

ANNUAL REPORT 2002





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***hse***  
*Holding Slovenske elektrarne d.o.o.*





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## STATEMENT BY THE CHAIRMAN OF THE MANAGEMENT BOARD

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Holding Slovenske elektrarne is one of the youngest companies in the Slovenian electricity market. It is now only the second year since the Government of the Republic of Slovenia established the company and on 26 July 2002 made it the key factor in the process of transforming the Slovenian power sector. In doing so they had presented us with three bold goals: to ensure a unified market approach by all electricity producing companies in free market conditions, execute the Construction of Hydropower Plants in the Lower Sava River project and improve the level of competitiveness achieved by each of the companies within HSE Group. In order to achieve these goals we were entrusted with six affiliated companies, all of which had been providing reliable and safe power supplies for decades before the establishment of the holding company. Their operational, professional, personnel related and technological advantages are now, as they have been joined in the HSE Group, reflected in an increased level of satisfaction with both their and our key publics: shareholders, consumers, social environment, employees and partners. All this in the light and on behalf of the Group's

basic mission, which is, in addition to preserving the leading role in the domestic market, focused also on the scientific and economic development of the Slovenian power market as well as to ensure their establishment in the international context.

Financial year 2002, in which HSE was in its first year of existence, was also pivotal for the company. This was indeed a time for us to establish the fundamentals for undisturbed operations, prove that we are able to meet the goals as set down by the shareholders at the company's establishment, as well as present the ways of doing so in actual day-to-day operations. The annual report you are reading is therefore an appraisal of the period, in which the company came to life, along with an in-depth analysis of the successfulness of our business and market approach, while it also acts as a starting point of forecasts for the periods ahead.

We are now able to claim that in 2002 the company has been able to meet a majority of the goals set at its establishment. Taking advantage of synergies between companies within HSE Group has provided us with the most

significant competitive edge during the first months of operation. Benefits of HSE Group's unified front in approaching the domestic power market are currently above all displayed in the reduction of negative financial effects as a result of unavailability by combining various production sources according to the current market conditions, provision of a more comprehensive range of electricity products, reduction of risks in relation to long-term contracts and improvement of the company's foreign market potential. Construction of the chain of hydropower plants on the Lower Sava River, which will include - in addition to the already existing Vrholovo HPP - 5 new hydropower plants, has commenced within scheduled time limits, and the construction of the first of the fore-mentioned - Boštanj HPP - is in full swing. Along with joint preparation of business plans for 2003 the end of last year has also seen the start of an intensive operating rationalization program along with efforts to raise the level of competitiveness of the Slovenian electricity and coal suppliers.

Our success in meeting the goals was closely linked to the size of HSE and the overall interlinking of its

parts. In 2002, also due to the expanded range of activities, the Group has gained three new members. Holding Slovenske elektrarne, Dravske elektrarne Maribor, Savske elektrarne Ljubljana, Soške elektrarne Nova Gorica, Termoelektrarna Brestanica, Termoelektrarna Šoštanj and Premogovnik Velenje were joined by HSE Invest and HSE - IIP, both of which are involved in investments in the power sector, and TDR - Metalurgija. Last year HSE Group produced more than one half of the total production of electricity in Slovenia. Due to the safety, reliability and quality of power supply, including the combining of different power sources, HSE has managed to become a pivotal partner to both the domestic as well as foreign partners in 2002.

Undoubtedly our market positioning and performance-related success cannot be entirely linked to "hard", specific factors and numbers, as we have taken important steps also to build our image in the field of communications. We have created a new corporate visual identity, which is already being linked to the company, presentation materials giving information to all interested parties,



an internal magazine that connects us from the inside, and the first advertisement, aimed at the external publics. Using a variety of complementary communication activities we have been building and enforcing the organizational culture combined with a sense of belonging among the employees, both through membership in the Power Sector Syndicate and the Worker's Councils at individual companies, all of which have been actively participating in managerial decisions. Of course we have also been striving towards a symbiosis with the community we are cohabitating with.

As you are reading this Annual Report we are therefore able to claim that all of previous year's business, strategic and communication activities have firmly set the foundations for the current financial year - 2003, in which the opening of the power market to foreign competitors sets the most important milestone in our operations. At HSE we have prepared well for the arrival of competition: we are introducing new fields of operation, planning the establishment of the so-called multi-utility concept, which in the long run will include trading with an increa-

sed number of energy sources, and above all - we are expanding. Not only in knowledge, technology, and personnel, but also geographically. Slovenia is becoming too small for the company, which is why internationalization of its operations is one of our strategic priorities. This year we are facing the registration of the Belgrade office and a subsidiary in Italy, while we are aiming to penetrate other markets during the following couple of years. We are by all means aware that we are facing a number of challenges and we will be taking them on with joy and pride, as we are in possession of all the necessary resources. But above all we are striving towards excellence - in all fields.

Let me thank everybody who has contributed in making HSE and HSE Group what they are today - the largest and best power supplying formation in Slovenia. I would also like to acknowledge the management team's contribution in successfully executing the strategic guidelines, as well as the Supervisory Board who have managed to keep track of our business plans and upgrade them productively. Acknowledgements also go to each of our employees for their will



and desire for the cocreation of joint success. I would like to thank our clients for their trust, our partners for their partnership, the media for dispersing information about us. And let me also thank everybody else who is connected to us in one way or another. For HSE is present everywhere at all times - connected to each and every one of us. It is the power of energy that connects us.

Drago Fabijan, M. Sc.,  
General Manager and President of the HSE  
Management Board

## REPORT OF THE SUPERVISORY BOARD

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The Supervisory Board of Holding Slovenske elektrarne d.o.o., which is the parent company in the HSE Group, has been monitoring and supervising the company's management in 2002 as well as performing other tasks in accordance with the legislation and the company's Articles of Association, over a total of 12 meetings, of which eight were ordinary meetings, while four were extraordinary.

The company's Management Board prepared quality and correct written materials, with extensive explanations of individual items given at the meetings. Members of the Supervisory Board passed numerous suggestions and requests at these meetings, all of which were accordingly accepted and implemented by the Management Board.

In financial year 2002 the Supervisory Board had been performing its supervisory task in two different compositions. Based on the amended Articles of Association a nine-member Supervisory Board was constituted on 16 September 2002. It consisted of six representatives of the shareholder, that is the Republic of Slovenia, and according to the Act

on Workers' Participation in Management also three representatives of the employees.

The original seven-member Supervisory Board:

- Robert Golob, Ph. D. - President of the Supervisory Board
- Lucijan Rejec - Deputy President
- Radovan Tavzes, M. Sc.
- Jasna Kalšek
- Igor Kušar
- Prof. Josip Voršič, Ph. D.
- Darinka Mravljak

had supervised the work done by the company's Management Board over seven meetings, of which five were ordinary meetings, while two were extraordinary.

In these meetings the Supervisory Board primarily focused on the following strategic and operational issues:

- Interim reports on the company's current operations
- Electricity sales figures for 2002
- Adopted the business plan for 2002
- Reviewed the Valuation of Tangible Assets in Power Supply and Coal-mining Companies project

- Kept track of the Construction of Hydropower Plants in the Lower Sava River project
- The Supervisory Board consented with the establishment of two affiliated companies - HSE Invest d.o.o. with its headquarters located in Maribor and HSE - IIP d.o.o. with its headquarters located in Sevnica
- Financial performance in 2001 both for the company as well as the Group
- Kept track of business relations and terms in relation to other companies within the HSE Group
- The Board was brought up to date on the transfer of TDR Metalurgija d.d. shares to HSE
- Discussion on the problem of unpaid salaries at Premogovnik Velenje
- Consented with the signing of the Concession Agreement on the Generation of Power on the Lower Sava River
- Consented with the establishment of Elektro.TK d.o.o.

The new nine-member Supervisory Board was constituted on 16 September 2002; the owner relieved Robert Golob, Ph. D., Radovan Tavzes, M. Sc., and Igor Kušar of their

duties. They were replaced with Djordje Žebeljan, M. Sc. and Damjan Lah.

This was accompanied with the appointment of three employee representatives - Ervin Kos, Pavel Župevc and Janez Keržan.

The nine-member Supervisory Board assembled five times in 2002 for three ordinary and two extraordinary meetings; in these meetings they primarily discussed and kept track of the following issues:

- Keeping track of management consolidation issues in companies within HSE Group
- The Board consented to the renewal of the company's corporate visual identity
- Getting acquainted to the terms of operation in 2003
- Discussing the solution to the issues concerning Verbund
- Approved the Boštanj HPP Investment Program
- Consented to the signing of the Boštanj HPP Preparatory Works Contract
- Getting acquainted with information on the Concession Transfer Agreement
- Interim reports on the company's performance in 2002



- Consented to the establishment of an affiliated company in Italy
- Plan of power sales and purchases in 2003 and the export figures
- Kept track of the ongoing construction of Boštanj HPP

At its 6th ordinary meeting on 28 May 2003 the HSE Supervisory Board discussed the Holding Slovenske elektrarne d.o.o. Annual Report and the HSE Group Annual Report for 2002 along with Auditor's Reports and the management proposals regarding the appropriation of generated profits.

The auditing company KPMG Slovenija, d.o.o, audited the HSE and HSE Group financial statements along with the HSE Annual Report and the HSE Group Annual Report for the financial year 2002.

According to the audit opinion as of 5 May 2003 HSE and HSE Group financial statements with annexes give a true and fair view of the company and Group's financial position as of 31 December 2002, the results of its operation, cash flow and changes in equity for the year that ended at the time according to the Slovenian Accounting Standards.

Annual Reports are in accordance with the audited financial statements.

Based on the reviewed audit reports and based on explanations as given by the auditor at the Supervisory Board meeting, the HSE Supervisory Board has no remarks in relation to the audit reports.

Based on constant tracking of the company's operations, positive audit reports, very good financial performance both for the company and the Group, the achieved goals as set down in the 2002 business plan and in accordance with its competences the HSE Supervisory Board has no remarks regarding the Holding Slovenske elektrarne d.o.o. Annual Report and the HSE Group Annual Report for the financial year 2002 and both are thereby approved.


In 2002 HSE accumulated a total net profit in the amount of SIT 12,285,003,564.56. At its 5th ordinary meeting held on 21 March 2003 the company's Supervisory Board adopted the Management Board's proposal for the appropriation of accumulated profit of SIT 6,142,501,782.28 into reserves at

the very composition of the 2002 Annual Report.

The remaining part of the accumulated profit represents the undistributed net profit for the financial year 2002 in a total amount of SIT 6,142,501,782.28.

In compliance with the company's strategic goals and investment policy the HSE Supervisory Board agrees with the Management Board's proposal to distribute the generated profits of SIT 6,142,501,782.28 in its full amount into reserves.

The HSE Supervisory Board prepared its report in accordance with Article 274a. of the Corporate Law. Supervisory Board report was prepared for the company's General Meeting.



Djordje Žebeljan, M. Sc.,  
President of the Supervisory Board  
Holding Slovenske elektrarne d.o.o.

Ljubljana, 28 May 2003



2002 ANNUAL REPORT HSE D.O.O. - THE COMPANY





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## 1. KEY ACHIEVEMENTS FOR THE FINANCIAL YEAR

In 2002 HSE Group and accordingly also HSE as the parent company managed to achieve a majority of the goals as set down at the company's founding in July 2001 by the Government of the Republic of Slovenia. Improved competitiveness of HSE Group in a deregulated electricity market is shown in the amount of total accumulated profit; especially in the field of an industry, which has been marked by substantial losses. Taking advantage of synergies between the power generation - hydro and thermal - companies within the HSE Group has proven to provide the Group with the most substantial competitive edge at the very beginning of

its existence. Today the benefits of a unified front approach taken by the HSE Group in the domestic power distribution market are displayed primarily through the reduction of negative financial influences of unavailability. This was achieved by combining different production sources, optimizing production capacities to suit the current market conditions, providing a more comprehensive range of electricity products, reduced risks in relation to long-term contracts along with improved opportunities for entering foreign markets. Construction of the chain of hydropower plants (HPPs) in the lower part of the Sava river, which will consist

of, in addition to the already existing Vrhovo HPP, five new hydropower plants (Boštanj HPP, Blanca HPP, Krško HPP, Brežice HPP, Mokrice HPP) had started within the scheduled time limits, on 22 November 2002, with the signing of an agreement for the execution of preparatory works for Boštanj HPP that took place in Sevnica. The joint preparation of business plans for the 2003 financial year is also the beginning of an operational rationalization and the process of raising the level of competitiveness among the Slovenian power and coal producing companies.

### Key information for the financial year 2002 in numbers

Total revenues in SIT 000	91,871,498
Operating profit in SIT 000	12,729,126
Net profit in SIT 000	12,285,004
Distributable net profit in SIT 000	6,142,502
Assets in SIT 000	191,964,427
Capital in 000 SIT	181,934,929
Operating cash flow in SIT 000	10,621,973
Market share in %	62
Electricity sale in GWh	9,332
Added value in SIT 000	13,353,741
Average number of employees	48
Investments in fixed assets in SIT 000	656,318



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**BUSINESS REPORT**



## 2 BUSINESS REPORT

### 2.1 GENERAL COMPANY PROFILE

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<b>Full Company Name:</b>	Holding Slovenske elektrarne d.o.o.
<b>Short Company Name:</b>	HSE d.o.o.
<b>Address:</b>	Cesta v Mestni log 88a, 1000 Ljubljana
<b>Telephone:</b>	(01) 42 05 700
<b>Fax:</b>	(01) 42 05 740
<b>Entry Number:</b>	1/35036/00, registered with the Ljubljana Municipal Court
<b>Subscribed Capital:</b>	SIT 1,156,216,668.00
<b>Transactions Account:</b>	04302-0000317271
<b>Tax File Number:</b>	99666189
<b>Registration Number:</b>	1662970
<b>Number of Employees as of 31.12.2002</b>	60
<b>URL:</b>	www.hse.si
<b>E-Mail:</b>	hse@hse.si; info@hse.si

#### 2.1.1 Business Operations

##### Main Activities

The company's range of business operations includes the field of power management, environmental management and the management of related logistic processes. Its wide range of activities can be grouped as follows:

- Sales and trading of electricity
- Optimization of production processes within the HSE Group
- Providing ancillary services required for the operation of the power system
- Energy and environment related project management

##### Registered Activities:

The company's registered activities include:

C/10.20	Extraction of brown coal and lignite
E/40.101	Power generating in hydropower plants
E/40.102	Power generating in thermal power plants and nuclear power plants
E/40.103	Other forms of power generation
E/40.104	Power transportation
E/40.105	Power distribution
E/40.300	Steam and hot water supply
E/41.000	Water collecting, purifying and distributing
F/45.24	Hydro-construction and water management
F/45.25	Other construction works including special professions
G/51.70	Other wholesale trading
H/74.20	Project planning and technical consulting
J/65.23	Other financial services
K/74.15	Holding activities
K/74.14	Entrepreneurial and business consulting
K/74.12	Accounting, bookkeeping and auditing activities, tax consulting
K/74.84	Other various business operations
K/74.843	Other business activities, d.n.
O/93.05	Other services





## 2.1.2 Milestones in the Company's Operations

### 2001

Important events in financial year 2001 include:

- Government of the Republic of Slovenia adopts the Act of Establishing the Proprietary Limited Company HSE d.o.o., along with the resolution on the nomination of an acting manager for the position of the company's CEO and a resolution on the nomination of members of the HSE d.o.o. Supervisory Board
- The Supervisory Board is constituted
- HSE is registered in the companies' register with the Ljubljana Municipal Court
- The Competition Protection Office of the Republic of Slovenia issues a decree on the conformity of concentration of companies DEM, SEL, SENG, TEB, TEŠ and PV into Holding Slovenske elektrarne
- Attaining the "Trading in the Organized electricity market" license and the "Representation and Mediation in the Organized electricity market"
- Nomination of the HSE Management Board for a period of four years

- Execution of all activities with reference to the documentation and the organization of execution of the Hydropower Plants in Lower Sava River project, in accordance with the resolutions of the Government that the Hydropower Plants in Lower Sava River Construction project is to be realized through HSE d.o.o.
- Signing of agreements on business cooperation and settling mutual relationships in the field of approaching the electricity market between HSE and its subsidiaries
- Signing of agreements on re-allocation of employees from subsidiaries to the parent company - HSE
- Signing of contracts for electricity sales in 2002

### 2002

Important events in financial year 2002 include:

- First employments
- HSE assumes the management and production optimization tasks and commences the first electricity supplies
- Changed company address
- Attaining the "Distribution and Supply of Heat for Long-Distance Heating" license
- National Assembly of the Republic of Slovenia adopts the novel to

the Act on Terms of Granting Concession for the Generation of Power on the Lower Sava River

- Signing the Concession Contract for the Generation of Power on the Lower Sava River
- Establishment of two affiliated companies; HSE Invest d.o.o. with its headquarters located in Maribor and HSE - IIP d.o.o. with its headquarters located in Sevnica
- Attaining the building permit for the execution of Phase I of the construction of Boštanj HPP
- Signing of the first long-term electricity sales contract
- Signing of the contract on the execution of preparatory works for Boštanj HPP, which also represents the official start of construction of the Lower Sava River hydropower plant chain
- Signing of contracts for electricity sales in 2003

## 2.1.3 Company Organization

### Management

Republic of Slovenia as the sole owner of the company manages it directly and through the company bodies:

- The Supervisory Board and
- The Management Board

### Corporate Governance

At HSE we are aware of the importance of relations between the Management Board, the Supervisory Board and the shareholders as well as advantages that come as a consequence of the introduction of a high-quality and corporate governance system to the company. Positive effects of the introduction of the governance system will primarily include:

- Increased safety and transparency of the company's operations
- Improved company image
- Reduced price of attaining long-term capital
- Long-term growth and sustained development of the company

The C. D. system will enable a much higher level of unity, cooperation and trust between individual stakehol-



Drago Fabijan, M. Sc.



Milan Medved, Ph. D.



Ladislav Tomšič

ders in the company, thus improving its economic efficiency, growth and development. It is also becoming increasingly important that the establishment of a solid system will result in an increased level of trust with investors, creditors and clients, and is therefore essential for the image of both the company and its bodies. In this aspect of the company's operations mass media will be playing an increasingly important role, which is an understandable consequence of strong demands for the transparency of operations.

#### Management Board:

Members of the HSE Management Board are as follows:

- **Drago Fabijan, M. Sc.**  
General Manager  
President of the Management Board
- **Milan Medved, Ph. D.**  
Business Manager  
Member of the Management Board
- **Ladislav Tomšič**  
Technical Manager  
Member of the Management Board

## HSE Supervisory Board

Members of the HSE Supervisory Board are as follows:

### REPRESENTATIVES OF THE CAPITAL

#### Djordje Žebeljan, M. Sc. - President

- State Secretary at the Ministry of the Environment, Spatial Planning and Energy, nominated with a resolution issued by Government of the Republic of Slovenia dated 5 September 2002

#### Lucijan Rejec - Deputy President

- Posoški razvojni center (Posočje Development Center) Director, nominated with a resolution of the Government of the Republic of Slovenia dated 26 July 2001

#### Damjan Lah

- Head of the Office of the Prime Minister, nominated with a resolution of the Government of the Republic of Slovenia dated 20 June 2002

#### Jasna Kalšek

- State Undersecretary at the Ministry of the Environment, Spatial Planning and Energy, nominated with a resolution of the Government of the Republic of Slovenia dated 26 July 2001

#### Prof. Josip Voršič, Ph. D.

- Professor at the Faculty of Electrical Engineering, Computers and Informatics in Maribor, nominated with a resolution of the Government of the Republic of Slovenia dated 26 July 2001

#### Darinka Mravljak

- SGP Kograd Inženiring d.o.o. CEO, nominated with a resolution of the Government of the Republic of Slovenia dated 26 July 2001

### REPRESENTATIVES OF THE EMPLOYEES

#### Ervin Kos

- Dravske elektrarne Maribor d.o.o., nominated at the meeting of the HSE Workers' Council on 16 September 2002

#### Pavel Župevc

- Premogovnik Velenje d.d., nominated at the meeting of the HSE Workers' Council on 16 September 2002

#### Janez Keržan

- Holding Slovenske elektrarne d.o.o., nominated at the meeting of the HSE Workers' Council on 16 September 2002

All members of the Supervisory Board are nominated for a period of four years.



### Workers' Participation in Management

Human resources per se do not suffice for business goals as set down to be achieved. Satisfaction that employees gain from their work plays a vital role in activating their full potential. This is achieved also by providing various forms of participation in management, which gives them the opportunity to directly influence the making of important decisions in the company. One of such forms of participation also includes workers' councils, which have become a perfectly ordinary form of contemporary management.

At HSE we are also aware of the importance of employees' participation in acceptance of important decisions, which is why we dedicate special attention to this form of participation. Our co-workers are not merely participants in the work process, but are rather playing a vital role in its creation.

### Workers' Council

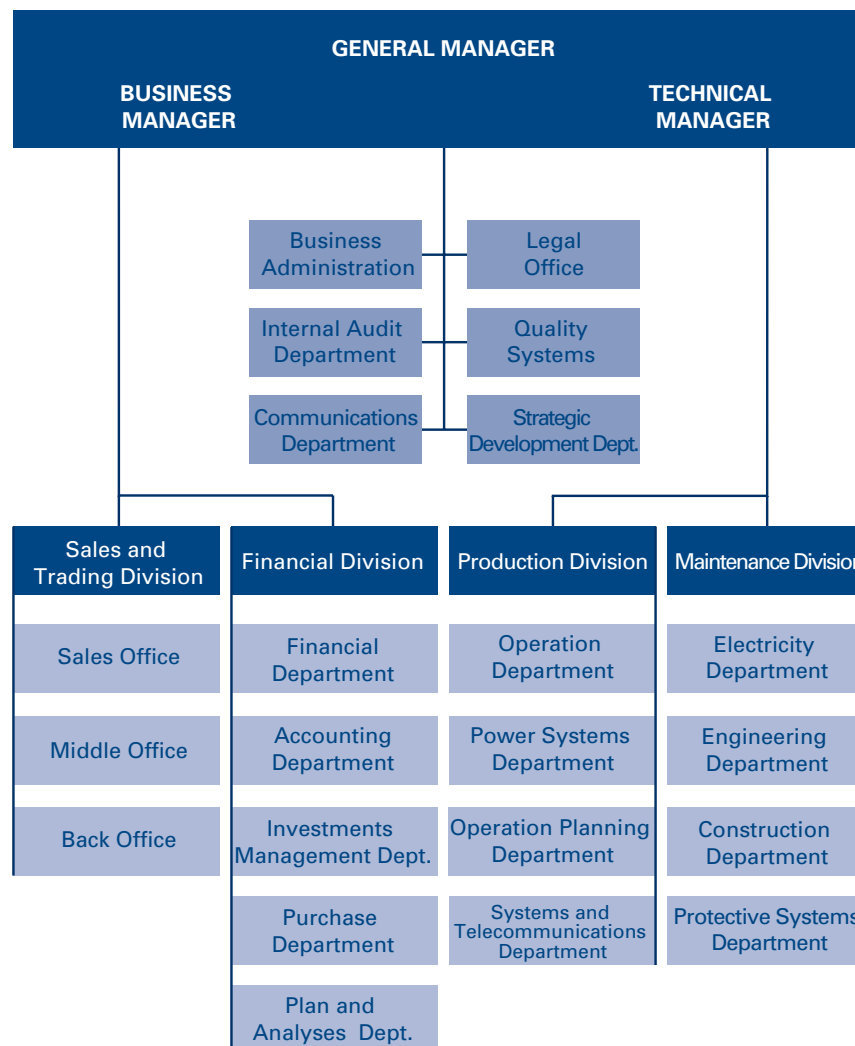
A three-member workers' council was constituted at HSE on 19 June 2002. The council has three members:

- **Ivan Sevšek** - President
- **Janez Keržan** - Deputy
- **Janez Selan** - Member

### Cooperation with the Syndicate

Since the very beginning of its existence HSE has been aiming to achieve good relations both within the power sector as well as the company itself. One of the key leverages that enable this goal to be achieved is the regular and close cooperation with the syndicate. This form of cooperation is conducted in the form of regular monthly meetings, at which representatives from both sides solve current issues and exchange pieces of information required for the efficient operation of the syndicate on one side and company operations on the other.

### Company Organization Chart



## 2.2 MISSION, VISION AND STRATEGIC GOALS

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The **mission** of HSE, Slovenia's leading company in the power sector, in addition to preserving its market leading position in the domestic market, is the development of the Slovenian power sector in economic as well as scientific terms, as well as establishing it in the international environment.

The company's basic **vision** is to ensure the optimum utilization of Slovenia's power and human resources, and to establish a competitive enterprise in the global energy market that would be able to compete in the domestic and foreign electricity market, while at the same time expanding its business activities and thereby reducing business risks arising from market fluctuations in individual product markets.

HSE is a market-oriented enterprise, combining its subsidiaries' business functions that enable the exploitation of synergies and contribute to rationalization of operations on the level of a holding company.

The introduction of joint marketing and entering the market under a common brand has denoted start of HSE development in the direction of becoming an important and reliable Central European supplier of power products. By doing so

the company is also ensuring safe and reliable power supplies for the domestic consumers, social security for employees in its subsidiaries and the sustained development of the Slovenian economy.

HSE business activities will mainly be taking place in the field of energy and environmental activities. In addition to fulfilling the basic goals as set down by the Government of the Republic of Slovenia at the company's establishment, the company's strategic development will be going in the direction of building a so-called "multi-utility" concept and the establishment of new sales programs such as gas, oil, coal, water and waste. Diversification of the sales program is a necessity as it contributes to the balancing of risk distribution. The planned "multi-utility" concept also includes the expansion of HSE trading activities into commodity markets as part of the so-called "multi-commodity trading" program. Trading in these markets represents an opportunity for HSE to improve its financial performance and reduce risks in the field of electricity trading.

With its goal of sustained growth and internationalization HSE will intensively keep on seeking business partners in the Alps - Adriatic region, the entire Central European area and the markets of the for-

mer Yugoslavia. This is why we are planning to open an HSE office in Belgrade, while we will be doing the same in other regions of former Yugoslavia depending on the current needs, future possibilities and market conditions.

Affiliated company HSE Italia will be established in 2003 with the purpose of attaining rights for the creation of balance groups in Austria and Germany and the penetration of the Italian market. One of pre-conditions for the creation of a balance group, which enables cheaper transit via Austria to the German market, is to have founded a company in the European Union. The company is also going to serve as a means for direct sales in the Italian market and to enable the selection process of clients or to seek ways of gaining access to the higher price range. It will also act as a link between the Italian partners and HSE in potential investment projects to be undertaken in Italy.

The company's **strategic goals are as follows:**

- Construction of the chain of hydropower plants in the lower part of the Sava river
- Increasing the market share in the domestic electricity market
- Increasing the market share in foreign electricity markets

- Reduction of operating costs in companies within the Group
- Inclusion in trading with other commodities ("multi-commodity trading")
- Expansion of business operations to communal power distribution
- Controlled management and supervision of power-related projects
- Managing the strategic development and investment programs
- Resolution of the stranded investments

As HSE is one of Slovenia's largest enterprises it is of vital importance that we consistently keep on building its **brand**. This is why in 2002 special attention was dedicated to raising awareness on HSE mission and vision among our key publics. The new corporate visual identity, presentation materials, corporate advertisement, website and internal magazine are merely some of the tools that have raised to a high level the knowledge and perception of HSE as strategically the strongest player in the electricity market. Today the **hse** brand is sufficiently recognizable in Slovenia to be able to perform with confidence in the restless electricity market, while at the same time bearing a sufficient communication range internally within the HSE Group so that each one of its employees is able to find an opportunity for

## 2.3 HUMAN RESOURCES MANAGEMENT

personal growth and development in its name, mission and vision. People are each company's largest asset. Using their knowledge, abilities, creative thinking, creative power and a sense of loyalty they enable and create a competitive advantage and even the company's very efficiency in the business environment.

We are aware that numerous challenges in the environment that HSE is facing daily demand highly skilled and motivated employees who are able to cope with these challenges today and will be able to do so tomorrow. This is why we dedicate considerable attention to our employees' development and training, as this is the only way to preserve our competitive edge on the market.

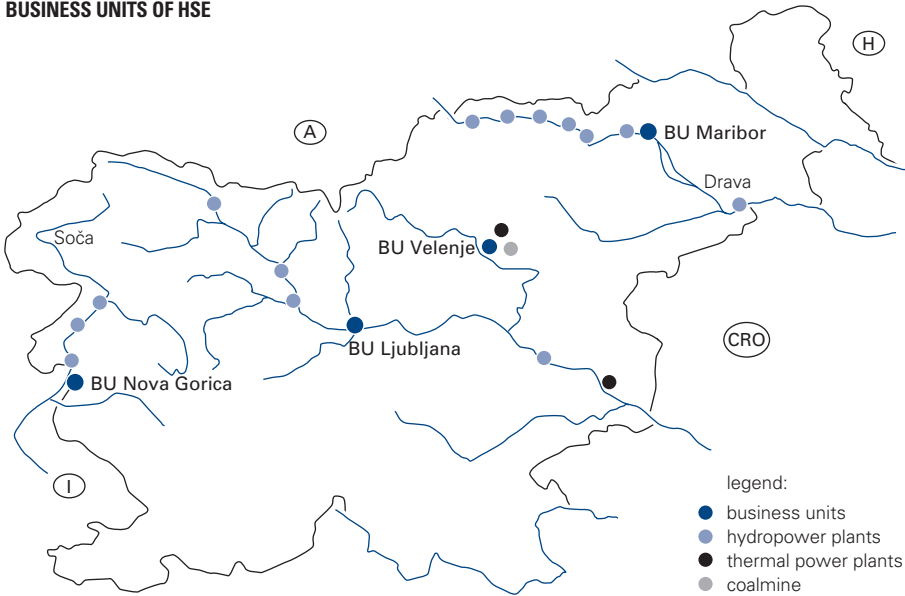
At HSE we employed the first people on 1 January 2002. The very purpose of establishing HSE had set the guidelines for our employment policy; its basic motto was to seek human resources within HSE Group as it combines a wide range of skills or, put another way, combines high-quality experts of different profiles. This is also why our pool of employees includes quite a number of Ph. D. and M. Sc. degrees.

HSE Employee Figures	
Date	Number of Employees
1.1.2002	35
31.12.2002	60

A majority of our employees, some 73 percent, who were employed by HSE on 31 December 2002, were transferred to the company from other companies in HSE Group, a further 12 percent came from other companies in the power sector that are not included in HSE Group, and 15 percent of HSE employees came to the company from other companies or institutions.

Employee Transfers from Companies within the HSE Group in 2002	
Company	Number of Employees
DEM	8
SEL	4
SENG	5
TEB	4
TEŠ	17
PV	6
<b>TOTAL</b>	<b>44</b>

### BUSINESS UNITS OF HSE



### Business Units

The company runs its operations through four business units located in Ljubljana, Maribor, Velenje and Nova Gorica.

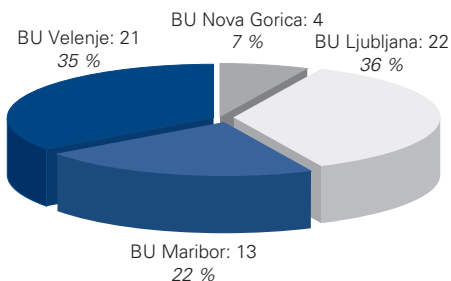
Ljubljana is where the HSE headquarters is situated; this is the location of the company's Management Board, as well as the marketing, finance, accounting, legal service, internal audit and communications departments. The Maribor branch acts as the center for production management, investments and telecommunications divisions. The

Velenje unit mainly operates in the operation of the domestic market, internal trading relations within the HSE Group, energy imbalances monitoring and calculating as well as long-term planning. The Nova Gorica branch is responsible for foreign markets.

With the dispersion of business operations over different locations in Slovenia that have the best resources for their implementation, HSE is running its operations and managing its assets economically while achieving the highest

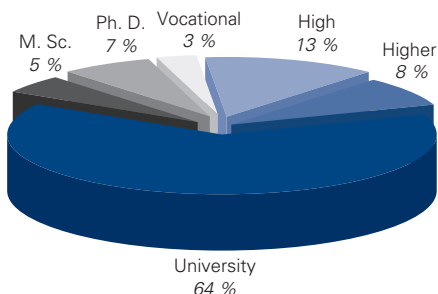
possible level of human and technical resource utilization with all companies within HSE Group. HSE business operations that are required for its joint operations are situated where they enable the most effective utilization of the location's competitive advantage.

**OVERVIEW OF EMPLOYEES BY BUSINESS UNITS AS OF 31 DECEMBER 2002**



programs, two were in graduate specialization programs, while two were included in Master's Degree programs.

**EMPLOYEE STRUCTURE AS OF 31 DECEMBER 2002**



**Additional Training**

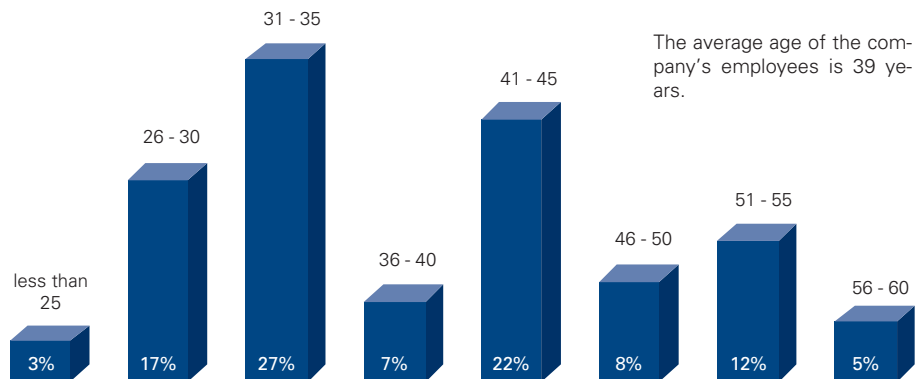
Despite the high level of education among the company's employees and a wide range of skills they possess, at HSE we always stress the importance of complementary forms of functional training and education; we are aware that nowadays acquiring new skills is of key relevance for employees to be able to tackle novelties as we are facing fast developments both in the field of information technology as well as the fields of marketing and production technologies. In 2002 employees participated in additional training sessions from the fields of marketing, finance, foreign languages, internal audit, quality systems etc.

**Education**

The level of education among HSE employees is quite high, as 76 percent of the employees are university graduates. In addition the employees share rich experience from the field of the power system, power generation and coalmining, telecommunications, accounting, finance, market analyses, etc.

A total of seven employees were included in education programs; three of them were included in pre-graduate

**EMPLOYEE AGE STRUCTURE AS OF 31 DECEMBER 2002**







## 2.4 ELECTRICITY

### EU Starting Points

The EU Directive for the Internal Electricity Market was introduced in the EU in February 1997. According to its stipulations the Member States had two years to make the appropriate amendments to the national legislations. In February 1999 each Member State was to open at least 26 percent of its market, followed by a stipulated 28 percent in 2001, while in the third step in 2003 a full 33 percent of the market has to be liberalized.

### Deregulation of the Slovenian Market

In the Energy Act, which was passed in Slovenia in September 1999, it was stipulated that the national electricity market would be liberalized gradually. The market was officially deregulated as of 15 March 2001 when the internal market was deregulated for all eligible consumers, which includes all those with an installed capacity of over 41 kW at a single point of supply (some 8,000 in Slovenia) and all power distribution companies. Before the end of 2001 the Government of the Republic of Slovenia also decreed that the external electricity market is deregulated ahead of time for six of the largest consumers, receiving their electricity directly from the 110 kW network. In 2003 all other eligible consumers joined them. All other con-

sumers (above all households and business consumers) are tariff consumers; for them the prices will remain in the domain of the Government of the Republic of Slovenia until the legally imposed boundary of 41 kW is abolished.

### Import and Export

The legally stipulated processes of the deregulation of Slovenian electricity market are driving towards increased competition. Thus since the beginning of 2003 according to the Energy Act all Slovenian authorized consumers of electricity are able to buy energy from foreign suppliers. The quantity of imported electricity is limited to 20-25 percent of total consumption in Slovenia with the purpose of providing reliable supplies. Partly deregulated import represents a substantially increased supply in the Slovenian electricity market.

On the other hand we are recording rapid growth in the consumption of electricity. In financial year 2002 the growth rate compared to the previous year was at 7 percent. Forecasts for the following years are also expecting consumption growth rates to be around 2-3 percent annually in Slovenia. The forementioned growth rates and the planned increase of cross-border transmis-

sion capacities for the export of electricity to Italy will at least to some extent alleviate the consequences of increased supply due to import deregulation.

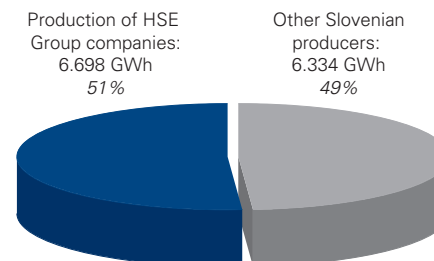
The bilateral agreement on NEK (Krško nuclear power plant) between Slovenia and Croatia is of great relevance for the future development of the market position, as it puts Slovenia in a position of being a net importer of electricity.

In general we can expect fierce competition to be taking place in the market in the future, for which we are well prepared.

### Consumption Growth Exceeding Expectations

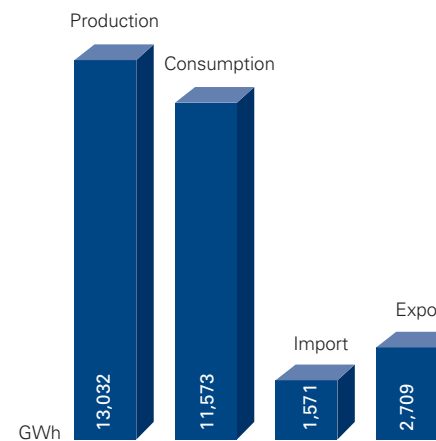
In 2002 consumers assumed 11,573 GWh from the transmission network, which is a 760 GWh increase compared to the previous year. But on the other hand the production of domestic power plants had increased by 1 percent compared to the previous year, which meant that domestic energy sources contributed some 13,032 GWh of electricity into the network. To provide uninterrupted operating of the national power system we had to import 1,571 GWh to Slovenia, while export amounted to 2,709 GWh.

### HSE GROUP SHARE IN THE TOTAL GENERATED ELECTRICITY IN SLOVENIA - 2002<sup>1</sup>



<sup>1</sup>The figure for the HSE Group includes the 18 GWh of electricity, generated in small hydropower plants below 1 MW that was sold directly to distribution.

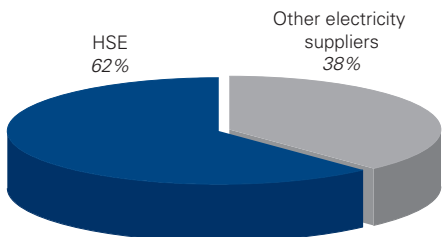
### SLOVENIAN ELECTRICITY MARKET 2002



### Market Share

In 2002 HSE supplied 62 percent of overall electricity consumption in Slovenia.

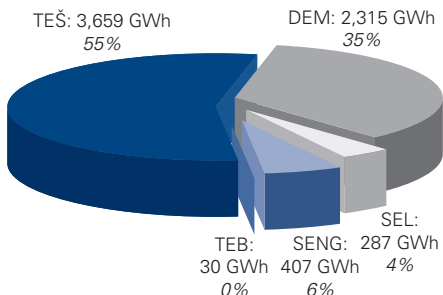
**HSE MARKET SHARE IN OVERALL ELECTRICITY CONSUMPTION IN SLOVENIA 2002**



### Production of Companies within HSE Group

The total amount of electricity generated in HSE Group companies would be sufficient to cover 58% of overall consumption in Slovenia in 2002.

**ELECTRICITY GENERATED WITHIN HSE GROUP IN 2002**



## 2.5 SUPPLY AND SUPPLIERS

### 2.5.1 Electricity

#### Synergy

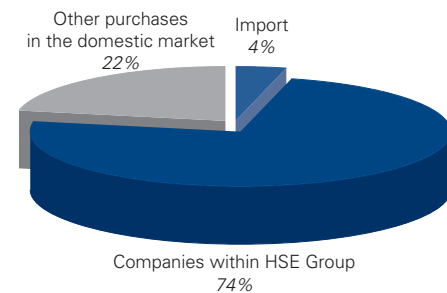
Aiming to achieve the highest possible level of efficiency at HSE we are striving to take advantage of synergies as a result of the comprehensive range of production units within the Group. Operating and cost-related features of individual production units differ substantially, which is why the appropriate combination of production schedules can achieve cost-efficient production of electricity. In addition to this the price of electricity is volatile over periods of time, which is why economic dispatching of production units with regard to the technical criteria plays a vital role.

Electricity that HSE was supplying to its consumers in 2002 was to a large extent (74 percent) purchased from the company's subsidiaries. The remaining part (26 percent) was purchased from NEK (Krško nuclear plant) and in the organized market, while a part was also imported.

Purchase of electricity in 2002		
Source	GWh	Share
HSE group companies	6,901 <sup>2</sup>	74%
Other purchases in the domestic market	2,043	22%
Import	388	4%
<b>Total purchase</b>	<b>9,332</b>	<b>100%</b>

<sup>2</sup> The figure for the purchased electricity includes the required TEŠ own consumption

**ELECTRICITY PURCHASE STRUCTURE 2002**



We were purchasing electricity for covering deficits in cases of malfunctions and bad hydrologic conditions in the daily electricity market.

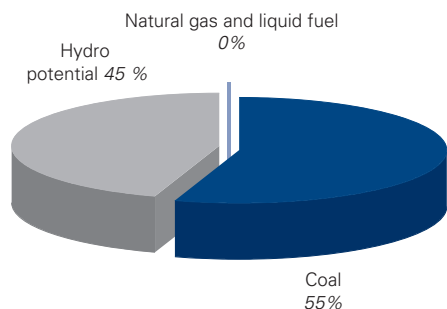




### Primary Raw Materials

Among primary raw materials for the production of electricity in 2002 coal was the most important (55%), followed by hydropower potential (45%), while natural gas and liquid fuel represent less than one percent. Premogovnik Velenje (Velenje coal-mining company) provided us with coal.

#### PRIMARY RAW MATERIALS FOR THE PRODUCTION OF ELECTRICITY WITHIN HSE GROUP IN 2002



#### Largest Electricity Suppliers in 2002

- Termoelektrarna Šoštanj d.o.o. (Šoštanj thermal power plant)
- Dravske elektrarne Maribor d.o.o. (Drava River hydropower plants Maribor)
- Nuklearna elektrarna Krško d.o.o. (Krško nuclear power plant)
- Soške elektrarne Nova Gorica d.o.o. (Soča River hydropower plants Nova Gorica)
- Savske elektrarne Ljubljana d.o.o. (Sava River hydropower plants Ljubljana)

### Supply Optimization

The achieved average total price of purchased electricity exceeded 8 SIT/kWh, which was largely due to quite unfavorable hydrologic conditions. This caused the production of lower-cost hydropower in companies within HSE Group to remain 11.4 percent below the planned production level, and subsequently the higher-cost Šoštanj coal-fired thermal power plant production had to be increased by 11.5 percent. This change in the structure of purchased power could in fact cause a substantially larger increase in the overall price. This was avoided by introducing the following measures:

- Purchases of additional quantities of coal at a lower price
- Specific coal consumption was kept 2.5 percent below the planned figures
- Production levels in the most expensive gas power generators at the Brestanica thermal power plant were reduced by 65 percent

By using the balance group and electricity production system we produced the appropriate market products of band, day and night power, as well as individual peak hour products that were included in the HSE corporate range of products and services from

the supplied generated electricity.

### Coal

We purchased a total of 41,093 TJ of coal from PV (Velenje coalmining company) for the requirements of the production of electricity and heat at TEŠ (Šoštanj thermal power plant).

The energy value of coal stock at the end of 2002 amounted to 627 TJ.

### 2.5.2 Heat

In 2002 HSE also traded with heat. The planned overall production of heat at TEŠ (Šoštanj thermal power plant) for 2002 amounted to 375 GWh, and the actual purchase figure was 374 GWh.

This means that the realization level of the heating power purchase plan was at 99.7%.

## 2.6 SALES AND BUYERS

### 2.6.1 Electricity

In addition to the sales of electricity produced in HSE Group production units, the company's financial performance is also being improved by trading with electricity generated from other sources. Sales activities are therefore synchronized with production and purchasing activities with the purpose of achieving an improved financial result at a reasonable level of risk.

#### Sales Volume

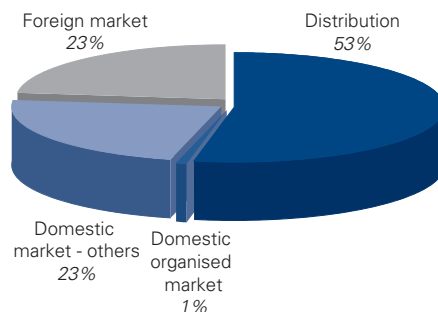
In 2002 HSE sold 9,332 GWh of electricity in the domestic and foreign markets. Domestic market is also the company's most important one as 77% of overall sales volume was generated in Slovenia, of which 53% was sold to the five power distribution companies, 23% to other direct consumers and 1 percent in the organized electricity market (Borzen, EEX). 23% of sold quantities were exported, mainly to Italy. We successfully participated in auctions for cross-border interruptible transmission capacities for the export of electricity to Italy, thereby building our presence in the Italian market, which represents the most profitable market for HSE due to high prices of electricity.

#### Long-term Contracts and Daily Market

The bulk of sales were generated through long-term contracts.

We sold surpluses of electricity resulting from increased water flow and the additional electricity generated at times when the market price exceeded production costs, in daily markets.

#### ELECTRICITY SALES STRUCTURE FOR 2002



#### Net Sales Revenues Structure

Last year HSE generated total net sales revenues of over SIT 91 billion, of which just over 20% was generated from sales abroad. Electricity was by far the most important in the structure of revenues with 93 percent; ancillary services contributed about 6 percent, while heat made up for 1 percent of total revenues.

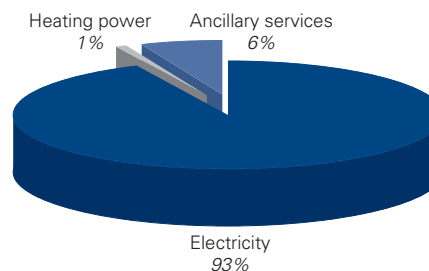
#### Largest Buyers of Electricity in 2002

- Elektro Ljubljana d.d.
- EGL AG Switzerland
- Elektro Maribor d.d.
- Elektro Celje d.d.
- Talum d.d.
- Elektro Primorska d.d.
- Slovenske železarne d.d.
- Elektro Gorenjska d.d.

### 2.6.2 Heat

The entire amount of heat generated in 2002 amounting to 374 GWh was supplied to Komunalno podjetje Velenje (Velenje utilities company).

#### NET SALES REVENUE STRUCTURE IN 2002





### 2.6.3 Ancillary Services

In addition to electricity and heat in 2002 we also supplied the following contractually required ancillary services:

- Voltage regulation with all power generators
- Primary frequency regulation with all power generators
- Secondary frequency regulation in the regulation range of  $\pm 80$  MW
- Tertiary frequency regulation with a less than 15-minute activation of cold and rotating reserve power <300 MW
- Black start capability of generators

## 2.7 RISK MANAGEMENT

In 2002 we commenced the project of designing the risk management guidelines and rules for the entire enterprise. The purpose of creating these guidelines is to set the company policy towards risks, delimitation and delegation of responsibilities, and the form of intertwining of procedures used for determining the risks involved including risk management.

With an increasing volume of trading with electricity comes an increase in market risk, volume risk and financial risk.

### Market Risk

Price or market risk includes risks the company is facing due to volatile prices of electricity in the market. Over time the price is changing, which is why the valuation of financial instruments serving to protect the company from risks and the thereby connected trading-generated profit or loss depend on the accuracy of the forecasts. In 2002 the company followed conservative guidelines of risk limiting, which is why we sign long-term fixed price supply contracts for the bulk of electricity traded.

### Quantity Risk

Quantity risk includes risks arising from uncertain production, volatile consumption and uncertain power supplies:

- Production uncertainty is mainly associated with the question, whether the energy can be generated; in this sense it is connected with the operational risk, which attempts to value the probability and influence of potential loss of an individual power generator or another production element
- Consumption uncertainty is mainly a consequence of weather and temperature, stress elasticity, seasonal oscillation and stochastic consumption growth
- Power supply uncertainty is a consequence of random outages of lines and other equipment, or they come as a consequence of interventions by the operator of the power transmission system due to overloaded transmission lines

### Risks of Electricity Supply in HSE Group

In the production of electricity the following risks of deviations from the planned supplies:

- Risks of electricity supply from hydro-power plants depending on hydrologic-meteorological conditions
- Risks of electricity supply from thermal power plants as a result of outages or technological and environmental production limitations
- Risks of coal supplies from PV (Velenje coalmining company) due to potential

hold-ups of production when interruptions or malfunctions of technological systems occur, at accidents, disasters or other mountain-geological disturbances

### Hydrology

During the course of a single year the total amount of electricity generated in hydropower plants can differ from the planned mean annual water quantity by as much as  $\pm 800$  GWh. At the planned production of 3,100 GWh for TEŠ (Šoštanj thermal power plant) we are able to increase its production to make up for around 600 - 700 GWh. Due to changes in the structure of production of course the costs of purchased electricity increase according to the quantity of substitute power and the difference between the price of hydro and thermal production. In 2002 hydropower plants generated 385 GWh power below planned quantities. The energy loss was almost entirely covered by TEŠ, which exceeded its plan by 377 GWh.

The problems are also caused by discrepancies in actual daily water inflows compared to the daily forecasts. These discrepancies are reflected in variances in hydropower plants' production with regard to the forecasted schedules. Discrepancies are balanced to the largest possible extent by adapting the thermal power plants' production.

### Risks as a Result of Power Plant Unavailability or Technological and Environmental Limitations of Production

In addition to planned unavailability due to major repairs and overhauls with thermal power plants we also have to count with 2-4 percent unplanned outages of potential production - ten to twenty one-day production outages that can only be compensated on short-term by activating gas-fired power plants; otherwise we have to resort to the reallocation of the use of hydropower plants' accumulation and purchases of electricity in the market. In 2002 TEŠ (Šoštanj coal-fired power plant) recorded unplanned losses of potential production of 3.24 percent. This figure is within the limits of comparable power plants' performance and is also satisfying from other aspects i.e. the fact that at TEŠ overhauls come every 3 - 5 years. Due to the simplicity of their production process hydropower plants are more reliable. With individual power generators the unplanned outages of potential production vary from 0 to 0.5 percent.

### Risks of Interrupted Coal Supply from Premogovnik Velenje

Interruptions in coal supply can take place as a result of technical system malfunctions, disasters or other mountain-geological disturbances in coalmining. According

to the PV (Velenje coalmining company) technical management most of all potential problems can be solved without any disturbances to the production, only exceptionally would malfunctions cause a 14 to 20-day interruption of supplies. There is but only a remote possibility that a major breakdown would take place causing a six-month interruption of production. Based on these estimates we have set the minimum total stock of coal to be available at all time. The minimum limit is set between 2,000 and 3,000 TJ. This amount would be sufficient for the sustaining of 20 days of electricity production at TEŠ (Šoštanj coal-fired power plant).

### Production Management

Within HSE the electricity production management is being run from the control center in Maribor. Basic goals of production management are as follows:

- Minimizing the variations in production and with balance groups in relation to the planned schedules
- Optimizing the power distribution among the available power generators
- Activating the reserve capacities at extraordinary events

### Hydropower Production Management

In hydropower production management tendencies are to exploit all the available hydro potential providing the maximum

economic effects. This means that hydropower plants accumulate water during the nighttime according to the available reservoir volumes and produce electricity during times when higher prices are achieved (above all peak and hourly power). It is a common feature of all hydropower plants within HSE Group that they are run-of-river projects and there is little possibility for the accumulation of hydro potential. With DEM (Drava river hydropower plants Maribor) the largest achieved hourly increase in production was 324 MW, while the largest hourly decrease was 272 MW. At DEM the hourly peak production amounted to 541 MWh. The largest daily production at DEM amounted to 12,701 MWh. SEL (Sava river hydropower plants Ljubljana) achieved the largest hourly increase in production of 20 MW, while the largest hourly decrease was 23 MW. The largest hourly production amounted to 101 MWh. The largest daily production was 2,322 MWh. SENG (Soča river hydropower plants Nova Gorica) achieved the largest hourly increase of 35 MW, while the largest hourly decrease amounted to 24 MW. The company's largest hourly production was 142 MWh, whereas the largest daily production amounted to 3,340 MWh.

### Thermal Power Production Management

TEŠ (Šoštanj thermal power plant) adapted its production to the planned schedules.



Units 4 and 5 were mainly included in the automatic secondary frequency regulation. TEŠ achieved the largest daily production in the amount of 17,852 MWh on the power generator or 15,971 MWh on the threshold. The largest hourly increase in production was 225 MW, while with decreased production the largest hourly decrease was 199 MW.

The role of TEB (Brestanica gas-fired power plant) is to provide minute-reserve and supply tertiary frequency regulation as part of ancillary services. The average Unit response time at TEB with unannounced normal activations from the time that an activation order is issued to the synchronization procedure is about 13 minutes, with activation times from the activation order to the synchronization ranging from 6 to 21 minutes. The achieved level of responsiveness is satisfactory. In 2002 there were no requests for quick Unit activation - action that is common with temporary outages of production units.

**Balance Group Management**

The quality of balance group management is displayed through the minimized energy imbalances that a balance group is having compared to the planned schedules. In 2002 HSE balance group comprised the production units of the HSE Group (combined with small hydropower plants), NEK

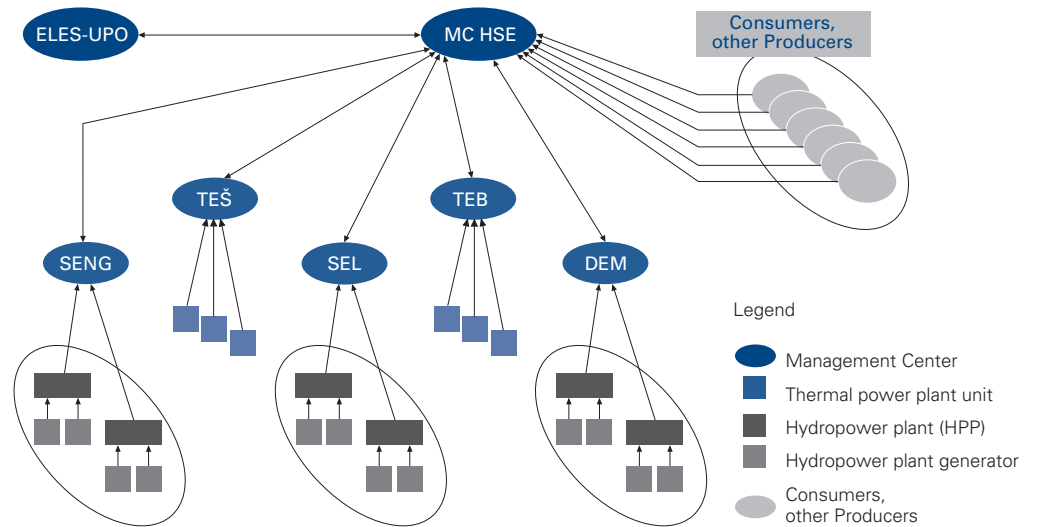
(Krško nuclear power plant), some of consumers, and electricity import and export as result of trading operations. Energy imbalances of the balance group include all deviations from the planned schedules.

In 2002 the total of all deviations from schedules amounted to 5.5 GWh. Within the ±80 MW regulation zone of the secondary frequency regulation, which was provided to the system operator according to the contract, imbalances amounted to 0.2 GWh. Outside this zone the total of all deviations amounted to 5.3 MWh.

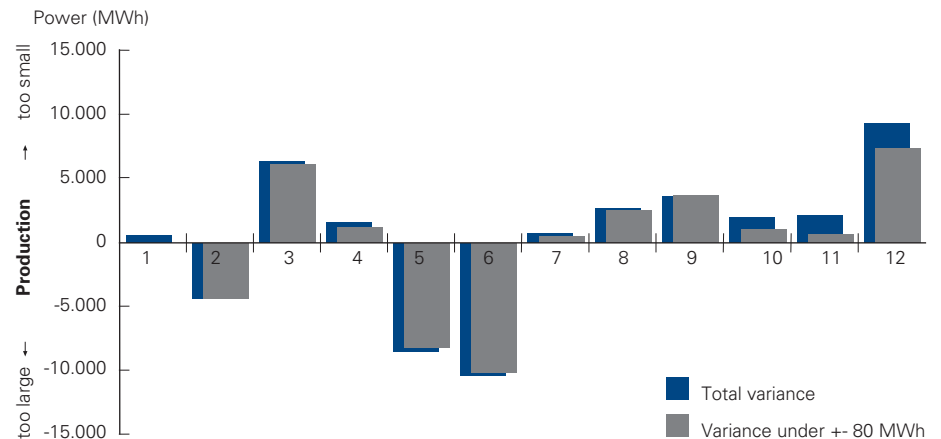
Deviations outside of the ±80 MW regulation zone were partly caused by the system operator, while a part was caused internally within the HSE balance group. ELES - the grid operator - caused a variance of 2,6 GWh, while a total variance of 3.2 GWh was caused internally by the HSE balance group. This includes all imbalances caused by various production problems at HSE and NEK as well as by discrepancies in consumption levels within the balance group (outages, ecology-induced reduced production, discrepancies regarding the forecasted water flows, unsold surpluses etc.).

Only imbalances outside the 80 MWh ±5 percent of the planned schedule are penalized - the total amount of these was 1.86 GWh.

**HSE BALANCE GROUP**



**BALANCE GROUP HSE DEVIATIONS FROM THE PROJECTED SCHEDULES FOR 2002**



**Financial Risks**

In addition to quantitative risks the company is also regularly monitoring the financial risks it is facing in its operations and takes measures in order to manage them. We are safeguarding the credit risks connected to individual partners by carefully checking the credit ratings. Most of our receivables in the domestic market are secured with two blank bills of exchange, whereas after the second bill has been cashed in, the buyer has to present a bank guarantee at first demand without objection.

In foreign markets annual sales contracts are secured with bank guarantees.

We are managing the liquidity risk as the risk of providing sufficient amounts of cash required to meet the due liabilities by carefully planning the cash flows for the subsequent periods. In doing so we are consistently investing the excess funds into a diversified investment portfolio with Slovenia's most established financial institutions under the most favorable current conditions in the capital market.

**Regulatory Risks**

Regulatory risks include out-of-market

factors such as legal complications, changes and inconsistencies in legal acts, and political decisions. This form of risk was especially present during the starting phase of restructuring in the electricity sector and introduction of the electricity market. In Slovenia we are still in the transition phase of market deregulation as some legal acts are still being prepared; this means that the regulatory risk is still present but it is gradually being reduced as the conditions settle down.

**Planned Developments in the Field of Risk Management**

The company's management has accepted the strategic guideline to introduce a uniform electricity trading system. This is why in the second part of 2002 we started choosing and introducing trading software, which provides substantial support to risk analyses and management as well as portfolio analysis. Special emphasis in risk management is placed on the support of valuation of forward contracts and derivatives used for hedging and protection from other risks. Combined with the expanded range of trading activities and organization of portfolio analyses these activities will provide the company with an opportunity to take advantage of synergetic effects of

the company's production and sales decisions.

Along with the development of risk management tools we are also planning to establish a Credit Risk Management Department. This form of risk is becoming increasingly important with the expansion of trade volume generated with foreign partners, and especially the expanded range of operations with domestic partners under the conditions of electricity market deregulation in 2003.





## 2.8 FINANCIAL OPERATIONS

### Basic Goals

During 2002 the HSE Group financial operations were aimed at the following:

- Providing a sufficient level of solvency for the company and thereby indirectly also for companies within HSE Group as contractual partners of HSE
- Investing
- Risk management
- Economically sound investing of surplus funds
- Organization of the Finance Sector

In its business decisions the company has to bear in mind the basic principles of long-term as well as short-term solvency. The execution of the financial function was closely linked to the specific form in which HSE was established, the financial performance in electricity trading and the adopted investment plan.

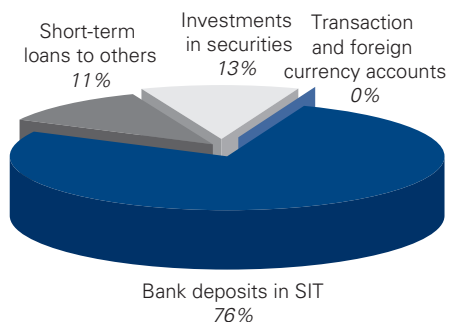
In February 2002 we received two short-term loans in a total amount of SIT 2.3 billion (Banka Celje and Nova kreditna banka Maribor) in order to bridge a liquidity gap. This was to amend the gap between the purchasing and selling side of HSE operations, while at the same time this meant that sustained liquidity was provided to other companies acting as HSE suppliers. Both loans were paid off in their full amount in June 2002.

### Risk Fund

Due to potential negative effects of electricity trading we started establishing a liquidity risk fund in the second part of 2002. We were able to do so by consistently collecting debts from all of the company's buyers, utilizing detailed cash flow planning, and consistently investing short-term liquidity surplus funds under the most favorable conditions currently available in the capital market. In doing so we took into consideration the criteria of maximum investment diversification in:

- Bank deposits in SIT
- Foreign currency bank deposits
- High-liquidity securities and treasury bonds
- Securities repurchase and granting security loans

**DIVERSIFICATION OF THE COMPANY'S LIQUID FUNDS AS OF 31.12.2002**



### Investment Portfolio

As of 31 December 2002 the collection ratio for receivables generated from electricity trading in the domestic market was at 99.5 percent, while for the foreign markets the figure was 99.8 percent. All receivables from the financial year 2002 were collected to their full extent by the end of March 2003.

### Capital Market

At HSE we are continuously cooperating with a majority of Slovenian banks. Our partners in daily operations include:

- Nova KBM d.d. as the company's "home" bank
- Nova Ljubljanska banka d.d.
- SKB banka d.d.
- Banka Celje d.d.
- Bank Austria Creditanstalt d.d.
- Gorenjska banka d.d.
- Abanka Vipava d.d.
- Volksbank Ljudska banka d.d.
- Poštna banka Slovenije d.d.

In addition to banks our operations also include cooperation with a number of stock-broking organizations.

### Foreign Currency Operations

With foreign market electricity sales we are accumulating surpluses of foreign currency funds that are either optimized in the foreign currency or converted to the domestic currency according to the current market situation and the plan of future payments.

All our liabilities in 2002 were met in due time according to the contractual provisions.

## 2.8.1 Financial Criteria of Business Success

### Financial Valuation of the Company's Performance

At HSE we are aware of the importance of objectively valuating the company's perform-

ance from the aspect of the set strategic goals, which is why we had started the first phase of forming a balanced system of ratios. We believe that by doing so we will be able to enable the company's operations to become even more efficient and transparent, which is the goal of both the shareholders as well as the company's management.

Ratios	2002	2001
<b>FINANCING RATIOS</b>		
1. Participation rate of capital	95.00%	99.98%
2. Long-term financing ratio	95.00%	99.98%
3. Share capital to capital	0.64%	0.00%
<b>INVESTMENT UTILIZATION RATIOS</b>		
1. Participation rate of fixed operating assets	0.33%	0.004%
<b>RATIOS OF HORIZONTAL FINANCIAL STRUCTURE</b>		
1. Capital to fixed operating assets	1.07	1.00
2. Quick ratio	0.96	1.96
3. Accelerated ratio	2.15	2.87
4. Current ratio	2.18	2.87
5. Accounts receivable to accounts payable	6.61	
<b>TURNOVER RATIOS</b>		
1. Fixed operating assets turnover ratio	0.04	
<b>RATIOS OF OPERATING EFFECTIVENESS</b>		
1. Operating effectiveness ratio	1.16	3.40
2. Overall effectiveness ratio	1.15	0.01
3. Operating revenue profitability	13.92%	70.61%
4. Total revenue net profitability	13.37%	(9,513.16%)
5. Added value (in SIT 000 )	13,353,741	62,527
<b>RETURN RATIOS</b>		
1. Net return on capital	0.07	(0.37)
<b>FUNDS FLOW RATIOS</b>		
1. Operating revenues net inflow ratio	11.61%	

### Participation Rate of Capital

The company is being financed primarily with its own financial resources. This is why the company's participation rate of capital for 2002 is at a high 95 percent. The ratio has been reduced compared to the previous year as a result of increased short-term trade liabilities. The high ratio also shows that the company bears low financial risks for the creditors.

### Long-Term Financing Ratio

Long-term resources are used for the financing of some 95 percent of the company's assets, while only 5 percent are financed by short-term liabilities. Compared to 2001 the long-term financing ratio has been reduced by 5 percentage points, which is understandable regarding the company's participation rate of capital.

### Share Capital to Capital Ratio

The share of share capital in total capital amounts to a mere 0.64 percent. This means that other forms of capital, especially reserves are prevalent. Due to an increase in share capital in 2002 the share capital to capital ratio is higher compared to the previous year.

### Participation Rate of Fixed Operating Assets

The share of fixed operating assets in the

company's assets is only 0.33 percent, which is understandable regarding the facts that long-term investments represent a majority of the company's assets and that the company is only commencing with large investment projects. The participation rate of fixed operating assets is higher compared to the previous year.

### Capital to Fixed Operating Assets Ratio

The capital to fixed operating assets ratio amounts to 1.07, which means that capital is used to finance the total amount of the most illiquid assets (intangible fixed assets, tangible fixed assets, long-term investments etc.) and also a part of current assets. In comparison with 2001 the ratio has increased by 0.07.

### Quick Ratio

Quick ratio shows the relation between liquid assets and short-term liabilities. The ratio has dropped to 0.96 compared to 2001 when it was set at 1.96. The company has no problems regarding its solvency.

### Accelerated Ratio

The accelerated ratio shows, whether the company is financing its inventories and other short-term assets with short-term liabilities or also by using long-term financing. The ratio has been reduced to





### HSE BALANCE SHEET STRUCTURE AS OF 31 DECEMBER 2002

2.15 compared to 2001 when was set at 2.87. Both in 2002 as well as in 2001 the value has been above 1, which means that the company is using long-term financing not only for inventories but also other short-term assets.

#### Current Ratio

The current ratio displays the level of financing the company's short-term assets by using short-term liabilities. The current ratio has dropped in 2002 to 2.18 but it still displays that the company's solvency is at a high level.

#### Accounts Receivable to Accounts Payable Ratio

The HSE accounts receivable to accounts payable ratio shows us that the company's accounts receivable substantially outweigh its accounts payable. The value of this ratio for the financial year 2002 is 6.61.

#### Fixed Operating Assets Turnover Ratio

The company's fixed operating assets turnover ratio for 2002 is set at 0.04. The low value of this ratio shows us that the turnover period for fixed assets is long and that the company's fixed assets are depreciated over an average period of 25 years. Regarding the fact that a majority of the company's fixed assets are still to be activated (they are still under construction or in process and are not yet

being depreciated) this is understandable.

#### Operating Effectiveness Ratio

The operating effectiveness ratio is above 1, which means that the company's operating revenues exceed the company's operating expenses. This shows that the company is displaying an operating profit. The value of this ratio has been reduced from 3.40 in 2001 to 1.16 in 2002. Regarding the volume of operations generated during each year the figures are not comparable.

#### Overall Effectiveness Ratio

The value of the overall effectiveness ratio of 1.15 means that in 2002 HSE managed to achieve total revenues in the amount of SIT 115 per SIT 100 of total expenses.

#### Operating Revenue Profitability

The operating revenue profitability shows us that the company generated an operating profit of SIT 13.92 per SIT 100 of operating revenues.

#### Total Revenue Net Profitability

The total revenue net profitability ratio is set at 13.37 percent; this shows us that the company generated a net profit of SIT 13.37 per SIT 100 of total revenues.

#### Added Value

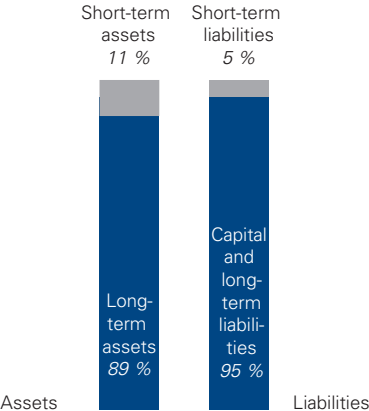
The added value for 2002 amounted to SIT 13,353,741,000, which is a substantial rise compared to SIT 62,527,000 generated in 2001.

#### Net Return on Capital

The net return on capital coefficient shows us that the company managed to generate a net profit of SIT 7 per SIT 100 of invested capital. Regarding the fact that HSE is a capital-intensive company the value is quite reasonable.

#### Operating revenues net inflow ratio

The operating revenues net inflow ratio is calculated as the relation between the surpluses of inflows from operating activity over operating revenues. The ratio of 11.61% shows us that the company generated an excess of SIT 11.61 of inflows from operating activity per SIT 100 of operating revenues.



### Changes in the HSE balance sheet structure

ITEM	Structure as of 31.12.2002	Structure as of 31.12.2001	Changes in percentage points
<b>ASSETS</b>	100.000%	100.000%	0,0000%
A. FIXED ASSETS	88.979%	99.947%	(10.9677%)
I. Intangible fixed assets	0.169%	0.000%	0.1693%
II. Tangible fixed assets	0.163%	0.004%	0.1592%
III. Long-term investments	88.647%	99.943%	(11.2963%)
B. CURRENT ASSETS	11.020%	0.053%	10.9673%
I. Inventories	0.171%	0.000%	0.1706%
II. Operating receivables	6.031%	0.017%	6.0143%
III. Short-term investments	4.784%	0.000%	4.7840%
IV. Cash on hand, cheques and bank	0.035%	0.036%	(0.0016)%
C. DEFERRED EXPENSES AND ACCRUED REVENUES	0.000%	0.000%	0.0004%
<b>LIABILITIES AND CAPITAL</b>	100.000%	100.000%	0.0000%
A. CAPITAL	94.775%	99.981%	(5.2062)%
I. Called-up capital	0.602%	0.002%	0.6005%
II. Capital Reserves	86.513%	118.272%	(31.7589)%
III. Revenue Reserves	3.200%	0.000%	3.1999%
IV. Net profit from previous periods	0.000%	0.000%	0.0000%
V. Net profit for the financial year	3.200%	(18.292)%	21.4918%
VI. Capital revaluation adjustments	1.260%	0.000%	1.2604%
B. PROVISIONS	0.000%	0.000%	0.0000%
C. FINANCIAL AND OPERATING LIABILITIES	5.045%	0.019%	5.0268%
Č. ACCRUED COSTS AND DEFERRED REVENUES	0.179%	0.000%	0.1794%

## 2.9 INVESTMENTS

### 2.9.1 Lower Sava River Hydropower Plants

On the Sava River section from Suhadol to the state border with the Republic of Croatia five new hydropower plants will be constructed, thereby enabling us to generate 2.2-times more energy compared to the status before additionally exploiting the river's hydropower potential. The Construction of Hydropower Plants on the Lower Sava River project is one of the largest projects in the Slovenian power generation sector in the last century. It is of the utmost importance to Slovenia as a whole and is bringing many positive effects to the country.

#### Renewable Source of Energy

In addition to increasing our own production of hydropower the Construction of Hydropower Plants on the Lower Sava River will enable us to regulate the Sava river flow and help us to better exploit the potential of this renewable and price-efficient source of power. Slovenia will enjoy an improved level of reliability as well as independence in the supply of electricity in addition to increased stability of the power system's operating, which will become more reliable and robust.

#### Flood Area Regulation

From a broader point of view Slovenia, and indirectly also HSE, will also enjoy gains on

a regional and local level. The Construction of Hydropower Plants on the Lower Sava River project also provides a higher level of regional development as well as the regulation of flood areas. We will achieve a higher level of flood safety by executing the hydro-economic regulation and the construction of hydro-economic infrastructure, while an improved level of regional development will be achieved by arranging the national, local, and hydro infrastructure.

#### Important Complementary Source of Power

The gross power potential of Slovenia's waters is estimated at 19,400 GWh p.a., of which we are only technically able to exploit some 9,100 GWh p.a., whereas just 7,000 to 8,500 GWh p.a. are currently economically viable for exploitation. The current total output of Slovenian hydropower plants is 819 MW, while with the construction of the Lower Sava River Hydropower Plants we will be able to acquire an additional 187 MW of power. The annual production of hydropower plants Boštanj, Blanca, Krško, Brežice and Mokrice will amount to 720 GWh on average, which represents 21 percent of the current total output of Slovenian hydropower plants.

The construction of hydropower plants on the Lower Sava River will also contribute to a reduction in the country's dependability on external sources, thereby improving the



level of prices of electricity.

Advantages:

- Opportunity for local, regional and national development
- Environmentally friendly structures with a long lifespan
- Increased level of preparedness for increases in the consumption of electricity
- Increased power supply reliability and independence
- Increased stability of power system's operation
- New jobs during construction and in new power plants' operation
- Improved quality of life

The construction of all five power plants will be taking place from 2002 to 2018, whereby the estimated time limit for the construction of each power plant is three and a half years.

### Boštanj HPP (Boštanj Hydropower Plant)

At the section of the Sava River where it crosses the 46th parallel, in November 2002 we started the construction of the first hydropower plant in a chain of power-generating structures, which will improve Slovenia's power supply.

With the construction of Boštanj HPP, as with other hydropower plants in the chain, special attention is aimed at flooding safety. The execution of flooding safety and harm-

ful effect prevention measures is planned in cooperation with the Ministry of the Environment, Spatial Planning and Energy as well as the local community. We will make sure that the potential harmful waters are adequately drawn off, protect the Sava riverbanks with safety dykes, and ensure safe operations that do not interfere with the water regime. All the above-mentioned measures taken in the construction of the power-generating structures will improve the overall level of flooding safety in the Lower Sava River.

Boštanj HPP is a combined run-of-river storage hydropower plant featuring three bulb turbines with a total flow capacity of 500 m<sup>3</sup>, five spillways with a total spilling capacity of 3,500 m<sup>3</sup>/s and an average annual output of 115 GWh.

The power plant will basically be unmanned; it will be managed by the HPP chain's remote control center. Only maintenance personnel will be operating at the location itself, performing their daily tasks and annual overhauls. These personnel will also be trained to take over the station's management in case of problems in the remote control system.

The construction of Boštanj HPP will take 42 months, which means that it will commence its operation in May 2006.

Boštanj HPP Basic Information	
Rated flow	500 m <sup>3</sup> /s
Head	8.20 m
Rated Power	32.5 MW
Average annual production	115 GWh
Useful reservoir volume	1,000,000 m <sup>3</sup>
Average annual flow	235 m <sup>3</sup> /s
Estimated value of investment in power generation	SIT 15.4 billion
Estimated value of infrastructure investments (Republic of Slovenia as the investor)	SIT 4.9 billion

### Infrastructure Management Program

At the beginning of October 2002 HSE turned over the "Infrastructure Management Program" to the Ministry of the Environment, Spatial Planning and Energy for discussion and approval. The inter-sector workgroup, which was nominated by the Minister of Environment, Spatial Planning and Energy - Janez Kopač, M. Sc. was assembled for one session. The program was not yet approved and confirmed in 2002. Adjustments of activities regarding the value and financing sources for the construction of infrastructure will be finished during the first half of 2003.

### Building Permit for Preparatory Works (Lot A1)

The building permit for preparatory works was issued on 15 November 2002.

### Project Documentation

A contract was signed with IBE for the execution of the following portions of the project documentation: PGD (construction works project), PZR (tender project) for construction works and major purchases of equipment (preparatory works, main construction works, accumulation tank works, supply of turbine and generator equipment, hydro-mechanical equipment and elevators) and PZI (execution project) for preparatory works.

### Project of Attaining the PGD (Construction Works Project) Building Permit

Due to the inadmissibility of a tolerance in the Boštanj HPP Location Plan we were forced to divide the PGD (Construction Works Project) into two parts: the power generation structure and the reservoir. The Construction Works Project for the power generation structure was prepared before the end of 2002, while the deadline for the preparation of the Reservoir Construction Works Project is September 2003.

### PZR - Tender Project

The preparation of Lot A1 for the execution of preparatory works was the foundation for the execution of the tender.

Lot TG for the purchase of turbines and generators and Lot A2 for main construction works have been published in the Official Gazette of the Republic of Slovenia on 13 December 2002.

### The Course of Purchasing Equipment and Services for Execution - Lot A1

The tender procedure and the placing of the order for execution of preparatory works were completed on 22 November 2002, when we signed a contract with the Gradis NG / GIZ Gradis consortium.

### Blanca HPP (Blanca Hydropower Plant)

Three years after commencing the construction of the first hydropower plant on Lower Sava River is the planned start of construction of Blanca HPP.

Blanca HPP is a combined run-of river storage hydropower plant featuring Kaplan turbines with a total spilling capacity of 500 m<sup>3</sup>/s, five spillways with a total capacity of approximately 3,500 m<sup>3</sup>/s and an average annual output of 160 GWh.

### Blanca HPP Basic Information

Rated flow	500 m <sup>3</sup> /s
Head	10.70 m
Rated output	42.5 MW
Average annual production	160 GWh
Useful reservoir volume	1,390,000 m <sup>3</sup>
Average annual flow	243 m <sup>3</sup> /s
Estimated value of investment in power generation	SIT 13.5 billion
Estimated value of infrastructure investments (Republic of Slovenia as the investor)	SIT 4.5 billion

The power station will be basically unmanned. It will be managed by the chain's control center.

### Natural and Cultural Heritage Protection

In planning the Blanca HPP structures and dam we will keep the intrusions into locations, areas and objects of natural value and cultural heritage to a minimum, as stated in the overall plan of construction of the Lower Sava River hydropower plants. The appropriate departments for the protection of natural treasures and cultural heritage will be included in the planning of structures,

which ensure a good state of waters and water-dependent ecosystems to the largest possible extent, while at the same time enabling the satisfaction of economic, social and other human needs for water by implementing a sustainable use of nature's wealth. The characteristic and most valuable parts of natural and cultural value will be documented in their current condition before any operations take place; any intrusions in these parts will only be allowed upon obtaining the approval of the competent department for the protection of natural and cultural heritage.

### Project Status

In 2002 we have been preparing project tasks for the execution of the idea project and cooperating in concessionaire's preparatory studies.

### Lower Sava River Hydropower Stations Project Investment Value for 2002

A total of SIT 220,545,000 was invested as part of the Lower Sava River Hydropower Stations Project in 2002.

## 2.9.2 Overhead Telecommunications Network

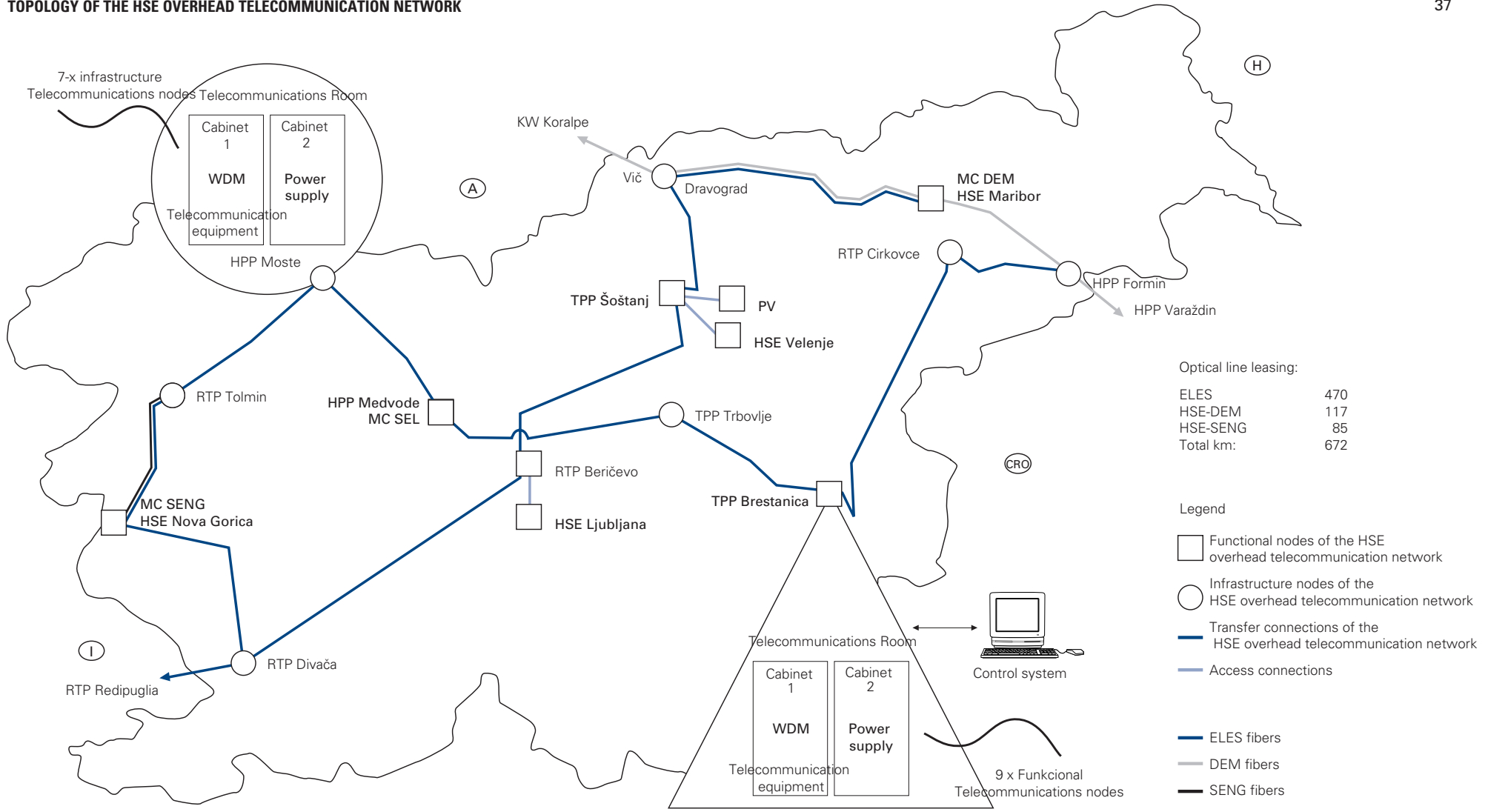
The analyses of needs for connectedness and for exchange of information as an indispensable tool for successful performance in a deregulated market show that by establishing our own telecommunication network we are also presented with new options of marketing certain telecommunication services and that by utilizing the previously installed telecommunication systems in companies within HSE Group relatively low infrastructure and equipment investments are required.

### Purpose of the Project

The project's purpose is to provide telecommunication services of high quality, speed, reliability and sufficient capacity, which can be upgraded and thereby satisfy the needs of:

- The management system of the HSE balance group and production
- Business informatics
- The measurements and counter status calculation system
- System of communication links between HSE business units and HSE Group companies

**TOPOLOGY OF THE HSE OVERHEAD TELECOMMUNICATION NETWORK**



- System of communications and data transfer to external users (domestic and foreign consumers)
- Marketing of excess telecommunication capacities
- Other technical and business systems

The HSE overhead telecommunication network represents an information highway, which will enable all of us to send and interconnect all information systems within and outside the HSE Group. The network will be conceived as part of the new generation of telecommunication networks. On the information transfer layer the so-called wave multiplexing will be used, while on the packet transfer and routing layer the network will be using GB Ethernet connections, whereas Internet protocols will be used for the interconnection of overhead network nodes. We will include all currently existing and new telecommunication networks in the corporate system, which will enable us with sufficient options of capacity expanding. The overhead telecommunication network will be supervised and managed from a central post with the inclusion of all the functions of a modern control center (configuration setup, element setup, alarm management, calculations etc.).

### **Project Status**

The Idea Project was prepared and audited. The most favorable technical solution was chosen - this is the CWDM (course wave division multiplexing) technology of wave multiplexing on the transport layer combined with a channeling packet switching platform. We will prepare an investment program to show the economic viability of the project.

The project will be concluded in the first half of 2004.

### **Investment Value in 2002**

The project's total annual investment value for 2002 was SIT 13,829,000.

## **2.9.3 Metering System**

### **Efficient Monitoring**

In order to ensure efficient monitoring and calculations of the quantities of electricity and heat as well as ancillary services produced and sold, at HSE we had decided to install a uniform electricity measurement and accounting system. The planned system was technically coordinated with companies within the Group and the operator of the transmission network ELES-UPO. The system is conceived in a way that enables simple inclusions or exclusions of producers and consumers of electricity, thereby establishing an efficient form of monitoring the performance of any balance group. The goals were to choose a technologically up-to-date, reliable and safe system and to take into consideration the principle of rationality in order to maximize the use of pre-installed devices and sources.

### **Project Status**

The metering system already includes data from TEB (Brestanica TPP), DEM (Drava River HPPs) and PV (Velenje coalmining company). We will start extracting data from TEŠ (Šoštanj TPP), SENG (Soča River HPPs) and SEL (Sava

River HPPs) in the first half of 2003.

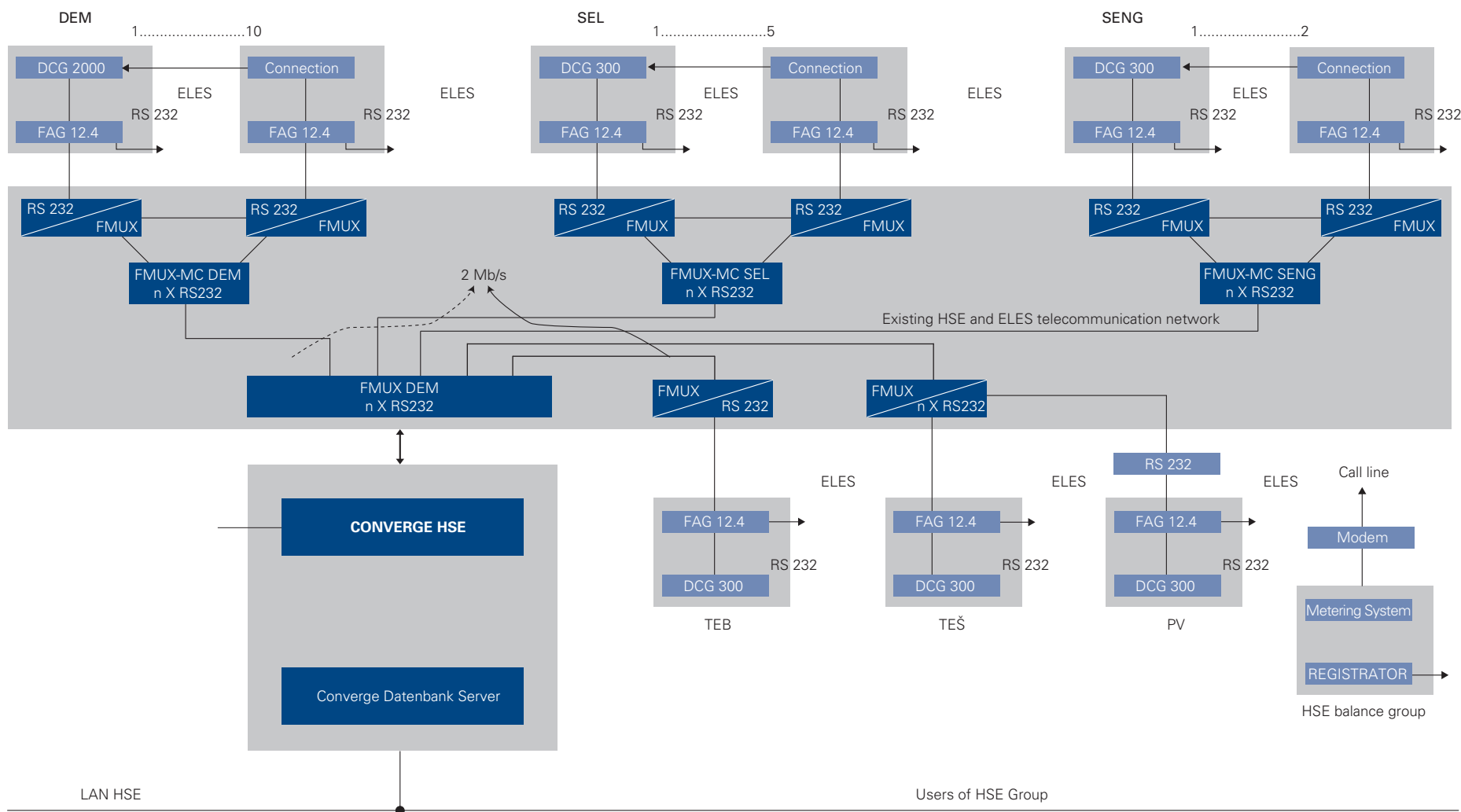
### **Investment Value in 2002**

The project's total annual investment value for 2002 was SIT 111,222,000.





### TECHNICAL SCHEME OF THE HSE METER SYSTEM



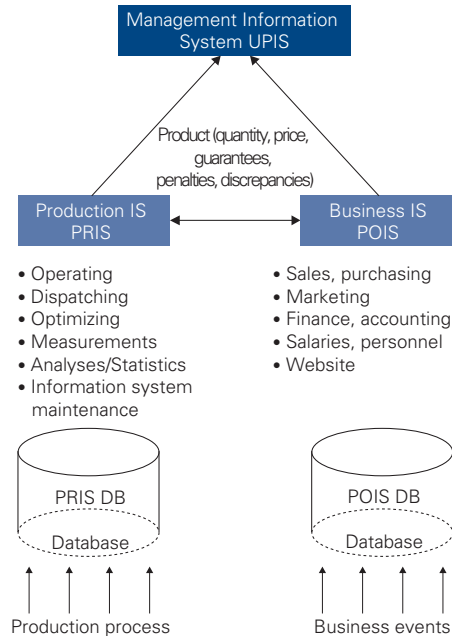
## 2.10 INFORMATICS

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Building of the HSE information system is coordinated with the shaping and development of the company's business functions.

Solutions are based both on the use of material (hardware, systems and applications) as well as personnel and organizational resources from the companies within HSE Group with the purpose of supporting the basic business functions and thereby enabling their execution.

### HSE INFORMATION SYSTEM



### Significant Activities

In 2002 the following activities were undertaken in the field of informatics:

- Establishment of a local network with all the business unit locations
- Establishment of the HSE domain
- Establishment of the required support to the basic business functions and equipping the personnel with tools needed for normal operations
- Realization of support to the business information system by using an application, which was already introduced in one of the subsidiaries
- Production information system had to be built anew. A CONVERGE joint central was installed in Maribor for the coverage of meter measurements. The installed piece of equipment enables:
  - Inclusion of electricity information (hydropower plants, thermal TPP)
  - Inclusion of heat information (TEŠ - Šoštanj TPP)
  - Inclusion of system-related hydro data (Velenje municipal heat conduction system)
  - Inclusion of coal quantity data (Velenje coalmining company, TEŠ, HSE)
  - Inclusion of liquid fuel data (Brestanica TPP)
- Establishment of the WEB business portal intended for internal and external informing

- Management information system was started being built as an application, which will form the correct and accurate data for the company's management based on the acquired data
- Started the establishment of the Endur trading support system

**Investment value in 2002** is SIT 232,999,000.

## 2.11 QUALITY

Since the company's establishment we have been aware that a successful drive in the domestic and foreign market is significantly dependent upon our display of a high quality of organization management. Our striving for quality is therefore the basic part of our day-to-day activities, strategies and tactics, that are being realized through relations with our environment, wherein and whereby we are cohabitating. All the production companies of the HSE Group have acquired the ISO 9001 certificates as a display of the company operations' compliance with international standards. According to plans HSE as the parent company will acquire the ISO quality certificate as soon as in 2003 after the final formation of its organization structure.





## 2.12 RELATIONS WITH THE WIDER SOCIAL ENVIRONMENT

As we are aware of the fact that any company in the power generation and distribution sector has to put environmental responsibility at the center of its efforts, we have made environment protection and the utilization of renewable sources of energy one of our primary values. We are living up to our responsibility towards the environment in a number of ways. We are replacing the old goals of increasing production capacities with the concept of sustained economizing, aiming to balance the utilization of natural resources with the nature's regeneration capabilities. It is the awareness of our dependence on natural sources that drives HSE towards the development of new modern technologies and processes that increase productivity and simultaneously reduce production's negative effects on the environment.

Most of the companies in the Group have already obtained the ISO 14001 environmental certification.

### Hydropower Plants

The largest hydropower-plant-related intrusion in the environment is the construction of reservoirs and the influences on the environment infrastructure. By consistently complying

with international standards and using the appropriate technological solutions HSE is providing a safe and environmentally friendly form of power generation. DEM (Drava River Hydropower Plants, Maribor), SEL (Sava River Hydropower Plants, Ljubljana) and SENG (Soča River Hydropower Plants, Nova Gorica) have already obtained the ISO 14001 environmental-care certification.

### Thermal Power Plants

The beginnings of environmental awareness at TEŠ (Šoštanj Thermal Power Plant) reach as far back as 1978. Nine years later a program for a corporate environment rehabilitation of the thermal power plant was adopted. After introducing numerous technical improvements and renewals in 1993 the construction of a desulphurization plant was commenced on Unit 4, and in 2000 it was finished on Unit 5. Environment rehabilitation is being continued with the project of reducing the emissions of NOx and the introduction of the ISO 14001 environment management system, for which the company obtained a certificate at the end of 2002.

With the modernization of old Units the thermal power plant achieved an

environmentally acceptable technological level. With the construction of the final two Units they are providing an additional 228 MW of environmentally friendly threshold power, while a refurbishment of environmentally friendly steam technology is also planned.

### Coalmining Company

At PV (Velenje coalmining company) the environment management system is one of the company's strategic goals. By actively improving working processes they are constantly reducing harmful influences on the environment. The construction of the environment management system includes eleven environmental segments (water, air, waste, hazardous substances, transportation, energy, noise, development, surface ground, raw materials and seismic characteristic). The coalmining company had obtained the ISO 14001 environment management certification in 2000. By achieving this it became one of the first coalmines in the world to be acknowledged for its environmentally friendly operations.

### Cohabitation with the Local and Wider Community as an Obligation

The field of environmental awareness also includes responsibility to the

wider social environment, with which HSE is in co-habitation. By supporting a variety of organizations, societies, projects and individuals we are creating close linkages with the community around us, connected to our operations in one way or another. As we are aware of the fact that our business success is closely linked to its sense of benevolence, loyalty, and alliance, we have dedicated a certain portion of our funds to certain activities both in the national as well as regional level.

## 2.13 RESEARCH AND DEVELOPMENT

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### **Prepared for Challenges**

Forecasting the future is an immensely ungrateful action in the ever-changing conditions of the Slovenian as well as wider electricity market. Despite this we are almost certain in our claims that the competition will become even stiffer during the following years. At HSE we are prepared for challenges, we are expanding to new fields of activity, and are also executing additional activities to improve our position in the competitive environment. Despite the increasing level of competition of foreign and domestic power suppliers it is the goal of both the parent company as well as HSE Group to remain the largest electricity producers and traders in Slovenia. The signed annual contracts with our consumers for 2003 confirm the feasibility of the set goals. Based on signed annual contracts we will sell a total of 4,620 GWh to domestic power distribution companies and 1,050 GWh to direct consumers. At ELES' (Slovenia's operator of the power transmission system) tender at the end of 2002 HSE Group managed to attain cross-border transmission capacities for the export to Italy of some 1,500 GWh annually, of which one half was awarded in the form of long-term three-year contracts. Based on the attained cross-border

transmission capacities we have signed long-term contracts with Italian consumers. As the Italian market, especially with the submission of certifications that the power is generated from sustainable sources of energy, provides us with the possibility of achieving extremely favorable prices, these contracts provide a solid foundation for the realization of the set goals.

### **Internationalization**

Internationalization is essential for HSE, as the Slovenian market will not allow sufficient growth rates and development after 1 January 2003 due to its small size and the additional foreign competition.

We are estimating that our foreign market sales will amount to some 80 million EUR in 2003. Traffic in both directions will be worth over 100 EUR million. At the moment we are conducting intensive discussions with partners for the entrance to the Italian market, even for a joint representative network, while at the same time talks are held on the opening of offices in Serbia, Bosnia and Herzegovina, and Croatia. We are not aiming only to be traders in these markets, but rather to become also involved with capital; not merely in the field of electricity generation, but

also in the field of electricity distribution.

HSE will establish balance groups in certain countries of the European Union, which will enable the company to directly trade in the Western-European electricity markets and thereby achieve more favorable prices. We will try and capitalize on our knowledge of South European markets and our reputation as a reliable business partner among the Western European electricity traders and use our strategic position as a bridge between trade flows in different regions. Substantial increase in the trade volume with countries to the southeast of Slovenia can be expected at the end of 2003 with the establishment of a 400 kV network throughout Croatia. Electricity surpluses in Bosnia and Herzegovina combined with massive demand for it in Montenegro, Serbia, Macedonia and Greece present us with a major challenge. As trade is increasing both in volume as well as in the number of partners involved and product diversity, in 2003 we are starting the use of a specialized program package, which will enable integral tracking and supervision of all trading activities.

We are expecting that most of the participants in the Slovenian electricity

market will join our balance group in 2003.

### **Alternative Power Sources**

A part of the company's activities was also focused on alternative power sources, which currently do not represent a substantial share in the HSE power balance sheet, but they are essential regarding the future trends in the sector.

### **Cooperation with Governmental Agencies**

Cooperation with governmental agencies was established in the preparation of two documents, namely the National Energy Program of the Republic of Slovenia and the Long-term Spatial Planning Documents of the Republic of Slovenia. Both documents, which are to be adopted in 2003, will co-influence the HSE field of development.

Despite the stiff competitive conditions in the electricity market we venture to claim that HSE will keep on strengthening its role as Slovenia's leading electricity supplier and trader in 2003, while at the same time establishing itself as a respectable partner in the wider area.



## 2.14 IMPORTANT EVENTS AFTER THE END OF THE FINANCIAL YEAR

### **Krško Nuclear Power Plant**

The bilateral contract on the Krško nuclear power plant (NEK) became valid on 11 March 2003. The Croatian Sabor (parliament) ratified the contract, which was signed by the Slovenian and the Croatian government on 19 December 2001, on 3 July 2002, while the National Assembly of the Republic of Slovenia did the same on 25 February 2003.

Ratification of the NEK agreement in the Slovenian parliament represents a foundation for the supply of one half of power generated by the nuclear plant to HEP (Hrvatska Elektroprivreda - Croatian power supplier and trader). This means that HSE will have to ensure substitute power from the commencement of supplies to Croatia until the end of 2003.

A part of additional supplies will be covered by additionally engaging the subsidiaries' production units, especially at TEŠ (Šoštanj thermal power plant). But using merely our own production sources would not enable us to meet all of our liabilities, which means that a part of additional quantities will have to be imported. As the available cross-border capacities at the Austrian - Slovenian border will not be sufficient for

the coverage of HSE requirements, a part of the demands will have to be met by importing via the Croatian - Slovenian border.

### **Elektro.TK d.o.o.**

The HSE stake in the establishment of Elektro.TK d.o.o., which makes the company the owner of a 19% share in the new enterprise, was paid in at the beginning of 2003.



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**FINANCIAL REPORT OF HSE D.O.O.**



## 3. FINANCIAL REPORT OF HSE D.O.O.

### 3.1 INTRODUCTORY EXPLANATIONS

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#### **Ground basis**

The financial statements have been prepared in accordance with the provisions of the Companies Act (hereinafter referred to as the CA) and the valid Slovene Accounting Standards 2001 (hereinafter referred to as the SAS) issued by the Slovene Institute of Auditors.

The Company is subject to taxation under the Corporate Income Tax Act and the VAT Act.

#### **Accounting policies**

The following fundamental accounting assumptions have been taken into account during the preparation of the financial statements:

- Accrual basis
- Going concern
- Fair presentation under the circumstances of changes occurring in the Euro value and in individual prices

The Company has considered the general valuation rules for the valuation of items in the financial statements:

- The company is viewed as a going concern, i.e. as continuing in operation for the foreseeable future

- Consistency
- Prudence
- Consideration of revenues and expenses irrespective of their payment
- Individual valuation of assets and liabilities

#### **Methods valuating economic categories**

The items in the balance sheet, income statement and/or other statements are to be recorded and valued in compliance with the provisions of the Slovene Accounting Standards, except for those items that may be, in accordance with the respective standards, accounted for at freely selected methods. The Company has determined valuation methods for these cases in its Accounting rules or in the decisions taken by the Management Board.

## 3.2 AUDITOR'S REPORT



### Auditor's Report

#### To the Shareholders of Holding Slovenske elektrarne d.o.o. Ljubljana

We have audited the accompanying financial statements of Holding Slovenske elektrarne d.o.o. Ljubljana, consisting of the balance sheet as of 31 December 2002, the income statement, the cash flow statement, the statement of changes in equity, and the notes to financial statements for the year then ended. We have read the management's report on operations. These financial statements and the notes to financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing issued by International Federation of Accountants and other auditing regulations issued by Slovenian Institute of Auditors. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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. It also includes an assessment of the compliance of the management's report on operations with the financial statements, which form a constituent part of the annual report. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above give a true and fair view of the financial position of the Company as of 31 December 2002, the results of its operations, its cash flows and the changes in equity for the year then ended in conformity with Slovenian Accounting Standards issued by Slovenian Institute of Auditors.

The management's report on operations in conformity with the audited financial statements.

**KPMG SLOVENIA,**  
podjetje za reviziranje in poslovna svetovanja, d.o.o.

Branje Podboršek, BSc. Iz.  
Certified Auditor and Managing Partner

Ljubljana, 3 May 2003

KPMG Slovenija, d.o.o.



### 3.3 BALANCE SHEET

		in SIT 000		
ITEM		Year 2002	Year 2001	Index 02/01
	<b>ASSETS</b>	<b>191,964,427</b>	<b>166,104,301</b>	<b>116%</b>
48	<b>A. FIXED ASSETS</b>	<b>170,808,659</b>	<b>166,016,003</b>	<b>103%</b>
	<b>I. Intangible fixed assets</b>	<b>325,079</b>	<b>0</b>	
	1. Long-term deferred costs of organisation	182,602	0	
	3. Long-term property rights	142,477	0	
	<b>II. Tangible fixed assets</b>	<b>313,343</b>	<b>6,660</b>	<b>4,705%</b>
	3. Other plant and equipment	150,849	0	
	4. Tangible fixed assets under construction	162,494	6,660	2,440%
	b) fixed assets under construction and in process	162,494	6,660	2,440%
	<b>III. Long-term investments</b>	<b>170,170,237</b>	<b>166,009,343</b>	<b>103%</b>
	1. Shares in the group	170,170,237	166,009,343	103%
	<b>B. CURRENT ASSETS</b>	<b>21,154,966</b>	<b>88,298</b>	<b>23,959%</b>
	<b>I. Inventories</b>	<b>327,502</b>	<b>0</b>	
	1. Material	327,502	0	
	<b>II. Operating receivables</b>	<b>11,577,213</b>	<b>27,811</b>	<b>41,628%</b>
	b) Short-term operating receivables	11,577,213	27,811	41,628%
	1. Short-term trade receivables	9,202,865	0	
	2. Short-term receivables due from the Group (except associates)	1,008,453	26,343	3,828%
	4. Short-term receivables due from third parties	1,365,895	1,468	93,045%
	<b>III. Short-term investments</b>	<b>9,183,423</b>	<b>0</b>	
	4. Other short-term investments	9,183,423	0	
	<b>IV. Bank balances, cheques and cash</b>	<b>66,828</b>	<b>60,487</b>	<b>110%</b>
	<b>C. DEFERRED COSTS, DEFERRED EXPENSES AND ACCRUED REVENUES</b>	<b>802</b>	<b>0</b>	
	OFF-BALANCE-SHEET RECORD	1,475,785	0	



		in SIT 000		
ITEM		Year 2002	Year 2001	Index 02/01
	<b>LIABILITIES AND CAPITAL</b>	<b>191,964,427</b>	<b>166,104,301</b>	<b>116%</b>
<b>A.</b>	<b>CAPITAL</b>	<b>181,934,929</b>	<b>166,073,501</b>	<b>110%</b>
<b>I.</b>	<b>Called-up capital</b>	<b>1,156,217</b>	<b>3,000</b>	<b>38,541%</b>
1.	Share capital	1,156,217	3,000	38,541%
<b>II.</b>	<b>Capital reserves</b>	<b>166,070,474</b>	<b>196,454,189</b>	<b>85%</b>
<b>III.</b>	<b>Revenue reserves</b>	<b>6,142,502</b>	<b>0</b>	
4.	Other reserves	6,142,502	0	
<b>IV.</b>	<b>Retained net profit or loss from previous periods</b>	<b>0</b>	<b>0</b>	
<b>V.</b>	<b>Net profit or loss for the financial year</b>	<b>6,142,502</b>	<b>(30,383,715)</b>	
<b>VI.</b>	<b>Equity revaluation adjustment</b>	<b>2,423,234</b>	<b>27</b>	<b>8,974,941%</b>
1.	General equity revaluation adjustment	27	27	100%
2.	Specific equity revaluation adjustment	2,423,207	0	
<b>B.</b>	<b>PROVISIONS</b>	<b>0</b>	<b>0</b>	
<b>C.</b>	<b>FINANCIAL AND OPERATING LIABILITIES</b>	<b>9,685,165</b>	<b>30,800</b>	<b>31,445%</b>
b)	Short-term financial and operating liabilities	9,685,165	30,800	31,445%
4.	Short-term trade payables	1,391,216	13,648	10,194%
6.	Short-term financial and operating liabilities to the Group	8,233,934	0	
8.	Short-term financial and operating liabilities to other entities	60,015	17,152	350%
<b>Č.</b>	<b>ACCRUED COSTS (EXPENSES) AND DEFERRED REVENUES</b>	<b>344,333</b>	<b>0</b>	
	OFF-BALANCE-SHEET RECORD	1,475,785	0	

## 3.4 INCOME STATEMENT

		in SIT 000		
ITEM	Year 2002	Year 2001	Index 02/01	
<b>1. Net sales revenues</b>	<b>91,457,765</b>	<b>88,548</b>	<b>103,286%</b>	
a) Domestic market	70,763,762	88,548	79,916%	
- from group enterprises	3,264,240	88,548	3,686%	
- from others	67,499,522	0		
b) Foreign market	20,694,003	0		
<b>5. Costs of goods, material and services</b>	<b>78,103,834</b>	<b>26,021</b>	<b>300,157%</b>	
a) Cost of goods and material sold	77,831,306	298	26,117,888%	
b) Costs of services	272,528	25,723	1,059%	
<b>6. Labour costs</b>	<b>600,077</b>	<b>0</b>		
a) Cost of wages and salaries	418,367	0		
b) Social insurance costs	86,869	0		
- costs of retirement insurance	54,786	0		
c) Other labour costs	94,841	0		
<b>7. Amortisation, depreciation and assets write-offs</b>	<b>24,538</b>	<b>0</b>		
a) Amortisation of intangible fixed assets, depreciation of tangible fixed assets and revaluatory operating expenses	24,538	0		
<b>8. Other operating expenses</b>	<b>190</b>	<b>0</b>		
<b>OPERATING PROFIT OR LOSS</b>	<b>12,729,126</b>	<b>62,527</b>	<b>20,358%</b>	
<b>9. Financial revenues from participation</b>	<b>0</b>	<b>230,707</b>	<b>0%</b>	
a) Financial revenues from participation in group enterprises (except in associates)	0	230,707	0%	
<b>11. Financial revenues from short-term receivables</b>	<b>413,733</b>	<b>131</b>	<b>315,827%</b>	
a) Interest revenues and revenues from short-term receivables due from group enterprises (except associates)	14	0		
c) Other interest revenues and revenues from short-term receivables (including revaluatory financial revenues)	413,719	131	315,816%	
<b>12. Financial expenses for long-term and short-term investments write-offs</b>	<b>786,289</b>	<b>30,677,066</b>	<b>3%</b>	
a) Revaluatory financial expenses arising from investments in group enterprises (except in associates)	786,289	30,677,066	3%	
<b>13. Interest expenses and financial expenses from other liabilities</b>	<b>70,816</b>	<b>14</b>	<b>505,829%</b>	
c) Other interest expenses and expenses from other liabilities	70,816	14	505,829%	
<b>PROFIT OR LOSS FROM ORDINARY ACTIVITY</b>	<b>12,285,754</b>	<b>(30,383,715)</b>		
<b>15. NET PROFIT OR LOSS FROM ORDINARY ACTIVITY</b>	<b>12,285,754</b>	<b>(30,383,715)</b>		
<b>17. Extraordinary expenses</b>	<b>750</b>	<b>0</b>		
a) Extraordinary expenses exclusive of equity revaluation adjustment	750	0		
<b>18. PROFIT OR LOSS FROM EXTRAORDINARY ACTIVITIES</b>	<b>(750)</b>	<b>0</b>		
<b>TOTAL PROFIT OR LOSS</b>	<b>12,285,004</b>	<b>(30,383,715)</b>		
<b>19. Income tax</b>	<b>0</b>	<b>0</b>		
<b>21. NET PROFIT OR LOSS FOR THE FINANCIAL YEAR</b>	<b>12,285,004</b>	<b>(30,383,715)</b>		

### 3.5 CASH FLOW STATEMENT

ITEM	in SIT 000	
	Year 2002	Year 2002 - plan
<b>A. CASH FLOWS FROM OPERATING ACTIVITY</b>		
<b>a) Inflows from operating activity</b>	<b>80,020,293</b>	<b>75,848,775</b>
Operating revenues	91,531,604	83,506,469
Opening minus closing operating receivables	(11,510,509)	(7,657,694)
Opening minus closing deferred costs, deferred expenses and accrued revenues	(802)	0
<b>b) Outflows from operating activity</b>	<b>69,398,320</b>	<b>74,434,461</b>
Operating expenses exclusive of depreciation and long-term provisions	78,710,724	82,747,911
Extraordinary expenses relating to operating activity	750	0
Income tax and other taxes not included among operating expenses	0	37,197
Closing minus opening inventories	327,502	0
Opening minus closing operating liabilities	(9,296,323)	(8,350,647)
Opening minus closing accrued costs (expenses) and deferred revenues	(344,333)	0
<b>c) Net inflows from operating activity</b>	<b>10,621,973</b>	<b>1,414,314</b>
<b>B. CASH FLOWS FROM INVESTING ACTIVITY</b>		
<b>a) Inflows from investing activity</b>	<b>269,765</b>	<b>46,000</b>
Financial revenues relating to investing activity (excluding revaluation)	269,765	46,000
<b>b) Outflows from investing activity</b>	<b>10,852,556</b>	<b>2,372,726</b>
Offset increase in intangible fixed assets (excluding revaluation)	120,084	198,999
Offset increase in tangible fixed assets (excluding revaluation and increase of non-cash equity)	178,290	1,415,122
Offset increase in long-term investments (excluding revaluation)	1,370,759	0
Offset increase in short-term investments (excluding revaluation)	9,183,423	758,605
<b>c) Net outflows from investing activity</b>	<b>(10,582,791)</b>	<b>(2,326,726)</b>
<b>Net inflows from operating and investing activity</b>	<b>39,182</b>	<b>(912,412)</b>
<b>C. CASH FLOWS FROM FINANCING ACTIVITY</b>		
<b>a) Inflows from financing activity</b>	<b>31,236</b>	<b>899,420</b>
Financial revenues relating to financing activity (excluding revaluation)	31,236	0
Offset increase in short-term financial liabilities (excluding revaluation)	0	899,420
<b>b) Outflows from financing activity</b>	<b>64,077</b>	<b>46,000</b>
Financial expenses relating to financing activity (excluding revaluation)	64,077	46,000
<b>c) Net outflows from financing</b>	<b>(32,841)</b>	<b>853,420</b>
<b>Total net inflows for the financial year</b>	<b>6,341</b>	<b>(58,992)</b>
<b>Č. CLOSING BALANCE OF CASH AND CASH EQUIVALENTS</b>		
<b>x) Net cash flow for the financial year</b>	<b>6,341</b>	<b>(58,992)</b>
<b>Y) Opening balance of cash and cash equivalents</b>	<b>60,487</b>	<b>60,487</b>

### 3.6 STATEMENT OF CHANGES IN EQUITY

in SIT 000

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ITEM	Share capital		Capital reserves	Revenue reserves				Retained net profit or loss from previous periods		Net profit or loss for the financial year		Equity revaluation adjustment		TOTAL
	Called-up capital	Uncalled capital (deduction item)		Legal reserves	Reserves for repurchase of own shares	Statutory reserves	Other reserves	Retained net profit	Retained net loss	Net profit for the financial year	Net loss for the financial year	General equity revaluation adjustment	Specific equity revaluation adjustment	
<b>A. Opening balance</b>	3,000	0	196,454,189	0	0	0	0	0	(30,383,715)	0	0	27	0	166,073,501
<b>B. Transfer to equality</b>	1,153,217	0	0	0	0	0	0	0	0	12,285,004	0	0	2,423,207	15,861,428
a) Called-up capital	1,153,217	0	0	0	0	0	0	0	0	0	0	0	0	1,153,217
d) Net profit for the financial year	0	0	0	0	0	0	0	0	0	12,285,004	0	0	0	12,285,004
f) Special equity revaluation adjustment	0	0	0	0	0	0	0	0	0	0	0	0	2,423,207	2,423,207
<b>C. Transfer within equity</b>	0	0	(30,383,715)	0	0	0	6,142,502	0	30,383,715	(6,142,502)	0	0	0	0
a) Appropriation of net profit (as an item of equity) under the resolution adopted by the Management Board and the Supervisory Board	0	0	0	0	0	0	6,142,502	0	0	(6,142,502)	0	0	0	0
c) Loss covering as a deduction item of capital	0	0	(30,383,715)	0	0	0	0	0	30,383,715	0	0	0	0	0
<b>Č. Transfer from equity</b>	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>D. Closing balance</b>	1,156,217	0	166,070,474	0	0	0	6,142,502	0	0	6,142,502	0	27	2,423,207	181,934,929
<b>DISTRIBUTABLE NET PROFIT</b>	0	0	0	0	0	0	0	0	0	6,142,502	0	0	0	6,142,502



### 3.7 NOTES TO FINANCIAL STATEMENTS

**General**

Transactions expressed in foreign currencies are translated into domestic currency on the date of their accrual at the mean exchange rate of the Bank of Slovenia on the respective date.

The financial statements have been prepared in Slovenian tolar (SIT), rounded off to one thousand units.

**3.7.1 Balance sheet**

**General**

The information about the basis for the preparation of the balance sheet and about special accounting policies, selected and used in important business operations and other transactions of the Company are presented in the disclosure of individual important assets and liabilities.

Due to the introduction and application of the new Slovenian Accounting Standards (SAS), the balance sheets for the year 2002 and for the year 2001 are not fully comparable.

In accordance with the interpretation 1 to the SAS 24 issued by the Slovenian Institute of Auditors the data for the previous accounting period have not been translated during the preparation of the financial statements 2002 in accordance with the new Slovenian Accounting Standards but reasonably recorded in corresponding items in terms of materiality.

**Intangible fixed assets**  
**SIT 325,079,000**      **0.17% of assets**

The Company presents long-term deferred operating costs and long-term

industrial property rights among intangible fixed assets.

Intangible fixed assets purchased abroad are not revalued by the changes in exchange rates in which they had been purchased.

The Company applies the straight-line depreciation. Intangible fixed assets are amortised individually. The Company

applies the amortisation rates defined on the basis of the foreseen useful life for individual kind of assets. The amortisation rates do not exceed the rates at which amortisation expense is tax deductible.

In 2002 the Company did not impair any intangible fixed assets. The presented book value of individual assets complies with their fair value.

<b>Movements in intangible fixed assets in 2002</b>			in SIT 000	
	Long-term industrial property rights	Intangible fixed assets under construction or in manufacture	Total	
<b>COST OF PURCHASE</b>				
Balance at the beginning of the year	0	0	0	
Acquisitions	40,834	321,719	362,553	
Disposals	0	(36,431)	(36,431)	
Revaluation	0	0	0	
Balance at the end of the year	40,834	285,288	326,122	
<b>ADJUSTMENT FOR VALUE</b>				
Balance at the beginning of the year	0		0	
Acquisitions	0		0	
Disposals	0		0	
Amortisation	1,043		1,043	
Revaluation	0		0	
Balance at the end of the year	1,043		1,043	
Net carrying amount at the beginning of the year	0	0	0	
Net carrying amount at the end of the year	39,791	285,288	325,079	

**Tangible fixed assets****SIT 313,343,000**      **0.16% of assets**

Tangible assets of the Company include equipment, low value assets among fixed assets as well as tangible fixed assets under construction or in manufacture.

Tangible fixed assets purchased abroad are not revalued by the changes in exchange rates in which they had been purchased.

The Company applies the straight-line depreciation. Tangible fixed assets are depreciated individually. The Company applies the depreciation rates defined on the basis of the foreseen useful life for individual kind of assets. Depreciation rates applied do not exceed the rates at which depreciation expense is tax deductible.

The Company did not increase the value of tangible fixed assets or impair them in 2002. The presented book value of individual assets complies with their fair value.

**Movements of tangible fixed assets in 2002**

	Equipment and spare parts	Low value assets	Equipment and other tangible fixed assets under construction	Total
in SIT 000				
<b>COST OF PURCHASE</b>				
Balance at the beginning of the year	0	0	6,660	6,660
Acquisitions	173,631	713	162,494	336,838
Disposals	0	0	(6,660)	(6,660)
Revaluation	0	0	0	0
Balance at the end of the year	173,631	713	162,494	336,838
<b>ADJUSTMENT FOR VALUE</b>				
Balance at the beginning of the year	0	0		0
Acquisitions	0	0		0
Disposals	0	0		0
Amortization	23,368	127		23,495
Revaluation	0	0		0
Balance at the end of the year	23,368	127		23,495
Net carrying amount at the beginning of the year	0	0	6,660	6,660
Net carrying amount at the end of the year	150,263	586	162,494	313,343

**Important amortisation / depreciation rates of fixed assets**

Furniture and equipment	10%	(10 years)
Hardware	33.33%	(3 years)
Low value assets	33.33%	(3 years)
Cars	20%	(5 years)
Other equipment	25%	(4 years)
Software	20%-33.33%	(3 to 5 years)

**Long-term investments****SIT 170,170,237,000**      **88.65% of assets**

Long-term investments include investments in capital of associates.

On initial recognition, long-term investments in capital of other enterprises are valued at the cost of purchase that is either equal to the paid amount of cash or cash equivalents, or to the fair value of other consideration for acquisition given by the Company on the day of exchange, increased by the costs directly attributable to the investment.

**Changes in long-term investments in 2002**

	in SIT 000
Net carrying amount as of 1 January 2002	166,009,343
Acquisitions	2,523,975
Revaluation	1,636,919
Net carrying amount as of 31 December 2002	170,170,237

In 2002 long-term investments increased by SIT 2,523,975,000.

**Increase in long-term investments in 2002**

	in SIT 000
Purchase of 48,260 shares of Premogovnik Velenje	1,365,758
Increase in capital of the company by an investment in kind of the Republic of Slovenia - 3,313,841 ordinary shares of TDR - Metalurgija d.d.	1,153,217
Establishment of HSE INVEST d.o.o.	2,500
Establishment of HSE - IIP d.o.o.	2,500

**Impairment of long-term investments**

If the proved fair value of a long-term investment is lower than the book value in case of decrease in value, an adjustment of long-term investments is made for this part of value and revaluatory financial expenses are increased.

In 2002 the company increased an adjustment in value of long-term investments of HSE - IIP and simultaneously the revaluatory financial expense by SIT 15,000 due to its loss in operations.

In accordance with the agreement of the Supervisory Board the Company purchased 48,260 shares of the company Premogovnik Velenje in 2002. The purchase is related to the final solution of the problems of salaries paid out in too low amounts in the electric power supply system in the years 1991 and 1992. At the end of the year was established that the book value of a share of Premogovnik Velenje was lower; therefore an adjustment of value of this long-term investment was made and simultaneously revaluatory financial expense of SIT 786,273,000 incurred.

**Increase in value of long-term investments**

Long-term investments in capital of associates included in the consolidated financial statements are valued according to the capital method in the financial statements of the parent company. This means that these investments are increased annually by that part of net profit of associates that belongs to the parent company. Equity revaluation adjustment is increased by the

revaluation effect in relation to long-term investments. Subsequently received shares in profit decrease the initially presented increase in investments based on the participation in profit

In 2002 the Company increased its long-term investments by SIT 2,423,207,000, which corresponds to the share in net profit of associates.

**Increase in value of long-term investments in 2002**

	in SIT 000
Dravske elektrarne Maribor d.o.o.	1,905,665
Savske elektrarne Ljubljana d.o.o.	195,787
Soške elektrarne Nova Gorica d.o.o.	218,262
Termoelektrarna Brestanica d.o.o.	95,675
HSE Invest d.o.o.	7,818

**Long-term investments as of 31 December 2002**

	in SIT 000
Dravske elektrarne Maribor d.o.o.	75,150,836
Savske elektrarne Ljubljana d.o.o.	27,842,585
Soške elektrarne Nova Gorica d.o.o.	26,488,978
Termoelektrarna Brestanica d.o.o.	2,407,454
Termoelektrarna Šoštanj d.o.o.	15,640,427
Premogovnik Velenje d.o.o.	21,473,937
HSE Invest d.o.o.	10,318
HSE - IIP d.o.o.	2,485
TDR - Metalurgija d.d.	1,153,217

### Relevant data about long-term investments for 2002

Company	Registered office	Ownership share of HSE d.o.o. as of 31. December 2002	Capital as of 31. December 2002 in SIT 000	Net profit/loss in SIT 000
Dravske elektrarne Maribor d.o.o.	Maribor	79.4%	94,660,480	2,400,388
Savske elektrarne Ljubljana d.o.o.	Medvode	79.5%	35,022,119	246,273
Soške elektrarne Nova Gorica d.o.o.	Nova Gorica	79.5%	33,319,469	274,543
Termoelektrarna Brestanica d.o.o.	Brestanica	79.5%	8,437,087	120,346
Termoelektrarna Šoštanj d.o.o.	Šoštanj	79.5%	49,015,012	(795,902)
Premogovnik Velenje d.d.	Velenje	77.7%	32,743,836	(597,260)
HSE Invest d.o.o.	Maribor	100.0%	10,318	7,818
HSE - IIP d.o.o.	Sevnica	100.0%	2,485	(15)
TDR - Metalurgija d.d.	Ruše	74.4%	3,693,826	(2,539,221)

It was estimated that the fair value of long-term investments equals their book value.

#### Inventories

**SIT 327,502,000**      **0.17% of assets**

Inventories include coal for the production of electric and thermal energy provided in TEŠ.

If prices of newly purchased quantity units differ from the prices of quantity units of the same kind in stock, the method of successive prices (FIFO) is applied during the year for the decrease of these quantities.

Since inventories are currently used, the net realizable value of inventories has not been established.

#### Receivables

**SIT 11,577,213,000**      **6.03% of assets**

On initial recognition, receivables of all categories are reported in amounts recorded in the relevant book-keeping documents under the assumption that the amounts owed will also be collected. Initial receivables may be subsequently increased or, irrespective of the received payment or another settlement, also decreased by any amount based on a contract.

power. Receivables due from the state for the refund of the VAT also represent an important share.

In 2002 the value of receivables was neither increased nor impaired, since the receivables were paid on time or slightly later and correspond to their fair value. At the end of the year 92% of the receivables due from customers were not due yet and 8% were due up to three months.

Receivables due from foreign partners are translated on the date of their accrual at the middle exchange rate of the Bank of Slovenia. If the

### Short-term operating receivables as of 31 December 2002

	in SIT 000
Short-term trade receivables	10,211,304
Short-term advances for services	2,633
Short-term receivables for interest	38,160
Short-term receivables from the state	1,324,092
Other short-term receivables	1,024

Granted advances are recorded in the balance sheet in connection with the items to which they refer.

Short-term operating receivables mainly include receivables due from customers, from the sales of electric

exchange rate changes subsequently, the amount of receivables is adequately corrected or revalued and exchange losses/gains increase financial revenues or expense.



**Short-term Investments****SIT 9,183,423,000** 4.78% of assets

On initial recognition, a short-term investment in equity securities of other companies or debt securities of other companies is carried at cost which is either equal to the paid amount of cash or cash equivalents, increased by the costs directly attributable to the investment.

On initial recognition, a short-term investment in a short-term loan granted is carried at the amount paid that is the principal sum of the loan.

Short-term investments are not revalued due to increase in their value, but are revalued due to impairment, if the proved fair value is lower than the book value. In 2002 the Company had no reason to revalue short-term investments.

The majority of short-term investments represent deposits in important Slovene banks; therefore the exposure to risks is low.

The total collateral loan was repaid at the beginning of the year 2003.

**Cash****SIT 66,828,000** 0.04% of assets

This item includes cash on the transaction account, tolar deposits on call and cash in foreign currency account.

The carrying value of cash is equal to its initial nominal value until the need appears to be revalued. Cash denominated in foreign currency is translated into domestic currency at the middle exchange rate on the date of receipt.

Revaluation of cash is effected in the case of cash denominated in foreign

currencies if the exchange rate changes after the first recognition. The exchange rate difference incurred may either increase or decrease the originally recorded value and represents ordinary financial revenue or ordinary financial expense.

**Deferred costs and accrued revenues****SIT 802,000** <0.1% of assets

Deferred costs (expenses) and accrued revenues include short-term deferred costs that do not have any influence on the profit or loss.

**Off-balance-sheet records****SIT 1,475,785,000**

Off-balance-sheet records include received and granted bank guarantees as well as received securities as guarantees for short-term investments.

**Capital****SIT 181,934,929,000** 94.78% of liabilities

The total capital is classified as called-up capital, capital reserves, revenue reserves, equity revaluation adjustments, and temporarily undistributed net profit for the financial year.

The share capital is recognised upon the payment of cash and investments in kind in the company. Called-up capital is of vital importance for its recognition. Share capital is recorded in the local currency.

In 2002 the sole owner (the company TDR - Metalurgija d.d.) increased the capital of the company by an investment in kind amounting to SIT 1,153,217,000.

Revaluation of capital is a change in its book value. It appears as general or specific equity revaluation. There was no general equity revaluation in 2002, but the Company made a specific equity revaluation adjustment due to the increase in value of long-term investments amounting to SIT 2,423,207,000.

The Company presents capital reserves that were shown as capital reserve paid in the previous year. The reserves were formed on the establishment of the company as a payment of the owner, exceeding the initial capital of the Company.

In accordance with the decision of the shareholders' meeting the capital reserves were reduced by SIT 30,383,715,000 in 2002 due to covering of loss from 2001.

**Short-term investments as of 31 December 2002**

	in SIT 000
Shares, purchased for sale	1,238,423
Short-term loans to associates	20,000
Collateral loan	1,000,000
Deposits in banks	6,895,000
Deposits for guarantees	30,000

**Capital of the Company as of 31 December 2002**

	in SIT 000
Share capital	1,156,217
Capital reserves	166,070,474
Other revenue reserves	6,142,502
Net profit / loss	6,142,502
General equity revaluation adjustment	27
Specific equity revaluation adjustment	2,423,207

**Profit / loss in 2002**

	in SIT 000
Net profit / loss	12,285,004
Profit / loss upon restatement by means of EUR	5,637,746
Profit / loss upon restatement by means of cost of living	320,793

**Distributable net profit of HSE in 2002**

	in SIT 000
a) Net profit for the financial year	12,285,004
b) Net profit / loss carried forward	0
c) Decrease in revenue reserves	0
č) Increase in revenue reserves in accordance with the decision of the Management Board (legal reserves, reserves for own shares and statutory reserves)	0
d) Increase in revenue reserves in accordance with the decision of the Management Board and the Supervisory Board (other revenue reserves)	6,142,502
<b>e) Distributable net profit (a+b+c-č-d)</b>	<b>6,142,502</b>

In accordance with the agreement of the Supervisory Board, the Management Board of the Company distributed 50% of net profit of the financial year amounting to SIT 6,142,502,000 to other revenue reserves. The other 50% of net profit for the financial year amounting to SIT 6,142,502,000 is distributable net profit.

**Short-term liabilities**

**SIT 9,685,165,000**      **5.04% of liabilities**

Short-term operating liabilities appear since suppliers deliver goods that are needed in the production and for the provision of services. Initially, they are carried at amounts recorded in the relevant documents, assuming that the creditors demand their payment.

95% of total short-term liabilities of the Company represent liabilities for the supply of electric and thermal energy,

coal and for its processing in electric and thermal energy.

The book value of short-term liabilities is equal to their historical value, corrected by their increases or decreases, in accordance with the agreements reached with the creditors, until the need for their revaluation appears.

Revaluation of short-term operating liabilities expressed in foreign currencies is carried out if the exchange rate has changed after the initial recognition. Exchange losses/gains that appear may increase or decrease the initially presented value and presents regular financial revenues or regular financial expense.

Short-term operating liabilities expressed in foreign currencies are translated on the date of their accrual at the middle exchange rate of the Bank of Slovenia ruling on the respective date.

**Short-term operating liabilities as of 31 December 2002**

	in SIT 000
Short-term liabilities to suppliers	9,625,007
Short-term liabilities to employees	47,199
Short-term liabilities to the state	12,265
Other short-term liabilities	694

**Short-term operating liabilities to the HSE Group enterprises as of 31 December 2002**

	in SIT 000
Dravske elektrarne Maribor d.o.o.	2,311,926
Savske elektrarne Ljubljana d.o.o.	264,507
Soške elektrarne Nova Gorica d.o.o.	316,157
Termoelektrarna Brestanica d.o.o.	191,743
Termoelektrarna Šoštanj d.o.o.	2,670,934
Premogovnik Velenje d.o.o.	2,478,067
HSE Invest d.o.o.	600

At the end of 2002 the Company presented short-term liabilities to the HSE Group enterprises amounting to SIT 8,233,934,000. The majority of these amounts referred to liabilities for the purchased electricity, coal and its processing into electric and thermal energy.

Liabilities of the Company are settled in the terms agreed.

**Accrued costs and deferred revenues**  
**SIT 344,333,000**      **0.18% of liabilities**

Accrued costs and deferred revenues include short-term accrued expenses and short-term deferred revenues.

Short-term deferred expenses occur on the basis of the uniform burdening of the activity or profit or loss by expected costs that have not appeared yet.

Short-term deferred revenues occur if the services have not been provided yet, but already charged and paid.

Accrued costs include liabilities for the payment of taxes for cross-border trading, charged by the Italian business partner GRTN. The invoices have been rejected since the legal basis will have to be provided first, but the Company is well aware of its obligations.

Short-term deferred revenues include the charged tender documentation for the construction of the HPP Boštanj. Since this is an investment in progress, the costs are not presented in the profit/loss yet, and at present the revenues referring to this investment are deferred.

**3.7.2 Income statement****General**

The information about the basis for the preparation of the income statement and about special accounting policies, selected and applied in important business operations and other transactions, are presented in disclosure of individual important revenues and expenses.

The income statement has been prepared in accordance with the version I in SAS 25.

In accordance with the interpretation 1 to the SAS 25 issued by the Slovenian Institute of Auditors the data for the previous accounting period have not been translated during the preparation of the financial statements 2002 according to the new Slovenian Accounting Standards but reasonably recorded in corresponding items of revenues and expenses and profit/loss of the statement currently valid. Thereby the Company took into account prudence and the profits/losses remained unchanged.

In accordance with the explanation 2 to the SAS 25 issued by the Slovenian Institute of Auditors expenses or liabilities for the corporate income tax are ascertained from the joint base (from

ordinary and extraordinary activities) in accordance with the provisions, tax on profit from ordinary and extraordinary activities is not presented separately in the income statement, but it is presented as an accumulated item 19 of the income statement.

**Revenues**

**SIT 91,871,498,000**

Revenues are recognised if during the accounting period the increase in economic benefits is related to the increase of asset or to the decrease of liability and if the relevant increase can be measured without fail.

Revenues are recognised when no significant uncertainty as to their collectability exists.

**Operating revenues**

**SIT 91,457,765,000**      **99.5% of revenues**

Revenues from the sale of products, merchandise and materials are measured on the basis of selling prices indicated in invoices or other documents, decreased by discounts that have been approved during the sale or later, also due to earlier payment. They are recognised on calculation, irrespective of receipts they are related to.

Total operating revenues of 2002 were generated by sale of electric and thermal energy.

**Financial revenues**  
SIT 413,733,000 0.5% of revenues

Financial revenues represent revenues from investments and appear in connection with short-term investments, as well as in connection with receivables.

Financial revenues are recognised on calculation, irrespective of receipts on condition that there is no significant uncertainty as to their amount, maturity and collectability.

Interest is accounted for in proportion to the period elapsed, as well as with reference to the unpaid part of the principal and the valid interest rate.

**Expenses**  
SIT 79,586,494,000

Expenses are recognised if during the accounting period the decrease in economic benefits is related to the decrease of asset or to the increase of liability and if the relevant decrease can be measured without fail.

**Operating expenses**  
SIT 78,728,639,000 98.9% of expenses

Operating expenses are recognised when the merchandise has been sold. Operating expenses include costs of purchase of the merchandise and material sold.

98.8 percent of total operating expenses are expenses for the purchase of electric and thermal energy, coal and the related costs.

**Financial expenses**  
SIT 857,105,000 1.1% of expenses

Financial expenses are expenses for financing and expenses for investing. They are recognised on calculation, irrespective of receipts they are related to.

Revaluatory financial expenses arise in connection with long-term and short-term investments due to their impairment and in connection with the increase in value of long-term and short-term liabilities.

**Extraordinary expenses**  
SIT 750,000 <1% of expenses

Extraordinary expenses include extraordinary items, which are recorded in actual amounts. Donations are presented among extraordinary expenses.

**Profit**  
SIT 12,285,004,000

Due to the tax loss formed in previous year the Company established no liabilities for the payment of tax on profit for 2002.

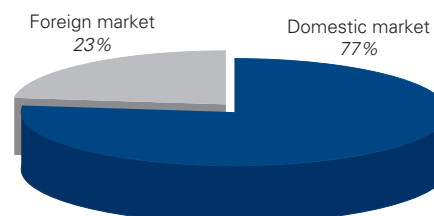
### Segments

Business operations of the Company are divided into two geographical segments; net sales revenues are divided into:

- Domestic market SIT 70,763,762,000
- Foreign market SIT 20,694,003,000

Since the conditions of operations and influences of risks for individual groups of products are the same, the Company does not breakdown the operation into business segments.

### STRUCTURE OF SALES REVENUES IN 2002 BY GEOGRAPHICAL SEGMENT



## 3.7.3 Cash flow statement

### General

The cash flow statement shows changes in the balance of cash during the financial year and has been prepared by applying the indirect method (version II in the SAS 26) on the basis of the data from the balance sheet as of 31 December 2002, balance sheet as of 31 December 2001, the income statement for the year 2002, as well as the additional data required for the adjustment of inflows and outflows and for the suitable breakdown of significant items.

The Company did not prepare the cash flow statement for 2001, since it was its first year of operation and it had no adequate basis for its preparation in the balance sheet from the previous year. For the sake of comparison data planned for the same period are presented along the data implemented in 2002 in the income statement.



### 3.7.4 Statement of changes in equity

The statement of changes in equity presents changes of capital elements in the financial year. The statement has been prepared in accordance with the version II contained in the SAS 27.

In 2002 the capital of the Company was increased by an investment in kind made by the sole owner - TDR - Metalurgija d.o.o. The share capital increased by SIT 1,153,217,000. A long-term investment among the assets in the balance sheet increased by the same amount.

In the income statement for 2002 the profit of SIT 12,285,004,000 was ascertained, 50% amounting to SIT 6,142,502,000 was allocated to other revenue reserves in accordance with the proposal of the Management Board and the agreement of the Supervisory Board.

By the application of the capital method the Company increased the value of long-term investments in subsidiaries by the share in their profits and increased the specific equity revaluation adjustment by SIT 2,423,207,000.

In 2002 the capital reserves were reduced by SIT 30,383,715,000, due to the fact that the Company covered the loss from 2001 in accordance with the decision of the shareholders' meeting.

The distributable net profit for 2002 amounted to SIT 6,142,502,000.

### 3.7.5 Other disclosures

#### Cost by functional group

	in SIT 000
Value of operating effects sold	77,978,429
Cost of sales	173,762
Costs of general activities (purchase and administration)	576,448

#### Income of individual groups of persons

	in SIT 000
Members of the Management Board	67,771
Other staff employed on the basis of individual contracts	162,999
Members of the Supervisory Board	7,644

Income of members of the Management Board and staff employed in accordance with the individual contracts include:

- Gross income contained in the notice about the income tax return
- Jubilee awards
- Premiums for optional additional pension insurance paid by the company

Income of members of the Supervisory Board include:

- Gross meeting fees and travel expenses

In 2002 no advances, loans and guarantees were granted to these groups of persons and no receivables due from them are therefore presented.



2002 ANNUAL REPORT - HSE GROUP





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## 4 HSE GROUP KEY ACHIEVEMENTS FOR THE FINANCIAL YEAR

Net sales revenues in SIT 000	98,440,705
Total revenues in SIT 000	107,451,408
Operating profit in SIT 000	13,601,407
Net profit in SIT 000	14,389,006
Assets in SIT 000	339,629,666
Capital in SIT 000	235,475,484
Operating cash flow in SIT 000	36,447,041
Added value in SIT 000	60,070,617
Added value per employee in SIT 000	11,140
Produced electricity in GWh	6,698
Electricity sales <sup>3</sup> in GWh	8,714
Number of employees as of 31 December 2002	5,282
Number of companies in the Group as of 31 December 2002	20

<sup>3</sup>Electricity sales exclusive of intra-group HSE sales - 636 GWh.





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## PRESENTATION OF HSE GROUP



## 5. PRESENTATION OF HSE GROUP

### 5.1 HSE GROUP ACTIVITIES AND STRUCTURE

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#### Main Activities of the HSE Group

HSE Group activities include primarily the field of power management and environmental management as well as the management of related logistic processes.

The broad spectrum of business activities can be grouped as follows:

- Production of electricity and heat
- Production of lignite
- Electricity and heat sales and trading
- Production optimizing at all HSE companies
- Provision of ancillary services required for the operation of the power system
- Project management and implementation of projects in the field of energy and environment
- Production of calcium carbide, ferrosilicon, calcium silicon and complex alloys

The Group's core business activities relate to the processes of electricity generation and trading, which is why the central focus of this Annual Report is set on this field.

#### Increased Management Efficiency

HSE Group, which overall employs over 5,000 employees, produces a total of just over 50 percent of all electricity ge-

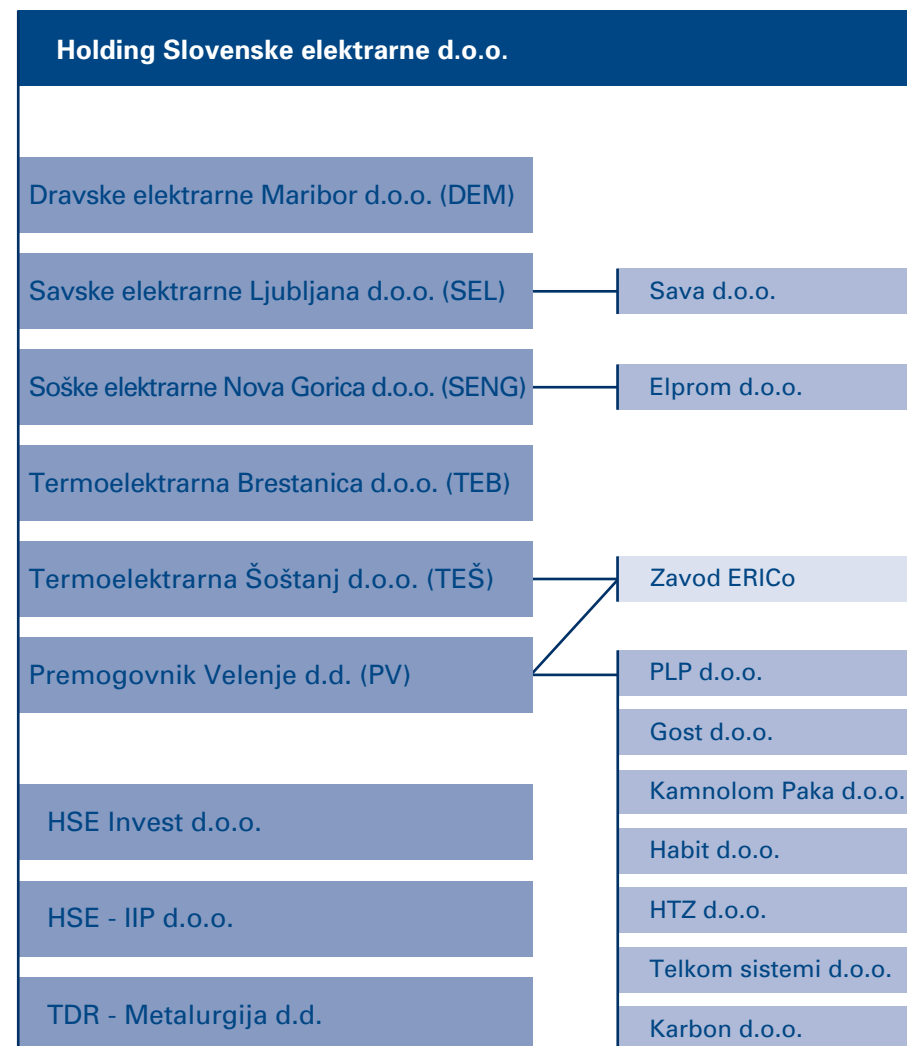
nerated in Slovenia; with its supply, which includes combining various power sources, the Group also plays a vital role in providing safe, reliable and quality supply to domestic and foreign consumers. The unified market approach by companies of the HSE Group, provides them with an additional competitive edge in the market along with optimum use of production capacities with regard to the current market conditions, reduction of negative financial effects as result of production losses, a more comprehensive range of electricity products, reduced risks in signing long-term contracts and improved opportunities on the foreign markets - therefore a much more efficient way of economizing compared to the conditions applied when the companies of the HSE Group were still operating independently.

#### Companies in the Group

HSE Group comprises the following companies:

- Holding Slovenske elektrarne d.o.o. as the parent company
- Dravske elektrarne Maribor d.o.o.
- Savske elektrarne Ljubljana d.o.o. with one affiliated company
- Soške elektrarne Nova Gorica d.o.o. with one affiliated company
- Termoelektrarna Brestanica d.o.o.
- Termoelektrarna Šoštanj d.o.o.

#### HSE Group





- Premogovnik Velenje d.d. with seven affiliated companies
- HSE Invest d.o.o.
- HSE - IIP d.o.o.
- TDR - Metalurgija d.d.

TEŠ (Šoštanj TPP) and PV (Velenje Coalmining Company) each have a 30-percent share in the ERICo institute, which is also displayed in the HSE Group scheme, while its financial performance is not included in the Group's Annual Report.

#### **Dravske elektrarne Maribor d.o.o.**

DEM (Drava River HPPs Maribor) total threshold capacity is 566 MW. With their total output combined, they can meet approximately 26 percent of the total electricity demand in Slovenia. The chain includes eight hydropower plants (HPPs): Dravograd HPP, Vuzeznica HPP, Vuhred HPP, Ožbalt HPP, Fala HPP, Mariborski otok HPP, Zlatolčje HPP and Formin HPP.

DEM is also the location of the HSE control center, which is used for control of operational electricity production within HSE Group.

#### **Savske elektrarne Ljubljana d.o.o.**

SEL (Sava River HPPs Ljubljana) production units include the following hydro-

power plants (HPPs): Moste HPP, Medvode HPP, Mavčiče HPP and Vrhovo HPP. In addition to the company's core business, which is electricity generation in hydropower plants, SEL also performs the functions of operation and maintenance for uninterrupted electricity generation in hydropower plants (maintenance of power equipment, hardware, telecommunication equipment and buildings and structures). The company also performs investment services for power infrastructure and equipment, provides assembly services, testing, metering, start-up, and commissioning.

#### **Sava d.o.o.**

Sava - SEL subsidiary, was established for the needs of the Construction of the Lower Sava River Hydropower Plants project.

#### **Soške elektrarne Nova Gorica d.o.o.**

There are three major hydropower plants (HPPs) stationed on the Soča River: Doblar HPP, Plave HPP and Solkan HPP, while Zadlaščica HPP and 19 small HPPs operate on the Soča River tributary streams. In addition to generating electricity in hydropower plants, SENG (Soča River HPPs) also performs services of project engineering and technical consulting, technical testing and analyses.

#### **Elprom d.o.o.**

This SENG subsidiary was established with the purpose of electricity trading.

#### **Termoelektrarna Brestanica d.o.o.**

As part of HSE Group the TEB (Brestanica gas-fired TPP) excels in its short response times. In emergency situations the power plant is able to generate all of its 312 MW of power within 15 minutes. It mainly uses natural gas and a special light fuel oil as fuel or a combination of both. In addition to generating electricity the company's activities also include production of steam and hot water, warehousing, project engineering and technical consulting, technical testing and analyzing, and other services.

#### **Termoelektrarna Šoštanj d.o.o.**

TEŠ (Šoštanj coal-fired TPP) is the electricity producer with the highest installed power in the HSE Group and during critical times it covers over one half of the electricity consumption in Slovenia. In addition to electricity the company also produces heat, which is used for the heating of the larger part of Šaleška dolina (Šaleška valley). With its newly constructed emissions treatment plants the power plant is able to meet the European and global ecological

standards. Lignite from PV (Velenje Coalmining Company) is used as the primary fuel.

#### **Premogovnik Velenje d.d.**

PV (Velenje Coalmining Company) is considered as one of the most up-to-date equipped coalmines in Europe, with an annual production of some 4 million metric tons of coal. Almost all of its production is used at TEŠ (Šoštanj coal-fired power plant). Despite the hardships of coalmining and geological conditions the company's state-of-the-art technological equipment and personnel qualifications ensure the safety of all employees and a high level of productivity. The company's other activities include project engineering in terms of mining, mechanical and electrical design of underground structures and open cuts, construction of all types of underground structures, drilling, geo-mechanical research, and the provision of mine-surveying, hydro-geological and technological services. Premogovnik Velenje Group includes eight subsidiaries.

#### **HTZ d.o.o.**

HTZ is a company for the training and employing of invalids.

**Kamnolom Paka d.o.o.**

The company's core business activities include the extraction, processing and sales of stone aggregates, pit sands and other materials.

**Habit d.o.o.**

Habit manages real estate.

**Gost d.o.o.**

Gost is in the restaurant business.

**PLP d.o.o.**

The company's activities include production of wood products, wood sawing, chipping and impregnating.

**Telkom sistemi d.o.o.**

Telkom sistemi deals with telecommunications.

**Karbon d.o.o.**

Karbon was established in 2002 for the purposes of research and experimental development in the field of technology.

**ERICo**

Erico institute deals with research and experimental development in the fields of nature sciences, technology, social sciences and humanities.

**HSE Invest d.o.o.**

The company was established to meet the needs of executing the investment construction of power generating structures; during the first phase for the requirements of the construction of Lower Sava River power plants, while later its range of activities will expand.

**HSE - IIP d.o.o.**

HSE - IIP has its headquarters located in Sevnica, and it was established for the management of the construction of infrastructure on the locations of the future Lower Sava River Hydropower Plants.

**TDR - Metalurgija d.d.**

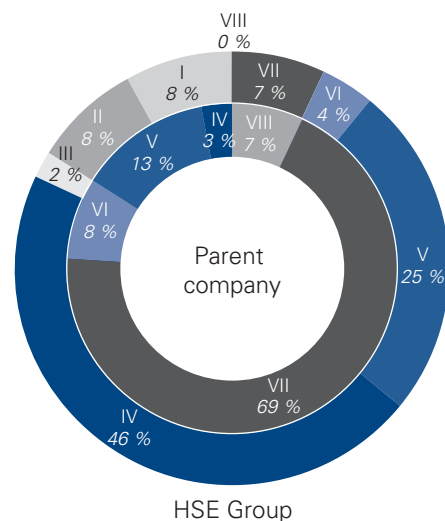
TDR - Metalurgija represents the largest electro-metallurgic part of the former Tovarna dušika Ruše. The plant was one of the first producers of electro-chemical products in this part of Europe. It was established in 1918. The company's main activity is the production of calcium carbide and ferroleure.

## 5.2 HUMAN RESOURCES MANAGEMENT

### Employee status in HSE Group

Company	1 January 2002	31 December 2002	Index Dec/Jan 2002
HSE	35	60	171%
DEM	336	309	92%
SEL	135	130	96%
SENG	155	141	91%
TEB	127	127	100%
TEŠ	601	585	97%
PV Group	3,708	3,524	95%
HSE Invest	0	9	
HSE - IIP	0	0	
TDR Metalurgija	406	397	98%
<b>TOTAL</b>	<b>5,503</b>	<b>5,282</b>	<b>96%</b>

### EMPLOYEE EDUCATION STRUCTURE AS OF 31 DECEMBER 2002



I - unqualified  
 II - semi-qualified  
 III - 2-year vocational high school  
 IV - 3-year vocational high school  
 V - 4-year high school graduate  
 VI - higher school graduate  
 VII - university graduate  
 VIII - M. Sc. or Ph. D.

### Number of Employees

As of 31 December 2002 HSE Group employed 5,282 people. This enables us to state that in accordance with the goal of operating rationalization the number of employees has fallen by 4 percent. The trend of reducing the number of employees is continued through 2003.



## 5.3 ELECTRICITY GENERATION

### ELECTRICITY GENERATING UNITS IN THE HSE GROUP

		Dravograd	Vuzenica	Vuhred	Ožbalt	Fala	MB otok	Zlatoličje	Formin	Total
<b>DEM</b>	Number of generators	3	3	3	3	1+2	3	2+1	2	
Threshold power	MW	27	57	60	60	58	60	127	116	<b>565</b>
Installed generator power	MVA	36	78	66	66	74	78	149	148	<b>695</b>
Gross drop	m	8,9	13,7	17,4	17,4	14,6	14,2	33	29	<b>148</b>
Installed flow	m <sup>3</sup> /s	405	550	480	465	505	550	510	500	
		Moste I.	Moste II.	Mavčiče	Medvode	Vrhovo				Total
<b>SEL</b>	Number of generators	3		2	2	3				
Threshold power	MW	13,5	8	38	21	37				<b>118</b>
Installed generator power	MVA	22,5	11	50	27	42,9				<b>153</b>
Gross drop	m	70,45	177,2	17,5	21,2	8,12				<b>294</b>
Installed flow	m <sup>3</sup> /s		3x9,5	6	2x130	2x71	3x166,7			
		Doblar I.	Doblar II.	Plave I.	Plave II.	Solkan	Zadlaščica	Male HE		
<b>SENG</b>	Number of generators	3	1	2	1	3	2			
Threshold power	MW	30	40	15	19	32,4	8	15,8		
Installed generator power	MVA	48	50	22	23	39	10	19,4		
Gross drop	m	47,2	48,5	27,5	27,5	23				
Installed flow	m <sup>3</sup> /s	90	105	75	105	180	2,2			
		Parna 1	Parna 2	PB I.	PB II.	PB III.	PB IV.	PB V.		
<b>TEB</b>										
Threshold power	MW	10	11	21	21	21	114	114		
Installed generator power	MVA	16	15	32	32	32	155	155		
		Blok 1	Blok 2	Blok 3	Blok 4	Blok 5				Total
<b>TEŠ</b>										
Threshold power	MW	27	27	68	246	315				<b>683</b>
Installed generator power	MVA	37,5	37,5	94	324	406				<b>899</b>

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HSE Group is Slovenia's largest producer and supplier of electricity, as we produce more than half of Slovenia's overall production of electricity. The companies of the Group represent a combination of production resources

(hydropower plants, coal-fired and gas-fired thermal power plants) that enables flexible production of electricity and the coverage of all types of consumers and providing all forms of ancillary services.

In addition to a substantial market share in the Slovenian power supply market HSE Group was also the most important ancillary service supplier for the Slovenian operator of the power transmission system in 2002. Besides

competing in the Slovenian electricity market the Group is also active in the wider region. Italy represents our main export market, and we trade with most of Europe's most important companies.

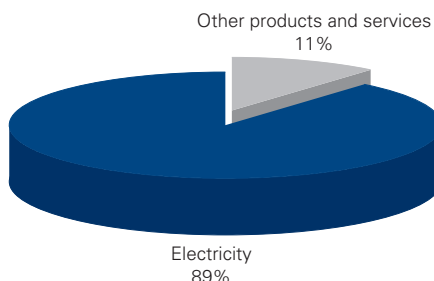
## 5.4 OTHER ACTIVITIES

### Structure of Total Net Sales Revenues

Last year Group HSE had a total of SIT 98 billion of net sales revenues, of which just over 26 percent were generated from sales abroad.

Within the revenue structure the most important share of 89 percent is represented by electricity sales, while revenues from the sales of other products and services represented 11 percent of the Group's net sales revenues.

#### SALES REVENUE STRUCTURE IN 2002



### Other Products and Services

Production of calcium carbide, ferrosilicon, calcium silicon, and complex alloys represent the largest share among other activities. 22 percent of these sales were generated in the domestic market, while a majority was exported to foreign markets, especially Italy, Austria and Germany.

Other activities include heat and coal production and supply as well as other services and products that are part of the Group's subsidiaries' activities.

## 5.5 INVESTMENTS IN OTHER COMPANIES OF THE HSE GROUP

### DEM

Main activities at DEM were part of the Drava River Hydropower Plants Renewal project - Phase 2. Investments are being carried out with the purpose of a complete overhaul of hydropower plants Vuhred and Ožbalt, which were in need of renewal due to their age and technological obsolescence.

The renewal project began in 2001 and according to plans it will be finished at the end of 2004.

Effects of this investment project will be displayed in a substantially increased production of electricity, a higher level of exploitation of the hydro potential, reduced maintenance costs and a reduced size of the management team.

### SEL

Measurements and analyses of the isolation material at all three generators of the Moste hydropower plant showed critical status with the Generator 3 equipment, which necessitated a replacement.

This investment project will be finished in 2003 and it will result in increased power of the new generator from 7.5 to 9 MVA, increased opera-

tional reliability and safety, and an increased generator lifespan.

The construction of RTP 100/20/6.3 kV Medvode with the purpose to loop in the existing 2x110 kV Kleče - Labore - Okroglo transmission line instead of the old T-connection to the 110 kV system in Slovenia, the canceling of the 35 and 10 kV voltage level, replacement of technologically obsolete and unreliable 110 kV equipment and reduction of effects on the environment. These effects are mainly to be displayed in the increased flexibility of the Medvode hydropower plant to the 110 kV network and an increased selectivity of protection at malfunctions. The power of all transformations will be increased. The investment project will be finished in 2004.

A turbine and secondary equipment renewal is underway at the Medvode hydropower plant due to the plant's obsolescence as it has been in operation since 1951.

The investment project will be concluded in 2005 and its positive effects will include the technological modernization of the plant's equipment and consequentially an increased flow through the power plant (150 m<sup>3</sup>/s),





increased maximum power from 10.2 to 13.23 MW and thereby an increase of 8.5 percent in the power plant's production.

### **SENG**

The most important long-term investment, which was started with the preparation of documents before 1990, is the project of renewal and additional installation at the Soča River hydropower plants Doblar I + II and Plave I + II. The project was concluded on 24 April 2003. The project included the construction of two new hydropower plants Plave II and Doblar II and after the construction also the gradual renewal of the existing hydropower plants Plave I and Doblar I. The significance of the investment is in increased efficiency of exploiting the available hydro potential on Soča River, production of peak power, covering the potential needs for reserve and regulation power, and improved structure of production capacities in the Slovenian power system. Construction was commenced in 1998 and already in 2002 both new power plants were activated. With the new power plants the production capacities have been increased by 60 MW, overall production has been increased by a total of 107 GWh and the installed flow of the

Soča River hydropower plant chain has been unified. The investment has a positive effect on overall power system's operations.

### **TEB**

Special attention at TEB was dedicated to the completion of the construction of two 2 x 114 MW gas turbines and the elimination of faults displayed in testing procedures. A lot of activities have been executed in the preparation of documents required for the making of the final professional evaluation, which was prepared by the authorized professional institution in July 2002.

An additional technical inspection of the new 2 x 114 MW gas turbines and the adhering structures was conducted on 17 September 2002, and no faults were discovered. A serviceability permit was granted for the newly built structure.

According to the TEB strategic goals activities were also aimed at the preparation and elaboration of spatial urbanistic documents for the refurbishment of steam technology. A proposal of Changes and Amendments to the Planning Act of the Krško Municipality was prepared as well as a pro-

posal of Changes and Amendments to the Spatial Plan for TEB, both of which were discussed and approved at the Krško Municipal Council in October 2002.

### **TEŠ**

As part of ecology projects TEŠ carried out the investment projects of Unit 5 gas fumes de-sulfurizing, projects related to the Unit 4 overhaul realization (investments in increased reliability of Unit 4 production) and investments in the reliability of production of Units 1 through 3 and Unit 5 as well as joint structures.

The projects already underway and will be concluded before the end of 2003 are Unit 4 gas fume de-sulphurization and chemical preparation of water.

### **PV**

A reconstruction of the electric power supply of PV from TEŠ in underway at PV aimed at reducing the network costs. This investment project will be concluded in 2003.

Simultaneously the company is also running the project of diverting the coal cartage. Export of the overall PV production is conducted with rubber belt transporters via the Pesje export

route to the surface and then via the classifier system to the depot. Exploitation of the stratum on the east is nearly finished with the focal point of excavation switching westbound, which is to the opposite side of the main exportation route. New solutions range from diverting the existing transport routes to export shaft Barbara, abandoning coal classification, crumbling the coal in the cave in front of the shaft, coal exportation with skips and discarding the coal directly to the depot, from where it is used for the requirements of TEŠ.

This investment, too, will be finished in 2003.

### **TDR - Metalurgija**

An investment project was finished in 2002 at TDR - Metalurgija, which enables the crumbling and sieving of FeSiMg with over 7.5 percent of Mg. Devices were activated for testing operation.

An ICP-AES apparatus was purchased and a gas station for laboratory gasses was established, which provides opportunity for more detailed and expanded material analyses.

## 5.6 IMPORTANT EVENTS AFTER THE END OF FINANCIAL YEAR

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### **HSE Italia S.r.l.**

In April 2003 HSE as the only founder established a new company named HSE Italia S.r.l.

### **Decree on the Concession for the Generation of Power on the Drava River**

The Decree on the Concession for the Generation of Power on the Drava River, which was passed by the Government of the Republic of Slovenia on 27 February 2003, will have important effects on the future performance of DEM. According to the first estimates the decree is going to substantially reduce operating costs - the cost of building land compensation in 2003 and the following years.

### **No Reduction of the SEL Subscribed Capital**

At the first level the registration court denied the motion for the suspension of the procedure for the reduction of SEL subscribed capital and issued a decree on the reduction of subscribed capital. The decree did not become legally binding though as minority shareholders filed a complaint, which prevents the company (until the decree becomes legally binding) to cover the losses from previous periods by reducing the company's subscribed capital.

### **Decree on the Specification of the Concessionaire for Economic Exploitation of Water for the Production of Electricity for Upper Sava River Hydropower Plants**

On 18 March 2003 SEL received the Decree on the Specification of the Concessionaire for Economic Exploitation of Water for the Production of Electricity for Moste HPP (hydropower plant), Mavčiče HPP and Medvode HPP. Based on this decree the company will become concessionaire for the above-listed power plants, providing that it signs a concession contract with the Government of the Republic of Slovenia within three months from the date of issuing the decree.

### **Reduction of Subscribed Capital at SENG**

A reduction of the SENG subscribed capital was entered in the register of companies on March 12th, 2003, following an accelerated procedure, which was impossible to realize in 2002 as there was a complaint filed against it. Based on new legal acts the loss generated in 2001 was covered with the positive operating financial result of 2002. This meant that with the registration of the reduced subscribed capital in March 2003 there was a double cover-

age of the loss generated in 2001, which will be amended in 2003 with the transfer of 2002 generated profit to the undistributed net profit of the financial year 2003.

### **Severe Accident at PV**

Unfortunately, among the important events we need to mention a severe industrial accident that happened at PV at the beginning of 2003 and claimed the lives of two miners and caused a loss of lignite production.

### **Start of Re-structuring at TDR - Metalurgija**

In February 2003 the TDR - Metalurgija Supervisory Board adopted the Modernization of Complex Composites Production investment program, which denotes the start of re-structuring in the sense of increasing the production of less power-intensive products.

### **ISO 9001/2000 Granted to TDR - Metalurgija**

In March 2003 TDR Metalurgija attained the ISO 9001/2000 certification.



## 5.7 HSE GROUP IN 2003

At HSE Group we have set bold goals for 2003.

We will retain the position of Slovenia's leading electricity supplier by nurturing our partnership with the existing electricity buyers.

We will proceed with the construction of the Lower Sava River Hydropower Plants and all the other important investment projects in the Group.

We will bring ourselves even closer to the end-users by further developing our sales network and by cooperating with individual distribution companies.

We are planning the optimum use of capacities regarding the current market conditions by balancing the schedules with trading schedules, which are adapted to the goal of achieving maximum trading profit.

We want to include almost all players in the Slovenian electricity sector in the HSE balance group, with the exception of preferential dispatch. We are estimating that in 2003 our balance group will comprise 90 percent of consumers and 90 percent of production in Slovenia.

We will establish balance groups in

individual EU Member States, which will enable us to expand the current trading at Slovenia's borders to the Western European electricity markets, thereby achieving higher prices. This will also increase our options for trading via organized markets (EEX ...), which will help us to achieve the optimum sales or purchases of electricity.

We will take advantage of our knowledge of Southeastern European markets as well as our strategic position and the reputation of a reliable business partner among Western European electricity traders as a bridge between flows of trade in different regions.

In the field of measurements and billing of sales and purchases of electricity and heat products as well as raw material purchases we will provide the required data for the billing and quantity control of purchases, sales and imbalances.

We will monitor the fulfilling of environment protection requirements.



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## FINANCIAL REPORT OF THE GROUP



## 6. FINANCIAL REPORT OF THE HSE GROUP

### 6.1. INTRODUCTORY EXPLANATIONS

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#### Basis

The consolidated financial statements discussed in this report have been prepared in accordance with the provisions of the Companies Act (CA) and the valid Slovene Accounting Standards (SAS).

The consolidated financial statements include:

- Consolidated balance sheet
- Consolidated income statement
- Consolidated cash flow statement
- Consolidated statement of changes in equity

#### Companies included in the consolidated financial statements

The group of companies is an economic, but not a legal unit and it is not an independent subject of rights and duties. Financial statements have been prepared for the group of companies as if it were only one company. They have been prepared on the basis of the original financial statements of group enterprises under the consideration of the consolidated adjustments.

The HSE Group does not consist only from the parent company and subsidiaries, since these individual subsidiaries are sole or partial owners of other companies. In accordance with the method of chain consolidation the consoli-

#### Companies included in the consolidated financial statements

Company	Ownership share of HSE d.o.o.
Holding Slovenske elektrarne d.o.o.	Parent company
Dravske elektrarne Maribor d.o.o.	79.4%
Savske elektrarne Ljubljana d.o.o.	79.5%
Soške elektrarne Nova Gorica d.o.o.	79.5%
Termoelektrarna Brestanica d.o.o.	79.5%
Termoelektrarna Šoštanj d.o.o.	79.5%
Premogovnik Velenje d.d.	77.7%
HSE Invest d.o.o.	100.0%
TDR - Metalurgija d.d.	74.4%
HTZ d.o.o.	77.7%
Gost d.o.o.	77.7%
PLP d.o.o.	77.7%
Kamzolom Paka d.o.o.	77.7%
Habit d.o.o.	77.7%
Telkom sistemi d.o.o.	77.7%
Karbon d.o.o.	77.7%

#### Companies not included in the consolidated financial statements

Company	Ownership share of HSE d.o.o.
Sava d.o.o.	51.7%
Elprom d.o.o.	79.5%
HSE - IIP d.o.o.	100.0%

dated financial statements are prepared already at the level of subsidiaries. Then they are included in the consolidated financial statements of the HSE Group. Consolidation of the PV Group has been carried out before the consolidation of the HSE Group.

In further sections the term "Group" is used for the HSE companies included in the consolidated financial statements.

HSE Invest started its operation on 25 April 2002, and Karbon on 16 October 2002.

HSE - IIP is not included in the consolidated financial statements, since it is not relevant for a true and fair presentation of the Group operations due to its static position. For the same reason, the companies Sava and Elprom are not included in the consolidation.

The institution ERICo (where TEŠ and PV own 30% each) is not included in the consolidated financial statements either, since it is not a company with share capital.

#### Complete consolidation

Financial statements of the Group enterprises are joined in consolidated financial statements on the basis of the complete consolidation. Financial statements are aggregated from item to item and similar items of assets, liabilities, capital, revenues and expenses are added. Since the Group has to be presented as one company the following has been excluded:

- Investments of the parent company in the capital of subsidiaries and adequate shares of the parent company in the capital of subsidiaries and debts of the subsidiaries
- Mutual receivables and liabilities
- Mutual revenues and expenses
- Net profits not yet realised as results of transactions within the Group

The consolidated income statement presents a share of minority owners in the profit/loss of the Group. The consolidated balance sheet and the consolidated statement of changes in equity present the minority share in the capital of the Group.

## 6. 2. AUDITOR'S REPORT



### Auditor's Report

#### To the Shareholders of Holding Slovenske elektrarne d.o.o. Ljubljana

We have audited the accompanying consolidated financial statements of the Holding Slovenske elektrarne Ljubljana Group, consisting of the consolidated balance sheet as of 31 December 2002, the consolidated income statement, the consolidated cash flow statement, the consolidated statement of changes in equity, and the notes to consolidated financial statements for the year then ended. We have read the management's report on operations. Those financial statements and the notes to financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing issued by International Federation of Accountants and other auditing regulations issued by Slovenian Institute of Auditors. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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. It also includes an assessment of the compliance of the management's report on operations with the financial statements, which form a constituent part of the annual report. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above give a true and fair view of the financial position of the Group as of 31 December 2002, the results of its operations, its cash flows and the changes in equity for the year then ended in conformity with Slovenian Accounting Standards issued by Slovenian Institute of Auditors.

The management's report on operations is in conformity with the audited financial statements.

**KPMG SLOVENIJA,**  
poštelje in revizijsko in poslovno svetovanje, d.o.o.

Branco Podberšek, BSc, Dc.  
Certified Auditor and Managing Partner

Ljubljana, 5 May 2003

KPMG Slovenija, d.o.o.

## 6.3. CONSOLIDATED BALANCE SHEET

in SIT 000

	ITEM	Year 2002	Year 2001	Index 02/01
	<b>ASSETS</b>	<b>339,629,666</b>	<b>320,281,382</b>	<b>106%</b>
<b>A.</b>	<b>FIXED ASSETS</b>	<b>295,991,607</b>	<b>292,546,216</b>	<b>101%</b>
80	<b>I. Intangible fixed assets</b>	<b>3,182,373</b>	<b>3,016,144</b>	<b>106%</b>
	1. Long-term deferred costs of organisation	183,573	58,660	313%
	2. Long-term deferred costs of development	2,739,792	2,831,689	97%
	3. Long-term property rights	259,008	69,776	371%
	5. Advances for intangible fixed assets	0	56,019	0%
	<b>II. Tangible fixed assets</b>	<b>284,882,725</b>	<b>287,380,275</b>	<b>99%</b>
	1. Land and buildings	148,541,750	133,697,383	111%
	a) Land	11,536,140	10,727,011	108%
	b) Buildings	137,005,610	122,970,372	111%
	2. Production plant and equipment	124,262,532	111,525,972	111%
	3. Other plant and equipment	1,269,849	10,960,089	12%
	4. Tangible fixed assets under construction	10,808,594	31,196,473	35%
	a) Advances for tangible fixed assets	1,060,285	1,554,466	68%
	b) Tangible fixed assets under construction and in process	9,748,309	29,642,007	33%
	5. Rearing herd	0	358	0%
	<b>III. Long-term investments</b>	<b>7,926,509</b>	<b>2,149,797</b>	<b>369%</b>
	1. Shares in the group enterprises	8,523	0	
	3. Shares in associates	0	14,453	0%
	5. Other long-term investments	917,530	1,443,807	64%
	6. Other long-term financial receivables	7,000,456	691,537	1,012%
<b>B.</b>	<b>CURRENT ASSETS</b>	<b>43,544,562</b>	<b>26,868,766</b>	<b>162%</b>
	<b>I. Inventories</b>	<b>6,330,481</b>	<b>5,525,708</b>	<b>115%</b>
	1. Material	4,772,108	4,531,434	105%
	2. Work in process	235,188	10,390	2,264%
	3. Products and merchandise	1,036,867	729,766	142%
	4. Advances for inventories	286,318	254,118	113%
	<b>II. Operating receivables</b>	<b>14,460,166</b>	<b>10,728,939</b>	<b>135%</b>
	a) Long-term operating receivables	323,302	397,849	81%
	1. Long-term trade receivables	0	397,849	0%
	4. Long-term receivables due from others	323,302	0	
	b) Short-term operating receivables	14,136,864	10,331,090	137%
	1. Short-term trade receivables	11,397,423	5,014,562	227%
	2. Short-term receivables due from the Group (except associates)	0	3,706,077	0%
	3. Short-term receivables due from associates	0	5,615	0%
	4. Short-term receivables due from third parties	2,739,441	1,604,836	171%
	<b>III. Short-term investments</b>	<b>20,458,027</b>	<b>7,716,356</b>	<b>265%</b>
	2. Shares in associates	0	28,050	0%
	4. Other short-term investments	20,458,027	7,688,306	266%
	<b>IV. Bank balances, cheques and cash</b>	<b>2,295,888</b>	<b>2,897,763</b>	<b>79%</b>
<b>C.</b>	<b>DEFERRED COSTS, DEFERRED EXPENSES AND ACCRUED REVENUES</b>	<b>93,497</b>	<b>866,400</b>	<b>11%</b>
	OFF-BALANCE-SHEET RECORD	23,653,726	85,783,161	28%



		in SIT 000		
	ITEM	Year 2002	Year 2001	Index 02/01
	<b>LIABILITIES AND CAPITAL</b>	<b>339,629,666</b>	<b>320,281,382</b>	<b>106%</b>
<b>A.</b>	<b>CAPITAL</b>	<b>235,475,484</b>	<b>192,157,389</b>	<b>123%</b>
<b>I.</b>	<b>Called-up capital</b>	<b>1,156,217</b>	<b>3,000</b>	<b>38,541%</b>
1.	Share capital	1,156,217	3,000	38,541%
<b>II.</b>	<b>Capital reserves</b>	<b>166,070,474</b>	<b>196,454,189</b>	<b>85%</b>
<b>III.</b>	<b>Revenue reserves</b>	<b>6,142,502</b>	<b>0</b>	
4.	Other reserves	6,142,502	0	
<b>V.</b>	<b>Net profit or loss for the financial year</b>	<b>6,142,502</b>	<b>(57,158,403)</b>	
<b>VI.</b>	<b>Equity revaluation adjustment</b>	<b>2,423,234</b>	<b>27</b>	<b>8,974,941%</b>
1.	General equity revaluation adjustment	27	27	100%
2.	Specific equity revaluation adjustment	2,423,207	0	
<b>VIII.</b>	<b>Minority equity interest</b>	<b>53,540,555</b>	<b>52,858,576</b>	<b>101%</b>
<b>B.</b>	<b>PROVISIONS</b>	<b>39,685,033</b>	<b>68,323,068</b>	<b>58%</b>
3.	Other provisions	39,685,033	68,323,068	58%
<b>C.</b>	<b>FINANCIAL AND OPERATING LIABILITIES</b>	<b>63,871,695</b>	<b>58,620,227</b>	<b>109%</b>
a)	Long-term financial and operating liabilities	40,631,573	41,088,742	99%
2.	Long-term financial liabilities to banks	40,543,283	40,864,455	99%
4.	Long-term trade payables	28,938	0	
8.	Long-term financial and operating liabilities to other entities	59,352	224,287	26%
b)	Short-term financial and operating liabilities	23,240,122	17,531,485	133%
2.	Short-term financial liabilities to banks	9,714,385	8,995,462	108%
3.	Short-term operating liabilities arising from advances	18,270	3,797	481%
4.	Short-term trade payables	9,121,596	5,222,219	175%
7.	Short-term financial and operating liabilities to associates	0	10,837	0%
8.	Short-term financial and operating liabilities to other entities	4,385,871	3,299,170	133%
<b>Č.</b>	<b>ACCRUED COSTS (EXPENSES) AND DEFERRED REVENUES</b>	<b>597,454</b>	<b>1,180,698</b>	<b>51%</b>
	OFF-BALANCE-SHEET RECORD	23,653,726	85,783,161	28%

## 6.4. CONSOLIDATED INCOME STATEMENT

in SIT 000

ITEM	Year 2002	Year 2001	Index 02/01
<b>1. Net sales revenues</b>	<b>98,440,705</b>	<b>64,488,281</b>	<b>153%</b>
a) Domestic market	72,398,586	63,595,043	114%
- from others	72,398,586	63,595,043	114%
b) Foreign market	26,042,119	893,238	2,915%
<b>2. Changes in the value of inventory of products and work in process</b>	<b>292,669</b>	<b>(1,227,250)</b>	<b>(24%)</b>
<b>3. Capitalised own products and/or services</b>	<b>968,033</b>	<b>6,722,711</b>	<b>14%</b>
<b>4. Operating revenues</b>	<b>1,189,872</b>	<b>3,570,940</b>	<b>33%</b>
- other operating revenues	1,105,920	3,565,890	31%
- revaluatory operating revenues	83,952	5,050	1,662%
<b>5. Costs of goods, material and services</b>	<b>35,623,513</b>	<b>25,526,846</b>	<b>140%</b>
a) Cost of goods and material sold	24,588,778	17,321,636	142%
b) Costs of services	11,034,735	8,205,210	134%
<b>6. Labour costs</b>	<b>26,294,305</b>	<b>22,052,851</b>	<b>119%</b>
a) Costs of wages and salaries	18,183,782	15,810,139	115%
b) Social insurance costs	5,072,874	3,894,994	130%
- costs of retirement insurance	1,154,728	1,884,616	61%
c) Other labour costs	3,037,649	2,347,718	129%
<b>7 Amortisation, depreciation and assets write-offs</b>	<b>20,174,905</b>	<b>270,492,447</b>	<b>7%</b>
a) Amortisation of intangible fixed assets, depreciation of tangible fixed assets and revaluatory operating expenses	20,087,866	270,481,418	7%
b) Revaluatory operating expenses from current assets	87,039	11,029	789%
<b>8. Other operating expenses</b>	<b>5,197,149</b>	<b>5,524,731</b>	<b>94%</b>
<b>OPERATING PROFIT OR LOSS</b>	<b>13.601.407</b>	<b>(250.042.193)</b>	

		in SIT 000		
ITEM		Year 2002	Year 2001	Index 02/01
<b>9.</b>	<b>Financial revenues from participation</b>	<b>78,089</b>	<b>62,221</b>	<b>126%</b>
c)	Other financial revenues from participation in associates (including revaluatory financial revenues)	78,089	62,221	126%
<b>10.</b>	<b>Financial revenues from long-term receivables</b>	<b>252,362</b>	<b>7,564</b>	<b>3,336%</b>
c)	Other financial revenues from long-term receivables (including revaluatory financial revenues)	252,362	7,564	3,336%
<b>11.</b>	<b>Financial revenues from short-term receivables</b>	<b>1,807,824</b>	<b>980,528</b>	<b>184%</b>
b)	Interest revenues and revenues from short-term receivables due from associates	0	16,401	0%
c)	Other interest revenues and revenues from short-term receivables (including revaluatory financial revenues)	1,807,824	964,127	188%
<b>12.</b>	<b>Financial expenses for long-term and short-term investments write-offs</b>	<b>1,091,293</b>	<b>2,957</b>	<b>36,905%</b>
a)	Revaluatory financial expenses arising from investments in the Group (except in associates)	786,289	694	113,298%
c)	Other revaluatory financial expenses	305,004	2,263	13,478%
<b>13.</b>	<b>Interest expenses and financial expenses from other liabilities</b>	<b>4,373,122</b>	<b>3,031,574</b>	<b>144%</b>
b)	Interest expenses and expenses from other liabilities due from associates	0	7	0%
c)	Other interest expenses and expenses from other liabilities	4,373,122	3,031,567	144%
	<b>PROFIT OR LOSS FROM ORDINARY ACTIVITY</b>	<b>10,275,267</b>	<b>(252,026,411)</b>	
<b>15.</b>	<b>NET PROFIT OR LOSS FROM ORDINARY ACTIVITY</b>	<b>10,275,267</b>	<b>(252,026,411)</b>	<b>(4%)</b>
<b>16.</b>	<b>Extraordinary revenues</b>	<b>4,421,854</b>	<b>133,243,448</b>	<b>3%</b>
<b>17.</b>	<b>Extraordinary expenses</b>	<b>303,450</b>	<b>22,186,466</b>	<b>1%</b>
a)	Extraordinary expenses exclusive of equity revaluation adjustment	303,450	22,186,466	1%
<b>18.</b>	<b>PROFIT OR LOSS FROM EXTRAORDINARY ACTIVITIES</b>	<b>4,118,404</b>	<b>111,056,982</b>	<b>4%</b>
	<b>TOTAL PROFIT OR LOSS</b>	<b>14,393,671</b>	<b>(140,969,429)</b>	
<b>19.</b>	<b>Income tax</b>	<b>4,665</b>	<b>3,308</b>	<b>141%</b>
<b>20.</b>	<b>Other taxes not disclosed under other items</b>	<b>0</b>	<b>0</b>	
<b>21.</b>	<b>NET PROFIT OR LOSS FOR THE FINANCIAL YEAR</b>	<b>14,389,006</b>	<b>(140,972,737)</b>	
	Majority owner's share in net profit or loss	14,708,211	(83,951,270)	
	Minority owner's share in net profit or loss	(319,205)	(57,021,467)	1%

## 6.5. CONSOLIDATED CASH FLOW STATEMENT

in SIT 000

Year 2002

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ITEM	
<b>A. CASH FLOWS FROM OPERATING ACTIVITY</b>	
<b>a) Inflows from operating activity</b>	<b>95,927,978</b>
Operating revenues	94,525,655
Extraordinary revenues relating to operating activity	4,421,854
Opening minus closing operating receivables	(3,792,434)
Opening minus closing deferred costs, deferred expenses and accrued revenues	772,903
<b>b) Outflows from operating activity</b>	<b>59,480,937</b>
Operating expenses exclusive of depreciation and long-term provisions	62,612,690
Extraordinary expenses relating to operating activity	303,450
Income tax and other taxes not included among operating expenses	4,665
Closing minus opening inventories	830,605
Opening minus closing operating liabilities	(4,853,717)
Opening minus closing accrued costs (expenses) and deferred revenues	583,244
<b>c) Net inflows from operating activity</b>	<b>36,447,041</b>
<b>B. CASH FLOWS FROM INVESTING ACTIVITY</b>	
<b>a) Inflows from investing activity</b>	<b>2,138,275</b>
Financial revenues relating to investing activity (excluding revaluation)	2,138,275
<b>b) Outflows from investing activity</b>	<b>37,366,221</b>
Financial expenses relating to investing activity (excluding revaluation)	1,091,293
Offset increase in intangible fixed assets (excluding revaluation)	896,238
Offset increase in tangible fixed assets (excluding revaluation and increase of non-cash equity)	16,860,307
Offset increase in long-term investments (excluding revaluation)	5,776,712
Offset increase in short-term investments (excluding revaluation)	12,741,671
<b>c) Net outflows from investing activity</b>	<b>(35,227,946)</b>
<b>Net inflows from operating and investing activity</b>	<b>1,219,095</b>
<b>C. CASH FLOWS FROM FINANCING ACTIVITY</b>	
<b>a) Inflows from financing activity</b>	<b>2,873,324</b>
Increase in capital (excluding net profit)	2,154,401
Offset increase in short-term financial liabilities (excluding revaluation)	718,923
<b>b) Outflows from financing activity</b>	<b>4,694,294</b>
Financial expenses relating to financing activity (excluding revaluation)	4,373,122
Offset decrease in long-term financial liabilities (excluding revaluation)	321,172
<b>c) Net outflows from financing</b>	<b>(1,820,970)</b>
<b>Total net inflows/outflows for financial year</b>	<b>(601,875)</b>
<b>Č. CLOSING BALANCE OF CASH AND CASH EQUIVALENTS</b>	
<b>x) Net cash flow for the financial year</b>	<b>(601,875)</b>
<b>y) Opening balance of cash and cash equivalents</b>	<b>2,897,763</b>

## 6.6 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in SIT 000

ITEM	Share capital		Capital reserves	Revenue reserves				Retained net profit or loss from previous periods		Net profit or loss for the financial year		Equity revaluation adjustment		Equity adjustment from translation	Minority equity interest	TOTAL
	Called-up capital	Uncalled repurchase capital (deduction item)		Legal shares	Reserves for repurchase of own shares	Statutory reserves	Other reserves	Retained net profit	Retained net loss	Net profit for the financial year	Net loss for the financial year	General equity revaluation adjustment	Specific equity revaluation adjustment			
<b>A. Opening balance</b>	<b>3,000</b>	<b>0</b>	<b>196,454,189</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(30,383,715)</b>	<b>0</b>	<b>0</b>	<b>27</b>	<b>0</b>	<b>0</b>	<b>52,858,576</b>	<b>218,932,077</b>
<b>B. Transfer to equality</b>	<b>1,153,217</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>12,285,004</b>	<b>0</b>	<b>0</b>	<b>2,423,207</b>	<b>0</b>	<b>681,979</b>	<b>16,543,407</b>
a) Called-up capital	1,153,217	0	0	0	0	0	0	0	0	0	0	0	0	0	1,001,184	2,154,401
d) Net profit for the financial year	0	0	0	0	0	0	0	0	0	12,285,004	0	0	0	0	(319,205)	11,965,799
f) Special equity revaluation adjustment	0	0	0	0	0	0	0	0	0	0	0	0	2,423,207	0		2,423,207
<b>C. Transfer within equity</b>	<b>0</b>	<b>0</b>	<b>(30,383,715)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>6,142,502</b>	<b>0</b>	<b>30,383,715</b>	<b>(6,142,502)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
a) Appropriation of net profit (as an item of equity) under the resolution adopted by the Management Board and the Supervisory Board	0	0	0	0	0		6,142,502	0	0	(6,142,502)	0	0	0	0	0	0
c) Loss covering as a deduction item of capital	0	0	(30,383,715)	0	0	0	0	0	30,383,715	0	0	0	0	0	0	0
<b>Č. Transfer from equity</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>D. Closing balance</b>	<b>1,156,217</b>	<b>0</b>	<b>166,070,474</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>6,142,502</b>	<b>0</b>	<b>0</b>	<b>6,142,502</b>	<b>0</b>	<b>27</b>	<b>2,423,207</b>	<b>0</b>	<b>53,540,555</b>	<b>235,475,484</b>

## 6.7 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### General disclosure

The provisions of the Companies Act and of the Slovene Accounting Standards are directly applied to the disclosure of items in consolidated financial statements, except for those items that may be, in accordance with the respective standards, accounted for at freely selected methods. In these cases the Group has taken into account the provisions of the Consolidation rules or decisions taken by the Management Board of the parent company.

Transactions expressed in foreign currencies are translated into domestic currency on the date of their accrual at the middle exchange rate of the Bank of Slovenia ruling on the respective date.

The consolidated financial statements have been prepared in Slovenian tolar (SIT), rounded off to one thousand units.

Group enterprises, except HTZ that is liable to account for the tax, but not to pay it, are subject to taxation under the Corporate Income Tax Act.

Group enterprises are also subject to taxation under the VAT Tax, except Karbon.

### 6.7.1 Consolidated balance sheet

#### General

The information about the basis for the preparation of the consolidated balance sheet and about special accounting policies, selected and used in important business operations and other transactions of the Group are presented in the disclosure of individual important assets and liabilities.

Due to the introduction and application of the new Slovenian Accounting Standards (SAS), the consolidated balance sheets for the year 2002 and for the year 2001 are not fully comparable.

In accordance with the interpretation 1 to the SAS 24 issued by the Slovenian Institute of Auditors the data for the previous accounting period have not been translated according to the new Slovenian Accounting Standards in the preparation of the consolidated balance sheet, but reasonably recorded in corresponding items in terms of materiality.

### Intangible fixed assets

**SIT 3,182,373,000**      **0.94% of assets**

86% of total intangible fixed assets represent long-term deferred development costs, which mainly include costs of studies and projects as well as general costs of major investments.

#### Movement of intangible fixed assets in 2002

	in SIT 000
<b>COST OF PURCHASE</b>	<b>Total</b>
Balance at the beginning of the year	5,553,817
Increase	1,086,678
Decrease	(225,379)
Revaluation	(372,038)
Balance at the end of the year	6,043,078
<b>ADJUSTMENT FOR VALUE</b>	
Balance at the beginning of the year	2,541,790
Increase	0
Decrease	(39,168)
Amortisation	358,083
Amortisation of revaluation	0
Balance at the end of the year	2,860,705
Net carrying amount at the beginning of the year	3,012,027
Net carrying amount at the end of the year	3,182,373

At the beginning of 2002 the net carrying amount of intangible fixed assets is not comparable to the data stated in the consolidated balance sheet for 2001, due to the fact that new companies were included in the consolidation in 2002.

### Tangible fixed assets

**SIT 284,882,725,000**      **83.88% of assets**

On initial recognition, a tangible fixed asset is evaluated at cost of purchase. The cost of purchase includes its purchase price, import duties and non-refundable purchase taxes, as well as directly attributable costs of bringing the asset to working condition for its intended use, particularly the costs of transport and installation. The cost of purchase also comprises the interest on loans for acquisition of a tangible fixed asset until its bringing to working condition for use.

Donations and grants for the acquisition of tangible fixed assets are not deducted from their cost of purchase. They are included in long-term provisions and are utilised in accordance with the depreciation accounted for.

The difference between the sales value and carrying amount of the disposed



tangible fixed asset is carried under revaluatory operating revenues if the net sales value exceeds the carrying amount, or under revaluatory operating expenses if the carrying amount exceeds the net sales value.

Subsequent expenditure relating to a tangible fixed asset increases its purchase value if it increases its future benefits compared to those assessed originally; in such case, the expenditure enabling the prolongation of the useful life of a tangible fixed asset first re-

duces its accumulated depreciation accounted for so far.

Repairs and maintenance of tangible fixed assets are intended to restore or maintain the future economic benefits that are expected from the originally assessed rate

of performance of an asset. They are recognized as expenses when incurred.

In the section of tangible fixed assets the bookkeeping records include special presentation of costs of purchase and adjustment for value. In the balance

### Movement of tangible fixed assets in 2002

	Land	Buildings	Equipment and spare parts, low value assets	Advances for tangible fixed assets	Tangible fixed assets under construction	Rearing herd	in SIT 000 Total
<b>COST OF PURCHASE</b>							
Balance at the beginning of the year	11,455,214	287,972,824	429,350,270	1,566,906	28,614,196	385	758,959,795
Acquisitions	168,689	18,441,465	15,134,490	2,627,835	10,662,662	0	47,035,141
Disposals	(58,098)	(8,677,226)	(2,671,863)	(3,134,510)	(29,528,549)	(385)	(44,070,631)
Revaluation	(29,665)	(3,553,279)	(1,053,563)	54	0	0	(4,636,453)
Balance at the end of the year	11,536,140	294,183,784	440,759,334	1,060,285	9,748,309	0	757,287,852
<b>ADJUSTMENT FOR VALUE</b>							
Balance at the beginning of the year		161,445,077	306,413,230			27	467,858,334
Acquisitions		0	18,491			0	18,491
Disposals		(8,324,053)	(2,843,470)			(27)	(11,167,550)
Amortisation		3,108,158	10,562,878			0	13,671,036
Amortisation of revaluation		1,584,759	1,556,734			0	3,141,493
Revaluation		(635,767)	(480,910)			0	(1,116,677)
Balance at the end of the year		157,178,174	315,226,953			0	472,405,127
Net carrying amount at the beginning of the year	11,455,214	126,527,747	122,937,040	1,566,906	28,614,196	358	291,101,461
Net carrying amount at the end of the year	11,536,140	137,005,610	125,532,381	1,060,285	9,748,309	0	284,882,725

sheet the tangible fixed assets are carried at their carrying amount as a difference between the cost of purchase and adjustment for value.

At the beginning of 2002 the net carrying amount of tangible fixed assets is not comparable to the data stated in the consolidated balance sheet for 2001, due to the fact that new companies were included in the consolidation in 2002.

The Group has no tangible fixed assets under finance lease.

TDR - Metalurgija pledged real estate in a total value of SIT 280,000,000 for short-term loans and the guarantees issued.

At the end of 2001 the appraisal of non-financial assets was carried out in the companies of the electric power energy system in Slovenia. As of 31 December 2001 the majority of companies in the Group harmonised the book values with the appraisals. Therefore, there was no reason for the revaluation of tangible fixed assets in these companies. Revaluation was performed in TDR - Metalurgija and HTZ.

Both appraisals were conducted by authorised appraisers in October and December 2002, the appraisal effect was impairment of value amounting to SIT

3,519,830,000, and the revaluated book value amounted to SIT 3,336,612,000.

### Long-term investments

**SIT 7,926,509,000**      **2.33% of assets**

In the process of consolidation SIT 170,167,752 worth of long-term invest-

<b>Movement of long-term investments in 2002</b>		in SIT 000
<b>COST OF PURCHASE</b>		<b>Total</b>
Balance at the beginning of the year		2,236,686
Increase		6,887,841
Decrease		(1,157,669)
Revaluation		10,172
Balance at the end of the year		7,977,030
<b>ADJUSTMENT FOR VALUE</b>		
Balance at the beginning of the year		40,501
Increase		10,020
Decrease		0
Amortisation		0
Amortisation of revaluation		0
Balance at the end of the year		50,521
Net carrying amount at the beginning of the year	2,196,185	
Net carrying amount at the end of the year	7,926,509	

ments were allotted to entities in the Group.

At the beginning of 2002 the net carrying amount of long-term investments is not comparable to the data stated in the consolidated balance sheet for 2001, due to the fact that new companies were included in the consolidation in 2002.

### Inventories

**SIT 6,330,481,000**      **1.86% of assets**

Inventories of spare parts, material for maintenance and fuel represent the highest value.

### Receivables

**SIT 14,460,166,000**      **4.26% of assets**

The parent company holds 73% of total receivables, PV follows with 13% and TDR - Metalurgija with 8%, receivables of other Group enterprises amount to 6% in total.

The majority of receivables are not mature yet; the share of receivables due is 4%.

Short-term receivables among the Group enterprises amounting to SIT 9,266,227,000 were eliminated in the process of consolidation.

### Short-term investments

**SIT 20,458,027,000**      **6.02% of assets**

On initial recognition, a short-term investment in equity securities of other companies and debt securities of other companies is carried at cost which is either equal to the paid amount of cash or cash equivalents, increased by the costs directly attributable to the investment.

On initial recognition, a short-term investment in a short-term loan granted is measured by the paid amount that is the principal of the loan.

Short-term investments include also long-term investments that will be due for payment within a year from the balance sheet date.

Short-term investments expressed in foreign currency are translated into domestic currency on the date of their accrual at the middle exchange rate of the Bank of Slovenia ruling on the respective date. If the exchange rate changes subsequently, the amount of the short-term investment is corrected or revalued adequately and exchange losses / gains increase regular financial revenues or expenses.



Short-term investments are not revalued due to increase in their value. But they are revalued due to impairment, if the proven fair value is lower than the book value.

The majority of short-term investments of the Group present deposits in important Slovene banks and therefore exposure to risks is minimal.

A short-term loan amounting to SIT 669,434,000 was eliminated in the process of consolidation.

**Cash**  
SIT 2,295,888,000 0.68% of assets

Cash of the Group includes cash on hand, deposits on transaction accounts and deposits on call with commercial banks.

**Deferred costs and accrued revenues**  
SIT 93,497,000 0.03% of assets

Deferred costs and accrued revenues include short-term deferred costs that do not have any influence on the profit/loss.

**Off-balance-sheet records**  
SIT 23,653,726,000

The major part represents the record of tax loss from previous years in one of the Group enterprises.

**Capital**  
SIT 235,475,484,000 69.33% of liabilities

In the process of consolidation the capital of subsidiaries was eliminated in a total of SIT 203,361,592,000. The consolidated balance sheet thus presents only the capital of the parent company disclosed in its financial statements as well as the capital of minority owners amounting to SIT 53,540,555,000.

Specific equity revaluation adjustment derives from the increases in long-term investments of subsidiaries based on the share in profit of these companies and was not eliminated in the process of consolidation.

As of 1 January 2002 an adjustment for the value of net loss for the financial year was made. It is presented in the consolidated balance sheet for 2001, and it was made in relation to the loss of TEŠ from 2001 amounting to SIT 26,774,688,000. Negative goodwill among long-term provisions was decreased by the same amount; it was made for covering of future losses in subsidiaries.

**Long-term provisions**  
SIT 39,685,033,000 11.69% of liabilities

Total long-term provisions are included in other provisions of which negative goodwill of SIT 32,544,406,000 was made in the process of consolidation.

Negative goodwill appears in the consolidation, when an investment of the parent company in the capital share of a subsidiary is lower than the value of recognised assets and liabilities and when the subsidiary still operates as an independent legal person. Negative goodwill is drawn for covering of future loss in subsidiaries.

It has already been mentioned in the disclosure of capital that negative goodwill presented in the consolidated balance sheet for 2001 amounting to SIT 59,458,421,000 was decreased by SIT 26,774,688,000 as of 1 January 2002. After the adjustment made the balance of negative goodwill amounted to SIT 32,683,733,000. But it appeared again in TDR - Metalurgija in the consolidation of 2002; TDR was included in the consolidation of 2002 for the first time. The negative goodwill was drawn for covering of loss of subsidiaries in the current year.

### Capital of the Group as of 31 December 2002

	in SIT 000
Share capital	1,156,217
Capital reserves	166,070,474
Revenue reserves (other revenue reserves)	6,142,502
Net profit / loss	6,142,502
General equity revaluation adjustment	27
Specific equity revaluation adjustment	2,423,207
Capital of minority owners	53,540,555

### Movement of negative goodwill in 2002

	in SIT 000
Balance at the beginning of the year	32,683,733
Increase	3,497,124
Decrease	(3,636,451)
Balance at the end of the year	32,544,406

Other long-term provisions are long-term provisions relating to long-term deferred revenues and long-term provisions relating to long-term accrued costs or expenses. The majority of provisions were made in the previous years. In 2002 the provisions were drawn for covering of depreciation of tangible fixed assets purchased by a government grant and for the covering of loss due to impairment of tangible fixed assets.

**Long-term liabilities**  
**SIT 40,631,573,000 11.96% of liabilities**

Long-term bank loans represent almost total long-term liabilities. The loans were insured by drafts, acceptance orders, guarantees or warranty of the Republic of Slovenia.

Loans were taken from domestic and foreign banks. Interest rates depend on the kind of a loan, maturity and the time of loan taking. They include also loans that are due to be paid in a period, longer than five years, latest to 30 June 2013. Detailed presentations of long-term liabilities are given in annual reports of individual companies.

Total liabilities arising from long-term loans are settled regularly.

**Short-term liabilities**  
**SIT 23,240,122,000 6.84% of liabilities**

The major share (42%) of short-term liabilities includes bank loans and the largest share belongs to short-term portions of long-term loans.

The second largest share (39%) represents supplier liabilities, followed by payables to the state and employees (19%).

Operating and financial liabilities among Group enterprises amounting to SIT 9,286,227,000 were eliminated in the consolidation process.

**Accrued costs and deferred revenues**  
**SIT 597,454,000 0.18% of liabilities**

Accrued costs (expenses) and deferred revenues include short-term accrued expenses and short-term deferred revenues.

## 6.7.2 Consolidated income statement

### General

The information about the basis for the preparation of the consolidated income statement and about special accounting policies, selected and applied in important business operations and other transactions, are presented in disclosure of individual important revenues and expenses.

The consolidated income statement has been prepared in accordance with the version I in SAS 25.

In accordance with the interpretation 1 to the SAS 25 issued by the Slovenian Institute of Auditors the data for the previous accounting period have not been translated in the preparation of the income statement according to the new Slovenian Accounting Standards, but reasonably recorded in corresponding items of revenues and expenses and profit/loss of the statement currently valid. Thereby the Group took into account prudence and the profits/losses remained unchanged.

In accordance with the explanation 2 to the SAS 25 issued by the Slovenian

Institute of Auditors expenses or liabilities for the corporate income tax are ascertained from the joint base (from ordinary and extraordinary activities) in accordance with the provisions, tax on profit from ordinary and extraordinary activities is not presented separately in the income statement, but is presented as an accumulated item 19 of the income statement.

**Revenues**  
**SIT 107,451,408,000**

Revenues are recognised if during the accounting period the increase in economic benefits is related to the increase of asset or to the decrease of liability and if the relevant increase can be measured without fail.

Revenues are recognised when no significant uncertainty as to their collectability exists.

Revenues denote operating, financial and extraordinary revenues.

**Operating revenues**  
**SIT 100,891,279,000 93.89% of revenues**

Sale of electric energy represents 89% of total operating revenues of the Group.



Operating revenues among the Group enterprises amounting to SIT 69,636,658,000 were eliminated in the consolidation process.

**Financial revenues**  
**SIT 2,138,275,000 1.99% of revenues**

Financial revenues of the Group are revenues from the sale of investments, revenues from interest on investments and revenues from revaluation of investments and receivables.

Financial revenues among the Group enterprises amounting to SIT 649,459,000 were eliminated in the consolidation process.

**Extraordinary revenues**  
**SIT 4,421,854,000 4.12% of revenues**

Extraordinary revenues from the drawing of negative goodwill for covering of current loss of subsidiaries amounting to SIT 3,636,451,000 were presented in the consolidation process, other extraordinary revenues mostly refer to the compensation received.

**Expenses**  
**SIT 93,057,737,000**

Expenses are recognised if during the

accounting period the decrease in economic benefits is related to the decrease of asset or to the increase of liability and if the relevant decrease can be measured without fail.

Expenses denote operating, financial and extraordinary expenses.

**Operating expenses**  
**SIT 87,289,872,000 93,80% of revenues**

Costs of goods, material and services mainly include:

- Cost of purchase of electricity
- Cost of material, spare parts and services for the maintenance of tangible fixed assets
- Cost of fuel and lubricants.

Labour costs include cost of wages and salaries, social security contributions, cost of additional pension insurance and

other labour cost. The Group formed no short-term provisions related to the revaluation of labour cost because of the profit/loss.

The majority of write-offs of value represent amortisation/depreciation of intangible and tangible fixed assets amounting to SIT 17,170,486,000; a minor share represents revaluatory operating expenses because of appraisals.

The Group applies straight-line depreciation. Assets are amortised/depreciated individually on the basis of the foreseen useful life.

In case of tangible fixed assets purchased by government grants the depreciation is accounted for separately and long-term provisions are drawn for its amount and adequate revenues are presented.

Similar depreciation rates are used for similar tangible fixed assets in the Group; uniformity of production equipment is unreal, since the activities of the companies are very different.

Other operating expenses mainly include contribution for the use of building land, water-related contribution, expenses for protection of the environment and licence contribution to the state.

Operating expenses among the Group enterprises amounting to SIT 69,636,658,000 were excluded in the consolidation process.

**Financial expenses**  
**SIT 5,464,415,000 5.87% of revenues**

Financial expenses of the Group are expenses for interest on short- and long-term liabilities and expenses for the revaluation of these liabilities.

Financial expenses among the Group enterprises amounting to SIT 25,000 were excluded in the consolidation process.

**Extraordinary expenses**  
**SIT 303,450,000 0.33% of revenues**

Financial expenses of the Group are expenses for interest on short- and

<b>Amortisation/depreciation rates of intangible and tangible fixed assets of the Group</b>	
Buildings	1 - 8%
Production equipment	1 -15%
Other equipment	5 - 33.33%
Hardware	33.33 - 50%
Intangible fixed assets	20 - 33.33%

long-term liabilities and expenses for the revaluation of these liabilities.

Financial expenses among the Group enterprises amounting to SIT 25,000 were excluded in the consolidation process.

#### **Tax on profit** SIT 4,665,000

Three companies in the Group presented liabilities for tax on profit for 2002 and other companies did not establish any basis for its payment.

#### **Net profit** SIT 14,389,006,000

Net profit of the Group presents net profit of the parent company amounting to SIT 12,285,004,000 and shares of the parent company in the net profit of subsidiaries amounting to SIT 2,423,207,000. It was decreased by the consolidated profit/loss of other (minority) owners in the Group amounting to SIT 319,205,000.

The share in net profit of the subsidiaries was not eliminated in the consolidation process, since the parent company presents these shares among the specific revaluation adjustments in the balance sheet.

#### **Segments**

The Group breaks down the operations into two geographical segments. Net sales revenues are divided into:

- Domestic market  
SIT 72,398,586,000
- Foreign market  
SIT 26,042,119,000

The Group breaks down the operations into two business segments. Net sales revenues are divided into:

- Sale of electric energy  
SIT 87,591,168,000
- Other  
SIT 10,849,537,000

### **6.7.3 Consolidated cash flow statement**

#### **General**

The consolidated cash flow statement has been prepared by applying the indirect method (version II in the SAS 26) on the basis of the data from the consolidated balance sheet as of 31 December 2002, consolidated balance sheet as of 31 December 2001 the consolidated income statement for the year 2002, as well as the additional data required for the adjustment of inflows and outflows and for the suitable itemisation of significant items.

The increase in capital presented among the inflows from financing activity amounting to SIT 2,154,401,000 does not denote any cash flow, but is a consequence of other companies joining the Group and of an increase in capital of the parent company by means of an investment in kind.

The Group did not prepare the consolidated cash flow statement for the year 2001, since it prepared consolidated financial statements for the first time and had not adequate basis for its preparation in the consolidated balance sheet of the previous year. Therefore the Group does not present data for the previous year in consolidated cash flow statement.

### **6.7.4 Consolidated statement of changes in equity**

The consolidated statement of changes in equity presents changes in the elements of capital in the financial year.

The consolidated statement of changes in equity was prepared in accordance with version II in SRS 27.

All items in the statement of changes in equity, except capital of minority owners, are presented in the financial statements of the parent company. Participation in profit/loss of the Group enterprises and changes in ratios of ownership shares influence the change in equity of minority owners in 2002.

## 6.7.5 Other disclosures

Income of members of Management Boards and administration and persons employed on the basis of individual contracts include:

- Gross income contained in the notice about the income tax return
- Jubilee awards and termination benefits
- Premiums for optional additional pension insurance relating to the portion paid by the companies in the Group

Income of members of the Supervisory Board include:

- Gross meeting fees and travel expenses

In 2002 no advances, loans and guarantees were granted to these groups of persons.

### Cost by functional group

in SIT 000

Cost of goods sold	11,667,935
Production costs of quantities sold	51,903,054
Cost of sales	6,308,288
Cost of general and administrative activities (purchase, etc.)	16,149,893

### Income of individual groups of persons

in SIT 000

Members of Management Boards and administration	308,745
Other persons employed on the basis of individual contracts	853,301
Members of Supervisory Boards	21,003

### Receivables from loans due from individual groups of person

in SIT 000

Members of Management Boards and administration	551
Other persons employed on the basis of individual contracts	20,138
Members of Supervisory Boards	1,329



**CONTACTS**



## CONTACTS

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### Management Board

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### **Acronyms used in the Annual Report**

<u>Acronym</u>	<u>Meaning</u>
BS	Bank of Slovenia
DEM	Dravske elektrarne Maribor d.o.o.
EES	Electricity System
EEX	European Energy Exchange
ELES	Elektro-Slovenija d.o.o.
EZ	Energy Act
HSE	Holding Slovenske elektrarne d.o.o.
MOPE	Ministry of the Environment, Spatial Planning and Energy
NEK	Nuklearna elektrarna Krško d.o.o.
Nox	Nitrogen oxides
PGD	Construction works project
PV	Premogovnik Velenje d.d.
PZI	Project for Execution
PZR	Tender project
RECS	Renewable Energy Certificate System
SEL	Savske elektrarne Ljubljana, d.o.o.
SENG	Soške elektrarne Nova Gorica d.o.o.
SRS	Slovene Accounting Standards
TDR - Metalurgija	Tovarna dušika Ruše - Metalurgija d.d.
TEB	Termoelektrarna Brestanica d.o.o.
TEŠ	Termoelektrarna Šoštanj d.o.o.
UPO	Operator of the power transmission system
ZGD	Corporate Law



Annual Report 2002  
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Text: HSE d.o.o.  
Production: Pristop d.o.o.  
Translation: Primož Pesar  
Printed by: Gorenjski tisk d.d.  
Number of copies printed: 200 copies  
Photography by: Borut Krajnc



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