safety

Working safety is an important issue for VSE. In 2007 not only the management attention of this topic was increased but also new guidelines and statistics have been developed. For 25 mil. SKK new safety equipment has been purchased.

We develop the competences of employees

In 2006 we introduced a new step in employee adaptation - "The First Day at VSE" by using multivisual technology. In 2007 we presented this interesting project at several national events. In spring we received the award "Company Medium of the Year" for it and in October 2007 we received a Slovak award for the management and development of human resources that is awarded by the Association for the Management and Development of Human Resources.

Last year we were elaborating the concept "Fit for Sales" and we started to implement it. The elaboration of the concept was related to the further liberalization of the electricity market in the summer of 2007. The concept secures the preparation of all VSE employees who are in

a direct or indirect contact with the customer for the new conditions of the open market. Within this concept the first trainings on communication with the customer and product trainings took place. The employees of the company VSE coordinate the performance of “Fit for Sales” within the RWE group in Central and Eastern Europe. Due to this we also secure the exchange of experience between managers of customer care from the Czech Republic, Poland, Hungary, and Slovakia.

We provide career planning “Discoveries”

“Discoveries” is a tool of the RWE group for the individual development of managers and career planning. By introducing this tool in the last year we secured the systematic development of 130 employees in managing positions. By defining the vertical potential within the RWE context for some employees we enabled the elaboration of international succession plans.

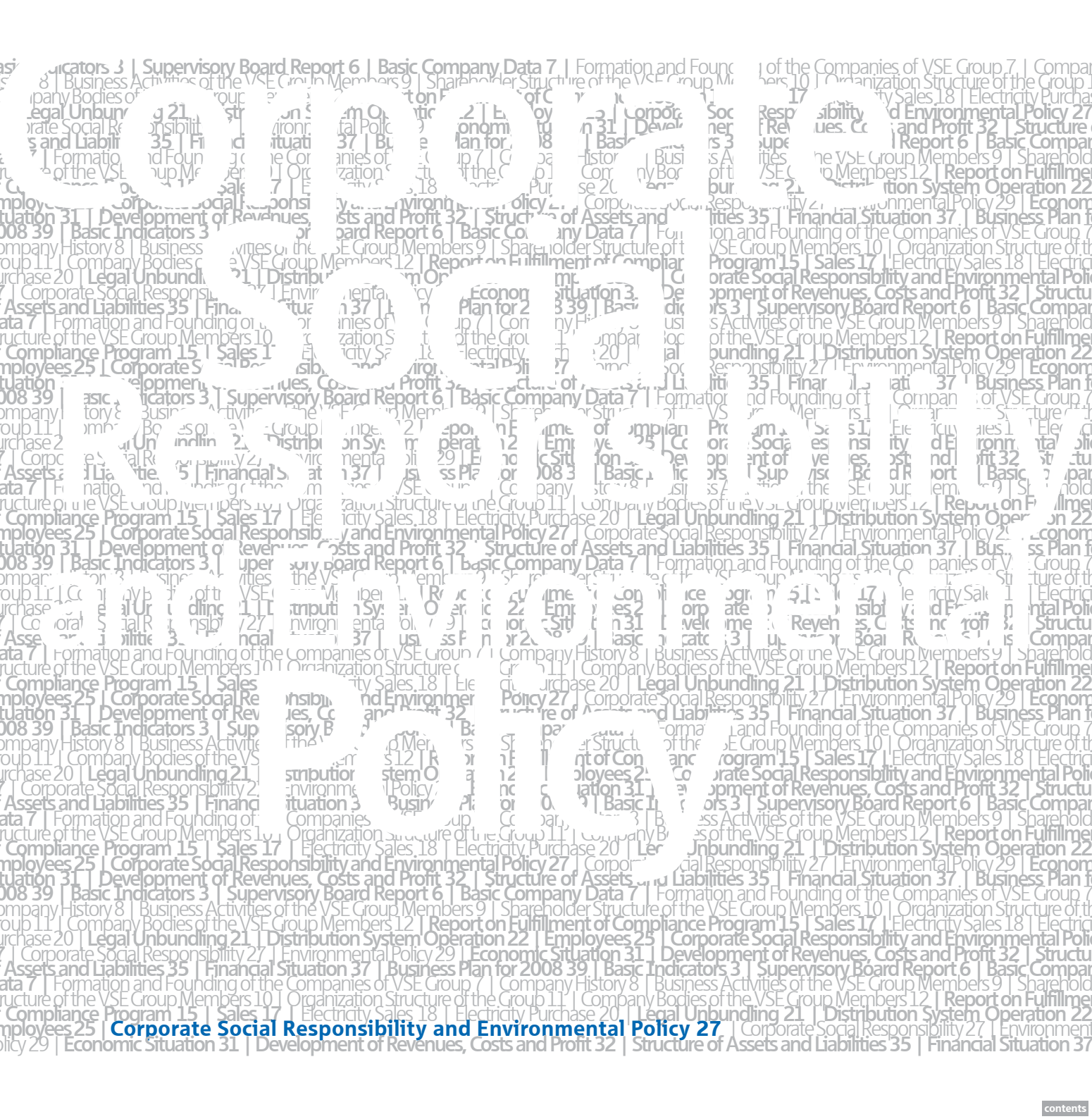
We think family-friendly (For Families)

In April 2007 we started to execute the program “For Families”. The goal of this program is the increase of the attractiveness of VSE as a socially oriented employer and the maintenance of employee satisfaction in compliance with professional and private life. At the same time the program increased the efficiency of bridging over the time periods of maternity and parent leave of the employees.

The program consists of four pillars:

1. flexible working time and possibility to work from home,
2. internal communication concept,
3. direct benefits,
4. support activities.

The first part of the program, flexible working time, was used by 11 employees in 2007. The satisfaction survey from the summer of 2007 showed that employees view this program as an important benefit.



Corporate Social Responsibility and Environmental Policy 27

Corporate Social Responsibility and Environmental Policy

Responsibly towards the future

We do business and act with responsibility. We think about the region complexly. We want a quality life with full value for the next generations. We invest also our human energy.

Corporate Social Responsibility

VSE is aware of its role of a responsible citizen of the region, accepts it, and intensively supports the community in which it is active. VSE is a member of the Business Leaders Forum and along with the other companies it is committed to advocating the principles of corporate social responsibility in Slovakia. VSE has been using the internationally appreciated methodology "Standard Community Investment" already for two years. Thanks to this methodology it can allocate financial means transparently and thus raise the level of corporate sponsorship. The employees also contribute through their acts and activities, which helps create a closer and more open relationship of our company to the region and the community.

We help together

Since 2006 our employees are actively involved in volunteer activities that are organized by our company. Voluntary blood donation in cooperation with the Red Cross and the National Transfusion Service has already become a good tradition. In 2007 over 30 of our employees donated blood, without claiming any benefits or remuneration. 26 of our volunteers also participated in reading fairy tales for visually impaired children in two turns. This fairy-tale book is available at the Union for the Visually Impaired of Slovakia and at schools for visually impaired children in Eastern Slovakia.

By launching the project "Common Energy for a Million" we also supported individual employees who are helping in their own community through voluntary work in sport clubs, dance ensembles, hiking clubs, and thus they enable even socially disadvantaged children to do sports and to spend

time performing a meaningful activity. Within the project we supported 22 projects of our employees, especially from the region of Eastern Slovakia. For example we supported the junior soccer players in Bardejovská Nová Ves, young firemen in Široké, environmentalists in Humenné, and others.

We implement VSE Fund and open grant rounds

From the 2 % of the corporate income tax in 2007 VSE donated 1.5 million SKK for recovery stays for the employees and over 7 million SKK to the Fund of Východoslovenská energetika, which has been established under the auspices of Pontis Foundation. Thanks to the Fund we supported projects especially in the region of Eastern Slovakia and we carried out open grant rounds with focus on youth, community and education.

Disenchantment of the castles in Eastern Slovakia

The goal was to change the unfavorable condition of castle ruins in Eastern Slovakia. We focused on selected castle ruins that make up the characteristic look of the picturesque regions in Eastern Slovakia. The current situation of these monuments is very unfavorable from the point of view of their preservation and conditions for the tourists. The patronage over 5 selected castles in Eastern Slovakia was taken over by scouts. In the castle ruin where they took over the patronage they organized voluntary works during 2007. They performed these works under expert supervision; the scouts were cleaning the castle ruins from the naturally seeded vegetation, adjusted the environment and they were improving the public awareness of history and importance of the castles and of their surroundings.

Children's playgrounds

The focus of the program „Children's playgrounds" is to enhance the environment of municipalities and cities, to create room for creative and safe games of children, to support the construction of interesting, esthetic and original children's playgrounds which will be accessible to all children from the neighborhood (not only to pupils of a school etc.), to reconstruct a non-functional, devastated, old

and dangerous playground and at the same time to involve the local community (parents, municipality, civic associations etc.) in the construction of the playground. An amount of 1.7 million SKK is allocated for this grant program; the evaluation and performance of the reconstruction or construction of the individual playgrounds is planned for 2008 and 2009.

Independent

The goal of the grant program “Independent” is the prevention of drug addiction – alcohol, tobacco, and other drugs – especially in the target group of young people in the Košice and Prešov region. An amount of 1 million SKK will be allocated for this purpose from the fund. The grant program focuses on the support of primary and secondary prevention.

Air-conditioning units for the First Hospital for Children and Youth of the Medical School of the University of Pavol Jozef Šafárik and Children’s Teaching Hospital

In cooperation with the non-profit fund Zlatý kľúčik (Golden Key) that is active by the First Hospital for Children and Youth of the Medical School of the University of Pavol Jozef Šafárik it was possible to improve the conditions in the children’s hospital. VSE contributed the amount of 120 thousand SKK to this project. Units in 4 hospital rooms of the children’s hospital will significantly improve the quality of health care.

Energetika 2007

In 2007 we started the cooperation with the schools by announcing the competition for elementary schools Energetika 2007 for the first time, within which the children were able to express their relationship to energy industry in the essays with various topics. The best 30 pupils came to compete for material and financial prizes for their schools. Over 190 elementary school pupils participated in this competition.

We support the region

VSE supported projects in the region of Eastern Slovakia in 2007 as well and thus followed the sponsoring strategy that focus on youth, education, and future.

We think about education

Apart from numerous projects in the sphere of education it is necessary to stress the close cooperation with the Technical University Košice. This cooperation includes for example the support of The Children’s’ University “SME TU pre deti” already for the second year.

The process of information technology implementation is proceeding in Slovakia; however, there are still many entities that do not have regular access to computer technology. Therefore VSE a.s. supports schools, regional authorities, and hospitals in Eastern Slovakia. Since the beginning of 2007 VSE donated 70 computer sets.

In Youth we see the future

VSE participated in the organization of one of the largest sport events for youth in Central and Eastern Europe – **Fragaria Cup**. 283 pupil and junior teams from 17 countries met at this international soccer event that took place in Prešov. In cooperation with the tennis club **AKADEMIK** the international tennis tournament of older pupils **TEJT AKADEMIK CUP** could take place. 48 boys and girls from 12 countries competed on the tennis courts in Košice.

In December 2007 already the fifth year of the event **Jesenná harmónia (Fall Harmony)** took place in Košice that was a symbiosis of culture and charity. The proceeds from the benefit concert were handed over to a visually impaired student from Košice, the dormitory vocational school for visually impaired youth in Levoča, and a part of the financial means was allocated also for the support of prevention and treatment of the visually impaired in developing countries.

These projects represent only a small part of the activities by means of which VSE participates in the development of the region. Our goal is to support the activities directing at the community and region also in the future and therefore it is very important for us that the quality of life improves where we are present thanks to our activities. In the future our activities will also be directed to youth - education - future, which constitute the values of the VSE company.

Environmental Policy

Environmental protection is an inseparable part of the VSE concept that takes into account the current needs of the regions. We actively advocate environmental management systems and emphasize that environmental and landscape protection be considered during the performance of all work activities. The principles of environmental policy keep to put into practice our approach.

In accordance with the company's concept, several significant projects were implemented at the individual operation units of VSE in 2007. They are especially the following:

- in cooperation with the State Environmental Protection of the Slovak Republic we signed the "Policy of Eliminating the Threat to Birds Caused by 22 kV Overhead Power Lines";
- installation of nesting boxes for the saker falcon on 110 kV poles;
- substitution of comb-like inhibitions by a more efficient cross-arm protector for securing higher bird protection on 22 kV MV lines;
- extraordinary treatment of MV lines in the locality where red kites nest in the Protected Landscape Area Východné Karpaty;
- relocation of twenty stork nests from the LV grid to alternate plates;
- active data exchange pursuant to the contract concluded between VSE and the State Environmental Protection on mutual cooperation by environmental protection;
- providing MV lines with comb-like inhibitions and cross-arm protectors;
- performance of audits of distribution transformer substations of VSE a.s. focusing on historical loads; the results of the audits are reevaluated and based on their conclusions measures are proposed for the harmonization with the legislation and environmental policy of the company;
- reevaluation of waste dumps focusing on their utilization, capacities, operation from the viewpoint of valid legislation.

Economic Situation

On Stable Foundations

We manage efficiently. We build stable foundations. We create space for long-term growth. When making decisions we think of our common future.

The economic results are consolidated for the group of VSE companies, i.e. they include VSE a.s., VSD, a.s., VSE IT služby, s.r.o. a Enerkos, s.r.o.

The statements are elaborated according to the international financial reporting standards (IFRS).

Development of Revenues, Costs and Profit

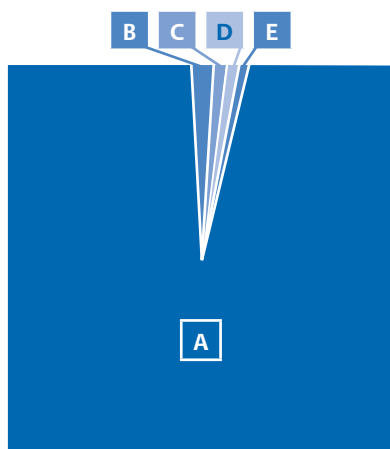
Total revenues (15,765 mil. SKK) decreased by 448 mil. SKK (by 2.8 %).

Revenues from business activities decreased by 564 mil. SKK compared to last year.

Total revenues for electricity decreased by 504 mil. SKK, especially due to the decrease of short-term electricity sale on the spot market.

Structure of revenues 2007

(in brackets: data from the previous year)



A	93.26 %	Electricity distribution and sales (93.88 %)
B	4.45 %	Capitalization (4.10 %)
C	0.67 %	Financial revenues (0.38 %)
D	1.23 %	Other operating revenues (0.70 %)
E	0.39 %	Other revenues (0.94 %)

Structure of costs

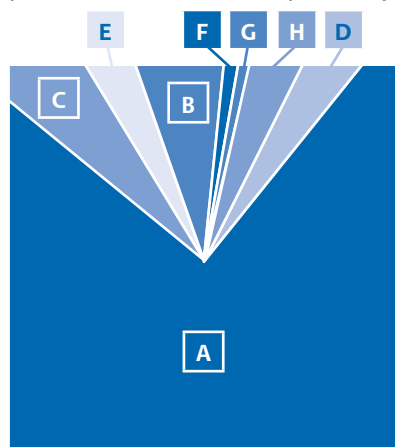
Total costs (12,908 mil. SKK) dropped by 747 mil. SKK (by 5.5 %).

This decrease was induced by the decrease of costs for business activities resulting especially from the decrease in costs for electricity purchase.

The decrease of total costs for electricity purchase represented 702 mil. SKK compared to 2006.

Structure of costs 2007

(in brackets: data from the previous year)

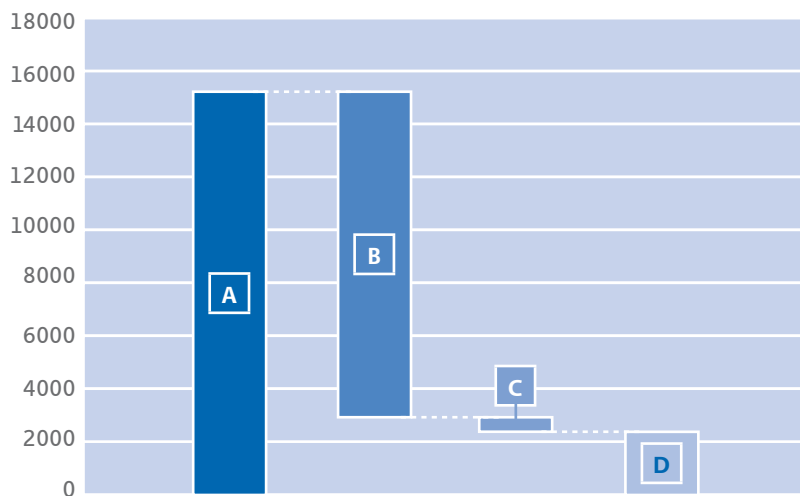


A	74.68 %	Electricity purchase (76.08 %)
B	6.70 %	Personnel expenses (6.66 %)
C	5.44 %	Consumed material (4.75 %)
D	3.72 %	Depreciation and amortization (4.03 %)
E	3.56 %	Services (3.74 %)
F	4.00 %	Income tax (3.40 %)
G	1.02 %	Other operating costs (1.18 %)
H	0.89 %	Financial expenses (0.16 %)

Profit after taxes

Profit after taxes achieved in the mentioned period the volume of 2,319 mil. SKK, which constitutes an increase by 242 mil. SKK. Compared to last year this represents an increase by 11.7 %.

Structure of operation result in 2007 (in mil. SKK)



- A** 15,775 Revenues
- B** 12,918 Costs
- C** 538 Income tax
- D** 2,319 Profit after taxes

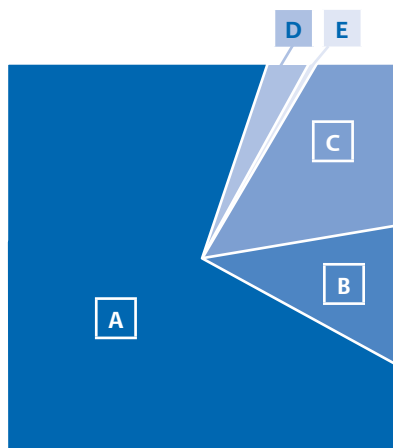
Structure of Assets and Liabilities

The **balance of assets** as of December 31, 2007 was 9,206 mil. SKK, which is an increase by 757 mil. SKK (by 8.96 %) compared to last year. The **non-current assets** increased during the reported period by 881 mil. SKK (by 14.38 %) and the **current assets** decreased by 124 mil. SKK (by 5.34 %). The decrease of the current assets was significantly influenced by the decrease of funds (by 120 mil. SKK).

The increase of **non-current assets** resulted mainly from the increase of long-term tangible assets by 828 mil. SKK.

Structure of assets in 2007

(in brackets: data from the previous year)



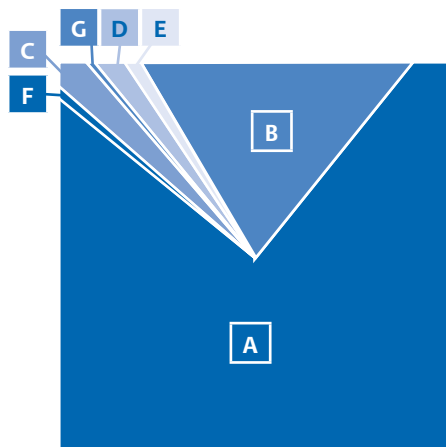
A	73.33 %	Long-term tangible assets (70.10 %)
B	13.89 %	Financial funds and equivalents (16.56 %)
C	9.99 %	Receivables and inventories (10.94 %)
D	2.51 %	Long-term intangible assets (2.26 %)
E	0.27 %	Financial investments (0.14 %)

Own equity increased by 360 mil. SKK (by 5.52 %) compared to 2006 and its share in the total liabilities represents 74.78 %.

The amount of **external sources** increased by 397 mil. SKK (by 20.62 %). The most significant increase of external sources was represented by the growth of liabilities by 409 mil. SKK. At the same time bank loans dropped by 59 mil. SKK due to their settlement.

Structure of asset source in 2007

(in brackets: data from the previous year)



A	74.78 %	Own equity (77.22 %)
B	19.79 %	Liability (16.72 %)
C	2.10 %	Income tax (1.10 %)
D	1.84 %	Reserves (2.40 %)
E	0.83 %	Loans (1.60 %)
F	0.67 %	Deferred tax liability (0.28 %)
G	0.00 %	Financial derivatives (0.67 %)

Financial Situation

As of December 31, 2007 the consolidated balance of funds in the company's bank accounts was 1,278.5 mil. SKK, which is a decrease by 120 mil. SKK compared to 2006.

The amount of available funds in 2007 allowed us to adequately cover the liabilities towards contractors as well as liabilities resulting from credit contracts towards banks. For efficient management of liquidity within the VSE group the company was using cash pooling since July 1, 2007. In 2007 dividends in the total amount of 2,002.8 mil. SKK were paid out.

The balance of loans as of December 31, 2007 represented 75.9 mil SKK, thereof a short-term part of the long-term loans due within one year was 25.3 mil. SKK.

The Company did not draw any new loans in 2007.

The available funds on the consolidated level were valorized by using riskless products – the prevailing part was valorized by means of Repo tenders of the National Bank of Slovakia, and the rest of the sources by means of short-term fixed-term deposits and individual interests on balances of current accounts of the company.

Business Plan for 2008

Towards Permanent Sustainability

We develop the business environment. We look for efficient alternatives. We want to be one of your best partners. We direct our goals to sustainable satisfaction.

Global challenges resulting from international and national commitments in form of the need of diversification of electricity supply, increase of energy efficiency or support of alternative energy sources can only be achieved through breaking them down – with correctly set-up framework conditions VSE also takes on the task of the development of these important areas in the current energy sector.

Similarly to 2007, 2008 will also be marked by the missing liquidity on the electricity market in the sphere of electricity purchase. Therefore VSE is naturally continuously looking for alternative possibilities of securing enough electricity for the customers for the lowest possible prices. Apart from using supplies from production facilities that are beyond the Slovak border, VSE is also applying for the development of own production capacities. The emphasis here is on clean sources of electricity such as biogas, water or biomass.

The service levels set up in the past will be the basis of customer's care. Individual servicing, energy consulting for all segments, service packets for businessmen and communication channels that are available at all times are a stable basis for the customers to perceive VSE as a stable partner and companion in development and comfort. The on-going reconstruction of customer contact centers is only one of the many examples when VSE is trying to be the best energy service provider in Slovakia.

In terms of the slogan VSE – a responsible citizen of the region the company has been shaping its profile already for several years. In 2008 we will continue supporting health preservation, development of sport, social and cultural life. May each employee of VSE be a representative of the

company that honors not only its customers, but also other good citizens of the region: business partners, state, non-governmental and self-administering institutions, families in towns and in the country, as well as the environment in which we live and through its possibilities it tries to contribute to the growth of the region without which VSE would be far from being a company that it is now.

Selected data from Individual Financial Statements of VSE as at December 31, 2007

Consolidated balance sheet (in mil. SKK)

prepared in accordance with IFRS as adopted by EU

	As at 31 December	
	2007	2006
ASSETS		
Non-current assets		
Property, plant and equipment	6,751	5,923
Intangible assets	231	191
Investments in associates and joint ventures	25	12
	7,007	6,126
Current assets		
Inventories	36	50
Trade and other receivables	884	874
Cash and cash equivalents	1,279	1,399
	2,199	2,323
Total assets	9,206	8,449
EQUITY		
Capital and reserves attributable to equity holders of the Group		
Share capital	3,363	3,363
Legal reserve fund	673	673
Other reserves	390	390
Valuation difference on revaluation of derivative financial instruments	-	(43)
Retained earnings	2,458	2,141
Total equity	6,884	6,524

LIABILITIES		
Non-current liabilities		
Non-current borrowings and loans	51	75
Deferred income tax liabilities	62	24
Non-current provisions for liabilities	108	121
	221	220
Current liabilities		
Trade and other payables	1,822	1,413
Financial liabilities from derivative financial instruments	-	57
Current borrowings and loans	25	60
Income tax liabilities	193	93
Provisions for current liabilities	61	82
	2,101	1,705
Total liabilities	2,322	1,925
Total equity and liabilities	9,206	8,449

Consolidated Income statement (in mil. SKK)

prepared in accordance with IFRS as adopted by EU

	Year ended 31 December	
	2007	2006
Revenue	14,774	15,368
Own work capitalized	702	676
Change in work in progress	-	(11)
Purchases of electricity	(10,049)	(10,751)
Raw materials and other consumed materials	(732)	(671)
Staff costs	(901)	(941)
Services	(479)	(528)
Depreciation and amortization expense and change in impairment provisions for assets	(500)	(569)
Other operating income	194	114
Other operating expenses	(137)	(167)
Profit from operations	2,872	2,520
Finance costs		
Interest income	69	44
Interest expense	(5)	(3)
Loss on derivative financial instruments	(79)	(4)
Other financial income	25	17
Other financial expenses	(36)	(14)
Net Finance income / (expenses)	(26)	40
Income / (loss) from associates and joint ventures	11	(2)
Profit before income tax	2,857	2,558
Income tax expense	(538)	(481)
Profit after tax	2,319	2,077

Consolidated Statement of changes in Equity (in mil. SKK)

prepared in accordance with IFRS as adopted by EU

	Share capital	Legal reserve fund	Other reserves	Valuation differences	Retained earnings	Total equity
Balance at 1 January 2006	3,363	673	390	-	1,625	6,051
Profit for the year after tax	-	-	-		2,077	2,077
Valuation differences from derivative financial instruments	-	-	-	(53)	-	(53)
Deferred tax on revaluation of derivative financial instruments recognized directly in equity	-	-	-	10	-	10
Total recognized profit/ (loss) 2006				(43)	2,077	2,034
Dividends paid	-	-	-	-	(1,606)	(1,606)
Other	-	-	-	-	45	45
Balance at 31 December 2006	3,363	673	390	(43)	2,141	6,524
Net profit for the year 2007	-	-	-		2,319	2,319
Valuation differences from derivative financial instruments	-	-	-	53	-	53
Deferred tax on revaluation of derivative financial instruments recognized directly in equity	-	-	-	(10)	-	(10)
Total recognized profit/ (loss) 2007	-	-	-	43	2,319	2,362
Dividends paid	-	-	-	-	(2,003)	(2,003)
Other	-	-	-	-	1	1
Balance at 31 December 2007	3,363	673	390	-	2,458	6,884

Consolidated Cash Flow Statement (in mil. SKK)

prepared in accordance with IFRS as adopted by EU

	Year ended 31 December	
	2007	2006
Cash flows from operating activities		
Cash generated from operations	3,632	3,171
Interest paid	(5)	(2)
Interest received	57	45
Income Tax paid	(412)	(371)
Net cash from operating activities	3,272	2,843
Cash flows from investing activities		
Purchase of property plant and equipment (PPE)	(1,383)	(1,305)
Proceeds from sale of PPE	53	43
Dividends received	-	1
Net cash used in investing activities	(1,330)	(1,261)
Cash flows from financing activities		
Repayments borrowings	(59)	(93)
Dividends paid	(2,003)	(1,606)
Net cash used in financing activities	(2,062)	(1,699)
Net increase/ (decrease) in cash, cash equivalents and bank overdrafts	(120)	(117)
Cash, cash equivalents and bank overdrafts at beginning of year	1,399	1,516
Cash, cash equivalents and bank overdrafts at end of year	1,279	1,399

Report of the independent auditor on the Consolidated Financial Statements 2007



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INDEPENDENT AUDITOR'S REPORT

To the shareholders, Supervisory Board and Board of Directors of Východoslovenská energetika a.s.:

We have audited the accompanying consolidated financial statements of Východoslovenská energetika a.s. ("the Company") and its subsidiaries ("Group"), which comprise the consolidated balance sheet as at December 31, 2007, the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Statutory Body's Responsibility for the Consolidated Financial Statements

Statutory Body is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

The company's ID (IČO) No. 35739347.

Tax Identification No. of PricewaterhouseCoopers Slovensko, s.r.o. (DIČ) 2020270021.

VAT Reg. No. of PricewaterhouseCoopers Slovensko, s.r.o. (IČ DPH) SK2020270021.

Spoločnosť je zapísaná v Obchodnom registri: Okresného súdu Bratislava 1, pod čísloou.É. 16611/B, oddiel: Sro.

The company is registered in the Commercial Register of Bratislava 1 District Court, ref. No. 16611/B, Section: Sro.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects the financial position of Group as of December 31, 2007, of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.



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



Ing. Eva Hupková
SKAU licence No.: 672



10 March 2008

List of abbreviations

- ES** electric power station
- TS** transformer station
- NN** low voltage – LV (up to 1 kV)
- VN** medium voltage – MV (from 1 to 52 kV)
- VVN** high voltage – HV (over 52 kV)
- MZE** renewable energy sources
- VO** wholesale (consumption from HV and MV grids)
- MOP** retail – Businesses (consumption from LV grids)
- MOO** retail – Households (consumption from LV grids)
- KA** key accounts
- KAM** key account manager
- AZD** automatized data collection

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Annual Report 2007

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