

2004

Annual Report 2004

Statement by Chairman of the Board of Directors

Statement by Chairman of the Board of Directors

Dear Ladies and Gentlemen,

when wine-growers say they had a good year, they usually think of the weather and the quality of their grapes. The year 2004 was probably not their best, but it was an excellent year for Slovakia, and a good one for our company, Západoslovenská energetika, a. s. ("ZSE" or "Company"), too.

In May, the country became a new member of the EU, and celebrated its historical success together with nine other states. For sure, events in ZSE were not that significant, but still they were important because we focused our attention mainly on adjusting work processes implemented in the previous year.

The year 2004 was ZSE's first financial year completed under the new organizational structure, using outsourced services from unbundled subsidiaries and associated companies: Enermont, s. r. o., OTC, s. r. o., and is: energy Slovakia, s. r. o. It was also a year of great expectations in which a new Energy Act and the completed privatization of ZSE were expected to become reality. Though, in the end, the privatization was not completed, the new Energy Act has shown that the energy sector is ready to adapt to European standards and market liberalization.

The Company's shareholders were satisfied with the year-end results. Expectations placed on ZSE's streamlined management and the executive structure have been met. Another reason for improved economic results at year-end was the fact that the Slovak government has taken decisive steps in solving the growing debts of public medical facilities. Finally, shareholders also succeeded in finding a compromise to maintain the ambitious goals of the Company's investment plan.

I am proud that the managers and employees of ZSE have shown their abilities and experience in solving difficult problems, often strongly pressed for time. Finding and delivering the right solutions for the customer resulted in obtaining large projects this year. We were able to win the confidence of PSA - Peugeot-Citroen's management to build a transformer station and connect the car producer's new plant to the 110 kV network, and to sign a power supply contract for 2005 for the Volkswagen Group.

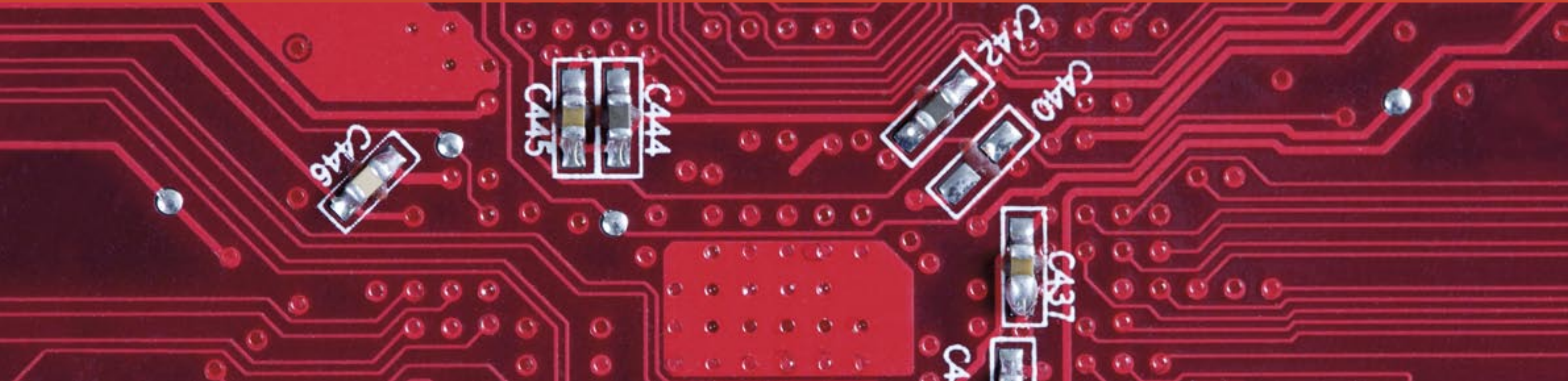
ZSE strengthened its position within the E.ON Group despite the fact that the Company was an unconsolidated business entity. The Company's experts and employees participated with their ideas and solutions in projects seeking and supporting compliance within the E.ON Group, such as the ZEUS and OneE.ON projects.

The Company's management responded very positively to the presentation of the Firms' Social Responsibility concept (FSR concept) in the Slovak business environment. ZSE became one of the founding members of the Business Leadership Forum, an informal platform for discussions, and the implementation of the FSR concept into the activities of Slovak companies. ZSE as the sole company within the E.ON Group that supplies the capital of Slovakia with electric power, brought light to some of the most exciting events in Bratislava. The New Year's celebrations, and the revival of the coronation ceremonies in the streets of the capital, make its public life more eventful and form an important part of the Company's sponsorship.

In conclusion, let me express my thanks and appreciation to our employees, customers, and business partners who contributed to our success in 2004, each in his unique way. We are grateful for the possibility to serve our customers and the society.

Konrad Kreuzer
Chairman of the Board of Directors





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The contents themselves are only adequate. Everything else depends on the right choice and the results of our work.



Key information of the Company

Key information of the Company

The whole year squeezed in the lines of numbers has no space to move. The profile of numbers creates a clear picture, having our face.

Key information of the Company

Key information of the Company

Key information of the Company at December 31, 2004			
SKK million	December 31, 2004	December 31, 2003	December 31, 2002
Total assets	13,346	11,349	9,517
of which: Non-current assets	7,312	6,695	6,346
Current assets	5,823	4,648	3,064
Accruals and prepayments	211	6	107
Percentage of depreciated non-current assets (%)	48	47	44
Equity and payables	13,346	11,349	9,517
of which: Equity	10,357	8,805	7,181
of which: Registered capital	5,935	5,935	5,935
Payables	2,988	2,542	2,330
of which: Bank loans and borrowings	0	305	635
Accruals and deferred income	1	2	6
Revenues	23,597	23,100	19,638
Expenses	20,970	21,223	19,208
Profit before taxes (Gross profit)	3,138	2,615	722
Net profit	2,627	1,877	430
Net profit per share (SKK)	442.65	316.33	72.4
Dividend per share before taxes (SKK)	372.88	188	64.3

Indicators		
	2004	2003
Electric power sold (GWh)	7,084	7,303
Distribution to VW (GWh)	192	
Revenues for the electric power sold (SKK million)	21,566	21,125
Revenues for the distribution to VW + charges to SEPS (SKK million)	174	
Average price of the electric power sold (SKK/MWh)	3,044	2,893
Electric power purchased (GWh) ¹	7,816	8,015
of which: SE, a.s. (%)	69.5	84
Cost of electric power purchased (SKK million)	15,659	15,966
Average price of the electric power purchased (SKK/MWh)	2,003	1,992
Electric power produced (GWh)	2.90	3.12
Total number of points of consumption (places)	990,969	985,381 (9)*
of which: Major commercial consumers - VHV (very high voltage)	30	26 (7)*
Major commercial consumers - HV (high voltage)	4,772	4,659 (2)*
Major commercial consumers in total	4,802	4,685 (9)*
Minor commercial consumers - LV (low voltage)	72,401	71,088
Residential consumers (households) - LV	913,766	909,608
Minor commercial consumers and households	986,167	980,696
Commercial consumers in total - VHV, HV, LV	77,203	75,773 (9)*
Residential consumers (households) - LV	913,766	909,608
Supplied area (km²)	14,928	14,928
VHV power lines - 110 kV (km)	2,719	2,719
HV power lines - 22 kV (km)	12,626	12,574
LV power lines - 0.4 kV (km)	19,418	19,291
* The figure in brackets means: of which non-regulated customers (eligible clients with an individual contract).		
¹ The figure for 2004 is net of supplies from own sources and the purchase realised directly by eligible customers.		



The Company's bodies

The Company's
bodies

To stand on the top gives us the chance to see the farthest. The responsibility of decisions depends on the trust in the toughness of the ground.

The Company's bodies

The statutory body

Board of Directors

Chairman

Konrad Kreuzer

Vice Chairman

Vladimír Vojtek (appointed on March 8, 2004)
Zsolt Nyitrai (disengaged on March 8, 2004)

Members

Dietrich Max Fey
Andrej Devečka
Tibor Végh

The supervisory body

Supervisory Board

Chairman

Ján Mital' (appointed member on March 8, 2004 as a Deputizing Chairman on March 29, 2004)
Walter Hohlefelder (disengaged as a Deputizing Chairman on March 29, 2004)

Vice Chairman

Walter Hohlefelder

Members

Alojz Bahelka (appointed on November 12, 2004)
Kamil Doman (appointed on November 12, 2004)
Ján Ďurana
Jaroslav Kucbel
Martin Ondko
József Száraz
Silvia Šmátralová (appointed on November 12, 2004)

The structure of the Company's shareholders at December 31, 2004

Share in the share capital			
Share in the registered capital			Voting rights
	TSKK	%	%
National Property Fund	3,026,643	51	51
E.ON Energie AG, Munich	2,373,838	40	40
EBRD, London	534,113	9	9



Look into history

Look into
history

With our energy we move the world and help it grow. We are a part of the world's development and we move forward along with it.

Look into history

Look into history

January 10, 1902

The municipal power plant in Bratislava started operation. On the Main Square and Promenade, the first electric street lamps were switched on.

December 20, 1921

The day on which ZSE’s first General Meeting was held.

June 1, 1922

ZSE registered as a legal entity.

February 11, 1942

ZSE put the first 100 kV line between Trnava and Bratislava, together with 100/22 kV terminals, into operation.

December 7, 1952

The first 110 kV international interconnection between Nové Zámky and Kisigmánd (Hungary) was put into operation.

June 11, 1970

ZSE’s VHV network was connected to the 400 kV national transmission system, making the supply of electricity more reliable.

November 1, 2001

After 55 years, ZSE became a joint-stock company again.

June 13, 2002

Representatives of the Slovak government and of the German E.ON Energie Group residing in Munich signed an agreement on transferring a 49% share in ZSE to E.ON Energie at a price of EUR 330 million.

September 5, 2002

The 49% share in ZSE was transferred to E.ON Energie AG.

November 19, 2003

The European Bank for Reconstruction and Development (EBRD) and E.ON Energie signed an agreement on selling a 9% share in ZSE.

December 16, 2003

The 9% share of E.ON Energie AG in ZSE was transferred to the EBRD.

April 1, 2004

ZSE harmonized its graphics with the graphic design of E.ON Energie and added the text “člen skupiny E.ON” (Member of the E.ON Group) to its logo.



Report of ZSE's Supervisory
Board activities for the year 2004

Report of ZSE's Supervisory Board activities for the year 2004

Interpretation is an unravelling of the results. The numbers speak human language and they become the outcome, as well as the reason to continue.

Report of ZSE's Supervisory Board activities for the year 2004

Report of ZSE's Supervisory Board activities for the year 2004

The report analyses the Supervisory Board's activities in the following areas:

- 1. The Supervisory Board's personal composition
- 2. The Supervisory Board's meetings in view of the 2004 Activity Plan
- 3. Discharging the Supervisory Board's Action Plan in 2004
- 4. Assessing Performance of the Board of Directors

1. The Supervisory Board's personal composition

The following events were significant for forming the Supervisory Board's personal structure:

- a) Replacement of the National Property Fund's representative and the executor of shareholders' rights (the Slovak Ministry of Economy) in accordance with the resolution of the Extraordinary General Meeting held on March 8, 2004. Based on this resolution, Dušan Koledzai has been removed and Ján Mital' has been appointed a new member of the Supervisory Board.
- b) Ján Mital' was appointed Chairman of the Supervisory Board at the meeting held on March 29, 2004.
- c) The problem of three vacant positions for staff representatives was successfully solved. As a result of an extraordinary effort exerted by the Supervisory Board, the Board of Directors, and the trade union organisations, an election of staff representatives to the Supervisory Board was held on November 11, 2004. Representatives of the Company's worker groups appointed Mrs. Silvia Šmátralová, Kamil Doman, and Alojz Bahelka to be the Supervisory Board's members. After this election, the Supervisory Board started working in line with the Statutes as a fully staffed, nine-member body.

2. The Supervisory Board's meetings in view of the 2004 Action Plan

The Supervisory Board had four ordinary and one extraordinary meeting in 2004.

Ordinary meetings were held exactly on the dates specified in the Supervisory Board's meeting plan approved for the year 2004. At the meetings, materials under the 2004 Action Plan and also tasks arising from the Company's current activities were discussed.

The extraordinary meeting was called before the Company's General Meeting to approve the Company's annual report.

3. Discharging the Supervisory Board's Action Plan in 2004

At the Supervisory Board's ordinary meetings, materials under the 2004 Action Plan were discussed.

The Supervisory Board members addressed issues related to the Company's Collective Agreement for the years 2004-2005 and the implementation of new software. They were regularly informed about contracts concluded under Article 3.9 of the Shareholder's Agreement (an agreement between ZSE and subsidiaries of the E.ON Group), as well as about contracts related to the provision of advisory and consulting services. The Supervisory Board also received information from the Board of Directors on ZSE's operational results, and its receivables and liabilities for 2004.

The Supervisory Board carefully reviewed the 2003 financial statements and the report of the independent auditors and raised no comments about them. It discussed in detail the proposal for distributing the Company's 2003 profit submitted by the Board of Directors, and recommended the adopted form to be approved by the General Meeting.

The Supervisory Board also addressed the prospects for economic growth for the next year and the Company's strategic plans. At its meeting in May, it discussed and acknowledged ZSE's strategic action plan for the years 2004-2006 and the Company's plan for capital expenditures for 2005. Finally, at its last meeting held on December 13, 2004, the Supervisory Board approved the plan of its activities and meetings for the next year.

Report of ZSE's Supervisory Board activities for the year 2004

4. Assessing the performance of the Board of Directors

The Company's Board of Directors closely co-operated with the Supervisory Board and provided information on the Company's operations on a timely basis and to the extent required. In addition to regular meetings of the Supervisory Board's Chairman with the Company's management at the Board of Directors' meetings, the Supervisory Board's controlling activity was also carried out by personal meetings of the Supervisory Board's Chairman and its members with the Company's representatives according to their interests and needs.

As was the case with the Supervisory Board, the representative of the majority shareholder was also replaced based on a resolution of the Extraordinary General Meeting held on March 8, 2004. Zsolt Nyitrai, the Deputy Chairman of the Company's Board of Directors, was replaced by Vladimír Vojtek.

The Supervisory Board may state with satisfaction that the Company generated a positive result from its operations, and wishes to thank the Company's Board of Directors, its executive employees and other staff for their active co-operation and contribution to our mutual success.

Resolution of ZSE's Supervisory Board

ZSE's Supervisory Board takes note of:

- the Company's financial statements at December 31, 2004;
- the Company's consolidated financial statements at December 31, 2004; and
- the Report of the independent auditors.

The Company's Supervisory Board has reviewed the annual financial statements, together with the proposal for profit distribution, and recommends the Company's General Meeting approve the following:

- the Company's statutory financial statements at December 31, 2004;
- the Company's statutory consolidated financial statements at December 31, 2004; and
- the Report of the independent auditors.

The statutory body proposes, after mandatory appropriations to statutory and legal reserves, to distribute the remaining profit of SKK 2,212,898,077 in the form of dividends.



Opening the electricity market –
we think and act as partners

Opening the electricity market
we think and act as partners

The present is a bridge, impartially reaching over into our past and our future, which is waiting for us.

Opening the electricity market – we think and act as partners

Opening the electricity market – we think and act as partners

Electricity as a product

It is hard to imagine electricity, which has no colour, shape or even smell, as a product arriving in some package. And because its content is intangible and also invisible, it is only price and “wrapping” – in the form of services related to power supply – that play a key role in attracting the customer’s attention.

TOP clients

During 2004, ZSE kept developing its individual approach to its TOP clients, whose annual consumption at all points of consumption exceeds 2 GWh. In this area, ZSE succeeded in maintaining its leading position among energy companies in Slovakia.

Considering the specific method and trend of consumption, ZSE approaches its TOP clients through highly professional Key Account Managers (KAM). At the beginning of 2004, the Company increased their numbers to 15, which resulted in improving services to the level comparable to those required when selling other goods and services, where the principles of a developed competitive environment have been applied for a relatively long time. Our TOP clients appreciate the individual approach very much, and use the services of Key Account Managers to meet all their requirements in relation to ZSE.

The on-going liberalisation of the electricity market also resulted in an increased number of individual contracts, in which a price outside the regulated pricelist was agreed with those customers. Since 2004, under current legislation, each client with an annual consumption of more than 20 GWh is considered an eligible customer (a customer with the option to select its own electricity supplier). In 2004, our Company concluded individual contracts with all clients that had signed an individual contract with us in 2003. Furthermore, we succeeded in obtaining new customers as well.

Compared to 2003, the volume of power supplies from other electricity suppliers to customers based in western Slovakia increased in the reporting year, which was a natural reaction to the open market. ZSE is aware of the increasingly competitive environment in power supply, but also takes the opening market as a challenge to make use of its long-term experience in the Slovak market and offer its TOP clients high-quality services.

TOP clients				
	No.	Consumption (TWh)	Share in the total supply	Supplies from suppliers other than ZSE (TWh)
TOP clients (over 2 GWh)	298	3.26	44 %	0.19
Eligible clients (over 20 GWh)	32	2.2	30 %	0.19
of which: with an individual price	14	1.12	15 %	0.19

Corporate clients

The year 2004 was an important milestone in the liberalisation of the electricity market, because it was characterised by intensive preparations for extending the category of eligible customers to all corporate clients. Market liberalisation (as of January 1, 2005) means that commercial entities have the option to select their own power supplier, which will necessarily put pressure on suppliers to increase the effectiveness and transparency of their performance, and create a wider selection of products based on customers’ individual needs.

Based on a thorough assessment of the historical electricity consumption of its customers, and after considering their actual needs, ZSE prepared a new structure of tariff products for its clients as of January 1, 2005, consisting of three product lines – AdaptPower, CompactPower, and StandardPower.

AdaptPower is designed for corporate customers for which:

- the price for energy makes up a significant cost component; and
- not only the amount, but also the trend of consumption can be relatively closely estimated based on their consumption history.

CompactPower is an optimal solution as to price for entrepreneurs for which:

- it is not easy from the technical point of view to estimate the trend of consumption; and
- it is realistic that they will comply with the selected interval for the estimated consumption.

Opening the electricity market – we think and act as partners

StandardPower will meet the expectations of those corporate customers that:

- do not know the trend of their power consumption;
- do not consider monitoring the trend of consumption important, because energy costs are only an insignificant part of their total costs; and
- prefer simple and easy-to-understand invoicing.

By selecting an appropriate energy product and monitoring consumption, a corporate customer may optimise his electricity costs, thus going from the passive role of an invoice payer to an active market participant.

Changes resulting from the new conditions in the market were also reflected in the need to conclude new power supply contracts. ZSE launched the campaign to promote the conclusion of new contracts near the end of 2004, with the goal to address 40,000 business entities with a total of 120,000 consumption points.

Under the new market conditions, sales offices are responsible for servicing the corporate client segment. After a planned reduction, their numbers came to seven. When locating them, ZSE took several criteria into consideration, such as the expected economic development of individual regions, the location of industrial parks, the proximity of regional distribution administrations, and the optimal distance from the offices of most important clients. In addition to reconstruction, sales offices were also thoroughly restructured and staffed with selected employees who were retrained for their new position as electricity sellers, some of whom are mobile sellers according to the plan for making visits to specific clients. ZSE believes that the newly opened sales offices in Bratislava, Trnava, Trenčín, Nitra, Nové Zámky, Dunajská Streda, and Senica will become a genuine symbol of a new, partner-based dimension of mutual relationships between the Company and its clients.

Residential consumers – Households

Residential consumers, or households, form the largest group of ZSE's customers, whose requests are fully handled through our Call Centre. The centre has been operating since July 1, 2003, offering our customers the comfort of complex services concentrated in one place 24 hours a day. The Call Centre is supported by the latest information technology, and centre operators handle client requests by phone, fax, e-mail, or standard post.

In 2004, the Call Centre recorded a growing trend in the number of phone calls dealt with. The resulting number of 500,000 contacts a year is a 46% increase compared to the previous year. For this reason, the number of staff in the service centre was gradually increased from 46 at the end of 2003 to the current 67 employees. In 2004, the number of households taking advantage of the Company's Call Centre also increased significantly, thus enabling sales offices to focus solely on the corporate client segment, for which their services are predominantly designed.

In 2004, ZSE focused on extending its technology. A system for providing information to customers on wide-spread power failures has been implemented by IVR. To ensure the utmost accessibility to the customer call centre, ZSE has implemented a system called Workforce Manager that accounts for the centre's peak time and supports an effective coverage of changes through operators.

Opening the electricity market – we think and act as partners

Purchase of electricity

In 2004, ZSE purchased 7,816,485 MWh of electricity in total. Of this amount, 5,728,788 MWh were purchases from domestic sources, which is 73.3% of the total volume. In total, 2,087,697 MWh of electricity were purchased abroad, making up 26.7% of the total volume.

During 2004, a free, spot trade with fluctuations gradually developed in the field of purchasing electricity and ZSE was no exception to this. Based on monitoring factors that affect the daily load diagram, ZSE purchased electrical power during shortages, and sold it when it had a surplus. In this way, we succeeded in optimizing electricity purchases and reducing fluctuations.

Through spot trading, ZSE purchased 163,519 MWh and sold 211,769 MWh of electricity. Altogether, 377,154 MWh of electricity were traded. Compared to the previous year, the purchase of electricity from renewable sources increased by 32% to 41,453 MWh, making up 0.5% of the total volume purchased. This growth resulted mainly from putting the wind power plants Cerová and Ostrý vrch into operation, the total installed output of which is 3.04 MWh.

Environment

We in ZSE realise our responsibility for preserving optimal life conditions for future generations. Therefore, the environment we operate in is at the forefront of our interests.

All measures focused on eliminating negative impacts on the environment that our Company took in 2004 were performed in line with the approved document, "Principles for Protecting and Forming the Environment". ZSE strives for continuous change in protecting and forming the environment by permanently improving the state of facilities and equipment, gradually making them environmentally friendly, improving management processes, and increasing the ecological awareness of staff. The Company spends a considerable amount of money on these activities each year. In 2004, investments into the environment exceeded SKK 24 million.

In water management, ZSE creates conditions for ensuring the economical treatment of water sources and preventing their pollution. Our Company strictly follows the demanding requirements set out in the Water Act that regulates treating water with dangerous substances that jeopardize the quality of surface and ground water. We spent SKK 1,144,000 from the repair fund to operate, repair, and maintain these facilities and equipment in accordance with the requirements of the Water Act.

ZSE applies the basic principles of waste management, such as preventing waste generation, reducing waste creation, and preferring waste recycling to waste disposal, exactly in line with the Company's Waste Management Programme. In 2004, our Company paid the utmost attention mainly to the verification of equipment containing polychlorinated biphenyls, the treatment of which is regulated by the Waste Treatment Act.

ZSE also performs extensive activities aimed at protecting avifauna. In 2004, a particular contribution to this was the installation of over 3,000 plastic spikes on 22 kV lines that protect birds of prey against possible electrocution. Over 130 km of electric lines were equipped with this protective equipment. To improve avifaunal protection, ZSE also extended its co-operation with the non-governmental organization "Ochrana dravcov na Slovensku" (Protection of Beasts of Prey in Slovakia).

As an active member, ZSE also substantially supports projects for protecting and forming the environment run by the non-governmental organization "Asociácia priemyslu a ochrany prírody" (Association of Industry and Nature Conservation).



Nature and purpose of the business

Nature and purpose of the business

At the beginning, there are concrete names and dates of the inventions. We transport their life by net, to improve the life of all of us.

Nature and purpose of the business

Nature and purpose of the business

General information on the Company and its core business activities

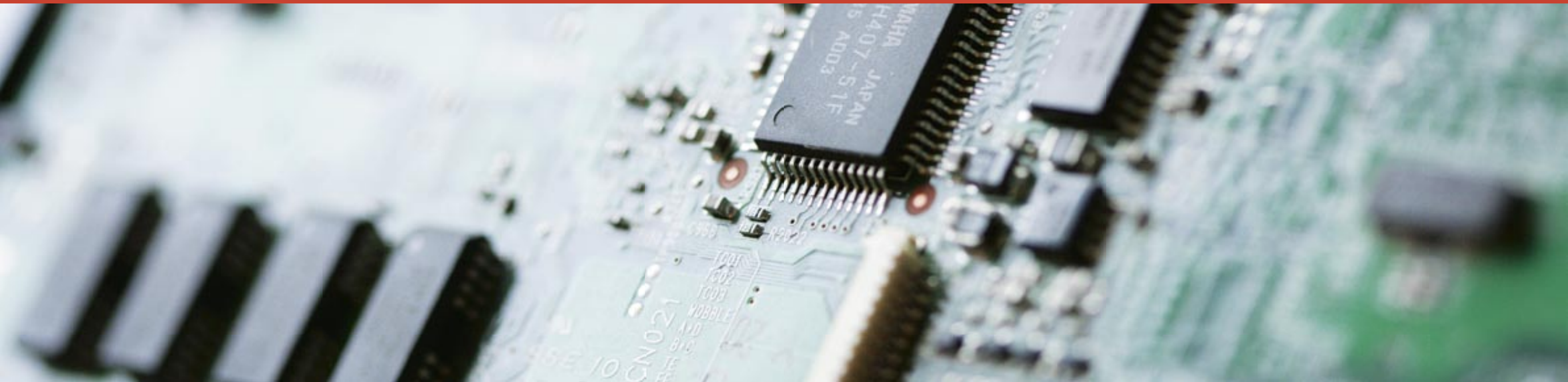
Západoslovenská energetika, a.s. (“the Company” or “ZSE”), corporate ID (IČO): 35 823 551, registered office at Čulenova 6, 816 47 Bratislava, was established on October 15, 2001 and incorporated in the Commercial Register of the District Court Bratislava I, Section Sa, Insert No. 2852/B, on November 1, 2001.

The Company is one of the legal successors of the state-owned company, Západoslovenské energetické závody, š.p. In accordance with decision No. 96/2001 of the Slovak Ministry of Economy, this state-owned company was wound up without liquidation on October 31, 2001. On the next day, its assets and liabilities were transferred to the Slovak National Property Fund (FNM) in accordance with the privatization project. On November 1, 2001, FNM contributed these assets and liabilities to the following joint-stock companies: Západoslovenská energetika, a.s., Bratislavská teplárenská, a.s., and Trnavská teplárenská, a.s.

Based on the General Assembly’s resolution of June 27, 2003, the Company sold parts of the business, consisting of the divisions Network Building, Information Technologies, and The Centre for Repairing Transformers and Calibrating Electrometers, on July 1, 2003.

Core business activities according to the extract from the Commercial Register

- The purchase of electricity
- The transport of electricity
- The distribution of electricity
- Engineering activities in the maintenance, service, and operation of electrical distribution networks and transformer stations
- The provision of services related to the operation and maintenance of electrical stations and electrical lines of 22 kV
- The assembly, repair, and maintenance of special electric equipment (both below and above 1,000 V)
- The installation of measuring sets and their replacement
- The assembly, maintenance and repair, technical inspection, and testing of electrical equipment
- The assembly, maintenance, and repair of telecommunications equipment
- The purchase of goods for resale to end users (retail)
- The purchase of goods for resale to other trade licence holders (wholesale)
- Mediation activities under a free trade licence
- Consulting and advisory activities in the electrical energy sector
- Technical inspections and tests of gas equipment
- Technical inspections and tests of pressure equipment
- Technical inspections and tests of lifting equipment
- Consultancy, education, and training in work safety
- Work safety technician
- Fire protection technician
- The lease of machines, devices, equipment, and mechanisms
- The repair of work machines, road motor vehicles, and bodyworks
- The acquisition of services related to administering real estate
- Accommodation services, including catering activities in these facilities
- Running facilities for human regeneration and reconditioning
- Domestic, irregular bus transport
- Domestic, road freight transport



Basic organizational structure

Basic organizational structure

The organization is an organism. In each of its components we work knowing, that the result depends on every one of us.

Basic organizational structure

Basic organizational structure

The Company's basic organizational structure consists of

- The Board of Directors' administration
- CIO
- The Division of Electrical Power Distribution
- The Division of Finance and Internal Services
- The Division of Trade and Sale of Electricity

These are all residing at ZSE, Čulenova 6, 816 47 Bratislava.

The Company's organizational structure consists of two steering levels – divisions and departments. Within each department, teams are set up as informal organizational units.

At December 31, 2004, ZSE had two fully owned subsidiaries:

- Enermont, s.r.o., based at Hraničná 14, 827 14 Bratislava; and
- OTC, s. r. o., based at M. R. Štefánika 85, 920 01 Hlohovec.

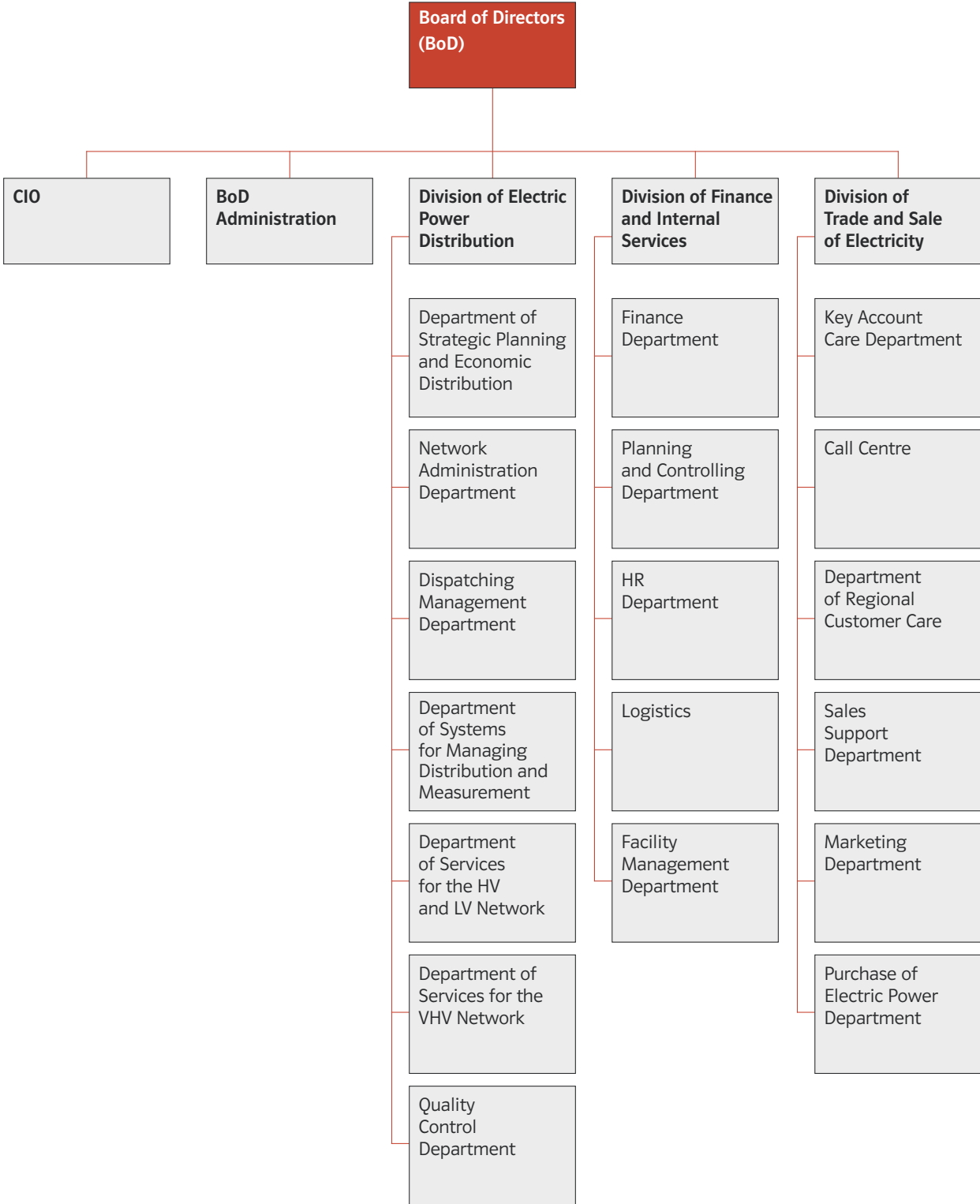
On March 25, 2005, due to changes resulting from the Energy Act and relating to the definition of distribution networks going beyond state borders, the Company founded another fully owned subsidiary: ZSE prenos, spol. s r.o., residing at Čulenova 6, 816 47 Bratislava.

ZSE also owns the following shares

- a 49% share in is energy Slovakia, spol. s r.o.², residing at Čulenova 6, 816 47 Bratislava;
- a 33% share in SPX, spol.s r.o., residing at ul. Republiky 5, 010 47 Žilina;
- a 16.67% share in Energotel, a.s., residing at Miletičova 7, 821 08 Bratislava; and
- a 12% share in EFR CEE, Szolltató Kft., residing at Szechényi útca 8, H-1054 Budapest, Hungary.

² E.ON IS Slovakia since April 1, 2005

Organizational scheme





Structure of sources
and utilization of electric power

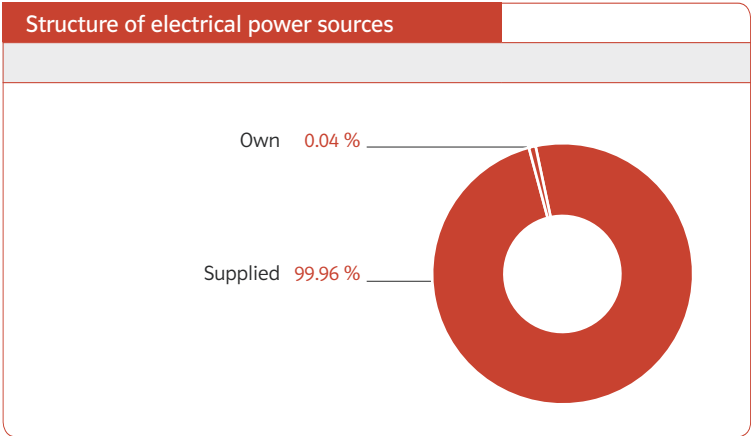
Structure of sources and utilization of electric power

We are one of the guarantees to insure, that the things will accomplish their purposes. We bring the certainty as a foundation for always new and new plans.

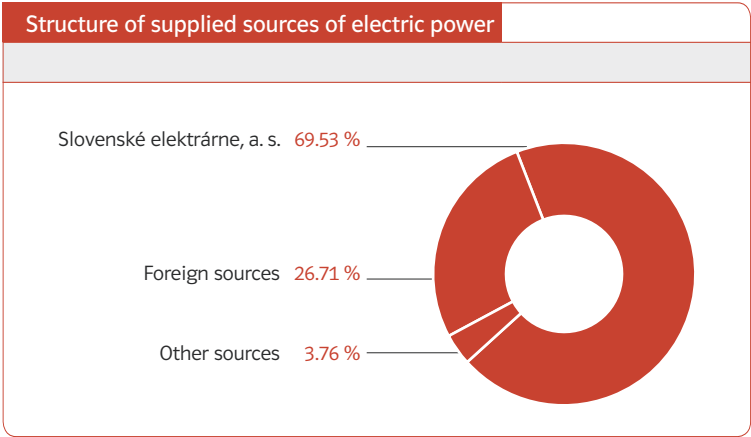
Structure of sources and utilization of electric power

Structure of sources and utilization of electric power

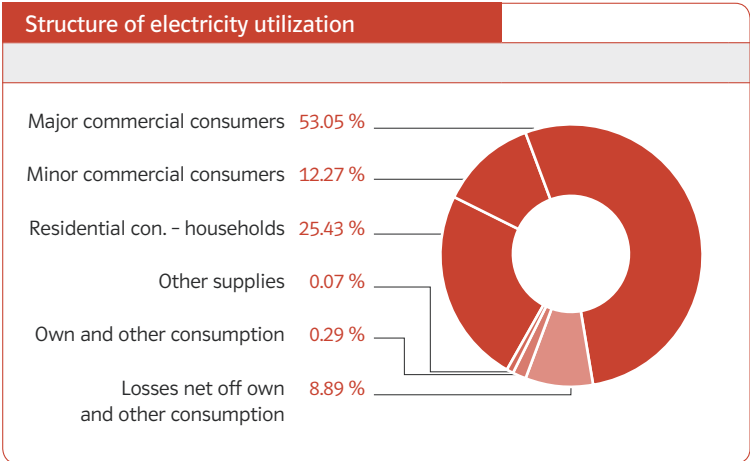
Structure of electrical power sources	
	MWh
Own	2,902
Supplied	7,816,485



Structure of supplied sources of electric power	
	MWh
Slovenské elektrárne, a. s.	5,434,610
Other sources	294,178
Foreign sources	2,087,697



Structure of electricity utilization	
	MWh
Major commercial consumers	4,250,000
Minor commercial consumers	983,000
Residential consumers - households	2,037,000
Other supplies	6,000
Own and other consumption	23,122
Losses net off own and other consumption	712,130



Consumed power supply			
Year	Consumed power supply (GWh)	of which: Major CC	of which: Minor CC + Households
2004	7,299	4,250	3,020
2003	7,303	4,230	3,051
2002	7,172	4,090	3,061
2001	6,946	3,904	2,995
2000	6,779	3,676	3,051
1999	6,715	3,425	3,233
1998	6,662	3,454	3,147
1997	6,654	3,463	3,123
1996	6,626	3,498	3,046
1995	6,466	3,498	2,915
1994	6,195	3,399	2,731



Economy

Economy

Phenomenons are the outcome of the movement – of electrons, money, or ourselves. According to that electricity, economy and relationships are created.

Economy

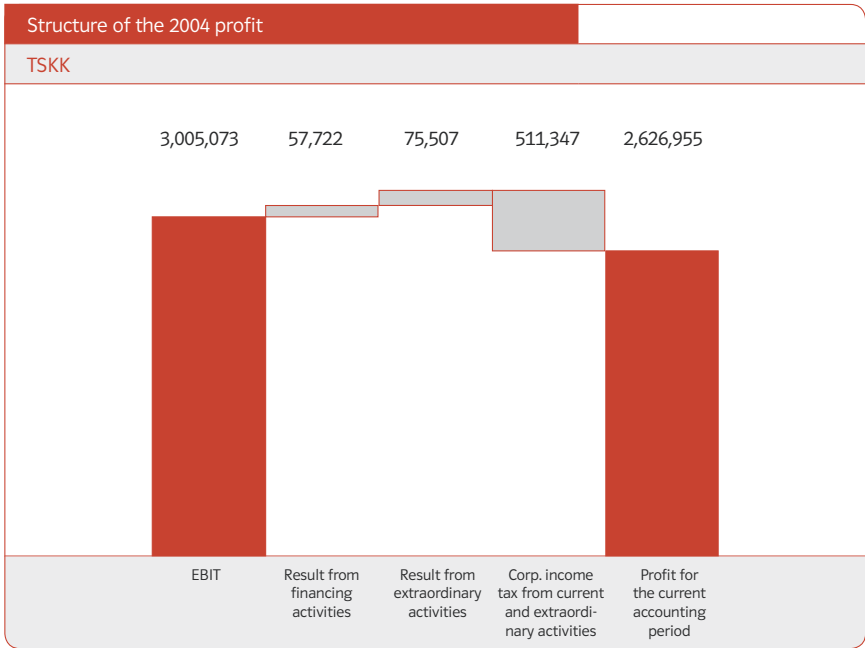
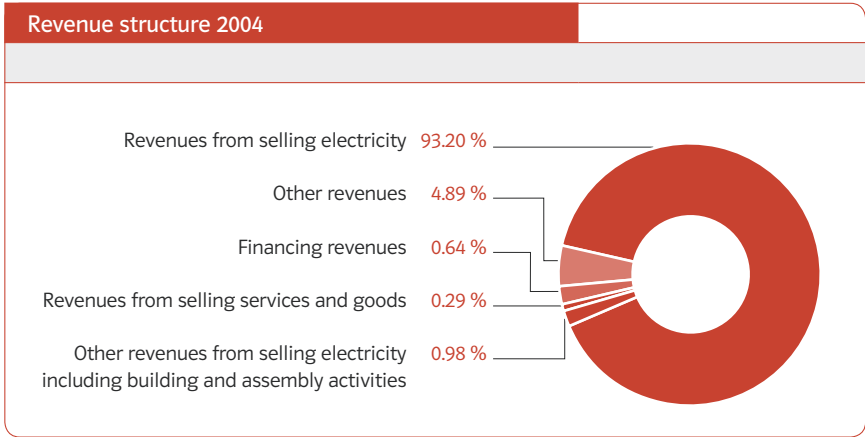
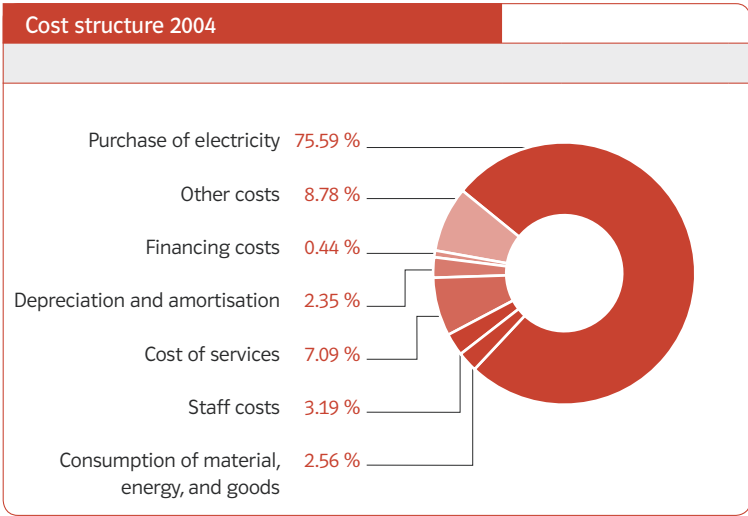
For the 2004 accounting period, ZSE generated a profit after taxes of SKK 2,626,955 thousand.

The total increase of assets by SKK 1,996,601 thousand was due to the increase of non-current assets by SKK 616,077 thousand whereas current assets, including accruals and prepayments, grew by SKK 1,175,189 thousand.

Total liabilities (equity plus payables) grew by SKK 1,996,601 thousand, of which SKK 1,552,535 thousand is attributed to the increase in equity and SKK 444,066 thousand to the increase of payables including accruals and deferred income.

In December 2004, ZSE founded two subsidiaries (SPX and EFR) at the incorporation cost of SKK 2 million.

Overview of 2004 indicators	
TSKK	
Sales revenues	22,293,978
EBIT (Earnings Before Interest and Taxes)	3,005,073
EBIT - Margin	13.48 %
EBITDA	3,497,120
EBITDA - Margin	15.69 %
Profit for the accounting period	2,626,955
Profit before taxes	3,138,302



Financing

In 2004, the Company continued its trend of surpluses of free monetary funds generated from its operating activities and higher bank account balances. Thanks to increasing the value of these funds on the money market, interest income was SKK 144 million in the reporting year. At December 31, 2004, the bank balance totalled SKK 3,638 million.

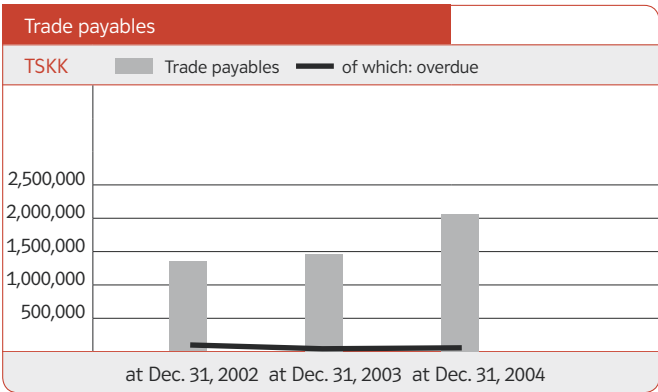
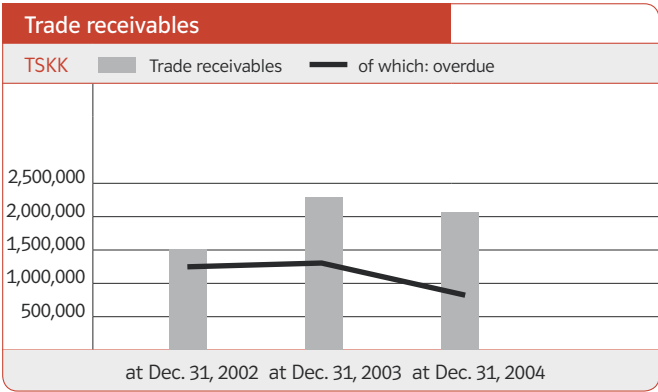
In June 2004, ZSE redeemed a loan early that was drawn from Citibank, a.s., in 2001. The last repayment of SKK 305 million and loan interest of SKK 10.1 million were settled in March and June. At the same time, an overdraft credit of SKK 500 million was concluded with this bank in June, which has not been used by the year’s end. All operational needs and capital expenditures were covered from our own sources.

Based on the General Meeting’s resolution regarding the distribution of ZSE’s 2003 profit, dividends at a net value of SKK 1,116 million were paid to the Company’s shareholders (The National Property Fund, E.ON Energie AG, and EBRD London) in August 2004. Dividends were distributed in Slovak crowns.

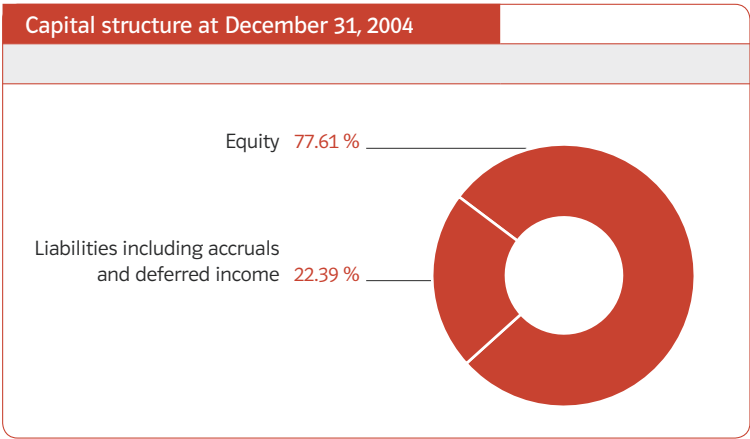
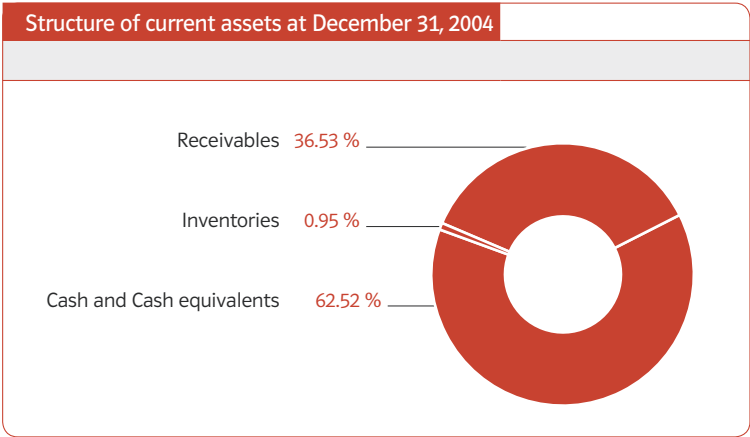
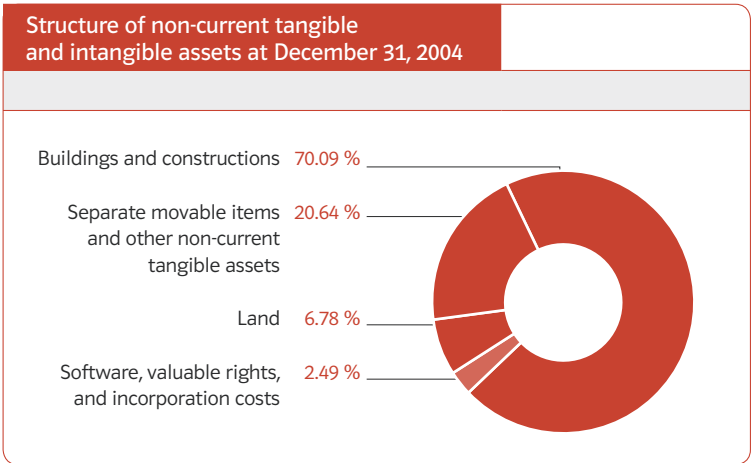
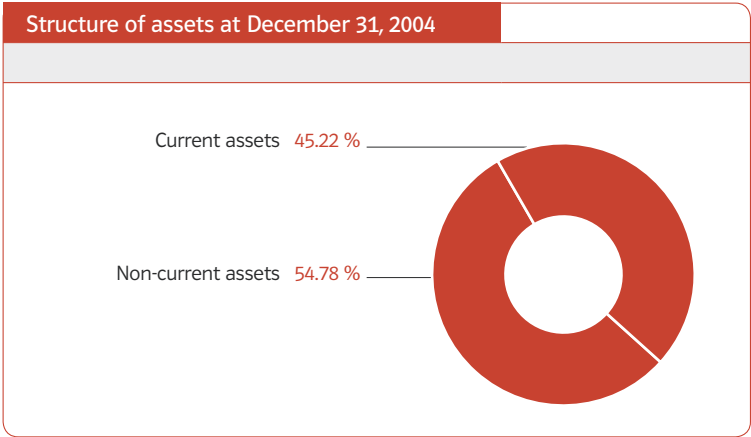
Trade receivables and trade payables

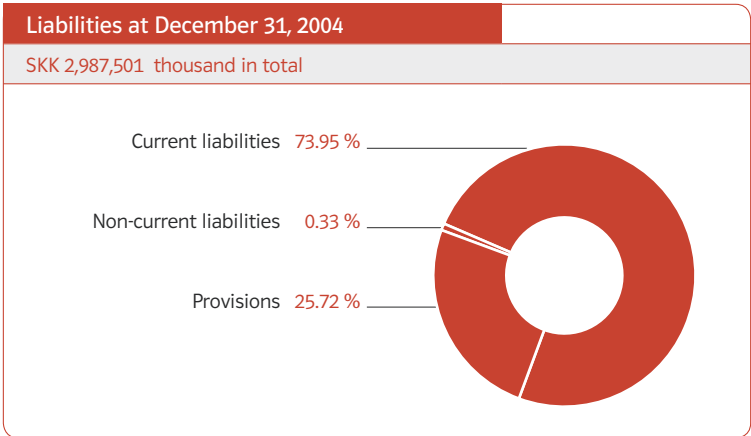
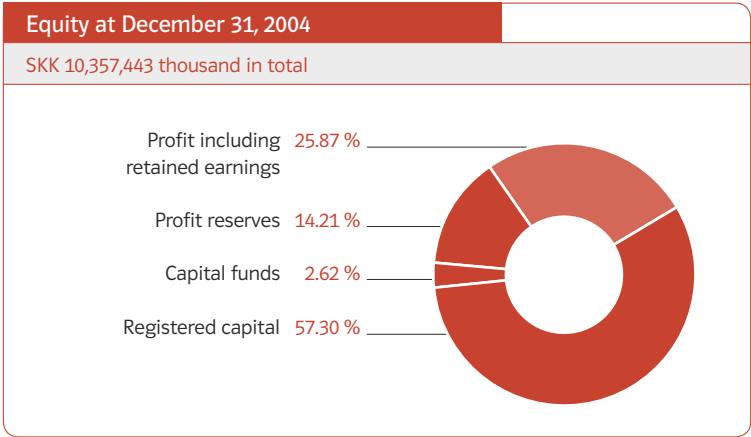
At December 31, 2004, overdue receivables dropped by SKK 554,207 thousand compared to the previous year, mainly thanks to bad debts recovered from the healthcare sector by Veritel’.

Trade receivables and trade payables			
TSKK	at Dec. 31, 2004	at Dec. 31, 2003	at Dec. 31, 2002
Trade receivables	1,978,857	2,158,392	1,509,289
of which: overdue	637,672	1,191,879	1,077,422
Trade payables	2,063,951	1,368,953	1,326,298
of which: overdue	42,585	715	36,223



Financial indicators			
	Jan – Dec 2004 non-consol. data	Jan – Dec 2003 non-consol. data	Jan – Dec 2002 non-consol. data
1. Liquidity indicators			
Available liquidity (0.2 – 0.6)	1.65	1.08	0.89
Current liquidity (1 – 1.5)	2.58	2.26	1.98
2. Activity indicators			
Stock turnover in days	1.40	2.13	3.13
Receivables days	33.83	30.79	29.26
Payables days	35.20	27.69	28.07
3. Debt indicators			
Debt level (from bank loans in %)	0	2.69	6.67
Debt level (from liabilities, accruals and deferred income in %)	22.39	22.42	24.55
Degree of financial independence	28.85	28.90	32.54



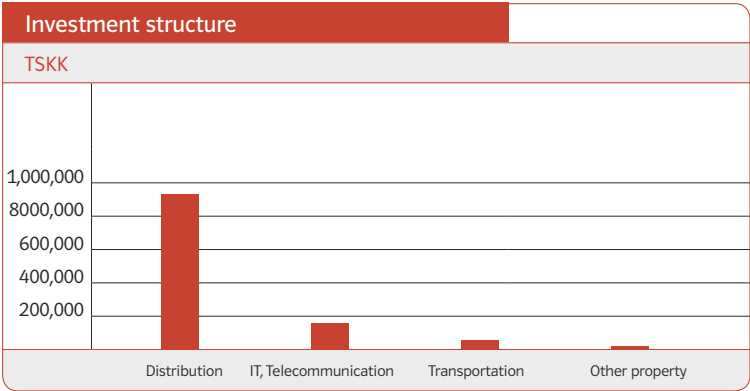


Capital expenditures

ZSE's capital expenditures totalled SKK 1,180,482 thousand in 2004, which was SKK 14,339 thousand (1.2%) higher than budgeted. The electrification system required capital expenditures of SKK 958,578 thousand.

The largest volume of investments	
TSKK	
Reconstruction of the 110/22 kV transformer station in Štúrovo - controlling information system	28,706
Reconstruction of the 22 kV switching station and the transformer post, and splicing of the HV power lines at Peugeot Trnava	26,739
Construction of a combined grounded rope Križovany- Šulekovo-Madunice	24,909
Reconstruction of 110 kV power lines No. 8758 and 8759 between Bošáca and Dubnica	22,788
Reconstruction of 110 kV power lines from Nové Zámky to Levice	21,181
Reconstruction of the switching station in Topolčany - controlling information system	20,935

Capital expenditures in ecological projects totalled SKK 24,139 thousand and were aimed at making transformer stations more environmentally friendly.



Prospects for 2005

The Company expects ongoing positive economic development in 2005. If there are no significant fluctuations in the regulatory framework in the future, the main factors contributing to this trend will include stable economic development of the region (construction of industrial parks) and the introduction of new products in distributing and selling electrical power. There is also a good reason to believe that the payment discipline of several customers, mainly from the healthcare sector, will improve, and that the search for higher work effectiveness will continue within the Company. Based on the Slovak government's resolution No. 510 dated June 2, 2004, the Company's privatization is expected to be completed in 2005. This should transfer 41% of the majority share of the Slovak National Property Fund to the ownership of E.ON Energie, and the remaining 10% will be sold through the Slovak capital market.

ZSE's work group for unbundling is preparing the processes and the Company's organizational structure so that ZSE will meet all the legal requirements for the Company's legal unbundling at January 1, 2006.



Structure of employees

Structure of employees

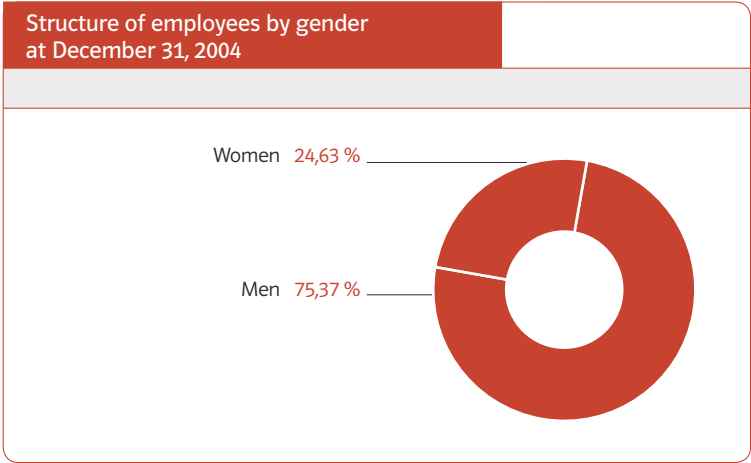
We will quite naturally accompany people for the whole day in the next century. We allow them to work as well as to rest.

Structure of employees

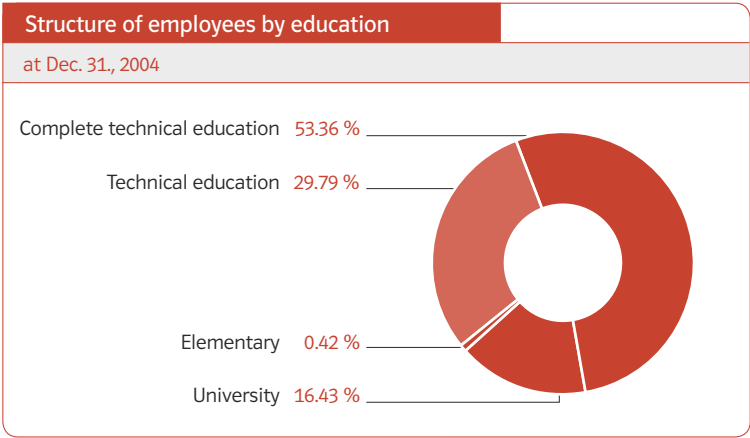
Structure of employees

Structure of employees	
Number of employees at December 31, 2003	1,437
Additions in 2004	81
of which: Free recruitment	75
Return from maternity leave, military service	6
Terminated employment in 2004	105
of which: By mutual agreement	17
Employment for a definite period of time	4
Retirement due to old age or disability to work	6
Death	1
Trial period	3
Maternity leave, military service	11
Organisational reasons	60
Other	3
Number of employees at December 31, 2004	1,413

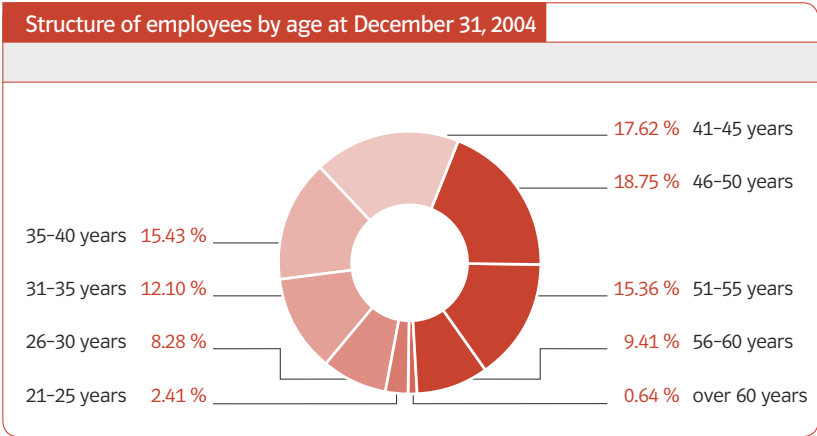
Structure of employees by gender		
	at Dec. 31, 2004	Share (%)
Women	348	24.63
Men	1,065	75.37
Total	1,413	100.00



Structure of employees by education		
	at Dec. 31, 2004	Share (%)
Elementary	6	0.42
Technical education (trade schools)	421	29.79
Complete technical education (with a school-leaving examination)	754	53.36
University	232	16.43
Total	1,413	100.00



Structure of employees by age		
Age category	at Dec. 31, 2004	Share (%)
Up 20 years	0	0.00
21-25 years	34	2.41
26-30 years	117	8.28
31-35 years	171	12.10
35-40 years	218	15.43
41-45 years	249	17.62
46-50 years	265	18.75
51-55 years	217	15.36
56-60 years	133	9.41
Over 60 years	9	0.64
Total	1,413	100.00





Balance sheet

Balance sheet

Harmony is a concord of all elements. To know the actual result, all of them have to sound veraciously.

Balance sheet

Balance sheet

Assets					
Current period					Preceding period
Assets	Line No.	Gross value	Adjustment	Net value	Net value
Total assets 002+003+032+062	001	21,789,686	8,443,757	13,345,929,	11,349,328
A. Receivables for subscribed share capital (353)	002	0	0	0	0
B. Non-current assets 004+013+023	003	15,176,299	7,864,798	7,311,501	6,695,424
B.I. Non-current intangible assets total (005 to 012)	004	350,355	49,150	301,205	203,633
B.I.1. Startup (Incorporation) expenses (011) -/071, 091A/	005	919	747	172	345
2. Research and development capitalised (012) -/072, 091A/	006	0	0	0	0
3. Software (013) -/073, 091A/	007	77,501	20,047	57,454	3,316
4. Valuable rights (014) -/074, 091A/	008	109,789	27,482	82,307	287
5. Goodwill (015) -/075, 091A/	009	0	0	0	0
6. Other non-current intangible assets (019, 01x) -/079, 07x, 091A/	010	0	0	0	0
7. Non-current intangible assets under construction (041) -093	011	162,146	874	161,272	199,685
8. Adv. payments on account of non-current intangible assets (051) -095A	012	0	0	0	0
B.II. Non-current tangible assets total (014 to 022)	013	14,653,910	7,815,619	6,838,291	6,262,042
B.II.1. Land (031) -092A	014	380,090	0	380,090	389,873
2. Constructions (021) -/081, 092A/	015	8,689,657	4,757,600	3,932,057	3,704,819
3. Individual movable assets and sets of movable assets (022) -/082, 092A/	016	4,191,089	3,034,638	1,156,451	1,120,895
4. Perennial crops (025) -/085, 092A/	017	0	0	0	0
5. Livestock and draught animals (026) -/086, 092A/	018	0	0	0	0
6. Other non-current tangible assets (029, 02x, 032) -/089, 08x, 092A/	019	1,653	0	1,653	1,391
7. Non-current tangible assets under construction (042) -094	020	1,391,421	23,381	1,368,040	1,044,964
8. Advance payments on account of non-current tangible assets (052) -095A	021	0	0	0	100
9. Provision for acquired assets (+/-097) +/-098	022	0	0	0	0
B.III. Non-current financial assets (investments) total (024 to 031)	023	172,034	29	172,005	229,749
B.III.1. Shares and ownership interest in subsidiaries (061) -096A	024	80,820	0	80,820	81,720
2. Shares and ownership interest in associates (062) -096A	025	34,292	0	34,292	33,292
3. Other non-curemnt securities and ownership interests (063) -096A	026	12,022	29	11,993	11,137
4. Loans to enterproses in consolidated group (066) -096A	027	44,900	0	44,900	103,600
5. Other financial investments (067A, 069, 06xA) -096A	028	0	0	0	0
6. Loans with maturity up to one year (066A, 067A, 06xA)-096A	029	0	0	0	0
7. Non-current financial assets in the course of acquisition (043) -096A	030	0	0	0	0
8. Advance payments on account of non-current financial investments (053) -095A	031	0	0	0	0

Assets (next)					
Current period					Preceding period
Assets	Line No.	Gross value	Adjustment	Net value	Net value
C. Current assets 033+041+048+056	032	6,402,158	578,959	5,823,199	4,648,010
C.I. Inventory total (034 to 040)	033	58,446	3,000	55,446	81,884
C.I.1. Raw material (112,119,11x) -/191,19x/	034	58,194	3,000	55,194	81,447
2. Work in progress and semifinished goods (121,122,12x) -/192,193,19x/	035	0	0	0	0
3. Construction contracts with maturity over one year 12x-192A	036	0	0	0	0
4. Finished goods (123) -194	037	0	0	0	0
5. Livestock (124) -195	038	0	0	0	0
6. Merchandise (132, 13x, 139) -/196,19x/	039	252	0	252	264
7. Advances paid on account of inventories (314A) -391A	040	0	0	0	173
C.II. Non-current receivables total (042 to 047)	041	57,784	0	57,784	88,143
C.II.1. Trade receivables (311A, 312A, 313A, 314A, 315A, 31xA) -391A	042	7	0	7	1,075
2. Receivables from enterprises with controlling interest (351A) -391A	043	0	0	0	0
3. Receivables from enterprises in consolidated group (351A) -391A	044	0	0	0	0
4. Receivables from shareholders, associates and consortium members (354A, 355A, 358A,35XA) -391A	045	0	0	0	0
5. Other receivables (335A,33xA,371A,373A,374A,375A,376A,378A) -391A	046	0	0	0	0
6. Deferred tax receivable (481A)	047	57,777	0	57,777	87,068
C.III. Current receivables total (I. 049 to 055)	048	2,645,478	575,959	2,069,519	2,343,751
C.III.1. Trade receivables (311A, 312A, 313A, 314A, 315A, 31xA) -391A	049	2,554,809	575,959	1,978,850	2,157,317
2. Other receivables from enterprises with controlling interest (351A) -391A	050	0	0	0	551
3. Other receivables within consolidation group (351A) - 391A	051	0	0	0	0
4. Receivables from shareholders, associates and consortium members (354A, 355A, 358A, 35XA, 398A) -391A	052	0	0	0	0
5. Social security (336A) -391A	053	0	0	0	0
6. Tax receivables (341, 342, 343, 345) -391A	054	88,100	0	88,100	184,717
7. Other receivables (335A,33xA,371A,373A,374A,375A,376A,378A) -391A	055	2,569	0	2,569	1,166
C.IV. Financial assets (057 to 061)	056	3,640,450	0	3,640,450	2,134,232
C.IV.1. Cash in hand (211, 213, 21x)	057	24	0	24	24
2. Bank accounts (221A,22xA,+/-261)	058	3,640,426	0	3,640,426	2,134,208
3. Term deposits over one year 22xA	059	0	0	0	0
4. Short term financial assets (251, 253, 256, 257, 25x) -/291, 29x/	060	0	0	0	0
5. Current financial assets in the course of acquisition (259) - 291	061	0	0	0	0
D. Accruals and prepayments total (063 to 064)	062	211,229	0	211,229	5,894
D.1. Prepaid expenses (381, 382)	063	1,920	0	1,920	5,729
2. Accrued income (385)	064	209,309	0	209,309	165
Control total (001 to 064)	888	86,947,515	33,775,028	53,172,487	45,391,418

Balance sheet

Liabilities and equity			
Liabilities and equity	Line No.	Current period	Preceding period
Total liabilities and equity 066+086+116	065	13,345,929	11,349,328
A Equity - 067+071+078+082+085	066	10,357,443	8,804,908
A.I Share capital total (068+070)	067	5,934,594	5,934,594
A.I.1. Share capital (411 or +/-491)	068	5,934,594	5,934,594
2. Own shares (-/-252)	069	0	0
3. Change in share capital +/-419	070	0	0
A.II. Capital funds total (072 to 077)	071	271,232	219,272
A.II.1. Share premium (412)	072	0	0
2. Other capital funds (413)	073	271,232	219,272
3. Legal reserve (non-distributable) from capital deposits (417, 418)	074	0	0
4. Revaluation reserve for assets and liabilities(+/-414)	075	0	0
5. Revaluation reserve for equity investments (+/-415)	076	0	0
6. Revaluation reserve for merger and split (+/-416)	077	0	0
A.III. Profit reserves total (079 to 081)	078	1,471,964	721,044
A.III.1. Legal reserve (421)	079	1,096,504	721,044
2. Non-distributable reserve (422)	080	0	0
3. Statutory and other reserves (423, 427, 42x)	081	375,460	0
A.IV. Retained earnings 083+084	082	52,698	52,698
A.IV.1 Retained profits from previous years (428)	083	52, 698	52,698
2. Loss carried forward (-/-429)	084	0	0
A.V. Profit (loss) for the current year /+ -/ 00l-(067+071+078+082+086+116)	085	2,626,955	1,877,300

Liabilities and equity (next)			
Liabilities and equity	Line No.	Current period	Preceding period
B. Liabilities 087+091+102+112	086	2,987,501	2,542,673
B.I. Provisions total (088 to 090)	087	768,535	193,927
B.I.1. Legal provisions (451A)	088	0	0
2. Other long-term provisions (459A, 45xA)	089	390,450	158,712
3. Other short-term provisions (323, 32x, 451A, 459A, 45xA)	090	378,085	35,215
B.II. Non-current liabilities (total 092 to 101)	091	9,744	62,471
B.II.1. Non-current trade liabilities (479A)	092	0	0
2. Non-current uninvoiced supplies (476A)	093	0	0
3. Liabilities to enterprises with controlling interest (471A)	094	0	0
4. Other non-current liabilities within consolidation group (361A, 36xA, 471A, 47xA)	095	0	0
5. Non-current advance payments received (475A)	096	10	4,165
6. Non-current bills of exchange payable (478A)	097	0	0
7. Bonds and debentures issued (473A, -/-255A)	098	0	0
8. Social fund payable (472)	099	7,591	1,744
9. Other non-current liabilities (474A, 479A, 47xA, 372A, 373A,377A)	100	2,143	6,622
10. Deferred tax liability (481A)	101	0	49,940
B.III. Current liabilities total (103 to 111)	102	2,209,222	1,981,275
B.III.1 Trade liabilities (321, 322, 324, 325, 32x, 475A, 478A, 479A, 47xA)	103	2,063,951	1,368,953
2. Current uninvoiced supplies (326, 476A)	104	9,586	19,496
3. Non-current liabilities to enterprises with controlling interest (361, 471A)	105	0	0
4. Other liabilities within consolidation group (361A, 36xA, 471A, 47xA)	106	0	0
5. Liabilities to shareholders, associates and consortium members (364, 365, 366, 367, 368, 398A, 478A, 479A)	107	21,230	6,593
6. Liabilities to employees (331, 333, 33x, 479A)	108	31,448	27,649
7. Social security insurance payable (336A, 479A)	109	18,658	17,098
8. Tax liabilities and subsidies payable (341, 342, 343, 345, 346, 347, 34x)	110	47,087	521,874
9. Other liabilities (372A, 373A, 377A, 379A, 474A, 479A, 47x)	111	17,262	19,612
B.IV. Bank loans and borrowings total (113 to 115)	112	0	305,000
B.IV.1. Long-term bank loans (461A,46xA)	113	0	0
2. Short-term bank loans (221A, 231, 232, 23x, 461A, 46xA)	114	0	305,000
3. Current borrowings (241, 249, 24x, 473A, -/-255A)	115	0	0
C. Accruals and deferred income - total 117+118	116	985	1,747
C. 1. Accruals (383)	117	985	1,120
2. Deferred income (384)	118	0	627
Control total (total 065 to 118)	999	50 ,755 ,776	43,518,265



Income statement

Income statement

Our world is measurable, so are the results of our work. We have all the possibilities and competencies for further growth.

Income statement

Income statement

Income statement				
			Actual result in	
		Line No.	Current period	Preceding period
Text				
I.	Sale of merchandise (604)	01	709	1,189
A.	Costs of merchandise sold (504)	02	768	930
+	Gross margin 01-02	03	(59)	259
II.	Production 05+06+07	04	22,317,653	21,734,759
II.1.	Sale of own products and services (601,602)	05	22,293,269	21,505,174
2.	Change in inventory of finished goods and work in progress (+/- acc. group 61)	06	0	11,815
3.	Own work capitalised (acc. group 62)	07	24,384	217,770
B.	Production costs 09+10	08	17,851,232	17,836,246
B.1.	Raw material and energy used in production (501 to 503)	09	16,364,054	16,513,953
2.	Services (acc. group 51)	10	1,487,178	1,322,293
+	Added value 03+04-08	11	4,466,362	3,898,772
C.	Staff costs total 13 to 16	12	668,800	811,053
C.1.	Wages and salaries (521,522)	13	475,136	591,572
2.	Remuneration of members of the board of companies and co-operatives (523)	14	9,938	12,926
3.	Social security costs (524,525,526)	15	149,582	185,049
4.	Employee welfare costs (527,528)	16	34,144	21,506
D.	Indirect taxes and fees (acc. group 53)	17	16,472	20,735
E.	Depreciation of non-current tangible and intangible assets (551)	18	492,047	491,269
III.	Revenue from sale of non-current assets and raw material (641,642)	19	178,709	273,567
F.	Carrying value of non-current assets and raw material sold (541,542)	20	129,710	257,982
IV.	Use and release of provisions for liabilities and charges and accrued operating revenue (652,654,655)	21	38,191	144,654
G.	Creation of provisions for liabilities and charges and accrued operating expenses (552,554,555)	22	608,685	193,927
V.	Release of provisions (operating) (657,658,659)	23	361,879	45,418
H.	Creation of provisions (operating) (557,558,559)	24	14,368	336,363
VI.	Other operating revenues (644,645,646,648,649)	25	474,421	104,097
I.	Other operating expenses (543 to 546,548,549)	26	584,407	160,174
VII.	Reclassification of operating revenues (-)(697)	27	0	0
J.	Reclassification of operating expenses (-)(597)	28	0	0
°	Operating profit/loss 11-12-17-18+19-20+21-22+23-24+25-26+(-27) -(-28)	29	3,005,073	2,195,005

Income statement (next)				
			Actual result in	
		Line No.	Current period	Preceding period
Text				
VIII.	Revenues from sale of securities and ownership interests (661)	30	99	0
K.	Securities and ownership interest sold (561)	31	280	0
IX.	Income from long-term financial assets 33+34+35	32	1,743	0
IX.1.	Income from investments in subsidiaries and associates (665A)	33	1,743	0
2.	Income from other long-term securities and ownership interest (665A)	34	0	0
3.	Income from other long-term financial assets (665A)	35	0	0
X.	Income from short-term financial assets (666)	36	0	0
L.	Costs of short-term financial assets (566)	37	0	0
XI.	Income from revaluation of securities and income from operations with derivatives (664,667)	38	0	0
M.	Revaluation costs of securities and costs of operations with derivatives (564,567)	39	0	20,460
XII.	Interest income (662)	40	143,836	122,500
N.	Interest expense (562)	41	9,220	37,234
XIII.	Foreign exchange gains (663)	42	4,237	9,438
O.	Foreign exchange losses (563)	43	7,844	11,904
XIV.	Other financial revenue (668)	44	0	114
P.	Other financial expenses (568,569)	45	75,026	67,377
XV.	Release of financial provisions for liabilities and charges (674)	46	0	0
Q.	Creation of financial provisions for liabilities and charges (574)	47	0	0
XVI.	Release of provisions (financial) (679)	48	206	232
R.	Creation of provision (financial) (579)	49	29	206
XVII.	Reclassification of financial revenues (-) (698)	50	0	0
S.	Reclassification of financial expenses (-) (598)	51	0	0
*	Profit/(loss) from financial activities 30-31+32+36-37+38-39+40-41+42-43+44-45+46-47+48-49+(-50)-(-51)	52	57,722	(4,897)
T.	Tax on income from ordinary activities I.54+55	53	497,061	631,295
T.1.	- payable (591,595)	54	517,710	630,937
2.	- deferred (+/-592)	55	(20,649)	358
**	Net profit/(loss) from ordinary activities 29+52-53	56	2,565,734	1,558,813
XVIII.	Extraordinary revenues (acc. group 68)	57	75,507	664,114
U.	Extraordinary expenses (acc. group 58)	58	0	239,465
V.	Tax on income from extraordinary activities 60+61	59	14,286	106,162
V.1.	- payable (593)	60	14,286	106,162
2.	- deferred (+/-594)	61	0	0
*	Extraordinary profit/(loss) I.57-58-59	62	61,221	318,487
Z.	Profit/(loss) share transferred to owners' account (+/-596)	63	0	0
***	Net profit/(loss) for the period (+/-) I.56+62-63	64	2,626,955	1,877,300
Control total (I.1 to 64)		99	98,701,208	95 286 118



Notes to the financial statements

Notes to the financial statements

To have things clear is the only way to see where the track is leading. We light our way with the truth.

Notes to the financial statements

Notes to the financial statements at December 31, 2004

1 General information on the Company and its core business activities
Západoslovenská energetika, a.s. ("the Company"), Corporate ID: 35 823 551, registered office at Čulenova 6, 816 47 Bratislava, was established on October 15, 2001 and incorporated in the Commercial Register on November 1, 2001 (Commercial Register of the District Court Bratislava I, Section SA, Insert No. 2852/B).

The Company is one of the legal successors of Západoslovenské energetické závody, š.p. At October 31, 2001, this state enterprise was wound up without liquidation based on the resolution No. 96/2001 of the Slovak Ministry of Economy. One day later, its assets and liabilities were transferred to the Slovak National Property Fund ("NPF") in accordance with the privatisation project. On November 1, 2001, the NPF contributed them to the following joint-stock companies: Západoslovenská energetika, a.s., Bratislavská teplárenská, a.s., and Trnavská teplárenská, a.s.

- Core business activities according to the extract from the Commercial Register**
- 1. Purchase of electricity
 - 2. Transit of electricity
 - 3. Distribution of electricity
 - 4. Engineering in maintenance, service and operation of the electric distribution networks and transformer stations
 - 5. Provisions of services relating to maintenance and operation of electric stations and networks 22 kV
 - 6. Assembly, repairs and maintenance of special electric equipment (below 1000V, above 1000 V)
 - 7. Installation and exchange of measure equipment
 - 8. Assembly, repairs and maintenance, inspections and examination of electric equipment
 - 9. Assembly, repairs and maintenance of telecommunication equipment
 - 10. Purchase and resale of merchandise to the final consumer (retail)
 - 11. Purchase and resale of merchandise to other business license holders (wholesale)

- 12. Intermediation activities in the framework of the business license
- 13. Consultation and advisory services in power engineering
- 14. Inspections and examination of gas technical equipment
- 15. Inspections and examination of pressure technical equipment
- 16. Inspections and examination of lifting equipment
- 17. Advisory, training and education in the field of work safety
- 18. Technical services in the field of work safety
- 19. Technical services in the field of fire protection
- 20. Leasing of machines, equipment, devices and mechanisms
- 21. Repairs of equipment, road transportation means and bodyworks
- 22. Acquisition of services for building administration
- 23. Accommodation services including catering services in these facilities
- 24. Operation of reconditioning facilities
- 25. Massage services
- 26. Domestic non-regular bus services
- 27. Domestic road transport

Average number of staff
In 2004, the Company employed 1,426 persons on average, 24 of which were management.

Notes to the financial statements

Legal reason for preparing the financial statements

The Company's financial statements at December 31, 2004 have been prepared as ordinary financial statements under § 17 Sec 6 of the Slovak Accounting Act No. 431/2002 Coll. for the accounting period from January 1, 2004 to December 31, 2004.

Date of approving the financial statements for the previous accounting period

The General Meeting approved the Company's financial statements for the year 2003 on August 3, 2004.

2 The Company's bodies

Members of the Company's statutory bodies according to the extract from the Commercial Register:

Board of Directors

Chairman

Konrad Kreuzer

Vice Chairman

Vladimír Vojtek (appointed on March 8, 2004)

Members

Dietrich Max Fey
Andrej Devečka
Tibor Végh

Supervisory Board

Chairman

Ján Mital' (appointed member on March 8, 2004, as a Deputizing Chairman on March 29, 2004)

Vice Chairman

Walter Hohlefelder

Members

Ján Ďurana
Jaroslav Kucbel
Martin Ondko
József Száraz
Silvia Šmátralová (appointed on November 12, 2004)
Kamil Doman (appointed on November 12, 2004)
Alojz Bahelka (appointed on November 12, 2004)

The statutory body

The supervisory body

The structure of the Company's shareholders at December 31, 2004

Share in the registered capital			
Share in the registered capital			
	Absolute amount	in %	Voting rights
National Property Fund (NPF)	3,026,643	51	51
E.ON Energie AG, Munich	2,373,838	40	40
EBRD, London	534,113	9	9
Total	5,934,594	100	100

3 The consolidated group

The Company is included in the consolidated financial statements of the E.ON Energie AG, Munich, which is part of the consolidated financial statements of the Group E.ON AG, Düsseldorf, Germany. The consolidated financial statements of the Group are prepared by E.ON AG, Düsseldorf, Germany. These consolidated financial statements are available directly at the residing addresses of the companies stated above.

4 Basic accounting principles and accounting methods

A summary of basic accounting principles and accounting methods, the Company applied during the reporting period:

a) Accounting principles and general accounting methods

The Company's financial statements have been prepared on the going concern basis in accordance with the Slovak Accounting Act and the related regulations. The principle of historic costs has been applied in the financial statements.

The Board of Directors has prepared these financial statements in accordance with the effective Slovak legislation on ordinary financial statements. They will be submitted to the ordinary General Meeting of the Company's shareholders for approval.

The Company consistently applied the accounting methods and the general accounting principles.

b) Non-current intangible and tangible assets

Acquired non-current assets are stated at cost, which includes the acquisition price and the related acquisition costs (customs duty, transport, assembly, insurance, etc.). As of 1 January 2003, neither the interest on borrowed capital nor the realised foreign exchange differences are included in the acquisition costs.

Notes to the financial statements

Internally generated non-current assets are stated at own cost, which includes all direct costs spent on production or other activities and indirect costs related to production or other activity.

Non-current assets acquired as grants are stated at replacement cost, which is the price at which these assets would be acquired at the time they are accounted for.

Depreciation plan

Non-current assets are depreciated under a plan that has been prepared on the basis of their expected economic useful lives and expected wear-and-tear.

Accounting depreciation is applied for the first time in the month in which the respective asset is put into use.

Low-value non-current intangible assets with an acquisition cost (or own cost) not exceeding SKK 50,000 are written off when put into use. Non-current intangible assets are depreciated using the straight-line method.

Estimated useful life of assets for depreciation purposes

Estimated useful life of assets 1	
Description	Number of years
Incorporation expenses	4
Software and licences	4
Valuable rights	4

In case of a temporary diminution in the value of a non-current intangible asset, a provision is set up to reflect its net realisable value.

Low-value non-current tangible assets with an acquisition cost (or own cost) not exceeding SKK 30,000 are written off when put into use.

Non-current tangible assets are depreciated using the straight-line and accelerated depreciation methods during their estimated economic useful lives.

Estimated useful life of assets for depreciation purposes

Estimated useful life of assets 2	
Description	Number of years
Buildings, halls, and structures	30 – 40
Plant and equipment	4 – 30
Vehicles	4 – 15
Other non-current tangible assets	4 – 30

In case of a temporary diminution in the value of a non-current asset identified during stocktaking that is significantly lower than its carrying value after deducting the accumulated depreciation, a provision is set up to reflect its net realizable value.

c) Non-current financial assets

Securities and ownership interests are classified as non-current financial assets when held by the Company for more than one year.

When acquired, financial assets are stated at cost, which includes the acquisition price and the related acquisition costs (until December 31, 2002, at the acquisition price without the related acquisition costs).

Securities denominated in foreign currency are converted into Slovak crowns using the NBS exchange rate at the date of acquisition.

Ownership interests held by the Company are stated at cost. If the investment’s market value falls below the acquisition price, a provision is set up. Where no market value is available, the Company’s share in the equity of the investment held is taken as an approximation of this market value.

d) Inventories

Inventories include material in stock, work in progress, merchandise in stock, and prepayments for inventories.

Material and merchandise are stated at cost, which includes the acquisition price and the related acquisition costs (customs duty, transport, insurance, commissions, etc.). The Company uses method A for the accounting treatment of inventories. Cost is determined by weighted arithmetical average method.

Notes to the financial statements

Provisions for inventories are set up to reflect a temporary diminution in their book value. Adjustments to a specific item are recorded when the accounting value exceeds the market value created if the book value of a specific inventory item is higher than its market value, the recoverability is uncertain, or when it is considered to be obsolete or slow-moving.

e) Receivables

When originated, receivables are stated at their nominal value. A provision is set up for bad and doubtful debts, as well as for receivables from debtors in bankruptcy.

Receivables falling due after more than 12 months are shown on the balance sheet under item C.II. Non-current receivables at their discounted cash flow value. Those falling due within 12 months are shown on the balance sheet under item C.III. Current receivables.

f) Financial assets

Financial assets consist of cash, bank account balances, and current financial assets where the risk of changes in the value of these assets is negligibly low. Current financial assets include short-term securities (equity shares and debt securities) that the period to maturity is less than one year or are intended for sale within one year of the date of acquisition.

g) Deferred expenses and accrued income

Deferred expenses and accrued income are stated at their nominal value, while presented at the amount reflecting the accrual principle (correspondence in fact and timing with the accounting period).

h) Provisions

Provisions are liabilities of uncertain timing or amount and are stated at the expected amount of the liability.

i) Liabilities

Both short- and long-term liabilities are stated at their nominal value.

On the accompanying balance sheet, liabilities falling due after more than 12 months are shown under item B. II. Long-term liabilities. Liabilities falling due within 12 months are shown under item B. III. Short-term liabilities.

j) Deferred revenues and accrued expenses

Deferred revenues and accrued expenses are stated at their nominal value, while presented at the amount reflecting the accrual principle (correspondence in fact and timing with the accounting period).

k) Deferred taxes

Deferred taxes relate to:

- a) temporary differences between the carrying value of assets and the carrying value of liabilities shown on the balance sheet and their tax base;
- b) the possibility to carry forward a tax loss to future periods, which means the possibility to deduct the tax loss from the tax base in the future; and
- c) the possibility to transfer unused tax deductions and other tax claims to future periods.

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

For determination of deferred income tax the tax rate expected to be effective at time of reversal of temporary differences, is used.

l) Corporate income tax

Corporate income tax is expensed in the period when the tax liability arises. In the accompanying income statement, it is calculated on the basis of the profit/(loss) before taxes that has been adjusted for tax-deductible and tax non-deductible items due to permanent and temporary adjustments to the tax base, for tax relief, and any loss carried forward. The tax liability is stated net of corporate income tax advances that the Company paid during the year.

m) Foreign currency

Assets and liabilities in foreign currency are converted into Slovak crowns using the foreign exchange rate of the National Bank of Slovakia at the transaction date and in the financial statements at the balance sheet date.

n) Financial derivatives

Upon acquisition, financial derivatives are initially stated at their acquisition price and subsequently at their fair value.

Fair value changes of hedging derivatives are posted, without affecting income, directly to equity to account 414. The result of using hedging derivatives is posted to accounts 567 – Expenses related to derivative transactions, and 667 – Income from derivative transactions.

Notes to the financial statements

Fair value changes of financial derivatives designated for trading on a domestic or a foreign stock exchange or on another public market are posted, affecting profit, to accounts 567 and 667.

Fair value changes of financial derivatives designated for trading on a non-public market are posted, without affecting profit, directly to equity to account 414. The result of making these transactions is posted to accounts 567 – Expenses related to derivative transactions, and 667 – Income from derivative transactions.

o) Recognition of revenues and expenses

Costs and revenues are recognized on an accrual basis in the period they relate to, regardless of when the payment occurs.

In accordance with the accounting principle of prudence, the Company recognizes only earned revenues at the year’s end, while all potential liabilities that are expected, including probable losses, are charged to expenses, as soon as they become known.

5 Non-current intangible assets

The movement schedule of non-current intangible assets from January 1 to December 31, 2004 is shown in the table below:

Non-current intangible assets					
TSKK	Balance at January 1, 2004	Additions	Disposals	Transfers	Balance at Dec. 31, 2004
Incorporation expenses	919	0	0	0	919
Software	3,843	0	0	73,658	77,501
Valuable rights	294	0	0	109,495	109,789
Intangible assets under construction	200,122	145,177	0	(183,153)	162,146
Prepayments for non-current intangible assets	0	0	0	0	0
Total acquisition costs	205,178	145,177	0	0	350,355
Incorporation expenses	(574)	(173)	0	0	(747)
Software	(527)	(19,520)	0	0	(20,047)
Valuable rights	(7)	(27,475)	0	0	(27,482)
Accumulated depreciation	(1,108)	(47,168)	0	0	(48,276)
Provisions	(437)	(437)	0	0	(874)
Total accumulated depreciation and provisions	(1,545)	(47,605)	0	0	(49,150)
Net book value	203,633				301,205

Insurance

The Company has no insurance contract to cover the risks associated with its non-current intangible assets.

6 Non-current tangible assets

The movement schedule of non-current tangible assets from January 1, to December 31, 2004 is shown in the table below:

Non-current tangible assets							
TSKK	Balance at Jan. 1, 2004	Additions	Gifts	Disposals	Transfers	Other	Balance at Dec. 31, 2004
Land	389,873	0	0	(13,170)	3,387	0	380,090
Constructions	8,281,361	697	6,393	(83,537)	484,790	(47)	8,689,657
Individual movable assets and sets of movable assets	3,986,815	1,924	2,398	(31,523)	231,645	(170)	4,191,089
Other non-current tangible assets	1,391	0	0	0	262	0	1,653
Non-current tangible assets under construction	1,063,816	1,049,630	2,755	(3,039)	(720,084)	(1,657)	1,391,421
Prepayments for non-current tangible assets	100	0	0	(100)	0	0	0
Total acquisition costs	13 723,356	1,052,251	11,546	(131,369)	0	(1,874)	14,653,910
Constructions	(4,568,675)	(233,765)	0	56,011	0	(11,171)	(4,757,600)
Individual movable assets and sets of movable assets	(2,865,920)	(194,868)	0	31,225	0	(5,075)	(3,034,638)
Accumulated depreciation	(7,434,595)	(428,633)	0	87,236	0	(16,246)	(7,792,238)
Provisions	(26,719)	(10,084)	0	13,422	0	0	(23,381)
Total accumulated depreciation and provisions	(7 461 314)	(438 717)	0	100,658	0	(16,246)	(7,815,619)
Net book value	6,262,042						6,838,291

From January 1, 2004 to December 31, 2004, the Company received non-current assets of SKK 11,546 thousand as a gift. The related impact of these gifts was recognized in accordance with the Slovak accounting legislation as “Capital reserves” under “Equity” on the accompanying balance sheet.

Notes to the financial statements

Insurance

Non-current tangible assets are insured against damages caused by natural disaster and water from water piping up to the amount of SKK 18,963,249 thousand. Part of non-current tangible assets (recreational facilities) is insured against theft up to the amount of SKK 40,775 thousand.

Provisions

Movements in the provisions for non-current tangible assets during the year:

The provisions for non-current tangible assets				
TSKK	Balance at January 1, 2004	Creation	Release	Balance at Dec. 31, 2004
Provisions for constructions	7,867	0	(7,867)	0
Provisions for non-current tangible assets under construction	18,852	10,084	(5,555)	23,381
Total	26,719	10,084	(13,422)	23,381

7 Non-current financial assets (investments)

The movement schedule of non-current financial assets from 1 January to 31 December 2004 is shown in the table below:

Non-current financial assets				
TSKK	Balance at Jan. 1, 2004	Additions	Disposals	Balance at Dec. 31, 2004
Shares and ownership interest in subsidiaries	81,720	0	(900)	80,820
Shares and ownership interest in associates	33,292	1,000	0	34,292
Other non-current securities and ownership interests	11,343	959	(280)	12,022
Loans to enterprises in the consolidated group	103,600	0	(58,700)	44,900
Total acquisition price	229,955	1,959	(59,880)	172,034
Total provisions	(206)	(29)	206	(29)
Net book value	229,749			172,005

Major movements in the accounts of non-current financial assets from January 1, 2004 to 31 December 2004:

- An addition of SKK 1,000 thousand represents acquisition of shares in SPX, s.r.o. ZSE gained a share of 33,33% in SPX, s.r.o.
- An addition of SKK 959 thousand (HUF 6,000 thousand) represents acquisition of shares in EFR CEE Budapest. ZSE gained a share of 12% in EFR CEE Budapest.
- The disposal of SKK 59,880 thousand relates to the partial repayment of a borrowing by Enermont, s.r.o. Bratislava at the amount of SKK 50,000 thousand, partial repayment of a borrowing by OTC, s.r.o. Hlohovec at the amount of SKK 8,700 thousand, liquidation of Nitrianska PPS at the amount of SKK 900 thousand and the sale of long-term shares of Slovnaft, Nafta Gbely and SES Tlmače at cost of SKK 280 thousand. Revenue from these shares represented SKK 99 thousand.

Notes to the financial statements

The structure of shares and ownership interests in companies with a controlling and substantial influence at December 31, 2004:

Shares and ownership					
Company	Share in the registered capital (%)	Share in voting rights (%)	Profit /(loss)	Equity	Book value shown on the balance sheet
a) subsidiaries					
Enermont, s. r. o., Bratislava *	100.0	100.0	105,930	212,127	63,810
OTC, s. r. o., Hlohovec *	100.0	100.0	24,923	50,073	17,010
Total			130,853	262,200	80,820
b) associated companies					
is:energy slovakia, spol. s r. o., Bratislava *	49.0	49.0	17,888	93,304	33,292
Total			17,888	93,304	33,292
c) Joint ventures					
Energotel, a. s., Bratislava*	16.7	16.7	6,738	80,875	11,000
SPX, s. r. o. **	33.3	33.3	-	-	1,000
Total			6,738	80,875	12,000
d) Other companies					
EFR CEE Budapešť, s. r. o.**	12.0	12.0	-	-	959
Total					959
* Based on preliminary information as the final financial statements had not been finalized at the date of submission (January 27, 2005)					
** Required information not available for the above companies (See Note 7)					

Provisions for investments

Summary of provisions for investments:

Provisions for investments				
TSKK	Balance at January 1, 2004	Release	Creation	Balance at December 31, 2004
Other non-current securities and ownership interests	206	(206)	29	29
Total	206	(206)	29	29

8 Inventories

The breakdown of inventories at December 31, 2004 and December 31, 2003:

Inventories		
TSKK	December 31, 2004	December 31, 2003
Material on stock	58,194	93,150
Material in transit	0	297
Goods	252	264
Prepayments for inventories	0	173
Provisions for material	(3,000)	(12,000)
Total	55,446	81,884

The set-up of a provisions for material reflected the diminution in the value of inventories.

Movements in the provisions for material from January 1, 2004 to December 31, 2004 are presented in the following table:

Movements in the provisions		
TSKK	December 31, 2004	December 31, 2003
Opening balance	12,000	16,704
Creation	450	4,995
Release	(9,450)	(9,699)
Closing balance	3,000	12,000

Insurance of inventories

The Company is insured against damages caused by natural disaster and water from water piping up to the amount of SKK 50,000 thousand.

Notes to the financial statements

9 Receivables

The breakdown of short-term receivables at December 31, 2004 and December 31, 2003:

Short-term receivables		
TSKK	December 31, 2004	December 31, 2003
Receivables from companies within the Group and other related parties (see Note 22)	176,678	130,167
Trade receivables	1,802,172	2,027,701
Tax receivables (see Note 21)	88,100	184,717
Other receivables	2,569	1,166
Total	2,069,519	2,343,751

Of the total receivables at December 31, 2004, overdue receivables are SKK 637,672 thousand (at December 31, 2003: SKK 1,191,879 thousand).

The provisions for doubtful debts was set up based on the estimated recoverability of receivables from individual groups of customers.

Movements in provisions for doubtful debts to reflect their net realizable value for the period from January 1, 2004 to December 31, 2004:

Movements in provisions for doubtful debts		
TSKK	December 31, 2004	December 31, 2003
Opening balance	911,570	608,350
Creation	3,397	308,025
Release	(339,008)	(4,805)
Closing balance	575,959	911,570

Release of bad debt provision is mainly due to the factoring of the Company's overdue receivables against hospitals, which were transferred to the company Veritel, a.s.

10 Deferred tax asset

The calculation of the deferred tax asset is shown in the following table:

The calculation of the deferred tax asset		
TSKK	December 31, 2004	December 31, 2003
Temporary differences between the book value of assets and liabilities and their tax base		
long-term assets	(382,653)	(251,525)
receivables	153,133	197,675
stock	3,000	0
provisions	472,043	161,412
Tax loss to be used in the future	58,567	87,849
Total	304,090	195,411
Income tax rate	19%	19%
Deferred tax asset	57,777	37,128

A change in the deferred tax asset is presented in the table below:

A change in the deferred tax asset	
TSKK	
Balance at December 31, 2003	37,128
Recognized as income (applies for the current accoun. period)	20,649
Balance at December 31, 2004	57,777

11 Financial assets

The breakdown of current financial assets at December 31, 2004 and December 31, 2003:

Current financial assets		
TSKK	December 31, 2004	December 31, 2003
Cash	13	0
Cash in transit	2, 072	3,933
Stamps and vouchers	11	24
Bank accounts	3,638,354	2,130,275
Current accounts	19,265	57,575
Term deposits	3,619,089	2,072,700
Total	3,640,450	2,134,232

Notes to the financial statements

Cash in hand, bank accounts, and securities are shown on the financial accounts. Bank accounts are fully available for the Company's use, except for a deposit of SKK 4,500 thousand covering customs guarantees provided by the bank.

12 Other assets – accruals and prepayments

The breakdown of accruals and prepayments is presented in the following table:

Accruals and prepayments		
TSKK	December 31, 2004	December 31, 2003
Unbilled electric energy	206,104	0
Accrued interests of term deposits	2,761	0
Other accrued receipts	444	165
Deferred expense	1,920	5,729
Total	211,229	5,894

Unbilled electric energy relates to the accrued receipts of unbilled electric energy of the retail-households segment. In contrast to the year 2003, the Company has not realized the stop-deduction of the retail-households segment.

13 Shareholders’ equity

A summary of movements in Shareholders’ equity from January 1, 2004 to December 31, 2004:

Shareholders’ equity						
TSKK	Registered capital	Capital reserves	Profit reserves	Profit/ (loss) from previous years	Profit/ (loss) of the current year	Total
Balance at January 1, 2004	5,934,594	219,272	721,044	52,698	1,877,300	8,804,908
Financial gifts received	0	40 415	0	0	0	40,415
Non-current assets received as a gift	0	11,545	0	0	0	11,545
Appropriation to the legal reserve fund	0	0	375,460	0	(375,460)	0
Appropriation to the social fund	0	0	0	0	(5,000)	(5,000)
Dividends	0	0	0	0	(1,115,748)	(1,115,748)
Royalties paid to statutory bodies	0	0	0	0	(5,632)	(5,632)
Regional development fund	0	0	375,460	0	(375,460)	0
Profit for the current year	0	0	0	0	2,626,955	2,626,955
Balance at December 31, 2004	5,934,594	271,232	1,471,964	52,698	2,626,955	10,357,443

At December 31, 2004, the Company's registered capital consisted of the share 5,934,594 with a nominal value of SKK 1,000 for each share. The entire amount of the share capital has been recorded in the Commercial Register. The item “Profit reserves” includes the legal reserve fund of SKK 1,096,504 thousand at December 31, 2004, the use of which is limited by the Slovak Commercial Code.

A regional development fund has been set up based on the agreement of the shareholders of ZSE a.s. and the proposal of the Ministry of Economics of the Slovak republic. The usage of this fund is limited to the defined purposes.

The ordinary General Meeting held on August 3, 2004 approved the statutory financial statements and the proposal for the appropriation of the Company's profit for the year 2003.

The distribution of the profit for the year 2003 of SKK 1,877,300 thousand is shown in the following table:

The distribution of the profit	
TSKK	2003
Appropriation to the legal reserve fund	375,460
Appropriation to the Regional development fund	375,460
Appropriation to the social fund	5,000
Dividends	1,115,748
Royalties paid to statutory bodies	5,632
Book profit for the year	1,877,300

The proposal of 2004 profit distribution has not been yet formulated.

Notes to the financial statements

14 Provisions

The breakdown of provisions is shown in the following table:

Provisions				
TSKK	Balance at January 1, 2004	Creation	Release	Balance at December 12, 2004
Non-current provisions				
Retirement benefit	158,712	39,332	0	198,044
Onerous contracts	0	129,827	0	129,827
Jubilees	0	41,801	0	41,801
Fidelity bonus	0	20,778	0	20,778
Total non-current provisions	158,712	231,738	0	390,450
Current provisions				
Legal disputes	0	178,277	0	178,277
Provisions for annual bonuses and other commissions	10,721	83,447	(10,721)	83,447
Onerous contract	0	25,900	0	25,900
Provisions for untaken holidays	21,703	24,803	(21,703)	24,803
Other	2,791	68,634	(5,767)	65,658
Total current provisions	35,215	381,061	(38,191)	378,085
Total provisions	193,927	612,799	(38,191)	768,535

Other provisions include invoiced acquisition of non-current tangible assets at the amount of SKK 4,114 thousand which has not been booked to expenses through Additions to other reserves, but directly to account 042 - Acquisition of the non-current tangible assets.

15 Long-term liabilities

The breakdown of long-term liabilities at December 31, 2004 and December 31, 2003 (other than long-term bank loans shown below in Note 16) by due date:

Long-term liabilities		
Falling due	Dec. 31, 2004	Dec. 31, 2003
Social fund	7,591	1,744
Other long-term liabilities from 1 year to 5 years	2,153	60,727
Total	9,744	62,471

16 Short-term liabilities

The breakdown of short-term liabilities at December 31, 2004 and December 31, 2003:

Short-term liabilities		
TSKK	Dec. 31, 2004	Dec. 31, 2003
Payables to companies within the Group and other related parties (see Note 22)	1,281,090	992,190
Trade payables	782,861	376,763
Uninvoiced supplies	9,586	19,496
Tax liabilities (see Note 21)	47,087	521,874
Liabilities to employees	31,448	27,649
Liabilities from social insurance	18,658	17,098
Liabilities to partners and the association	21,230	6,593
Other payables	17,262	19,612
Total	2,209,222	1,981,275

Of the total liabilities (both short- and long-term) at December 31, 2004, overdue liabilities are SKK 42,585 thousand.

17 Social fund

Appropriations to and withdrawal from social fund for the period from January 1, 2004 to December 31, 2004:

Social fund		
TSKK	Dec. 31, 2004	Dec. 31, 2003
Opening balance	1,744	653
Appropriations to the social fund	11,621	10,332
Use of the social fund:	5,774	9,241
Recreations	468	3,071
Contributions to pensioners	1,609	295
Borrowings granted	2,846	0
Social aid	210	175
Other	641	5,700
Closing balance	7,591	1,744

According to the Social Fund Act, one part of the appropriations must be expensed and another part of the social fund may be created from profit. The social fund is utilized for social, medical, recreational, and similar employee needs.

Notes to the financial statements

18 Bank loans

The breakdown of bank loans at December 31, 2004:

Bank loans						
TSKK	Type of loan	Maturity	Currency	Interest rate	Limit	Total loan
Citibank (Slovakia), a. s.	overdraft	June 15, 2005	SKK	Bribor + 0,25% p.a.	500,000	0
Total					500,000	0

No collaterals were provided for the loan from Citibank (Slovakia), a.s.

19 Other liabilities – accruals and deferred income

The breakdown of accruals and deferred income is presented in the following table:

Other liabilities		
TSKK	Dec. 31, 2004	Dec. 31, 2003
Accruals	985	1,120
Deferred income	0	627
Total	985	1,747

20 Revenues and expenses

a) Sales revenues for own work and goods

The breakdown of revenues by lines of activities in 2004:

Sales revenues for own work and goods		
TSKK	2004	2003
Sale of electricity	21,993,548	21,354,207
Services provided	103,613	45,545
Service and building operations	169,312	0
Sale of goods	709	1,189
Other revenues	26,796	105,422
Total	22,293,978	21,506,363

The Company's revenues in 2004 were generated mainly in Slovakia.

b) Capitalisation

Capitalisation		
TSKK	2004	2003
Capitalisation of material and inventories	0	1,169
Capitalisation of services	472	1,206
Capitalisation of non-current tangible assets	23,912	215,395
Total	24,384	217,770

c) Staff costs

The breakdown of staff costs for the period from January 1, 2003 to December 31, 2004:

Staff costs						
	Top management		Employees		Total	
TSKK	2004	2003	2004	2003	2004	2003
Wages and salaries	9,706	10,304	465,430	581,268	475,136	591,572
Remuneration to members of the Company's bodies	9,806	12,220	132	706	9,938	12,926
Social insurance costs	697	1,910	148,885	183,139	149,582	185,049
Other social costs	961	1,050	33,183	20,456	34,144	21,506
Total	21,170	25,484	647,630	785,569	668,800	811,053

The average number of staff in 2004 and 2003 by individual categories:

Staff category		
	Dec. 31, 2004	Dec. 31, 2003
Top management	4	5
Other technical and administrative staf	868	1,005
Blue collar workers	554	936
Number of staff	1,426	1,946

The structure of remuneration received by the members of the Company's statutory bodies in 2004 and in 2003:

Company's bodies		
TSKK	2004	2003
Board of Directors	8,200	12,220
Supervisory Board	1,738	706
Total	9,938	12,926

Notes to the financial statements

d) Cost of services provided

An overview of the cost of services provided is presented in the table

Cost of services provided		
TSKK	2004	2003
Repairs of constructions, machines, and equipment	565,831	592,316
Cost of IT services and maintenance of IT equipment	295,776	251,227
Telecommunication charges	33,312	31,335
Cost of forest paths and ground cover	41,303	41,033
Cost of security services	26,949	29,659
Sub-deliveries of constructional and installation activities	183,734	37,971
Costs of reading and measurement	38,730	19,553
Graphical information system services	45,114	43,208
Other cost of services provided	256,429	275,991
Total	1,487,178	1,322,293

e) Other income from operating activities

An overview of other significant income from operating activities is presented in the table below:

Other income from operating activities		
TSKK	2004	2003
Sale of non-current assets	82,413	17,311
Sale of material	96,296	256,256
Contractual fines and penalties received	28,767	37,239
Property rentals	51,763	38,438
Compensation for damages caused by theft	45,739	18,218
Reversal of provisions for liabilities and assets	400,070	190,072
Receipts from factored receivables	334,129	0
Other income from operating activities	14,023	10,202
Total	1,053,200	567,736

f) Other expenses from operating activities

An overview of other significant costs from economic activities is shown below:

Other expenses from operating activities		
TSKK	2004	2003
Sold non-current assets	33,669	11,555
Sold material	96,041	246,427
Shortages and damages	38,027	21,420
Receivables written off and factored	529,794	14,948
Fines and penalties	859	371
Gifts granted	3,124	5,700
Creation of provisions for assets and liabilities	623,053	530,290
Other expenses from operating activities	12,603	117,735
Total	1,337,170	948,446

g) Financial income and expenses

The breakdown of financial income and expenses for the years 2004 and 2003:

Financial income and expenses				
TSKK	2004		2003	
	Income	Expenses	Income	Expenses
Interest	143,836	9,220	122,500	37,234
Creation and release of the provisions for foreign exchange losses	0	54,227	0	0
Creation and release of the provisions for assets	206	29	232	206
Sale of PPC shares	99	280	0	0
Derivative transactions	0	0	0	20,460
Insurance costs	0	19,899	0	15,056
Realized foreign exchange losses	0	7,666	0	11,904
Realized foreign exchange gains	4,039	0	9,331	0
Unrealized foreign exchange losses	0	178	0	0
Unrealized foreign exchange gains	198	0	107	0
Other	1,743	900	114	52,321
Total	150,121	92,399	132,284	137,181

Notes to the financial statements

h) Extraordinary income and expenses

The breakdown of extraordinary income and expenses in 2004:

Extraordinary income and expenses				
TSKK	2004		2003	
	Income	Expenses	Income	Expenses
Return of penalties	75,507	0	0	0
Change in the accounting method (reading electricity supplies)	0	0	369,647	0
Other – sale of a part of the business	0	0	294,467	239,465
Total	75,507	0	664,114	239,465

21 Corporate income tax

The breakdown of payables to and receivables from the Tax Office at December 31, 2004 and December 31, 2003:

Corporate income tax				
TSKK	December 31, 2004		December 31, 2003	
	Receivables	Payables	Receivables	Payables
Corporate income tax	0	42,094	0	516,307
Deferred income tax	57,777	0	87,068	49,940
VAT	88,100	0	184,717	0
Other direct taxes	0	4,904	0	5,523
Other indirect taxes	0	89	0	44
Total	145,877	47,087	271,785	571,814

The transition from the theoretical to the reported 2004 corporate income tax is shown in the following table:

The transition from the theoretical income tax			
TSKK	Tax base	Tax charge	Tax in %
Profit/(loss) before taxes	3,138,302	0	100.00
of which: theoretical tax	0	596,277	19.00
Tax non-deductible expenses	446,372	84,811	2.64
Income not subject to income tax	(355,111)	(67,471)	(2.14)
Loss deduction	(29,283)	(5,564)	(0.18)
Current tax	0	608,053	18.92
Deferred tax	0	(20,649)	(0.64)
Return of tax from previous years	0	(76,057)	(2.42)
Total reported tax	0	511,347	16.29

22 Balances and transactions with related parties

The breakdown of receivables from and payables to companies within the Group and other related parties at December 31, 2004:

Balances and transactions with related parties		
Description	Receivables	Payables
Trade balances		
Slovenské elektrárne, a. s., Bratislava	1,192	347,297
Energotel, a.s., Bratislava	2,683	2,425
Enermont, s.r.o.	58,179	296,461
OTC, s.r.o.	2,753	13,289
is:energy slovakia spol. s.r.o.	62,047	39,719
SEPS, a.s.	18,327	262,906
is:energy czech a. s.	2	61,475
E.ON Bohemia	0	17,883
E.ON Sales & Trading, Munich	31,495	238,943
E.ON Hungary	0	692
Total	176,678	1,281,090

These balances are included in the following items: Receivables (see Note 9), Short-term liabilities (see Note 16), and Investments (see Note 7).

A summary of transactions with companies within the Group and other related parties in the period from January 1, 2004 to December 31, 2004:

A summary of transactions with companies within the Group				
Description	Revenues	Transaction	Expenses	Transaction
Business transactions		TSKK	TSKK	
Slovenské elektrárne, a. s.	14,801	Consumption of distribution points	7,231,674	Purchase of electricity
Energotel, a. s.	25,214	Lease of technology	27,004	Lease of the digital network
E.ON Bohemia	3	Services	457,814	Purchase of electricity
E.ON Sales & Trading GMBH, Mnichov	121,135	Sale of electricity, management fee	2,326,084	Purchase of electricity
Enermont, s. r. o.	104,529	Sale of material and of the business	494,052	Material, repairs, maintenance
OTC, s. r. o.	10,300	Sale of material and of the business	80,263	Repairs of electrometers
is: energy slovakia, spol. s r. o.	8,029	Sale of the business, DM	297,211	IT services
SEPS, a. s.	100,017	Mainten. of the transmission network	5,188,784	Charges for the purchase of electricity
is: energy czech, a. s.	44	Services	10,415	IT services, consulting
E.ON Hungaria	18	Services - accommodation	4,381	Representation costs
Total	384,090		16,117,682	

Notes to the financial statements

Price policy with related parties

All transactions with related parties have been carried on a contractual basis and under the arm’s length principle (usual business terms and conditions). The Company also sells products to government bodies and state-owned business entities under usual business terms and conditions.

23 Other financial obligations

At December 31, 2004, the Company concluded no currency forward transactions.

24 Contingent liabilities and commitments

At December 31, 2004, the Company concluded contracts for the delivery of long-term assets totaling SKK 395 million to be effected after this date.

In addition, the Board of Directors estimates that around another SKK 103,64 million is needed to ensure that the Company's activities comply with the Water Act. This need is reflected in the Company's long-term capital and operational plan.

Projected capital investments and repairs in individual years are presented in the following table:

Projected capital investments and repairs		
Years	December 31, 2004	December 31, 2003
2004	27,400	27,000
2005	33,500	34,000
2006	98,000	98,000
2007	64,000	64,000
2008	70,500	71,000
2009	75,640	232,000
2010	75,000	0
2011	82,000	0
Total	526,040	526,000

On June 1, 2003, the Company concluded a contract with is:energy slovakia spol. s r.o. on purchasing of IT services. This contract may be terminated not earlier than on December 31, 2007. A detailed specification of services provided and their prices are reviewed each year. The cost of these services in 2004 totaled SKK 295 776 thousand.

25 Cash flow statement at December 31, 2004

Cash flow statement at December 31, 2004		
TSKK	Jan – Dec 2004	Jan – Dec 2003
P. Cash and cash equivalents at the beginning of the accounting period	2,134,232	1,312,940
Cash flow from main profit-making activities (operating activities)		
Z. Accounting profit or loss from current activities before taxes	3,062,795	2,614,757
A.1 Adjustments by non-cash transactions (A.1.1 up to A.1.5)	866,321	736,301
1. Depreciation of non-current tangible and intangible assets (+)	492,047	491,269
2. Changes in provisions of assets, changes in reserves and in accruals and deferrals (+/-), i.e. accruals and deferrals of expenses and income	557,453	391,056
3. Profit (-) or loss (+) from the sale of non-current assets	(48,563)	(60,758)
4. Income from dividends and profit shares (-)	0	0
5. Recognised interest expense (+) other than activated interest and recognised interest income (-)	(134,616)	(85,266)
A.* Net cash from operating activities before taxes, changes in working capital, and extraordinary items (Z + A.1)	3,929,116	3,351,058
A.2 Changes in non-monetary components of the working capital (A.2.1 – A.2.4)	808,378	(1,268,703)
1. Changes in receivables from operating activities (+/-)	78,567	(1,023,766)
2. Changes in short-term liabilities from operating activities (+/-)	694,373	(294,460)
3. Changes in inventories (+/-)	35,438	49,523
4. Changes in current financial assets	0	0
A.** Net cash from operating activities before taxes and extraordinary items (A.* + A.2)	4,737,494	2,082,355
A.3. Payments of interests (-)	0	0
A.4. Interest received except for investment companies and investment funds (+/-)	141,240	122,500
A.5. Income tax on ordinary activities paid and additional taxes for the previous period (-)	(1,081,715)	(271,175)
A.6. Receipts and payments related to extraordinary accounting events constituting the profit/(loss) from extraordinary activities including due income tax from extraordinary activities paid (+/-)	151,014	0
A.7. Dividends and profit shares received (+)	0	0
A*** Net cash from operating activities (A.** + A.3 up to A.7)	3,948,033	1 933,680
Cash flow from investing activities		
B.1. Payments related to the acquisition of non-current assets (-)	(1,197,428)	(898,682)
B.2. Receipts from the sale of non-current assets (+)	82,512	311,778
B.3. Borrowings and loans to related parties (-/+)	58,700	(114,112)
B.4. Payments related to the acquisition of shares in other companies	(1,959)	(103,600)
B*** Net cash used in investing activities (B.1 up to B.3)	(1, 058,175)	(804,616)
Cash flow from financing activities		
C.1. Changes in long-term or short-term liabilities (+/-)	(305,000)	(330,000)
Payments of interests other than capitalised interests (-)	(9,220)	(38,174)
Changes in receivables (other than trade receivables) (+/-)	0	0
C.2. Impacts of changes in equity on cash (C.2.1 up to C.2.6)	(1,069,420)	60,402
1. Increase of the registered share capital, the share premium, or the reserve fund, including deposits made for this increase (+)	0	0
2. Payment of the share in equity to partners (-)	0	0
3. Cash gifts and subsidies into equity and other cash deposits of partners and shareholders (+)	51,960	60,402
4. Loss set-off to partners (+)	0	0
5. Direct payments decreasing funds included in equity (-)	0	0
6. Dividends or profit shares paid, including the withholding tax paid, related to these claims and including settlement to partners in a general partnership and to general partners in limited partnerships (-)	(1,121,380)	0
C.3. Dividends and profit shares received, except for investment companies and investment funds (+)		
C*** Net cash used in financing activities (C.1.1 + C.1.2 + C.2)	(1,383,640)	(307,772)
F. Net increase or decrease of cash and cash equivalents (A.*** + B.*** + C.***)	1,506,218	821,292
R. Cash and cash equivalents at the end of the accounting period (P + / – F)	3,640,450	2,134,232

Notes to the financial statements

26 Complementary data to the cash flow statement

Cash and cash equivalents

A summary of cash and cash equivalents:

Cash and cash equivalents		
TSKK	Dec. 31, 2004	Dec. 31, 2003
Cash in hand	24	24
Bank accounts	3,640,426	2,134,208
Total	3,640,450	2,134,232

27 Post balance sheet events

After December 31, 2004, no significant events have occurred that would require recognition or disclosure.

This financial statements have been prepared on February 28, 2005 at Čulenova 6, 816 47 Bratislava, Slovak Republic.



Dietrich Max Fey
Member of the Board of Directors



Ing. Andrej Devečka
Member of the Board of Directors



Report of the independent auditors

Report of the independent auditors

We depend on our work. Behind every number, we recognize a story of the concrete people in certain time.

Report of the independent auditors

Report of the independent auditors



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REPORT OF INDEPENDENT AUDITORS

To the shareholders of Západoslovenská energetika, a.s.:

- 1 We have audited the accompanying financial statements of Západoslovenská energetika, a.s. („the Company“) for the year 2004, that comprises the balance sheet as of 31 December 2004, the related statement of income for the year then ended and the notes thereto. These financial statements are the responsibility of the Company's Board of directors. Our responsibility is to express an opinion on these financial statements based on our audit.
- 2 We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. 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 Západoslovenská energetika, a.s. as of 31 December 2004 and the results of its operations for the year then ended in accordance with the Accounting Act of the Slovak Republic and related accounting regulation.


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




Mária Fridová
SKAU licence No.: 47

Bratislava, 28 February 2005

The company's ID (IČO) No. 36739347.
Tax Identification No. of PricewaterhouseCoopers Slovensko, s.r.o. (DIČ) 2020279021.
VAT Reg. No. of PricewaterhouseCoopers Slovensko, s.r.o. (IČ DPH) SK2020279021.
Spoločnosť je zapísaná v Obchodnom registri Okresného súdu Bratislava 1, pod vchodom č. 146133R, oddiel: 30a.
The company is registered in the Commercial Register of Bratislava I District Court, ref. No. 146133R, Section: 30a.

Further information about Západoslovenská energetika, a. s.,
can be obtained at:

Západoslovenská energetika, a. s., člen skupiny E.ON

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