Energy of Emotions

Annual Report
Holding Slovenske elektrarne d.o.o.
and HSE Group 2003

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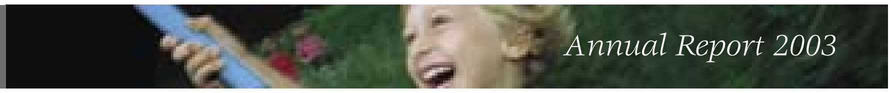


Introduction

Key information for 2003

Key Information for HSE d.o.o. for 2003 and 2002

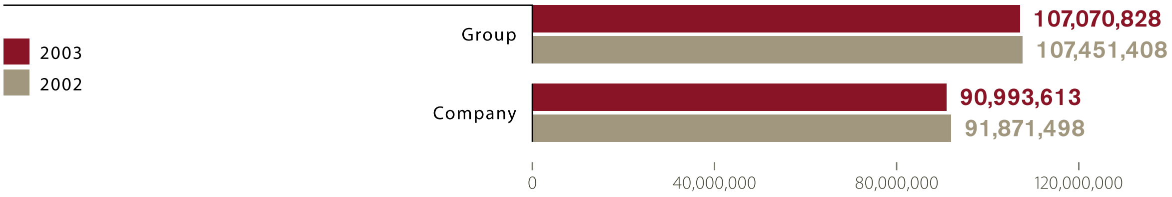
Item	2003	2002	Index 03 / 02
Net sales revenues in SIT 1000	**90,231,706**	91,457,765	99
Total revenues in SIT 1000	**90,993,613**	91,871,498	99
Operating profit in SIT 1000	**3,424,698**	12,729,126	27
Net profit in SIT 1000	**3,974,153**	12,285,004	32
Assets in SIT 1000	**222,675,069**	191,964,427	116
Capital in SIT 1000	**188,082,513**	181,934,929	103
Operating cash flow in SIT 1000	**4,951,651**	10,621,973	47
Added value in SIT 1000	**4,342,574**	13,353,741	33
Amount of electricity sales in GWh	**9,210**	9,332	99
Number of employees as of 31 December	**73**	60	122

Key Information for the HSE Group for 2003 and 2002

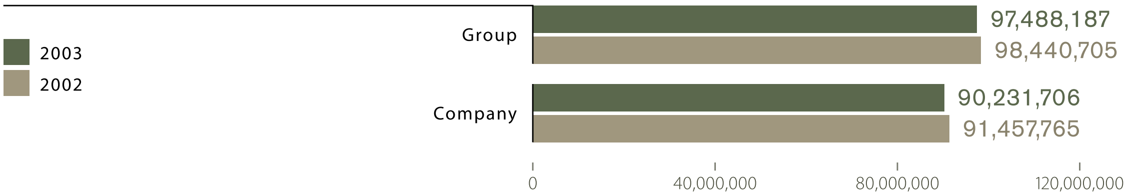
Item	2003	2002	Index 03 / 02
Net sales revenues in SIT 1000	**97,488,187**	98,440,705	99
Total revenues in SIT 1000	**107,070,828**	107,451,408	100
Operating profit in SIT 1000	**7,220,643**	13,601,407	53
Net profit in SIT 1000	**6,702,268**	14,389,006	47
Assets in SIT 1000	**337,940,995**	339,629,666	100
Capital in SIT 1000	**222,794,507**	235,475,484	95
Operating cash flow in SIT 1000	**22,384,236**	36,447,041	55
Added value in SIT 1000	**52,801,127**	60,070,617	88
Number of employees as of 31 December	**5,104**	5,282	97
Amount of produced electricity in GWh	**6,269**	6,698	94
Amount of electricity sales in GWh[1]	**8,773**	8,714	101
Number of companies in the Group as of 31 December	**23**	20	115

[1] Amount of electricity sold, excluding internal sales within the HSE Group (636 GWh in 2002 and 487 GWh in 2003) and taking into account of the production of SENG's small hydropower plants.

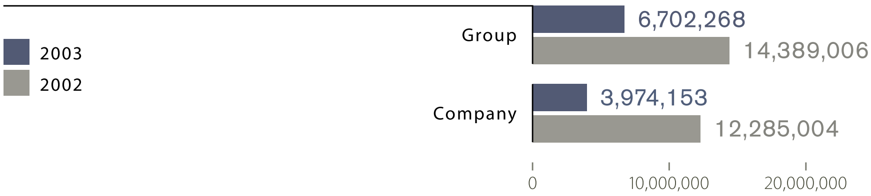
Total revenues (in SIT 1000)



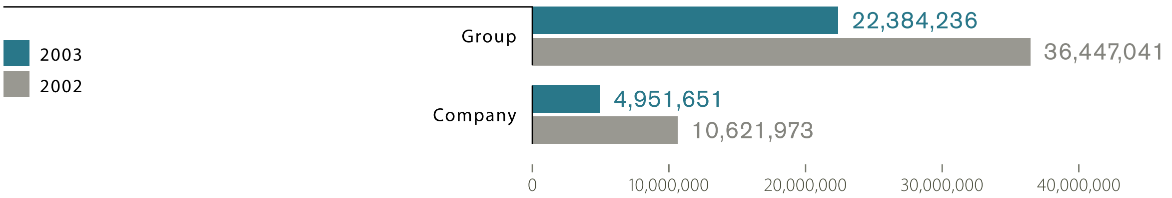
Net sales revenues (in SIT 1000)



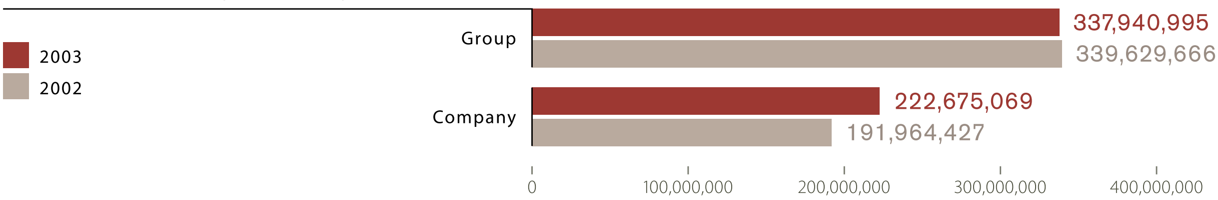
Net profit (in SIT 1000)

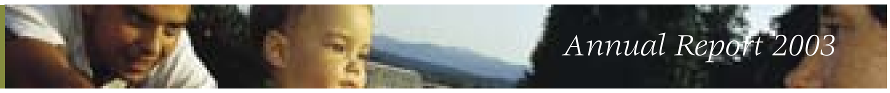


Operating cash flow (in SIT 1000)

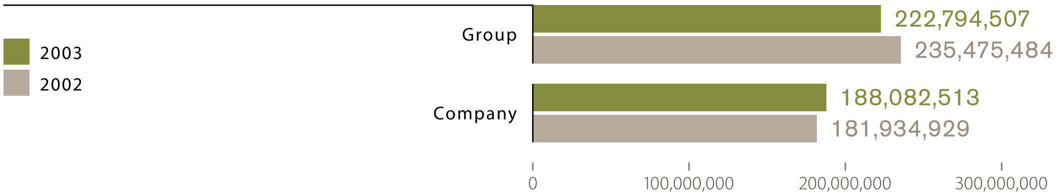


Assets/liabilities (in SIT 1000)

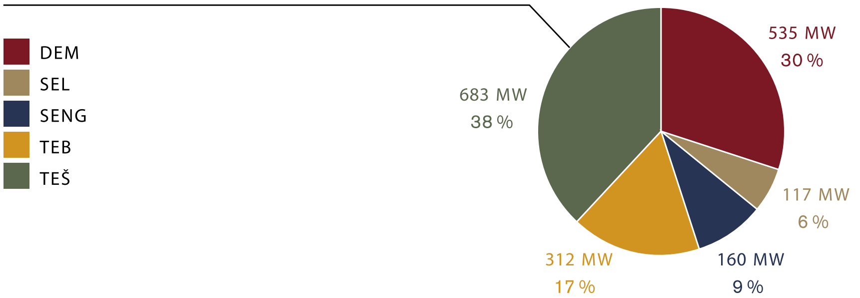




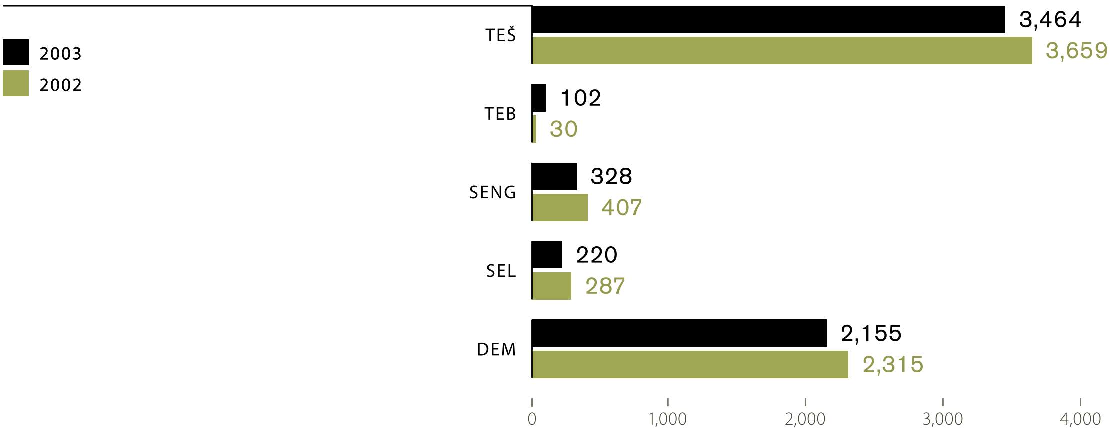
Capital (in SIT 1000)



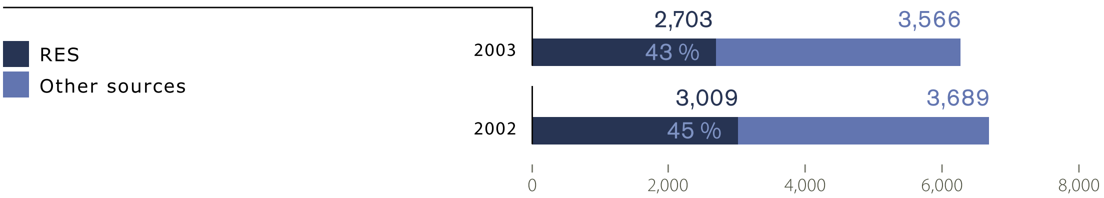
Net installed capacity



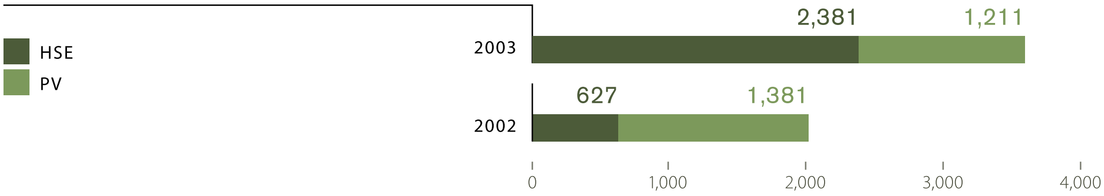
Annual electricity production (in GWh)



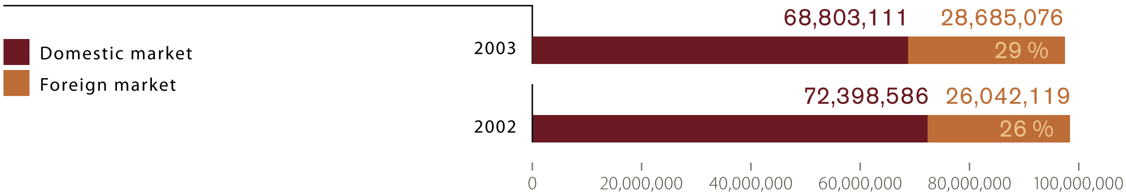
Annual electricity production using renewable sources of energy (RES) from HSE Group companies (in GWh)



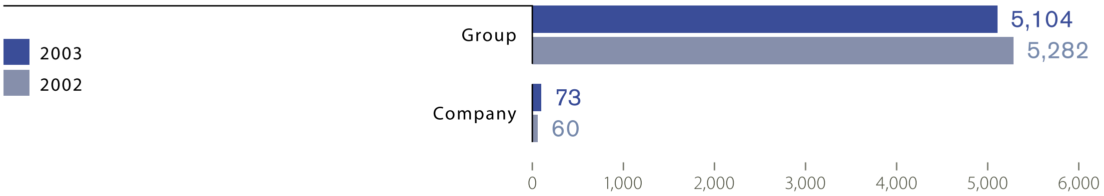
Coal stock (in TJ)



HSE Group net revenues by territorial sector (in SIT 1000)



Number of employees



Statement from the Chairman of the Management Board

Nature has done her part. And so have we.

As always at this time of year, it is my duty and pleasant task to look back over the operations of Holding Slovenske elektrarne — despite the fact that the year 2003, which we analyze in the present Annual Report, was less favorable to us than the previous two years due to a number of circumstances that made it much more difficult for us to achieve our goals. Some of these circumstances were expected, for example, the coming into force of the international agreement with the Republic of Croatia concerning the Krško Nuclear Power Plant; others, however, were not, such as the extraordinary drought we experienced in the summer months, as a result of which electricity production at our hydropower plants was on several occasions cut in half. Nevertheless, we have no reason to be dissatisfied with the past business year, not the least because we did, in fact, fully achieve our goals, and even surpassed them. Hence the idea in the above title, which I took the liberty of borrowing from the great English poet John Milton and his epic poem Paradise Lost: "Accuse not Nature, she hath done her part; Do thou but thine. . ."

And HSE has done its part.

Goals relating to our business operations we achieved by having a clearly defined vision and strategy and thanks to the expertise, diligence, responsiveness, and hard work of the more than five thousand employees of the HSE Group. Thus, in 2003 we maintained our position as the leading producer and seller of electricity in Slovenia. The companies in the HSE Group also produced in the past year more than half of all electricity produced in Slovenia and in this way, despite the unfavorable conditions of nature, guaranteed, on the one hand, the independence, reliability, stability, and competitiveness of the Slovene electrical energy system and, on the other, yielded financial results that ensure not only our survival but also a strategically dynamic future.

Goals relating to geographical growth we satisfied by broadening our presence in several important European markets. We established a branch office in Belgrade and a daughter company in Italy; we formed our own balance groups in the Austrian and German electrical energy systems, which gave us the possibility of independent membership on two electricity exchanges: the European Energy Exchange (EEX) in Leipzig and the Energy Exchange Austria (EXAA) in Graz.

Goals relating to group consolidation were given special attention in 2003. In October we acquired nearly 100 percent ownership of Dravske elektrarne Maribor. Besides being strategically important this purchase was also a lucrative investment, as was confirmed by the movement of electricity prices in Europe. Group consolidation remains an important task for us in the upcoming period as well.

Goals relating to the long-term reliable and high-quality provision of electricity to Slovenia we realized through our intensive efforts in the construction of hydropower plants along the lower Sava River — a project that in November marked its first anniversary — and by conducting the first-ever strategic planning conference of the HSE Group, at which we formulated a set of potential projects for constructing new capacities for electricity generation in Slovenia. The strategic planning conference was exceptionally well-received, and rightfully so; Slovenia is hungry for new production capacities, but we must — as soon as possible and as effectively as possible — adapt ourselves to the changed climate conditions.

Goals relating to quality and the environment have been a constant in all of HSE's strategic planning ever since the Company was founded. At that time, we made a commitment to international standards of quality, the principles of sustainable management of natural resources, and a comprehensive system for responsible environmental practices. For that reason we are especially proud to have become the seventh company in the HSE Group to receive, as a kind of "New Year's Day present," the ISO 9001 certificate of quality and the ISO 14001 environmental certificate. These two certificates are not merely confirmation of our achievements, laurels for us to rest on; on the contrary, they charge us with an extraordinary responsibility: to do our job well, reliably and proficiently, in relation to all segments of the public with which HSE is in any way connected, in the best interests and to the mutual satisfaction of all concerned.

Goals relating to public awareness of the HSE Group are the most difficult to assess, but we believe that in this regard, too, we have accomplished much. Our internal newspaper Energija has for a long time been not only an internal publication, since it is read also by owners, business partners, industry professionals, journalists, and even secondary-school and university students. The project of constructing hydropower plants along the lower Sava received its own Web site and promotional kit last year. And also since last year, the companies that make up the HSE Group have been linked by a joint logotype, thus adding a sense of unity to the whole. And this, after all, is also something essential, is it not?

And finally, **goals relating to employee satisfaction** — the successful attainment of these goals is, indeed, a precondition for all of the above. Motivation, communication, incentives and rewards on the one hand, and on the other, the guarantee of social security, suitable work conditions, a positive organizational climate that supports employee participation, and opportunities for continued education and additional training are tools that we at HSE pay special attention to in relation to our employees. Just as in private life, attaining satisfaction internally is a precondition for satisfying those with whom we are externally connected.

Today as you read this Annual Report, Slovenia is now a member of the European Union, and so is HSE. In the company of the best, we face many challenges; some are not so pleasant, such as more intensive competition, which means we will have to close ranks even more and put into place an aggressive strategy for moving into foreign markets. Other challenges, however, are quite pleasant, such as possibilities for geographical and commercial expansion, the exchange of knowledge and experience, and recognition in the broader international arena. We at HSE are well prepared for all these challenges, for we have resolute owners, skilled and loyal workers, faithful customers, and reliable business partners. Was it not for all of you, this Annual Report would not be presenting good news. Thank you for believing in us.

D. Fabijan

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

Report of the Supervisory Board

Members of the Supervisory Board

In 2003, the Supervisory Board consisted of the following members:
- **Djordje Žebeljan, M.Sc., Chairman**
- Lucijan Rejec
- Damjan Lah
- Jasna Kalšek
- Jože Voršič, Ph.D.
- Darinka Mravljak
- Ervin Kos
- Pavel Župevc
- Janez Keržan

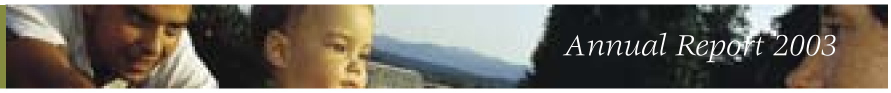
Oversight of Company Operations

The Supervisory Board of Holding Slovenske elektrarne d.o.o., the parent company of the HSE Group, actively monitored and supervised the management of the Company's business in accordance with its authority as defined by law and the Company's founding Act of Establishment.

At nine meetings in total, of which six were regularly scheduled, one was extraordinary, and two were correspondential, the Supervisory Board handled strategic matters and other important issues, as well as areas connected with the actual operations of the Company. The Company Management Board prepared good and accurate written materials for the discussion of individual agenda items, which were then explained in greater detail at the meetings; information for some agenda items was presented orally. In 2003, with fifty agenda items discussed at all meetings in total, there were fifty-six decisions accepted, the implementation of which was monitored by the Supervisory Board on a regular basis.

The business goals of the Company, as well as of the HSE Group as a whole, were defined in 2003 in a business plan that was accepted by the Supervisory Board at its fifth regular meeting on 21 March 2003.

One of the most important strategic issues, which was discussed at several meetings in 2003, was the buyout of the business shares of minority owners of Dravske elektrarne Maribor, d.o.o. The Management Board informed the Supervisory Board of the possibility of the buyout of the business shares at the fifth regular meeting on 21 March 2003. The Supervisory Board gave its consent to begin negotiations for the business share buyout at the sixth regular meeting on 28 May 2003, when the Supervisory Board was also made acquainted with two evaluation reports, prepared in connection with the buyout. At that meeting, a negotiating group was named whose task was to prepare within thirty days a report on the negotiations. The minutes of the meetings and the report of the negotiating group were discussed by the Supervisory Board at the second extraordinary meeting, on 18 June 2003, when it gave its consent to the Management Board to bring legal matters to a close and instructed it to prepare an argumentation of the buyout for the Founder of the Company. At the seventh regular meeting, on 2 September 2003, the Supervisory Board was informed of the status of the buyout and related activities, as well as the possibility of an immediate buyout, in connection to which the Management Board presented changes in the methods and sources for financing. The Supervisory Board consented to the proposal for the immediate buyout of the business shares as well as to the changes in the financing methods and sources; at the same time, it instructed the Management Board to carry out the buyout in the most reasonable manner. The report about the buyout of the business shares was discussed by the Supervisory Board at its eighth regular meeting, on 27 November 2003, when there was a presentation of the entire process of the buyout of the business shares of the minority shareholders of Dravske



elektrarne Maribor, d.o.o., beginning with choosing a tenderer for the signing of a long-term credit contract (made in accordance with the stipulations of the Ordinance on the Conditions and Procedures for Incurring Debt by Legal Persons from the Eighty-Seventh Article of the Law on Public Finances) and the conditions of the credit lease, and continuing through to the actual payment of the purchase price.

The 2002 Annual Reports of the Company and the HSE Group, along with the positive appraisals of the auditing company KPMG Slovenija, d.o.o., were discussed and approved by the Supervisory Board at our sixth regular meeting, on 28 May 2003. At the same time, the Supervisory Board consented to the proposal of the Management Board that the distributable profit for 2002 be used in its entirety for the formation of other revenue reserves, a proposal that was later also approved by the Founder.

In addition, the Supervisory Board, on the basis of the Management Board's quarterly reports, regularly monitored the Company's operations during the year, including the implementation of the planned business goals. The Supervisory Board also paid special attention to the following:

· progress in the construction of the chain of hydropower plants along the lower Sava River and the establishment of a joint venture to carry out this project more effectively;
· the procedure for selling the business share in the company TDR – Metalurgija, d.d. and possibilities for the long-term provision of electricity;
· the proceedings of the Company's shareholders' assembly;
· conditions in the electricity market and the starting-points for the plan for 2004;
· the organizing of directors' salaries for the companies in the HSE Group;
· capitalization of the company HSE Invest, d.o.o.;
· the signing of contracts for the sale and purchase of electricity for 2004.

Verification of the Annual Report and Statement on the Auditor's Report

At its eleventh regular meeting on 27 May 2004, the Supervisory Board discussed the Annual Report for 2003 of the company Holding Slovenske elektrarne d.o.o. and the HSE Group, along with the auditor's recommendations and the Management Board's proposal for the use of the distributable profit.

An audit of the financial statements of the HSE Company and the HSE Group, as well as an examination of the HSE Company and the HSE Group 2003 business report, was conducted by the auditing company KPMG Slovenija, d.o.o.

In the opinion of the auditor, dated 11 May 2004, the financial statements of HSE Company and the HSE Group, including their annexes, present a true and fair picture of the financial position of the corporation and the Group as of 31 December 2003, the business and financial results of their operations, and their changes in equity for the year then ending in accordance with Slovene Accounting Standards. The business report is in accordance with the audited financial statements.

Based on a review of the auditor's reports and based on the explanations presented at the meeting of the Supervisory Board, the HSE Supervisory Board has no remarks to make in relation to the auditor's reports. Based on the regular monitoring of the operations of the HSE Company, the positive opinions of the auditor, the very successful business results of the Company and the Group, and the achievement of the goals set forth in the 2003 business plan, and in accordance with its authority, the HSE Supervisory Board has no remarks to make in regard to the Annual Report of Holding Slovenske elektrarne d.o.o. and the HSE Group and so approves it.

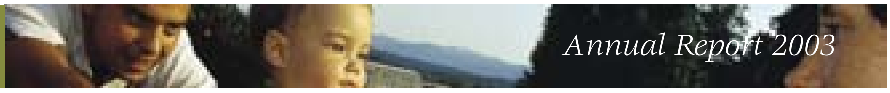
The net profit of the HSE Company for 2003 is SIT 3,974,153,199.16. At its tenth regular meeting on 23 March 2004, the HSE Supervisory Board adopted the proposal of the Management Board that SIT 1,987,076,599.58 be allocated to other revenue reserves at the time of the compilation of the 2003 Annual Report.

The remainder of the net profit represents the distributable profit for 2003, which totals SIT 1,987,076,599.58.

In accordance with the Company's strategic goals and the investment policies, the HSE Supervisory Board consents to the Management Board's proposal that the distributable profit in the amount of SIT 1,987,076,599.58 be used in its entirety for the formation of other revenue reserves. The HSE Supervisory Board compiled its report in accordance with Article 274a of the Act on Corporations. The report of the Supervisory Board was prepared for the Company's shareholders' assembly.

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

Ljubljana, 27 May 2004



A Chronology of Important Events of 2003 for the HSE Group

January

- The Avče Pumped Storage HPP project is included in the spatial planning documents of the Republic of Slovenia through the adoption of the Ordinance on Changes and Supplements in the Spatial Planning Components of the Long-Term Plan of the Republic of Slovenia.
- January marks the 50th anniversary of the first issue of the Velenje Rudar newspaper, published by the PV trade union.

February

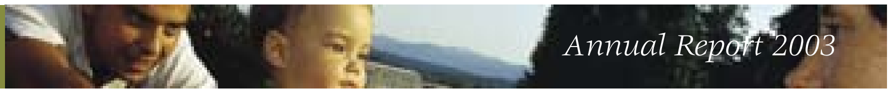
- On 6 February a mining accident occurs in the Preloge Cave, which claims the lives of two miners.
- The Supervisory Board of TDR - Metalurgija approves an investment program for modernizing the production of complex alloys and through its consent enables the company to take out a long-term credit lease for making its investments.
- TEŠ receives an ISO 14001 certificate in the area of the production and sale of electricity and heat and in the development of production processes.
- Contracts are signed and construction is begun on the SENG control center.

March

- At TEB, reconstruction takes place on the 110 kV-field gas blocks PB 1, 2, 3 and transformer 8, which is used in meeting the needs of the company's own energy use and producing energy for the operations of the old steam blocks.
- At TEB, a certification review is made of environmental practices in accordance with the ISO 14001:1997 standard.
- At PV, an ordinary certification review confirms the compliance of documentation and procedures with the requirements of the standards ISO 9001:2000 and ISO 14001.
- SEL receives a decision about the naming of a licensee for HPP Moste, HPP Mavčiče, and HPP Medvode. After working out adjustments with the Ministry of the Environment, Spatial Planning and Energy, the licensing contract is signed on 20 November.
- The first spatial planning conference is organized for Avče Pumped Storage HPP.
- Because of the draught, 20 % more electricity is produced at TEŠ in the first three months than had been planned.
- The HSE metering system, having passed all tests and trials, is put into normal operation.

April

- The international agreement about the Krško Nuclear Power Plant (NEK) takes effect. The agreement foresees delivery of half of the production to Croatia, whereby Slovenia becomes a net importer of electrical energy, while HSE, in light of its contractual obligations, must make up the electricity shortfall.
- At SEL, a Company Development Program is worked out, which defines the fundamental principles of the company's business policies and future development. It presents the company's priority tasks and program orientations, as well as a medium-term plan for new investments. The Development Program also receives the approval of the company's Supervisory Board.
- Construction is completed on HPP Plave II and HPP Doblar II. The official opening takes place on 24 April.
- HSE Italia begins operations.



May

· The Contract for the Joint Venture on the Project of Construction HPPs along the Lower Sava is signed. Participating in the project are the companies HSE, DEM, SEL, SENG, and TEB, which together will guarantee 71.5 billion SIT for the construction of the chain of plants; most of this amount, that is, 51 %, is to come from the HSE Company; 30.8 % from DEM; and 12.6 % from SEL; with SENG and TEB each contributing 2.8 %.
· At PV, mining begins in the NW sector of the Preloge Cave, which is described as the challenge of a generation.
· At TEB, the reconstruction project on the stationary extinguisher for extinguishing fires and cooling down three reservoirs is successfully completed.
· Repairs are carried out on gas block 2 at TEB.
· On 15 May, the HSE Company opens a branch office in Belgrade.
· At the end of May a test run is successfully conducted on the isolated working of TEB's gas aggregates for NEK.
· SENG begins renovation of the first dam locks at the Ajba Dam.
· The HSE Supervisory Board accepts the 2002 Annual Reports of the HSE Company and the HSE Group.

June

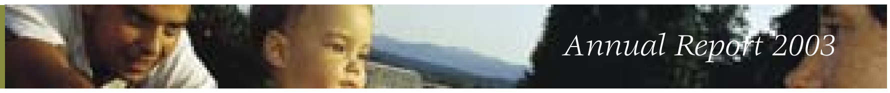
· The HSE Company obtains a construction permit for the power station HPP Boštanj.
· The HSE Company and the consortium GIZ Gradis Ljubljana / NGR d.d., Maribor, sign a contract for construction of the dam building HPP Boštanj, which binds the contractors to complete the main construction work on the dam building by April 2006.
· One consequence of the summer drought is a greater need for electricity production at TEŠ. PV makes an agreement with the HSE Company for the sale of an additional 400,000 tons of coal in the first half of the year. As a result, PV changes its work calendar. In the first six months, they work 16 days more than had been planned.
· PV and Golte Holding reach an agreement concerning a strategic partnership for the Golte project. Later, the municipalities of Šaleška, Savinjska and Zgornja Savinjska dolina, as well as several contractors are brought into the agreement.
· Milan Medved, Ph.D., HSE's business manager and a member of its Management Board, becomes the new president of the Energy Association at the Chamber of Commerce and Industry of Slovenia.
· On June 27 at TEŠ, Unit 5 is shut down. Major repairs begin, such as were last carried out four years ago.

July

· On 7 July, the HSE Company and Litostroj E.I. sign a supply agreement for a turbine, generators, and related equipment (Lot TG) as well as a supply agreement for a crane in the plant engine room (Lot D) for HPP Boštanj.
· On 10 July, the HSE Company and Montavar sign a supply agreement for hydromechanical equipment (Lot H).
· TEB celebrates its 60th anniversary. To mark the event a central ceremony is organized at which the company is also presented with the environmental certificate ISO 14000. In addition, an exhibition opens that looks at the development of TEB from its beginnings to today.
· TDR Invap begins operations.
· The government of the Republic of Slovenia issues its Decree on a Program for Resolving Stranded Investments in Electricity-Producing Companies in the Republic of Slovenia, which names TEŠ as a beneficiary of aid for resolving stranded investments.

August

· 23 August is the day of completion of the preparatory work on HPP Boštanj.
· On 26 August, Unit 5 at TEŠ is again brought back on line; this takes place a few days ahead of schedule.
· Outage at the Krško Nuclear Power Plant.



September

- Repairs are carried out at TEB on gas blocks 4 and 5.
- At SENG the second spatial planning conference takes place for the Avče Pumped Storage HPP.
- Preparatory work begins for the small HPP Klavžarica.

October

- At the beginning of October the HSE Company moves to new offices at Koprska ulica 92 in Ljubljana.
- HSE General Manager Drago Fabijan, M. Sc., opens new mining strip in the Pesje Cave.
- On 10 October the HSE Company signs a contract with 25 minority owners of DEM for the buyout of 20.5 % stake in ownership, thus becoming a nearly 100 % owner of the daughter company.
- 15 October is the Grand Opening of RTP Medvode with a 110 kV contact. The construction represents the joint project of SEL and Elektro Gorenjska. The essential benefits from this new investment are greater safety, reduced environmental impact, and the capability of directly transforming generator tension to the 110 kV level.
- The Ministry of the Environment, Spatial Planning, and Energy names a commission for managing and supervising procedures for the sale of the Republic of Slovenia's capital investments represented by shares in the company TDR - Metalurgija.

November

- The HSE Company is the first company from Southeastern Europe to become a member of the Leipzig-based European Energy Exchange (EEX).
- The first-ever strategic planning conference of the HSE Group takes place in the Logarska Valley on 6 and 7 November; among other things, all possible projects are considered for construction of new production capacities at the existing locations of the companies in the HSE Group over the next ten years .
- At HPP Boštanj, installation of the first metal parts of the turbine begins.
- At SENG, there is a public unveiling of the proposal for the site location plan of the Avče Pumped Storage HPP.
- A use permit is obtained for HPP Doblar II.
- The Law on Changes and Supplements to the Law on the Conditions of Licensing for the Exploitation of the Energy Potential of the Sava River is passed.

December

- The HSE Company obtains the certificate of quality ISO 9001 and the environmental certificate ISO 14001.
- After start-up and operational trials, SENG begins remote control of its plants from its own control center.
- The HSE Company signs contracts for the sale of electricity for 2004.

Business Report

General Company Profile

Full Company Name:	Holding Slovenske elektrarne d.o.o.
Short Company Name:	HSE d.o.o.
Corporation type:	proprietary limited company
Address:	Koprska ulica 92, 1000 Ljubljana
Telephone:	+386 1 47 04 100
Fax:	+386 1 47 04 101
Entry No.:	1/35036/00, registered with the District Court of Ljubljana
Subscribed Capital:	1,156,216,668.00 SIT
Size:	large company
Ownership Structure:	wholly owned by the Republic of Slovenia
Transactions Account of HSE:	04302-0000317271
Transactions Account of the Joint Venture:	04302-0001020424
Tax File No.:	99666189
Registration No.:	1662970
URL	www.hse.si
E-Mail:	hse@hse.si; info@hse.si
Management Board Chairman:	Drago Fabijan, M.Sc.
Management Board Members:	Milan Medved, Ph.D., Ladislav Tomšič
Supervisory Board Chairman:	Djordje Žebeljan, M.Sc.

Act of Establishment

At its 38th session, on 26 July 2001, the Government of the Republic of Slovenia adopted the Act of Establishment of the Proprietary Limited Company Holding Slovenske elektrarne d.o.o.

The Government established the proprietary company for the following reasons:

- to consolidate the performance of the companies that make up the proprietary company in the sale of electricity on the market;
- to improve the competitiveness of Slovenian manufacturing companies; and
- to carry out the project of constructing hydropower plants on the lower Sava River.

In the creation of Holding Slovenske elektrarne, the Republic of Slovenia combined its business shares in the individual companies that make up the proprietary company. The share capital of the company represents the investment of a sole proprietor. On this basis, the Republic of Slovenia holds one business share.

Ownership Structure of HSE

Holding Slovenske elektrarne d.o.o. is wholly owned by the Republic of Slovenia.

Presentation of the HSE Group

Unified currents of diversity

The central role of the HSE Group is to ensure safe, reliable and high - quality provision of energy to domestic and foreign customers. The most important asset of the HSE Group is the way it links together different electricity producers. The combination of hydropower plants, thermal plants, and a coalmining company under a single trademark, the coordinated marketing of a variety of electricity sources, joint penetration of foreign markets, joint investments and development projects - all these things give the companies in the Group greater adaptability and competitiveness and reduce the dangers of potential power failures.

The Group's main activities

The activities of the HSE Group take place primarily in the field of energy and the environment, as well as in the management of the processes and risks related to this field.

This wide spectrum of activities may be grouped in the following main categories:

- production of electricity and heat;
- production of lignite;
- the sale and trade of electricity and heat;
- optimization of the production of the HSE Group;
- the guaranteed provision of system services necessary for the functioning of the electricity system;
- the management and execution of energy and environmental projects; and
- the production of calcium carbide, ferrosilicon, calcium silicon, and complex alloys.

Since the primary activity of the Group concerns the processes involved in the production and trade of electricity, the main portion of this Annual Report concerns this area.

The HSE Group comprises:

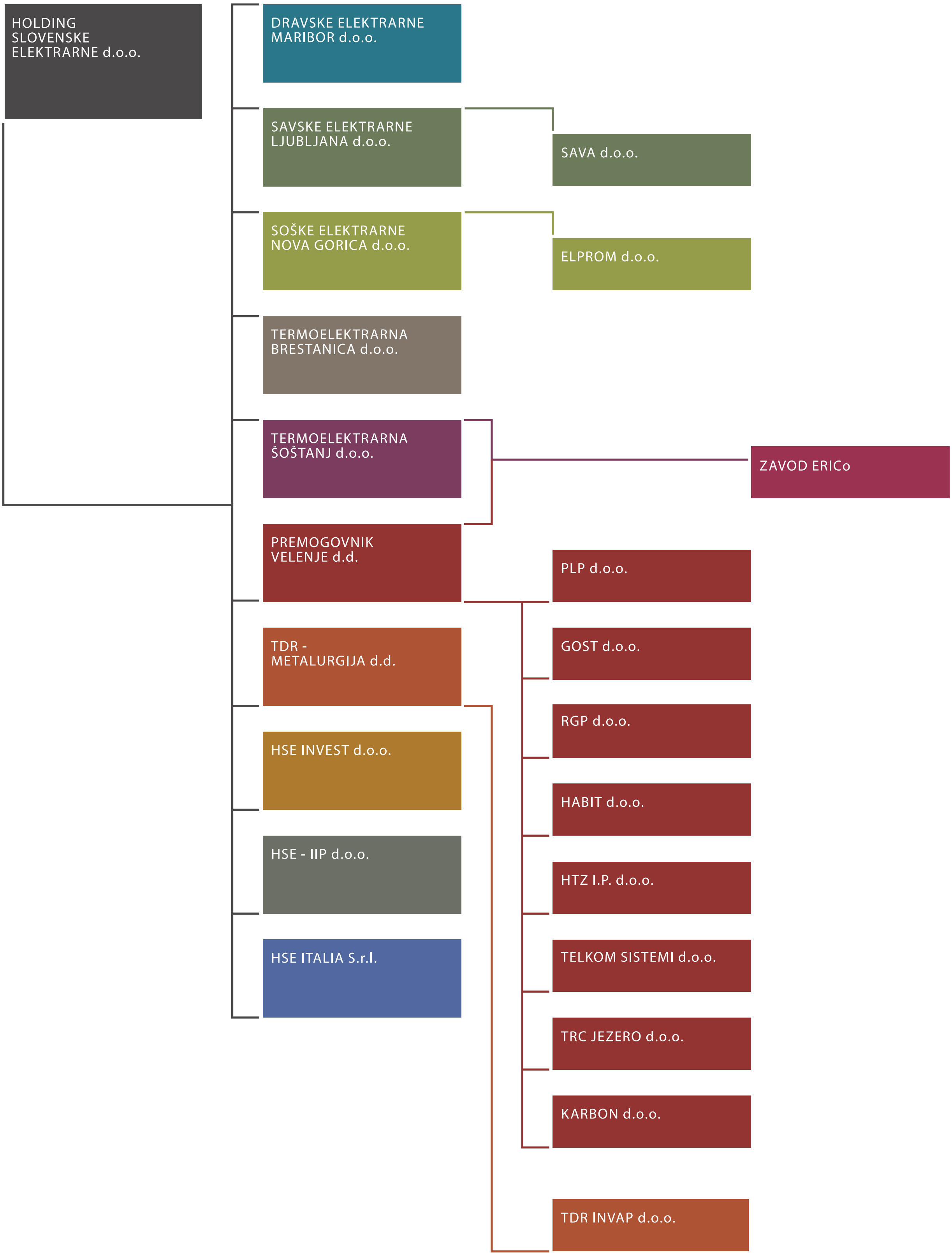
- Holding Slovenske elektrarne d.o.o. as the parent company;

and

- Dravske elektrarne Maribor d.o.o. (DEM);
- Savske elektrarne Ljubljana d.o.o. (SEL), with one subsidiary company;
- Soske elektrarne Nova Gorica d.o.o. (SENG), with one subsidiary company;
- Termoelektrarna Brestanica d.o.o. (TEB);
- Termoelektrarna Šostanj d.o.o. (TEŠ);
- Premogovnik Velenje d.d. (PV), with eight subsidiary companies;
- HSE Invest d.o.o.;
- HSE - IIP d.o.o.;
- HSE Italia, S.r.l.; and
- TDR - Metalurgija d.d., with one subsidiary company.

Each of the two companies, TEŠ and PV hold a 30% share in ERICo institute, which is displayed in the diagram of the HSE Group; the institute's financial performance, however, is not presented in the Group's Annual Report.

The HSE Group



Termoelektrarna Šoštanj d.o.o.

Termoelektrarna Šoštanj d.o.o. (Šoštanj Thermal Power Plant, or TEŠ) with its 755 MW generator capacity and 683 threshold capacity is the biggest generating facility among the companies in the HSE Group. It produces approximately a third of the country's energy, and in times of crisis it can cover more than half of Slovenia's energy consumption. In addition to electricity, it also produces heat, which it supplies to the greater part of the Šaleška Valley. The power plant is composed of five production blocks and two heating stations. In its production output, TEŠ's operations may be compared to those of equivalent European thermal plants, while in the operation-readiness of its blocks it would even surpass them. The basic fuel it uses is lignite, which it acquires from Premogovnik Velenje. TEŠ provides important system services for the Slovene electrical energy system.

Premogovnik Velenje d.d.

Premogovnik Velenje d.d. (Velenje Coalmining, or PV), with its up-to- date technology, ranks among the top European coal mines in terms of equipment and safety. It is known all over the world for its "Velenje mining method," which makes use of a specially adapted, first-class hydraulic support system. Because of its high productivity, this has been proven to be the best method for extracting thicker strata of coal while at the same time making it possible to fill in and reinforce the area behind the digging.

On average, the amount of coal mined at PV totals around 4 million tons a year, which is intended for the needs of generating electricity at TEŠ. In addition to the extraction of coal, PV is also involved in numerous other activities in the field of geotechnology, such as the project engineering of underground structures and surface mining, as well as geomechanical research. State-of-the-art technology and the staff's high-level expertise ensure employee safety and high productivity. This is what allows for the competitive pricing of coal and, consequently, the competitiveness, too, of TEŠ's electricity and, indeed, that of the entire HSE Group.

The following companies operate within the framework of the PV Group:

HTZ I.P. d.o.o. — HTZ I.P. is a company involved in the training and employment of the disabled.

Gost d.o.o. — The Gost Company is involved with the restaurant industry.

PLP d.o.o. — PLP is a company for the manufacture of wood products, sawing, chipping, and wood impregnation.

RGP d.o.o. — The RGP Company deals with the acquisition and sale of stone aggregates, the production of wet and dry concrete mixtures, and mining construction services that involve a range of difficult tasks in diverse fields.

Habit d.o.o. — The Habit Company primarily deals with real estate, and especially with real estate management; in addition, it handles the organization and management of skilled construction and installation work for residential and other kinds of buildings.

Karbon d.o.o. — The Karbon Company was founded in 2002 for technological research and experimental development.

TRC Jezero d.o.o. — The aim of TRC Jezero is to promote the development of tourism and recreation in the Velenje Lakes area.

Telkom sistemi d.o.o. — Telkom sistemi deals with telecommunications.

ERICo — The ERICo Institute deals with research and experimental development in the natural sciences, technology, the social sciences, and the humanities.

Dravske elektrarne Maribor d.o.o.

Dravske elektrarne Maribor d.o.o. (Drava River Hydropower Plants Maribor, or DEM) is the primary active producer in the Group. After second-phase renovations are completed at the beginning of 2005, the total threshold capacity of the eight DEM hydropower plants in flow accumulation will be 575 MW. The control center ensures the uninterrupted production of electricity and oversees the flow of the Drava River in Slovenia. Together the DEM hydropower plants are able to supply 25 % of the country's total electricity needs. DEM is also the site of the operational control center for the electricity production of the HSE Group.

Savske elektrarne Ljubljana d.o.o.

Along with its core activity of producing electricity, Savske elektrarne Ljubljana d.o.o. (Sava River Hydropower Plants Ljubljana, or SEL), with four hydropower plants, also performs the functions of operating and maintaining uninterrupted electricity generation in the hydropower plants, investment administration for the power plant buildings and machinery, installation services, testing, metering, start-up, and experimental development in the natural sciences. SEL's total threshold capacity is 117 MW.

Sava d.o.o.

SEL's subsidiary company, Sava, was established to help meet the needs of constructing the chain of hydropower plants along the lower Sava River.

Soške elektrarne Nova Gorica d.o.o.

Soške elektrarne Nova Gorica d.o.o. (Soča River Hydropower Plants Nova Gorica, or SENG), with a total threshold capacity of 160 MW, is concerned with the optimal utilization of the hydraulic potential of the Soča River, its tributaries, and other renewable resources while respecting the region's conditions and customers as well as the environment. Great attention is paid to making multiple use of the facilities in terms of water management, the water supply, fisheries and fishing, tourism, and recreational activities. The responsibility for ensuring optimal high-quality production of all the hydropower plants lies with the control center in Nova Gorica. There are nineteen smaller hydropower plants on the tributaries of the Soča River, including the hydropower plant on the Tolminka River, which is especially interesting because a facility has been set up next to it for breeding Soča trout. The hydropower plant of Zadlaščica is also unusual in that it performs a double role. A reservoir with a pool, a pressurized conduit pipeline, and the power station building all serve both to generate electricity and to provide drinking water for the entire region of Tolmin and Most na Soči.

Elprom d.o.o.

The SENG subsidiary Elprom was established with the purpose of trading in electricity.

Termoelektrarna Brestanica d.o.o.

The total threshold capacity of Termoelektrarna Brestanica d.o.o. (Brestanica Thermal Power Plant, or TEB) is 312 MW. In addition to system services and the production of electricity, the power plant, which has been in existence for more than sixty years, is also involved in the production of steam and hot water, warehousing, project engineering and technical consulting, technical testing and analysis, and other services. In Slovenia's electricity management system, TEB represents, first and foremost, a reliable reserve for supplying electricity at the most critical moments. Because of its extremely rapid response time (requiring only fifteen minutes to reach its full power of 291 MW), TEB is able to supply electricity during system overloads, power plant outages, and transmission line failures. Its design enables great technical flexibility and adaptability in terms of its fueling: it primarily uses natural gas and a special light fuel oil, while a combination of the two is also possible.

HSE Invest d.o.o.

The core activity of HSE Invest d.o.o. is executing investments in the energy sector. Of special significance is the company's role in the construction of the chain of hydropower plants along the lower Sava River, which currently represents the most important investment project for not only HSE but for Slovenia's entire power sector. The company is headquartered in Maribor.

HSE - IIP d.o.o.

HSE - IIP d.o.o. is a wholly owned subsidiary of HSE. It was established with the purpose of managing the construction of state, water, and local infrastructure facilities in the vicinity of the hydropower plants on the lower Sava. The company is based in Sevnica.

HSE Italia S.r.l.

In April 2003, HSE set up a subsidiary company in Italy to help meet the needs of trading in electricity in the European Union. HSE Italia S.r.l. also links HSE with potential investment partners in Italy and at the same time serves as a platform for establishing balance groups in the EU.

TDR - Metalurgija d.d.

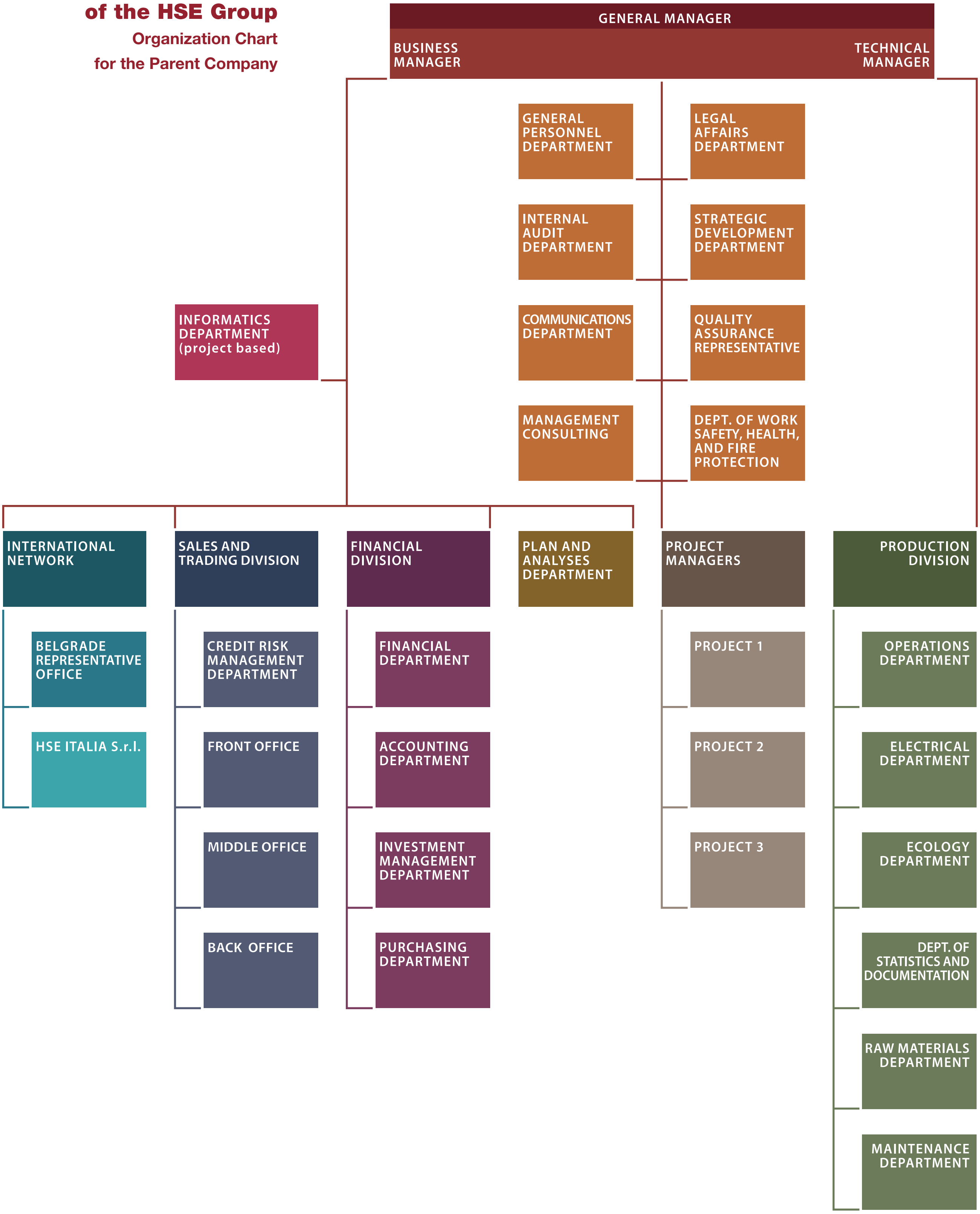
TDR - Metalurgija d.d. represents the largest electro-metallurgic part of the former Tovarna dušika Ruše factory. The plant was one of the first manufacturers of electro-chemical products in this part of Europe; today, its primary activity is the production of calcium carbide and ferrous alloys.

TDR Invap d.o.o.

In 2003, TDR - Metalurgija set up TDR Invap d.o.o, a company employing disabled workers. This company is intended to perform certain services and tasks for the parent company, as well as other clients, such as fire prevention, security services, and internal transportation.

Organizational Structure of the HSE Group

Organization Chart for the Parent Company



HSE is the parent company of the HSE Group and operates out of six locations.

Ljubljana

The HSE headquarters is Ljubljana and handles administration, sales & trading, and finance.

Maribor office

Production management and strategic development are based in Maribor.

Velenje office

The Velenje branch deals primarily with the domestic market, internal purchase and sales transactions of HSE Group, monitoring and calculating discrepancies, and long-term planning.

Nova Gorica office

The office in Nova Gorica is responsible for foreign markets.

Sevnica office

The Sevnica branch is responsible primarily for coordinating activities relating to the construction of the chain of hydropower plants on the lower Sava.

Belgrade office

The HSE office in Belgrade provides the company with a platform for expanding its activities into the markets of the former Yugoslavia and the broader region of Southeastern Europe. The office is intended not only for trading in electricity in this region but also for establishing contacts and developing opportunities for the lease or purchase of production capacities, the provision of consulting and other services, and the development of activities that accord with the strategic plans of HSE.

Organization Chart of the HSE Group

- **HSE d.o.o.**
  - Division 1 PRODUCTION
    - HYDRO PRODUCTION
      - DEM d.o.o.
      - SEL d.o.o.
      - SENG d.o.o.
    - THERMAL PRODUCTION
      - TEB d.o.o.
      - TEŠ d.o.o.
    - PRIMARY SOURCES
      - PV d.d
      - PV d.d. SUBSIDIARIES
  - Division 2 INTERNATIONAL NETWORK
    - HSE ITALIA S.r.l.
    - BELGRADE REPRESENTATIVE OFFICE
  - Division 3 INVESTMENTS
    - HSE INVEST d.o.o.
    - HSE JOINT VENTURE
    - HSE - IIP d.o.o.
  - Division 4 MULTI - UTILITY
    - TDR - METALURGIJA d.d.
    - TDR INVAP d.o.o.
    - ELEKTRO.TK d.o.o.

Governance of the HSE Group

Governing bodies of the parent company

As sole proprietor, the Republic of Slovenia governs the parent company both directly and through the following company bodies:
- the Supervisory Board and
- the Management Board.

SHAREHOLDERS ASSEMBLY

PROPRIETORS

Republic of Slovenia	100% ownership share

SUPERVISORY BOARD

REPRESENTATIVES OF CAPITAL

Djordje Žebeljan, M.Sc. *Chairman*	state secretary, Ministry of the Environment, Spatial Planning and Energy appointed by the Government of Slovenia, 05 September 2002
Lucijan Rejec *Dep. Chairman*	director, Posočje Development Center appointed by the Government of Slovenia, 26 July 2001
Damjan Lah	head of the Office of the Prime Minister appointed by the Government of Slovenia, 20 June 2002
Jasna Kalšek	state undersecretary, Ministry of the Environment, Spatial Planning and Energy appointed by the Government of Slovenia, 26 July 2001
Prof. Jože Voršič, Ph.D.	professor, School of Electrical Engineering, Computer Science and Informatics, University of Maribor appointed by the Government of Slovenia, 26 July 2001
Darinka Mravljak	director, SGP Kograd Inženiring d.o.o., appointed by the Government of Slovenia, 26 July 2001

EMPLOYEE REPRESENTATIVES

Ervin Kos	Dravske elektrarne Maribor d.o.o., appointed by the HSE Workers Council, 16 September 2002
Pavel Župevc	Premogovnik Velenje d.d., appointed by the HSE Workers Council, 16 September 2002
Janez Keržan	Holding Slovenske elektrarne d.o.o., appointed by the HSE Workers Council, 16 September 2002

MANAGEMENT BOARD

CHAIRMAN OF THE BOARD

Drago Fabijan, M.Sc.
General Manager

BOARD MEMBERS

Milan Medved, Ph.D.
Business Manager

Ladislav Tomšič
Technical Manager

Governance of the parent company

At HSE we are very aware of how important it is to maintain good and proper relations between the Management Board, the Supervisory Board, and the owner. The positive results of good collaboration include:

· greater safety and transparency in business operations;
· enhancement of the company's reputation;
· reduced prices in acquiring sources of financing; and
· the company's long-term growth and development.

Company management reports regularly and in timely fashion to the Supervisory Board, consults with it and seeks its consent, acquaints it with the most important decisions of the Company, and, in short, operates in accordance with its mandate in the spirit of good cooperation and cost-effective business practices.

The Supervisory Board oversees the management of the Company, presents its opinions in regard to important segments of the business operations, gives its consent, makes proposals, and, not least of all, exerts an influence on the makeup of the Company management through its authority to appoint or recall managers, as well as carrying all the other duties assigned to it by the Act of Establishment of the Company. The decisions of the Supervisory Board are based on a majority of votes rendered.

The Founder decides independently, through the adoption of resolutions, on all matters that in accordance with the Act of Establishment lie within its jurisdiction and in this way gives direction to Company operations.

Governing organs in the daughter companies

All daughter companies, with the exception of HSE Italia, are directed by single-member management or administration. In the companies DEM, SEL, SENG, TEB, TEŠ, PV, and TDR - Metalurgija, Supervisory Boards have been established; in the other companies, this function is carried out by shareholders' assemblies.

Management / Boards of the Companies of the HSE Group

Company	**Chairman of Management / Board**	Members of Management / Board
HSE	**Drago Fabijan, M.Sc.**	Milan Medved, Ph.D., Ladislav Tomšič
DEM	**Danilo Šef**	
SEL	**Drago Polak**	
SENG	**Vladimir Gabrijelčič**	
TEB	**Bogdan Barbič**	
TEŠ	**Uroš Rotnik, M.Sc.**	
PV	**Evgen Dervarič, Ph.D.**	
HSE-IIP	**Vojko Sotošek, M.Sc.**	
HSE Invest	**Vili Vindiš**	
HSE Italia	**Igor Orel**	Milan Medved, Ph.D., Aleš Feri
TDR-Metalurgija	**Miran Kunst**	

Worker participation in management

We adhere to the principle of partnership with employees through regular and close collaboration with trade unions and workers' councils, which has been going on since the very beginnings of HSE's existence and operations. In this way, we strive to ensure that various interests are taken into consideration and that we reach broad agreement both in terms of the Group's plans for development and in our social insurance guarantees.

Mission, Vision, and Strategic Goals

The mission of the hse Group

The mission of the HSE Group, the leading organization in Slovenia's power sector, is to grow and develop by preserving its leading role on the domestic market, to increase its share of foreign markets, and to develop the economy in Slovenia's power sector and establish its position within the international environment.

The vision of the HSE Group

The vision of the HSE Group is to ensure the optimal utilization of Slovenia's energy sources and human resources and to establish a competitive presence on the global energy market while, at the same time, expanding its activities so as to reduce the business risks arising from fluctuations in individual product markets.

The values of the HSE Group

The HSE Group's values are reflected in its relationships with customers, the social environment, employees, business partners, and owners. Central among these values are the following:

- concern for the satisfaction of all those who use HSE's services;
- the development of responsible, long-term relationships with our business partners;
- protecting the environment and utilizing renewable sources of energy;
- developing professional expertise;
- providing employees with continuing education and a motivational work environment;
- ensuring a safe and stable work place and a creative work environment;
- operating efficiently and creating financial yield for owners; and
- continual improvement in the management system.

Strategic Goals of the HSE Group

ensuring safe and reliable production
increasing our market share on the domestic electricity market
increasing our market share on foreign electricity markets
constructing a chain of hydropower plants along the lower Sava River, as well as other new production capacities
reducing the operating expenses of the companies in the Group
increasing the competitiveness of the companies in the Group
inclusion in trading with other commodities ("multi-commodity trading")
expansion of business operations to communal power distribution
controlling the management and supervision of power-related projects
managing strategic development and investments
raising quality and environmental awareness in all areas of operations
increasing the satisfaction of our customers, employees, and owners

Quality Managament Policy

The conditions of the open electricity market, and especially the external market, demand certified quality in terms of a well-organized system and appropriate environmental practices, as well as a suitable approach to the production of electricity and other forms of energy. Products that have the proper certification achieve greater sales; all this we are very aware of in the HSE Group. As of 2003, all companies in the HSE group hold the appropriate certifications; in November, the HSE parent company, too, received ISO 9001 and ISO 14001 certificates.

At the beginning of the year, a quality management policy was adopted that brings together quality, good environmental practice, and safety.

The entire system rests on the following principles:

- responsibility in the realization of specific tasks and clearly defined authorizations relating to this;
- responsibility in achieving the goals of quality, good environmental practice, and safety as a component part of the fundamental requirements for realization of individual tasks; and
- responsibility of every individual, whether in the position of executive, manager, or worker, for achieving the goals of quality, good environmental practice, and safety, in accordance with his or her responsibilities and authority.

Quality

Quality goals

As one of its main goals, the parent company set itself the objective of adjusting its practices to satisfy the requirements of the quality management standard ISO 9001. In 2003, this goal was achieved.

The ISO 9001 quality certificate

In accordance with the ISO 9001 certificate we have strived, and will in the futute continue to make our best endeavors, to meet the demands, needs, and expectations of our target populations; to achieve the strategic and tactical business goals we set ourselves, as well as optimal organization and transparency; to comply with all regulations in force; and to be constantly vigilant over the economics of our operations so as to ensure the successful functioning of the Group.

The ISO 14001 environmental certificate

With the receipt of the ISO 14001 certificate, we at the HSE Company demonstrated that we, along with the rest of the companies in the HSE Group, understand that an ecologically aware company guarantees a pleasant work environment and harmonious relations with both the immediate and wider communities. In 2003, our efforts toward sustainable development were especially intensive, on both local and national levels. We have been, and will continue to be, relentless in our efforts to improve working and living conditions for our employees and for those who reside in the vicinity of our companies. By implementing preventative measures, forestalling environmental damage, sharing responsibility, and including environmental safety as part of individual work procedures, we have strived, and will continue to strive, to achieve a multilateral equilibrium, in the awareness that today's development must not threaten the development of the present and the future generations.

Certificates Received in the HSE Group

Company	ISO 9001	ISO 14001	EE-08/02[2]
HSE	•	•	•
DEM	•	•	•
SEL	•	•	•
SENG	•	•	•
TEB	•	•	
TEŠ	•	•	
PV	•		
TDR - Metalurgija	•		

[2] EE-08/02 is a certificate awarded by TÜV that recognizes the production of electricity from renewable energy resources.

In late 2003, a second examination took place for the certificate received in 2002 in line with the TÜV TMS criteria for electricity production from renewable energy sources. The HSE Company, on the basis of 100 % of its electricity production from the hydropower plants associated with DEM, SEL, and SENG, meets the conditions for the production of electricity from renewable energy sources.

Safety

Concern about improving the health and safety of the work place by observing specific procedures is an essential part of the culture of the HSE Group and reflects our concern for our employees and our relationship with the social environment in which we live and work. Compliance with the requirements of existing legislation is for us just the beginning; we supplement these with the requirements of the OHSAS 18001 standard. In an administrative review of the management system, it was decided to begin activities in 2004 so as to obtain the OHSAS 18001 certificate. In this way, we would erect a third pillar of business excellence; for with the help of this certificate the area of work safety - that is, the internal environment - would brought into good order in a detailed manner. With the establishment of responsibilities within our quality system, the organization and collaboration of all companies in the HSE Group have already been worked out; appropriate bodies have been set up for individual areas, and tasks have been delegated for particular organs, all with a view toward the further development of the HSE Group.

Communications with Publics

Energija, the newspaper of the HSE Group

In 2003, we at HSE also paid great attention to communication and, more generally, to our relations with key segments of our public, including owners, media, employees, and customers, as well as the business sector, the power industry, and the local public. We informed these groups of our activities and significant events through public statements and press conferences, through our Web site (www.hse.si), which we renovated and expanded in 2003, and through the newspaper Energija (Energy), the purpose of which is to broaden knowledge and understanding of Slovenia's electricity industry and the HSE Group's position within it. Apart from the newspaper's internal readership of more than 5,000 HSE Group employees, Energija also has nearly 100 external subscribers, making it one of the basic communication resources for the HSE Group as a whole. Also, because one of our communication goals is to promote awareness of the unity of the HSE Group, we made a great step forward in 2003 toward a unified visual identity; all the companies in the HSE Group have supplemented their basic logos with the appendage hse Group which gives a sense of unity and of belonging to the Group.

Lower Sava hydropower plants construction

For the hydropower plants construction project on the lower Sava River, we have created a promotional brochure and Web site, as well as a promotional film in both Slovene and English, and we have also designed a CD-ROM in both languages.

In our opinion, the construction of the trademark of HSE and the HSE Group has, on the whole, been proactive, comprehensive, and successful, not only in its content, but also in its design and implementation.

Management of Human Resources

The importance of knowledge

The globalization of business, structural changes in the economy and labor market, and the importance of information technology have all led to the formation of companies and organizations founded on information and knowledge. Companies require of their employees ever greater knowledge, innovative practices, alternative working methods, and a timely response to the demands and opportunities that surround us. Employees are the ones who make a company successful, and management must devote increasing attention to their needs.

In the HSE Group, too, the management of human resources is an important part of our business strategy. In our Group, we treat employees as something more than just the ones who carry out certain tasks and roles: they are members, and through their work and energy they realize the mission of the HSE Group, while this, in turn, gives purpose to their work.The basis of our human resources strategy is partnership with our members, that is to say, our employees, for they are the ones who implement values, offer knowledge and skills, and serve as the "architects" of social capital. They are the essential elements in our strategy, making it possible for us to use the opportunities presented by our surroundings and so gain the advantage over our competitors.

Employees in the Parent Company

Hiring from within the HSE Group

In the HSE Company, the number of employees in 2003, as compared to that of the previous year, increased by 13; on 31 December 2003, there were 73 people employed at HSE. Because we understand that choosing employees is of key importance, we sought first to hire employees from internal sources, that is, from within the HSE Group, and only later did we begin seeking employees from external sources and the broader labor market. Prospective employees from the companies of the HSE Group, then, have an advantage in hiring, since this internal market offers us a wide range of skills and knowledge and combines high-quality professionals of various backgrounds, including quite a few with doctoral or master's degrees, as well as others with a university-level education.

At HSE, a large majority of our employees - 65 % - have been transferred from companies within the HSE Group, while 12 % have come from other companies in the electricity sector, with 23 % from other fields.

Compared to 2002, the composition of our employees in terms of educational level improved in 2003, since as many as 85 % of our new coworkers hold at least a university-level degree. On 31 December 2003, about 78 % of all HSE Company employees had completed at least university or a university-level professional school.

Employees in the HSE Group

Number of Employees in the HSE Group

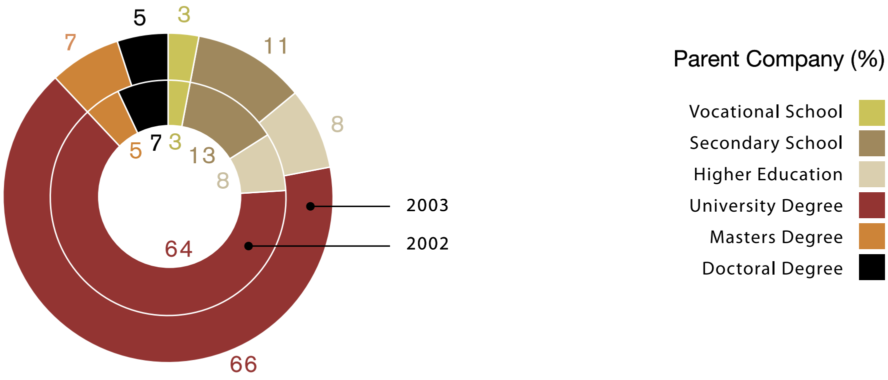
Company	31.12.2003	Percentage	31.12.2002	Percentage	Index 03/02
HSE	73	1.4	60	1.1	122
DEM	309	6.1	309	5.9	100
SEL	129	2.5	130	2.5	99
SENG	130	2.5	141	2.7	92
TEB	126	2.5	127	2.4	99
TEŠ	580	11.4	585	11.1	99
PV Group	3,329	65.2	3,524	66.7	94
HSE-IIP	1	0.0	0	0.0	0
HSE Invest	17	0.3	9	0.2	189
HSE Italia	0	0.0	0	0.0	0
TDR Group	410	8.0	397	7.5	103
Total	**5,104**	**100**	**5,282**	**100**	**97**

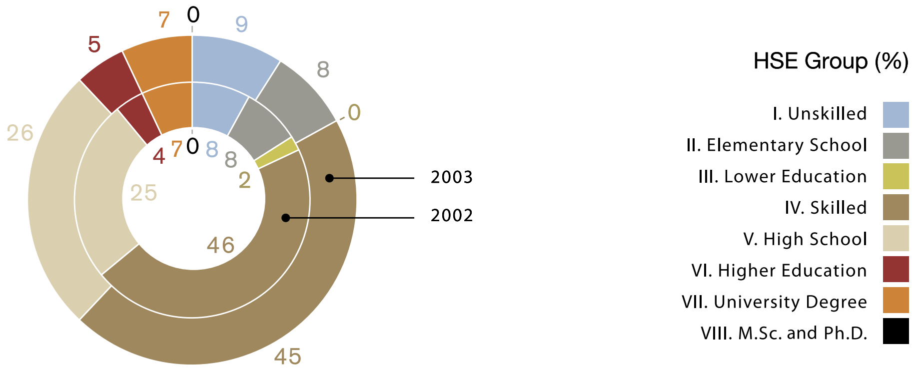
On 31 December 2003, there were 5,104 people employed in the HSE Group. At the same time, we can determine that, in line with the goal of rationalizing operations, the number of employees was 3 % less than the number on 31 December 2002.

Number of Employees by Educational Levels as of 31 December 2003

Educational Level	Parent Company	HSE Group
I.	0	457
II.	0	412
III.	0	24
IV.	2	2,269
V.	8	1,291
VI.	6	260
VII.	48	367
VIII.	9	24

Educational Composition as of 31 December 2003 and 31 December 2002





Educational composition

The educational composition of HSE Group employees has been improving from year to year. The number of employees at the third educational level has diminished, while the percentage of employees at the sixth level has increased in comparison with the previous year.

Experience

The employees in the HSE Group are distinguished by their rich experience and familiarity with the workings of the electricity system, the actual production of electricity and coal, metallurgy, telecommunications, computer science, finance, market analysis, etc.

Provision of social insurance

In the HSE Group we devote special attention to social security of our employees, which we provide in the following ways:

- by including employees in supplementary forms of education and training, which provides enduring skills and long-term competitiveness while at the same time promoting a culture of lifelong learning;
- through voluntary supplemental pension plans;
- by actively working to establish a healthy work environment and work conditions;
- through programs to protect and strengthen health in working and living environments.

Education and Training

The acquisition of knowledge

A significant portion of investments in developed societies is represented by investments in enhancing knowledge, since in modern society knowledge is the source of economic success. This is something we understand at the HSE Group, and thus, through systematic education and training we strive to preserve employee competence, to develop new knowledge and skills, and the capabilities for using this knowledge, and to develop relationships, motivations, convictions and aspirations. We understand that, along with acquiring knowledge, it is of essential importance to use it in practice and to disseminate this knowledge to other members of the Group. This last point, especially, represents one of the key goals of the HSE Group in the area of human resource management: to introduce "coaching" and mentorship into the management practice of our Group.

Mentorship

Mentorship is a tool for establishing and building a culture of lifelong learning, which is based on the principle of taking responsibility and engaging in mutual exchange for one's own education and development, as well as for the education and development of one's coworkers and, indeed, of the entire HSE Group.

Education in the parent company

In 2003, there were 100 different forms of education and training organized at the HSE Company, which involved the participation of 85 % of our employees. On average, an HSE Company employee devoted 52 hours to education and training in 2003. This tells us that we are well on our way toward our vision, which is to provide for the education of each and every employee and to preserve harmony between our educational and business strategies.

Thematic workshops in the HSE Group

In 2003 we also began organizing thematically structured workshops and seminars for the entire HSE Group. For managers of Group companies, we gave a workshop on the topic of strategic planning, which served as the basis for the first-ever strategic planning conference of the HSE Group.

Workshops were also organized for HSE Group companies in the areas of creating business plans, writing annual reports, and producing electricity. In 2004, we intend to increase the number of thematic workshops for the entire HSE Group and also to organize an HSE education center, the primary mission of which will be to ensure the long-term competence of the members of our Group. At the same time we will begin to compile an analysis of the competencies in the Group, by which means we will also establish a critical knowledge database.

Market Position

Opening the Electricity Market

Slovenia's accession to the EU

As part of the process of Slovenia joining the EU, a number of activities connected with the electricity market took place in the period 2001-2003. The Energy Act specified a procedure and timetable for opening the domestic electricity market in order to bring it closer to the structuring of European markets. The main result of this reform was that the majority of Slovenian electricity consumers (67 % of entire Slovenian consumption) can now choose their own provider. It is only smaller consumers with an installed capacity of less than 41 kW (mostly households) who retain the status of tariff consumers; for them, prices are determined by the tariff system ratified by the Government of Slovenia. As of 1 January 2005, this authority will pass to the Energy Agency of the Republic of Slovenia. For all consumers, the price of electricity delivery is compiled from the price of energy plus the fee for the use of the transmission network, which primarily covers the costs of using the network. For all consumers, the amount of these costs is set by the Energy Agency of the Republic of Slovenia. For eligible consumers, the price of energy is determined by market supply and demand; for tariff consumers, the price of energy is equal to the difference between the delivery price ratified by the Government of Slovenia and the amount of the network fee.

Market Conditions for Electricity in 2003

In 2003, in both the Slovenian electricity market and the markets of Continental and Southeastern Europe, there were considerable changes with regard to the supply and pricing of electricity.

The Krško Bilateral Accord

In the Slovenian electricity market, by far the most significant event of 2003 was the signing of the bilateral agreement on the Krško Nuclear Power Plant, whereby the supply of low-cost electricity in the Slovenian market was reduced by about 2,550 GWh annually.

High electricity prices

In 2003, energy from both advantageously dispatched power plants (the Trbovlje Thermal Power Plant and the Ljubljana Thermoelectric-Heating Plant) was to a large extent sold at annual levels. Beginning 19 April 2003, as a result of the Slovenia-Croatia bilateral agreement on the Krško Nuclear Power Plant, Slovenia became a net importer of electricity; in addition, because of the serious drought, production in 2003 in hydropower plants - and also in nuclear plants due to cooling needs - fell far short of plan, not only in Slovenia, but also elsewhere in Europe. All these things exerted a large amount of influence on the high electricity prices in the organized daily market in Slovenia.

Continental Europe

Due to a number of influential factors (the increase in the price of coal, the small amount of precipitation, increase in consumption, etc.) prices in Europe's electricity market experienced an exceptional rise (30-35 %). The market situation indicates additional price increases in future years, as well. It is important to stress, however, that despite these increases, these prices remain lower than our own prices in the new gas- and steam-fired power plants. Consequently, unsubsidized investments in European production sources are minimal. In light of increased consumption, we can expect electricity prices to rise to a level where new investments will be justified.

Southeastern Europe

Also in the markets of Southeastern Europe, electricity prices were leap-frogging upwards. The main causes were power outages at individual production units (e.g. the Paks Nuclear Power Plant in Hungary), greater consumption, price increases in Western markets, and congestion in the transmission channels between Eastern and Central Europe.

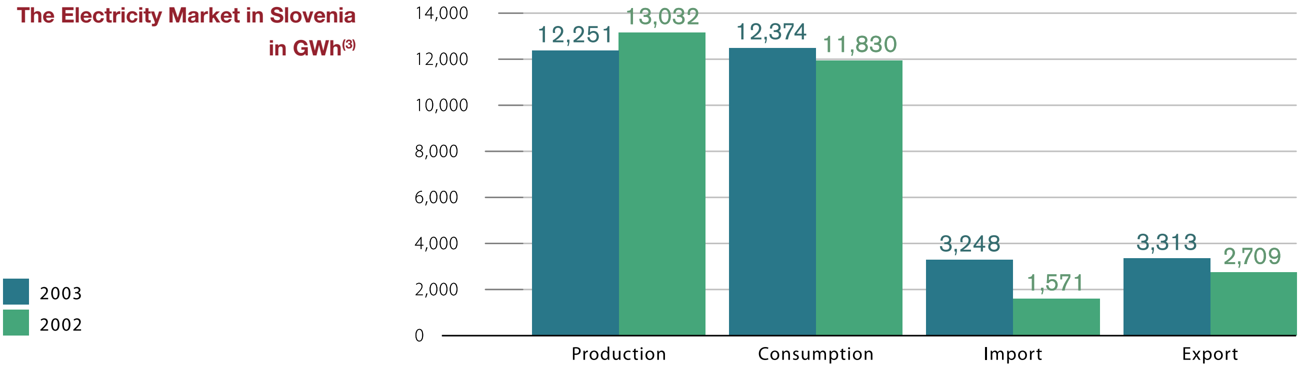
Consumption increase exceeds expectations

Along with the reduction in supply, Slovenian electricity consumption in 2003 grew by nearly 5 % in comparison with the previous year.

In 2003, consumers used 12,374 GWh of electricity from the transmission network, which is 544 GWh more than in the previous year. Production in Slovenia in 2003, compared with the previous year, diminished by 781 GWh. In order to ensure the uninterrupted operation of the electricity system, Slovenia had to import 3,248 GWh, which is 1,677 GWh more than in the previous year, while exports reached 3,313 GWh.

We foresee a continuation of the upward trend in electricity consumption in 2004.

The Electricity Market in Slovenia in GWh[3]



[3] Import and export are taken into account without transit.

The HSE Group

The HSE Group is the largest producer and supplier of electricity in Slovenia, producing more than half of all the electricity generated in the country. The combination of production sources represented by the companies in the Group (hydropower plants, a coal-fired thermal power plant, and a gas-fired thermal power plant) allow us to be flexible in our electricity production and to meet the needs of all kinds of consumers.

Electricity Generating Units in the HSE Group

DEM		Dravograd	Vuzenica	Vuhred	Ožbalt	Fala	MB otok	Zlatoličje	Formin	Total
	No. of generators	3	3	3	3	1+2	3	2+1	2	
Net generation capacity	MW	25	56	52.4	52.8	58	60	115	116	535
Installed generating capacity	MVA	36	78	60	60	74	78	149	148	683
Gross drop	m	8.9	13.7	17.4	17.4	14.6	14.2	33	29	148
Installed flow	m^3/s	405	550	366.7	366.7	525	550	463	500	

SEL		Moste I.	Moste II.	Mavčiče	Medvode	Vrhovo	Total
	No. of generators	3		2	2	3	
Net generation capacity	MW	13	8	38	21	37	117
Installed generating capacity	MVA	22.5	11	50	27	42.9	153
Gross drop	m	70.45	177.2	17.5	21.2	8.12	294
Installed flow	m^3/s	3x9.5	6	2x130	2x71	3x166.7	

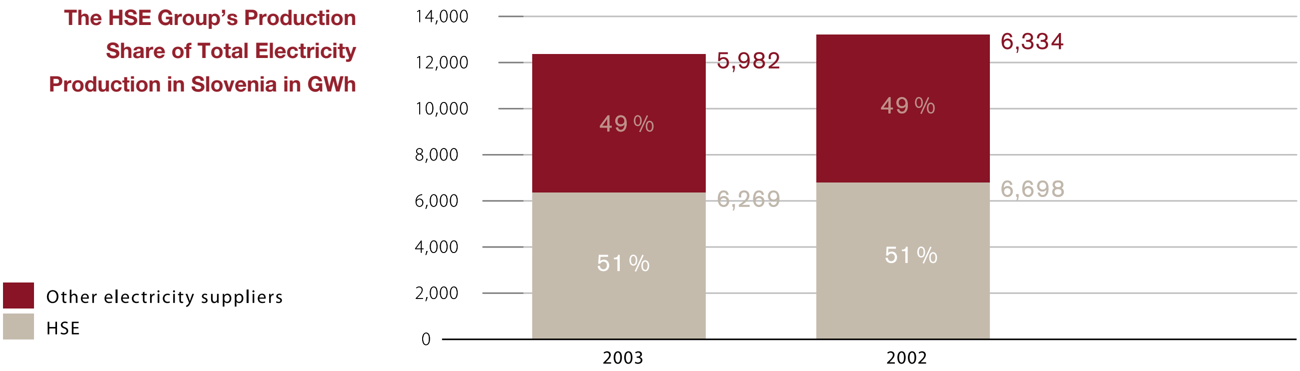
SENG		Doblar I.	Doblar II.	Plave I.	Plave II.	Solkan	Zadlaščica	Small HPPs	Total
	No. of generators	3	1	2	1	3	2		
Net generation capacity	MW	30	40	15	19	32	8	15.8	160
Installed generating capacity	MVA	48	50	22	23	39	10	19.4	211
Gross drop	m	47.2	48.5	27.5	27.5	23			174
Installed flow	m^3/s	90	105	75	105	180	2.2		

TEB		Steam 1	Steam 2	PB I.	PB II.	PB III.	PB IV.	PB V.	Total
Net generation capacity	MW	10	11	21	21	21	114	114	312
Installed generating capacity	MVA	16	15	32	32	32	155	155	437

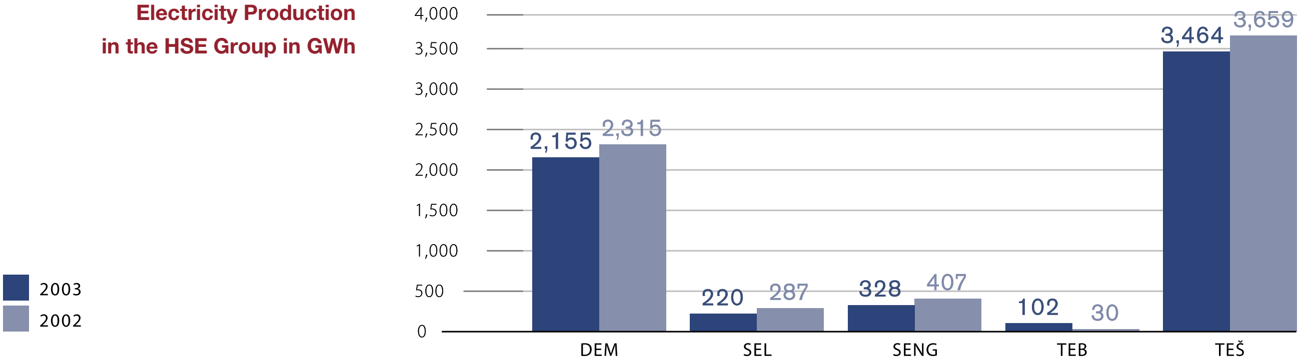
TEŠ		Generator 1	Generator 2	Generator 3	Generator 4	Generator 5	Total
Net generation capacity	MW	27	27	68	246	315	683
Installed generating capacity	MVA	37.5	37.5	94	324	406	899

In 2003, in addition to holding an important market share in the Slovenian market, the HSE Group also played an important role in the supply of electricity by providing ancillary services for the Slovenian operator of the transmission system. In supplying electricity to consumers, such ancillary services are of critical necessity in the functioning of the electricity system.

The HSE Group's Production Share of Total Electricity Production in Slovenia in GWh



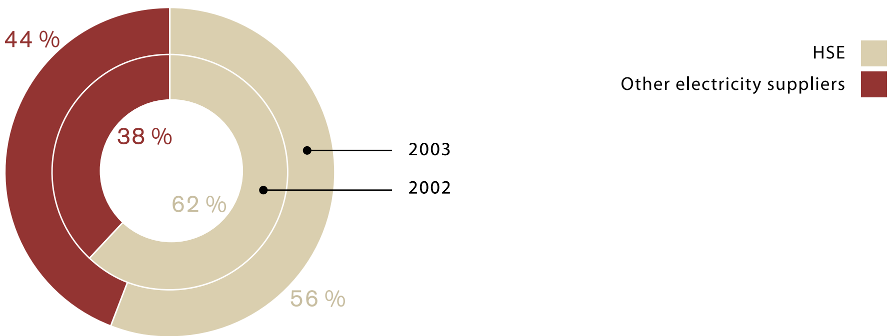
Electricity Production in the HSE Group in GWh



Market share

In 2003, HSE supplied 56 % of the electricity consumed in the Slovenian market.

HSE Market Share of Total Electricity Consumption in Slovenia



Sales and Buyers

Electricity

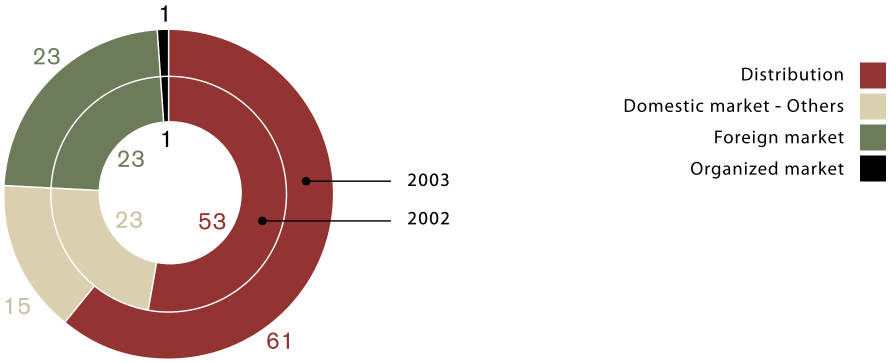
Coordinated Activities

With the aim of maximizing company yield within acceptable risk exposure, we perform the following coordinated activities:
- the sales of electricity produced by the HSE Group;
- trading in electricity from other sources; and
- management of production units in HSE Group companies.

Sales volume

In 2003, the HSE Group sold 8,773 GWh of electricity in domestic and foreign markets. The domestic market was the most important, accounting for 77 % of overall sold quantities, with 61 % being sold to five distribution companies and 15 % to other direct customers, while 1 % was sold on the organized electricity market (Borzen); 23 % of sold quantities were exported, mostly to Italy. We successfully participated at auctions for cross-border interruptible transmission capacities for the export of electricity to Italy, thus increasing our presence in the Italian market, which is the most lucrative market for HSE due to high electricity prices.

Structure of Electricity Sales (in %)



Long-term contracts and the daily market

The HSE Group generated the bulk of its sales through long-term contracts. We traded on daily markets in order to coordinate contractual obligations with the potential production of HSE Group companies and with the goal of optimizing our portfolio and exploiting market opportunities. On daily markets we sold electricity surpluses resulting from increased water flow and additional quantities of electricity when the market price exceeded the costs of additional production.

Ancillary services

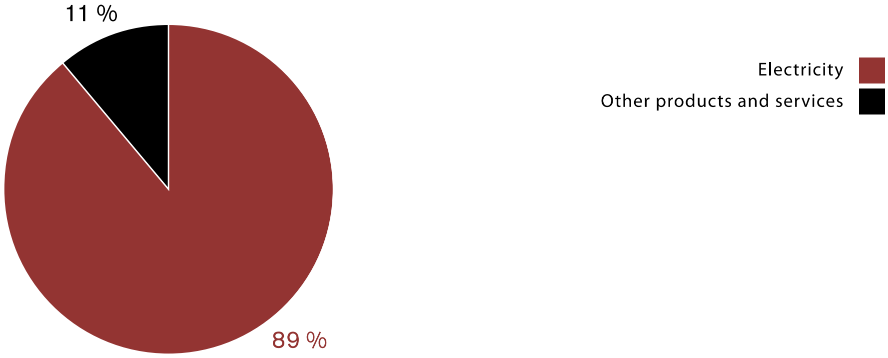
In 2003 we also provided the following contractually required ancillary services:
- voltage regulation with all power generators;
- primary frequency regulation with all power generators;
- secondary frequency regulation in the regulation range of ±70MW (±80 MW in July and August);
- tertiary frequency regulation with a less than 15 - minute activation of cold and rotating reserve power in the amount of 300 MW in the period 1 January - 30 April 2003 and 145 MW in the period 1 May - 31 December 2003;
- black start capability of generators;
- reactive power for voltage regulation and
- regulation energy.

Other Products and Services

Net sales revenue structure

In 2003, the HSE Group generated more than SIT 97 billion in net sales revenues, of which 29 % came from foreign sales. Electricity sales were the most important, accounting for 89 % of the revenue structure. Sales revenues from other products and services together represented 11 % of the Group's net sales revenues. In comparison with 2002, there was no change in the structure of revenues.

Structure of Sales Revenues



Other products and services

The greatest portion of our other activities is represented by the production of calcium carbide, ferrosilicon, calcium silicon, and complex alloys. Sixteen percent of the sale of these products was generated on the domestic market, with the remainder represented by exports to Austria, Germany, and Italy. Sales in several other markets increased somewhat, signifying greater sales diversification and new buyers.

Other activities include the production and sale of heat and coal, as well as other services and products produced or rendered by the companies in the Group as part of their business activity.

Purchasing and Suppliers

Electricity

Synergy

Aiming to achieve the greatest possible efficiency in our performance, the HSE Group strives to take advantage of synergies created by our broad array of production capacities. The operating and cost-related profiles of our individual production units differ substantially, thus making it possible, with the right combination of production schedules, to achieve cost-effective electricity production. And because the price of electricity fluctuates over time, it is all the more important that production units be economically dispatched without disregarding technical criteria.

Structure of sources

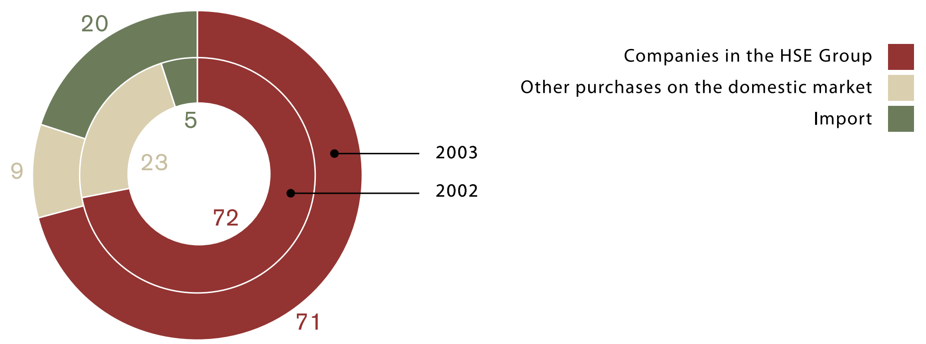
The electricity supplied to customers by the HSE Group in 2003 was for the most part (71 %) produced by Group production companies; of the remaining portion, 9% we purchased on the organized market or from the Krško Nuclear Power Plant, while 20% we imported.

Sources of Electricity Sold in 2003 and 2002

Source	2003		2002	
	GWh	Share	GWh	Share
Companies in the HSE Group [4]	6,269	71 %	6,283	72 %
Other purchases on the domestic market	779	9 %	2,043	23 %
Imports	1,725	20 %	388	5 %
Total	**8,773**	100 %	**8,714**	100 %

[4] Sources of electricity sold exclude internal sales within the HSE Group (487 GWh in 2003 and 636 GWh in 2002) and include production at SENG's small hydropower plants.

Structure of Sources of Electricity Sold (in %)

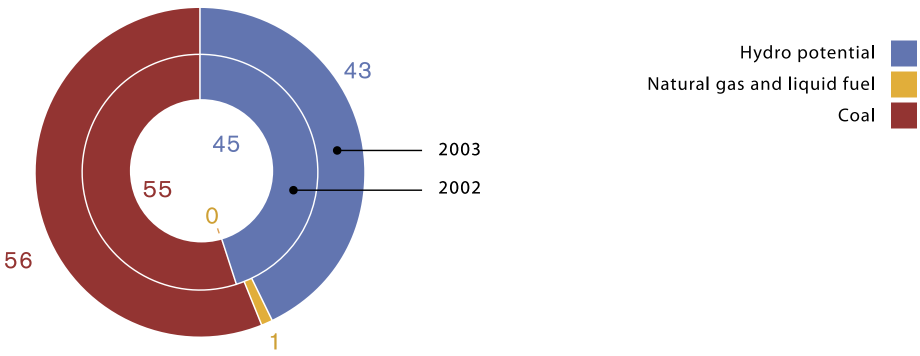


We purchased electricity on the spot market in order to cover shortages in case of power failures or poor hydrologic conditions.

Raw materials

Of the raw materials purchased for electricity generation, the most significant in 2003 was coal (56%), followed by hydropower potential (43%), with natural gas and liquid fuel accounting for the remaining 1 %. The coal is supplied by Velenje Coalmine.

Raw Materials for Electricity Production in the HSE Group (in %)



Optimizing purchases

The achieved average price of purchased electricity was higher than estimated primarily due to unfavorable hydrological conditions. This meant that the production of lower-cost hydropower from companies within the HSE Group was 20.3 % lower than estimated, and consequently, the production of higher-cost electricity from the Šoštanj Thermal Power Plant was 12.6 % higher than estimated. Production at the Brestanica Thermal Power Plant was also substantially higher. We were partially able to neutralize the increase in average electricity purchase prices through the following measures:

- purchasing additional quantities of coal, and
- reducing specific coal consumption by 2.5 % with regard to plan.

With the purchased electricity production we were able, with the help of the balance group and electricity production control system, to develop suitable market products of band, peak, off-peak and hourly power, which we included in the HSE Group's product portfolio.

Coal

To meet the needs of electricity and heat production at the Šoštanj Thermal Power Plant, the HSE parent company purchased 42,436 TJ of coal from Velenje Coalmine. Of this amount we used 40,683 TJ, while the HSE coal stock was increased by 1,754 TJ, totaling 2,381 TJ at the end of 2003. The increase in the coal stock was necessary to ensure the reliability of our supply.
In 2003, production at Velenje Coalmine totaled 42,632 TJ, while their end-of-year coal stock was 1,211 TJ.

Heat

In 2003, HSE also traded in heating power. In 2003, heat production at Šoštanj was 404 GWh.

Major Investments of the Parent Company

Hydropower Plants on the Lower Sava River

The largest energy project

HSE is currently engaged in the largest energy project in Slovenia: the construction of a chain of five new hydropower plants along the lower Sava River. The Boštanj, Blanca, Krško, Brežice, and Mokrice Hydropower Plants will more than double electricity generation on the Sava. The electricity produced at the new power plants, which are being built in stages from now to 2018, will represent 21 % of Slovenian hydropower production and is expected to cover 6 % of total electricity consumption in the country.

Benefits of the hydropower plant construction

The importance of the construction of the lower Sava hydropower plants in supplying Slovenia with electricity, as well as in other economic activities, can be seen in the following benefits:

- the additional production of electricity which will average around 721 GWh annually;
- the acquisition of an additional 186 MW, which is extremely needed in the Slovenian electricity system;
- by increasing construction in the hydropower system on the lower Sava River, it will be possible to operate on the run-of-river storage principle, which provides the electricity system with additional capacities for producing peak energy and regulating power;
- a stable transmission network will be achieved in the Posavje corridor;
- the Krško Nuclear Power Plant will be safer thanks to the nearby power reserves;
- there will be insurance against the flooding of communities, infrastructure, and farmland in the entire Sava River valley from Zidani Most to the border with Croatia;
- territory reserved in the state plan will be freed up, while the territory along the Sava corridor in the impact area of the hydropower plants will be permanently organized; and
- there will be good employment opportunities and a revival of local industry during the construction phase, especially in the areas of machine-building and construction operations, small business sector, and technical expertise.

A renewable energy source

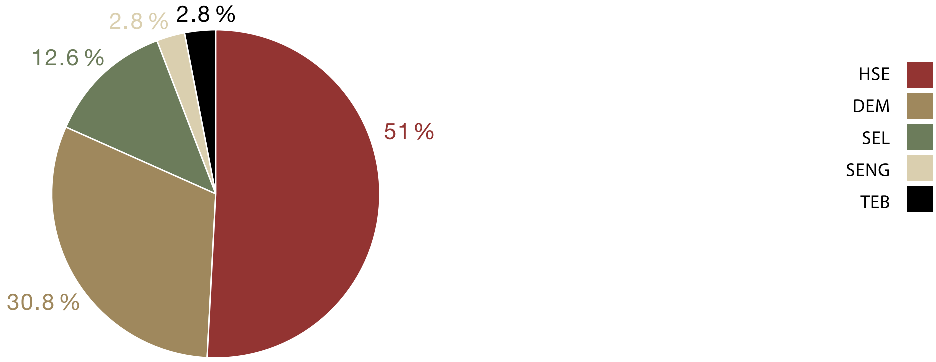
The greater use of renewable resources will contribute to the protection of the environment and nature-friendly development and is also an essential element of our efforts to meet the requirements of the Kyoto Accord on reducing greenhouse gas emissions.

Joint venture

Analysis of the possibility for constructing such a vast and financially demanding energy project has shown that the most expedient way to do it is to combine the entire professional and financial potential of the HSE Group companies. Thus the idea was born of creating a joint venture, in the sense of a business collaboration, for the construction of the chain of lower Sava power plants.

On 14 May 2003, the companies HSE, DEM, SEL, SENG, and TEB signed the Joint Venture Contract, on the basis of which the companies will combine assets totaling 71.5 billion SIT for the project, an amount that represents the budgetary value of the entire project. These assets are jointly controlled.

Company Stakes in the Joint Venture for Hydropower Plant Construction on The Lower Sava River



Project Status

The main goal has been reached, in that the project has fully come to life. The goals set for the initial phases in the areas of constructing power-generating structures and preparing documentation have been achieved and surpassed.

The Boštanj Hydropower Plant

Power-generating structure

In November 2003, HSE celebrated one year of construction on the Boštanj Hydropower Plant with a work drive that involved installing three suction pipe cones for the generators. In this time period, we successfully completed the preparatory works and built all infrastructure buildings necessary for the construction site as well as structures that needed repositioning due to the nature of the work. The preparatory work was fully concluded on 23 August 2003, when a statement was issued concerning the conclusion of all work tasks within the scope of the contract.

Today work on the power station construction site and off-site work with suppliers are both on schedule. The Boštanj Hydropower Plant will begin operating in April 2006.

Infrastructure construction

On 26 November 2003, the National Assembly of the Republic of Slovenia passed the Law on Changes and Supplements to the Law on the Conditions of Licensing for the Exploitation of the Energy Potential of the Sava River. This law provides the foundation for establishing the joint venture, which with the aid of state underwriting will be able to take out a loan for construction relating to water, state, and local infrastructures.

Boštanj HPP Construction Site

The Blanca Hydropower Plant

At the beginning of 2003, HSE presented the Ministry of the Environment, Spatial Planning, and Energy with its "Bid for Starting Implementation of the Locational Plan for the Blanca Hydropower Plant." A Spatial Planning Conference was held in April and a preparatory program was accepted in June 2003. Guidelines were received in July 2003, and in October a proposal was issued outlining the direction of the planned spatial arrangements.

The Krško Hydropower Plant

In 2003, the main activities revolved around preparing a Locational Documentation. The subject of the detailed plan includes all planned spatial arrangements in the planning zone of the hydropower plant that relate to structures involved in the energy system, the water system, and state and local infrastructures. Construction on the Krško Hydropower Plant is anticipated to begin in the year 2008.

Customer Metering System

The purpose of this investment is to improve the operating system of the HSE balance group by simplifying the accounts system and offering professional assistance to potentially interested electricity buyers and balance group members.

In 2003 we made an agreement with the electricity distributors Elektro Celje, Elektro Ljubljana, and Elektro Primorska for them to provide us via the internet with metering data for companies included in their networks and to purchase energy from HSE.

We use the data collected through the customer metering system for calculating consumed energy as well as discrepancies. Additionally, we provide this information to eligible customers in a user-friendly form via the internet.

We intend to further expand the customer metering system as we acquire new customers.

Balance Group Control Center

The year 2003 was primarily devoted to preparing project documentation for the new HSE Balance Group Control Center.

The HSE Control Center assumed supervision of the implementation of secondary regulation in HSE balance group members. The following regulation units were included in secondary regulation: DEM (with four hydropower plants), the blocks TEŠ 4 and TEŠ 5, and the blocks TEB 4 and TEB 5.

Linkage was coordinated with the SENG Control Center and with local control at TEB.

Telecommunications Network of HSE

In 2003, the project concept was prepared and audited. A comparison between leased conduits and building our own network was carried out in regard to comparative technical and economic indicators. The results point to the overall preferability of constructing our own network, not only from an economic standpoint but also as a reliable and secure means of transporting systems data for HSE's operational needs.

In the second half of the year we issued an invitation for bids on the project. The bid invitation was withdrawn and will be reissued in an abridged form in 2004.

HSE Metering System

In order to monitor and calculate more efficiently the quantities of electricity and heat produced and sold, as well as our ancillary services, HSE decided to install a uniform system of electricity accounting in all HSE Group companies. The planned system was coordinated technically with Group companies as well as with the operator of the transmission network ELES-UPO. The system is designed to enable simple inclusions and exclusions of electricity producers and consumers, thereby establishing an efficient way to monitor the performance of any balance group. Project goals were to select a technologically up-to-date, reliable, and safe system and to adhere to the principle of rationality so as to take best advantage of existing installed equipment and sources.

The system passed all tests and trials and began normal operations in March. By the end of 2003, data from all companies in the HSE Group had been included in the HSE metering system. All calculation data provides support to the market and production sectors and is also available to additional users through other information systems.

Major Investments of the Daughter Companies

DEM

In 2003, most planned investments at DEM were made in production reliability and information equipment. The company's largest investments went into Phase 2 of the Drava River hydropower plants renewal project and in the joint venture for constructing hydropower plants on the lower Sava River. The second phase of the Drava hydropower plants renovation is in its final stages, since work is already being carried out on the last generator at the Vuhred Hydropower Plant and in a few months the same will be the case at the Ožbalt Hydropower Plant. A large portion of the equipment ordered and received is already being used for the production of electricity. The project is developing in line with the goals stipulated by the investment program.

SEL

At SEL talks have resumed with the local communities and other interest groups concerning the acceptability of the project of completing installations at the Moste Hydropower Plant. Revisions in the investment program have also been completed.

At the beginning of July 2003 the overhaul of Generator 3 at the Moste Hydropower Plant was completed.

At the Moste 110 kV distribution transformer station, the longitudinal separators on the collectors were replaced this year with new ones.

Construction of the new Medvode 110/20/6 kV distribution transformer station was completed. This was a joint project of SEL and Elektro Gorenjska.

As part of the project of overhauling the Medvode Hydropower Plant, preparations were made in 2003 for reconstructing the building itself. The plant's own usage (of directed and distributed voltage) underwent replacement by the installation of a diesel electric generator.

In 2003, SEL expanded its automatic monitoring of the dams at the Moste and Vrhovo Hydropower Plants - which it conducts in compliance with its legal and licensing obligations - so as to include monitoring at the Završnica and Mavčiče Hydropower Plants as well.

SENG

In 2003, SENG carried out reconstruction on the sluice gate and inflow grates on the Plave Hydropower Plant dam. The reconstruction was necessary to ensure performance reliability and maintain existing production, since the equipment was out-of-date and fatigued.

With the reconstitution of the electricity market, operating conditions for hydropower plants have changed and a need has emerged to develop new applications; for that reason, the company made the decision to develop its own control center to manage the chain of Soča River hydropower plants and oversee its smaller hydropower plants.

Preparations for the Avče Hydropower Pumping Station project were conducted in the areas of putting together the investment and project documentation (the project concept) and including the facility in spatial planning.

In connection with the construction of the small Klavžarica hydropower plant, activities involved preparing the technical project documentation, obtaining administrative permits, and initiating the preparatory works. This project is being conducted in conjunction with the Ministry of Culture, which is responsible for maintaining Slovenia's traditional logging dams (klavže) and so is providing financial means for this purpose, while SENG is investing in the construction of the hydropower plant.

TEB

Due to the fact that the capacities of the existing system of uninterrupted fueling are worn out and insufficient, TEB in 2003 undertook the construction of a new and reliable system for the uninterrupted fueling of vital components using electricity.

TEŠ

Part of the facilities at TEŠ are in the last stages of their life expectancy; some installations have been operating since 1956, when Units 1 and 2 were built, while the youngest has been operating since 1977, when Unit 5 was built. Given the state of individual installations and the company's strategic goals, it was decided to modernize the installations to the point where they will be able to operate safely and reliably to the end of their planned life expectancy. The modernization is being conducted using an analysis based on monitoring the functioning of the equipment, operational incidents, and an evaluation of the equipment's remaining life expectancy and safe operation.

Most investment assets were allocated for Unit 5. The remaining portion of the investments went to other Units, water preparation, and renovations and purchases of other basic assets.

PV

At PV most assets were used for equipment in renovating mine supports. A directional transporter and a belt transporter were purchased, and the chain transporters were also modernized.

The largest investment in terms of transport and classifying equipment was represented by mechanical and electrical equipment for redirecting coal.

In the area of electronics, the largest realized investments went into the telecommunications system and the purchase of telecommunication and mobile equipment.

TDR - Metalurgija

The investment activity of TDR - Metalurgija in 2003 pursued the company's strategic aims and financial potential. It was carried out in terms of increasing the sales share of products with higher added value, reducing production of energy-demanding products, and improving economic performance through an economy of scale.

Research and Development

Seeking out optimal investment opportunities

In 2003, our primary task in the area of strategic development was to seek out optimal investment opportunities. We understand, after all, that along with having a clearly defined vision, growth is crucial if we are to achieve our long-term goals.

Strategic planning conference

At our first strategic planning conference, in November 2003, a set of potential projects for creating new production capacities, as well as the need for investing in renovations and power increases at existing facilities, were presented.

The HSE Group's role in Slovenia in terms of realizing the goals of the National Energy Plan (NEP) was analyzed, as well as the likelihood of the Group retaining and even strengthening its presence in Slovenia and beyond through the realization of planned investments. It is essential to retain today's favorable structure of resources in HSE and in Slovenia by developing new capacities, since only a suitable structure of resources will be able to ensure a safe and reliable supply to consumers and make it possible for us to adapt successfully to the demands of the open electricity market.

We agreed on the need to put together a development plan for the HSE Group that will take into consideration the aims of the NEP and the set of projects endorsed by the owners.

The HSE Group Development Plan is being prepared and is expected to be adopted in the first half of 2004.

Studies and research

In 2003, the HSE Program Board was created to direct and supervise studies and research. The HSE Program Board endorsed plans to conduct studies in the following areas:

- optimization of existing production capacities;
- new production facilities;
- ecology;
- renewable sources of energy;
- introduction of new technologies;
- inclusion of production facilities in the energy system;
- sales & trading and the organization of the business system.

Informatics

Trends

Increasingly, the development of information systems in the world today follows two trends, which are inherently opposed to each other and so demand a specific approach. On the one hand, individual companies are cutting back funds allocated for data systems, while on the other, information needs are expanding.

Technology and new tools do not in themselves guarantee anticipated results. Only careful planning and learning from experience can bring about an effective and optimal programming architecture able to support the operations of a modern-day business. Program procedures must contribute to the realization of the basic mission: to guarantee uninterrupted and effective performance.

Joint projects in 2003

The information systems of the companies in the HSE Group are becoming increasingly intertwined and integrated. In 2003, this resulted in several joint projects involving the following:

- secure data storage;
- the NSPOF system ("no single point of failure") for Internet access and security; and
- the monitoring of secondary regulation response.

Secure data storage

The project of developing a centralized secure data storage system was put into production. Because there was a need also to modernize the secure data storage system at TEŠ, we decided on an approach that would solve both problems at once, while at the same time allowing the two systems to provide back-up for each other.

NSPOF

As part of the modernization of the IT system, we implemented a project to ensure uninterrupted Internet operations. There was a need to provide a platform and connections that would guarantee system availability even if one of the subsystems failed. To this end, a "no single point of failure" (NSPOF) system was implemented, guaranteeing uninterrupted Internet access even in the case of mechanical failure or problems with the Internet provider.

Monitoring secondary regulation response

Using infoAgent and iHistorian, an application was created for the retrieval and on-line display of data about current block production and secondary regulation response for the sake of planning and monitoring production and secondary regulation performance. For the purpose of retrieving data from TEB, a data server was put in place at TEB.

Projects of the parent company

The most important projects carried out by the parent company involved the following:

- new data links;
- equipment installation and inclusion of the Belgrade office in the system;
- setting up Web pages on the new server;
- business GPRS;
- an administrative data system (UPIS); and
- Endur (a marketing support program).

Financial Operations

Basic goals

In 2003, the financial operations of the HSE Group were primarily aimed at:
- ensuring the solvency of the HSE Group;
- making investments;
- managing risks; and
- optimizing liquidity at the Group level.

In its business decisions, the Group considers the basic principles of long-term and short-term solvency.

Consistent collection of trade receivables, detailed cash- flow planning, and the optimization of liquidity are part of the Group's everyday practice.

Based on an analysis of the financial operations of the companies in the Group in 2003, we can state that all set goals were attained: the companies had no solvency problems; investment funds were secured; and free financial assets created suitable yield without neglecting diversification or investment safety.

Data from the Cash Flow Statement for 2003 and 2002

in SIT 1000

	2003		2002	
Item	Group	Parent Company	Group	Parent Company
Net inflows (outflows) from operating activity	22,384,236	4,951,651	36,447,041	10,621,973
Net inflows (outflows) from investing activity	(7,714,732)	(20,030,952)	(35,227,946)	(10,582,791)
Net inflows (outflows) from financing	(13,071,012)	15,106,779	(1,820,970)	(32,841)
Total net inflows (outflows)	**1,598,492**	**27,478**	**(601,875)**	**6,341**

Financial Analysis of Operating Activity and Indicators

Changes in the consolidated balance sheet structure

ITEM	Year 2003	Year 2002	Change (%)
ASSETS	**100.00 %**	**100.00 %**	**0.0**
A. FIXED ASSETS	**86.50 %**	**87.15 %**	**(0.8)**
I. Intangible fixed assets	1.15 %	0.94 %	22.4
II. Tangible fixed assets	83.64 %	83.88 %	(0.3)
III. Long-term investments	1.71 %	2.33 %	(26.6)
B. CURRENT ASSETS	**13.46 %**	**12.82 %**	**5.0**
I. Inventories	2.12 %	1.86 %	13.7
II. Operating receivables	5.14 %	4.26 %	20.8
III. Short-term investments	5.05 %	6.02 %	(16.2)
IV. Bank balances, checks, and cash	1.15 %	0.68 %	70.5
C. DEFERRED COSTS, DEFERRED EXPENSES, AND ACCRUED REVENUES	**0.04 %**	**0.03 %**	**40.9**
Č. OFF-BALANCE-SHEET RECORD	**5.49 %**	**6.96 %**	**(21.2)**
LIABILITIES AND CAPITAL	**100.00 %**	**100.00 %**	**0.0**
A. CAPITAL	**65.93 %**	**69.33 %**	**(4.9)**
I. Called-up capital	0.34 %	0.34 %	0.5
II. Capital reserves	49.14 %	48.90 %	0.5
III. Revenue reserves	4.22 %	1.81 %	133.5
IV. Net profit or loss carried forward	0.72 %	0.00 %	
V. Net profit or loss for the financial year	1.49 %	1.81 %	(17.9)
VI. Equity revaluation adjustment	0.00 %	0.71 %	(100.0)
VIII. Minority equity interest	10.02 %	15.76 %	(36.5)
B. PROVISIONS	**11.04 %**	**11.68 %**	**(5.5)**
C. FINANCIAL AND OPERATING LIABILITIES	**22.87 %**	**18.81 %**	**21.6**
Č. ACCRUED COSTS (EXPENSES) AND DEFERRED REVENUES	**0.16 %**	**0.18 %**	**(7.8)**
D. OFF-BALANCE-SHEET RECORD	**5.49 %**	**6.96 %**	**(21.2)**

Changes in the consolidated balance sheet structure

On the Assets side, the most noticeable is the increase in the share of current assets, which is primarily a consequence of the increase in operating receivables, inventories, and money.

On the Liabilities and Capital side, the share of financial and operating liabilities increased, while the share of capital decreased due to the buyout of minority partners.

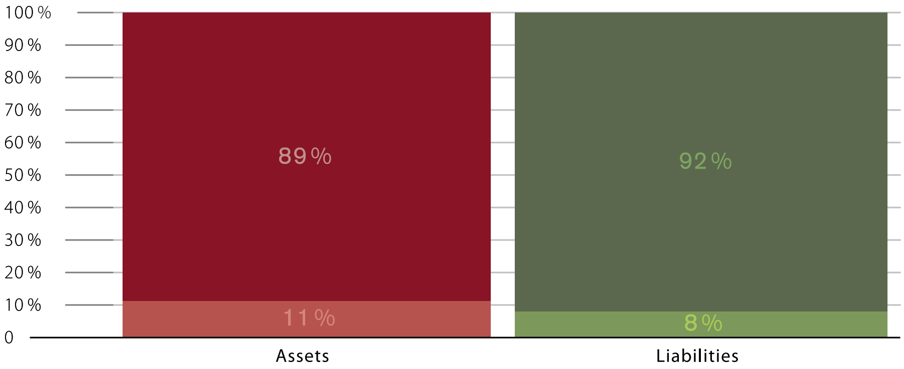
From the assets structure it is clear that the largest share of assets is represented by fixed assets, which reflects the capital-intensiveness of the HSE Group's activities.

The same is the case on the Liabilities and Capital side, which shows that long-term assets are being financed by long-term liabilities.

Balance Sheet Structure for the Group and the Parent Company on 31 December 2003

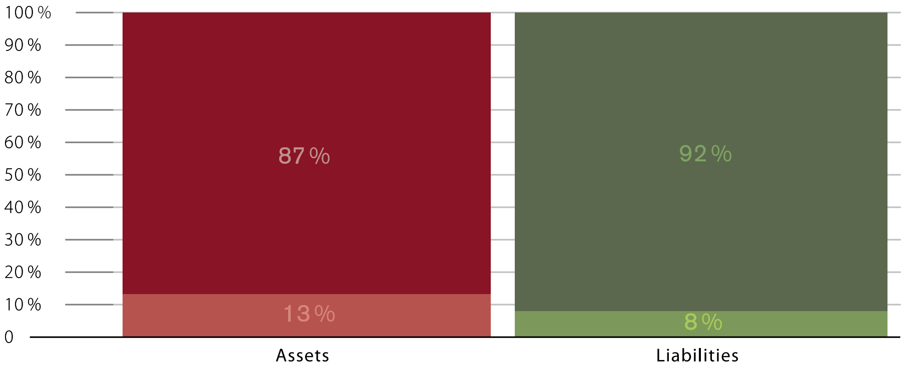
Parent Company

- Short-term assets
- Long-term assets
- Short-term liabilities
- Long-term liabilities



HSE Group

- Short-term assets
- Long-term assets
- Short-term liabilities
- Long-term liabilities



The following presents indicators for the HSE Group for the years 2003 and 2002.

Indicators for the HSE Group

in SIT 1000

	2003	2002
Participation Rate of Capital		
1. Liabilities	337,940,995	339,629,666
2. Capital	222,794,507	235,475,484
Participation rate of capital = 2 / 1	***65.93 %***	***69.33 %***
Long-term Financing Ratio		
1. Capital	222,794,507	235,475,484
2. Long-term financial and operating liabilities	52,216,475	40,631,573
3. Long-term provisions	37,299,564	39,685,033
4. Total (1+2+3)	312,310,546	315,792,090
5. Liabilities	337,940,995	339,629,666
Long-term financing ratio = 4 / 5	***92.42 %***	***92.98 %***
Participation Rate of Fixed Operating Assets		
1. Tangible fixed assets	282,644,116	284,882,725
2. Intangible fixed assets	3,877,246	3,182,373
3. Total fixed assets in net carrying amount (1+2)	286,521,362	288,065,098
4. Assets	337,940,995	339,629,666
Participation rate of fixed operating assets = 3 / 4	***84.78 %***	***84.82 %***
Long-term Investment Ratio		
1. Tangible fixed assets	282,644,116	284,882,725
2. Intangible fixed assets	3,877,246	3,182,373
3. Long-term investments	5,788,610	7,926,509
4. Long-term operating receivables	353,854	323,302
5. Total (1+2+3+4)	292,663,826	296,314,909
6. Assets	337,940,995	339,629,666
Long-term investment ratio = 5 / 6	***86.60 %***	***87.25 %***

in SIT 1000

Capital to Fixed Assets Ratio		
1. Capital	222,794,507	235,475,484
2. Tangible fixed assets	282,644,116	284,882,725
3. Intangible fixed assets	3,877,246	3,182,373
4. Total fixed assets in net carrying amount (3+4)	286,521,362	288,065,098
Capital to fixed assets ratio = 1 / 4	***0.78***	***0.82***
Quick Ratio		
1. Bank balances, checks, and cash	3,894,380	2,295,888
2. Short-term investments	17,067,474	20,458,027
3. Total liquid assets (1+2)	20,961,854	22,753,915
4. Short-term financial and operating liabilities	25,082,474	23,240,122
Quick ratio = 3 / 4	***0.84***	***0.98***
Accelerated Ratio		
1. Bank balances, checks, and cash	3,894,380	2,295,888
2. Short-term investments	17,067,474	20,458,027
3. Short-term receivables	17,020,722	14,136,864
4. Total (1+2+3)	37,982,576	36,890,779
5. Short-term financial and operating liabilities	25,082,474	23,240,122
Accelerated ratio = 4 / 5	***1.51***	***1.59***
Current Ratio		
1. Current assets	45,499,967	43,544,562
2. Long-term operating receivables	353,854	323,302
3. Deferred costs, deferred expenses, and accrued revenues	131,056	93,497
4. Total short-term assets (1-2+3)	45,277,169	43,314,757
5. Short-term financial and operating liabilities	25,082,474	23,240,122
Current ratio = 4 / 5	***1.81***	***1.86***

in SIT 1000

Operating Effectiveness Ratio		
1. Operating revenues (net sales revenue + other operating revenues)	103,532,858	100,891,279
2. Costs of goods, material, and services	44,847,949	35,623,513
3. Labor costs	27,741,573	26,294,305
4. Amortization, depreciation, and assets write-offs	17,838,911	20,174,905
5. Other operating expenses	5,883,782	5,197,149
6. Total operating expenses (2+3+4+5)	96,312,215	87,289,872
Operating effectiveness ratio = 1 / 6	***1.07***	***1.16***
Net Return on Capital Ratio		
1. Net profit in the financial year	6,702,268	14,389,006
2. Average capital	229,134,996	213,816,437
Net return on capital ratio = 1 / 2	***0.03***	***0.07***

Participation rate of capital

The Group is financed primarily with its own financial resources. Consequently, the Group's participation rate of capital for 2003 comes to nearly 66%. The reduction in this rate compared to the previous year is primarily the result of a reduction in equity share of minority owners. The high ratio testifies to the fact that the Group bears low financial risk for creditors.

Long-term financing ratio

The Group finances 92.4% of its assets using long- term resources, with only 7.6% from short-term liabilities. In comparison with 2002, the long-term financing ratio has been reduced by 0.6 percentage points, which is due to a reduction in minority equity and an increase in long-term bank liabilities.

Participation rate of fixed operating assets

The share of fixed operating assets among the Group's assets is 84.8%, which is understandable, given the Group's activity. The participation rate of fixed operating assets did not change in comparison with the previous year.

Long-term investment ratio

The long-term investment rate describes the share of long-term assets among all assets. The calculated rate for 2003 is 86.6%, which is 0.7 percentage points less than in the previous year.

Capital to fixed assets ratio

The capital to fixed assets ratio is the relation between capital and fixed assets. In 2003, the indicator value comes to 0.8, which means that capital is used to finance the majority of the most illiquid assets. In comparison with the previous year, the value of this indicator decreased by 0.04.

Quick ratio

Quick ratio shows the relation between liquid assets and short-term liabilities. The indicator has decreased to 0.8, in comparison with 2002, when it was almost 1. The decrease is primarily the result of lower short-term financial investments. The Group has no problems with guaranteeing solvency.

Accelerated ratio

The accelerated ratio shows whether the Group is financing its inventories and other short-term assets with short-term liabilities or also with long-term financing. The indicator decreased to 1.5 in comparison with 2002, when it was at 1.6. The indicator value for both 2003 and 2002 was greater than 1, which means that the Group is using long-term liabilities to finance not only inventories but also other short-term assets.

Current ratio

The current ratio displays the degree to which the Group uses short-term liabilities to finance short-term assets. The current ratio in 2003 decreased to 1.8, but it still demonstrates the Group's high level of solvency.

Operating effectiveness ratio

The operating effectiveness ratio is greater than 1, which means that operating revenues are higher than operating expenses. This indicates that the Group is showing an operating profit. In comparison with 2002, the indicator value in 2003 dropped from 1.2 to 1.1.

Net return on capital ratio

The net return on capital ratio tells us that for every SIT 100 of invested capital, the Group receives a net return of SIT 3. This value is understandable in light of the fact that this is a capital-intensive group of companies.

Indicators for the Parent Company

The following presents indicators for the HSE Company for the years 2003 and 2002.

in SIT 1000

	2003	2002
Participation Rate of Capital		
1. Liabilities	222,675,069	191,964,427
2. Capital	188,082,513	181,934,929
Participation rate of capital = 2 / 1	***84.47 %***	***94.78 %***
Long-term Financing Ratio		
1. Capital	188,082,513	181,934,929
2. Long-term financial and operating liabilities	15,246,414	0
3. Long-term provisions	2,201,353	0
4. Total (1+2+3)	205,530,280	181,934,929
5. Liabilities	222,675,069	191,964,427
Long-term financing ratio = 4 / 5	***92.30 %***	***94.78 %***

in SIT 1000

Participation Rate of Fixed Operating Assets		
1. Tangible fixed assets	3,776,380	313,343
2. Intangible fixed assets	1,821,557	325,079
3. Total fixed assets in net carrying amount (1+2)	5,597,937	638,422
4. Assets	222,675,069	191,964,427
Participation rate of fixed operating assets = 3 / 4	***2.51 %***	***0.33 %***
Long-term Investment Ratio		
1. Tangible fixed assets	3,776,380	313,343
2. Intangible fixed assets	1,821,557	325,079
3. Long-term investments	191,735,507	170,170,237
4. Long-term operating receivables	111,658	0
5. Total (1+2+3+4)	197,445,102	170,808,659
6. Assets	222,675,069	191,964,427
Long-term investment ratio = 5 / 6	***88.67 %***	***88.98 %***
Capital to Fixed Assets Ratio		
1. Capital	188,082,513	181,934,929
2. Tangible fixed assets	3,776,380	313,343
3. Intangible fixed assets	1,821,557	325,079
4. Total fixed assets in net carrying amount (2+3)	5,597,937	638,422
Capital to fixed assets ratio = 1 / 4	***33.60***	***284.98***
Quick Ratio		
1. Bank balances, checks, and cash	94,306	66,828
2. Short-term investments	6,406,426	9,183,423
3. Total liquid assets (1+2)	6,500,732	9,250,251
4. Short-term financial and operating liabilities	16,780,705	9,685,165
Quick ratio = 3 / 4	***0.39***	***0.96***

in SIT 1000

Accelerated Ratio		
1. Bank balances, checks, and cash	94,306	66,828
2. Short-term investments	6,406,426	9,183,423
3. Short-term receivables	17,347,825	11,577,213
4. Total (1+2+3)	23,848,557	20,827,464
5. Short-term financial and operating liabilities	16,780,705	9,685,165
Accelerated ratio = 4 / 5	***1.42***	***2.15***
Current Ratio		
1. Current assets	25,322,852	21,154,966
2. Long-term operating receivables	111,658	0
3. Deferred costs, deferred expenses, and accrued revenues	18,773	802
4. Total short-term assets (1-2+3)	25,229,967	21,155,768
5. Short-term financial and operating liabilities	16,780,705	9,685,165
Current ratio = 4 / 5	***1.50***	***2.18***
Operating Effectiveness Ratio		
1. Operating revenues (net sales revenue + other operating revenues)	90,232,123	91,457,765
2. Costs of goods, material, and services	85,840,047	78,103,834
3. Labor costs	800,020	600,077
4. Amortization, depreciation, and assets write-offs	117,856	24,538
5. Other operating expenses	49,502	190
6. Total operating expenses (2+3+4+5)	86,807,425	78,728,639
Operating effectiveness ratio = 1 / 6	***1.04***	***1.16***
Net Return on Capital Ratio		
1. Net profit in the financial year	3,974,153	12,285,004
2. Average capital	185,008,721	174,004,215
Net return on capital ratio = 1 / 2	***0.02***	***0.07***

Participation rate of capital

The Company is financed primarily with its own financial resources. Consequently, the Company's participation rate of capital for 2003 comes to just over 84 %. The reduction in this rate compared to the previous year is primarily the result of an extended credit lease for the DEM share buyout. The high ratio testifies to the fact that the Company bears low financial risks for creditors.

Long-term financing ratio

The Company finances 92.3 % of its assets using long- term resources, with only 7.7 % from short-term liabilities. In comparison with 2002, the long-term financing ratio has been reduced by 2.5 percentage points, which is understandable in light of the increase in short-term financial and operating liabilities.

Participation rate of fixed operating assets

The share of fixed operating assets among the Company's assets is 2.5 %, which is understandable in light of the fact that long-term financial investments represent a majority of Company assets. The participation rate of fixed operating assets is 2.2 percentage points higher in comparison with the previous year.

Long-term investment ratio

The long-term investment rate describes the share of long-term assets among all assets. The calculated rate for 2003 is 88.7 %, which is 0.3 percentage points less than in the previous year. This reduction is the result of higher short-term operating receivables and increased inventories in 2003.

Capital to fixed assets ratio

The capital to fixed assets ratio is the relation between capital and fixed assets (intangible and tangible). In 2003, the indicator value comes to 33.6, which means that equity capital is used to finance in full the most illiquid assets as well as part of current assets.

Quick ratio

Quick ratio shows the relation between liquid assets and short-term liabilities. Although the indicator has decreased to 0.4, the Company has no solvency problems.

Accelerated ratio

The accelerated ratio shows whether the Company is financing its short-term assets with short-term liabilities or also with long-term financing. The indicator has been reduced to 1.4, in comparison with 2002, when it equaled 2.2. The indicator value for both 2003 and 2002 was greater than 1, which means that the Company is financing a portion of its short-term assets with long-term liabilities.

Current ratio

The current ratio displays the degree to which the Company uses short-term liabilities to finance short-term assets. The current ratio in 2003 dropped to 1.5, but it still demonstrates the Company's high level of solvency.

Operating effectiveness ratio

The operating effectiveness ratio is greater than 1, which means that operating revenues are higher than operating expenses. This indicates that the Company is showing an operating profit. In comparison with 2002, the indicator value in 2003 dropped from 1.2 to 1.1.

Net return on capital ratio

The net return on capital ratio tells us there is a net return of SIT 2 on every SIT 100 of invested capital. This ratio value is understandable, given the operating conditions of 2003 and the Company's capital-intensiveness.

Risk Management

Risk categories

The Group encounters risks in all areas of its operations, but especially in the areas of producing and marketing electricity. Roughly speaking, the kinds of risks we face fall into the following categories:

- price or market risk;
- volumetric risk;
- financial risk;
- regulatory risk;
- modeling risk; and
- human error.

Market risk

Price or market risk comprises the risks to which the company is exposed due to uncertainties in the price of electricity on the market. Because this price fluctuates over time, the valuation of the financial instruments used to protect against risk and, along with this, the profit or loss from trade depend on the accuracy of price-volatility forecasts.

Again in 2003, we followed conservative guidelines for limiting risk, which meant that for the bulk of our electricity traded we signed long-term fixed-price supply contracts.

In 2003, we successfully carried out the project of installing the trading-support software program Endur (produced by the company OpenLink). The program makes it possible, in a centralized way, to enter, store and process all signed electricity deals and, at the same time, contains tools for risk measurement and management and for portfolio analysis. Endur has been designed and set up to take account of rules from the Risk Management Policies and Procedures when entering transactions, making analyses, or compiling reports.

Volumetric risk

Volumetric risk encompasses risks arising from production uncertainty, consumption uncertainty, and uncertainties in the power supply.

- **Production uncertainty** primarily concerns the issue of whether energy will be available for the market. In this way it is connected with operational risk, which tries to evaluate the likelihood and potential impact of the failure of an individual power generator or some other production element. The influence of uncertain hydrology is of particular importance, since nearly half the energy provided by the company comes from hydropower plants.
- **Consumption uncertainty** is the consequence of the impact of weather and temperature, stress elasticity, seasonal oscillation, and stochastic consumption growth.
- **Uncertainties in the power supply** are the consequence of random failures in power-lines or other equipment, or they occur as the result of interventions by the operator of the power-transmission network due to overloaded transmission paths.

Risks of electricity supply from within the HSE Group

In the production of electricity there occur the following risks of deviations in planned supplies:

- risks in the supply of electricity from hydropower plants due to hydrologic and meteorological conditions;
- risks in the supply of electricity from thermal power plants due to outages or technological and environmental limitations on production; and
- risks in the supply of coal from PV due to potential production hold-ups associated with interruptions or malfunctions in technology, accidents, or other mountain-related or geological disturbances.

Hydrology

During the course of a single year electricity production from hydropower can deviate from that of planned years with mean annual precipitation by as much as ±800 GWh. We can increase production at TEŠ, which has a planned production of 3,100 GWh, to compensate for up to 400 GWh. The change in the structure of production means, of course, that the costs of purchased electricity increase. In 2003, the hydropower plants produced 680 GWh less than planned. Most of the shortfall was covered by TEŠ, which exceeded its plan by 426 GWh, while the rest was covered by TEB and imports.

Similarly, problems arise from deviations in actual daily water inflows as compared to daily forecasts. These deviations are reflected in variances in hydropower production from predicted schedules. Such variances are evened out as much as possible by adjusting production at the thermal power plants.

Risks Due to Power Plant outages or technological and environmental limitations

At the thermal power plants, in addition to scheduled unavailability due to major repairs and overhauls, we also have to factor in a 2-4 % unplanned loss of potential production - ten to twenty one-day production outages, which can only be compensated on the short term by activating gas-fired power plants; otherwise we must, as much as possible, reallocate the use of the hydropower plant's accumulation, or purchase electricity on the market. In 2003, TEŠ recorded a 1.5 % rate of unplanned loss of potential production. This number is within the range of the performance of comparable power plants, and is, furthermore, quite satisfactory since at TEŠ, overhauls are made only every 3-5 years.

Hydropower plants are more reliable due to the simplicity of their production process. On individual power generators, unplanned loss of potential production varies between 0 % and 0.5 %.

Risks of interruption in Velenje Coalmining's supply of coal

Interruptions in the supply of coal can occur as the result of technological malfunctions, accidents, or other mountain- related or geological disturbances in coalmining. In an assessment made by the coalmining company's technical management, most potential malfunctions can be resolved without any disturbances in production. Only on exceptional occasions would malfunctions require a 14- to 20-day interruption in supply. There is only a very small possibility of a major breakdown occurring that would require a six-month outage. Based on these estimates, we have determined the minimal total coal stocks that must be available at all time. These need to be between 2,000 TJ and 3,000 TJ. Such coal stocks would be sufficient for 20 days of electricity production at TEŠ.

Production management

Management of electricity production in the HSE Group is conducted from the control center in Maribor. The basic goals of production management are the following:

- to ensure the fewest possible schedule deviations in production and with balance groups;
- to ensure optimal power distribution among the available power generators; and
- to activate reserve capacities at times of extraordinary events.

Hydropower production management

In managing hydropower production, the tendency is to utilize all available hydro potential for maximum economic results. This means that hydropower plants accumulate water during nighttime, depending on available reservoir volumes, and generate electricity at the time when prices are highest (above all, peak and hourly power). Common to all the hydropower plants in the HSE Group is that they operate on the run-of- river principle and there is little possibility of accumulating hydro potential. That is why, in DEM's operations, the largest achieved hourly increase in production was 312 MW, while the largest hourly decrease was 221 MW. The largest hourly production at DEM was 545 MWh. The largest daily production totaled 11,983 MWh. At SEL, the largest achieved hourly increase in production was 34 MW, while its largest hourly decrease was 26 MW. The largest hourly production was 109 MWh. The largest daily production totaled 2,299 MWh. At SENG, the largest achieved hourly increase in production was 65 MW, and the largest hourly decrease in production was 49 MW. The largest hourly production at SENG was 132 MWh, and the largest daily production was 3,067 MWh.

Thermal power production management

TEŠ adapted its production to the planned schedules. Units 4 and 5 were mainly included in the automatic secondary frequency regulation. TEŠ achieved its largest daily production, in the amount of 16,902 MWh on the power generator, or 14,945 on the threshold. The greatest hourly increase in production was 284 MW, while the greatest decrease in production was 312 MW.

TEB's role is to ensure minute-reserve and perform tertiary frequency regulation as part of its ancillary services. The average response time of the TEB units in unannounced normal activations, from the time an activation order is issued to synchronization, is around 13 minutes; activation times, from the activation order to synchronization, range from 6 to 21 minutes. This is a satisfactory level of responsiveness.

Balance group management

The quality of balance group management is reflected in the minimization of costs from energy imbalances, since we reduce deviations among the balance group members by adjusting production. In 2003, the balance group consisted of the production units of the HSE Group, Krško Nuclear Power Plant (NEK), certain direct consumers, Velenje Coalmining, the balance subgroups of five distribution companies, and Elektroprodaja. Energy imbalances of the balance group include all deviations from planned schedules during realized production and sale.

Total deviations from schedule in 2003 amounted to 1.35 GWh, which confirms the successful management of the HSE balance group. Included are all energy imbalances originating from various production problems in the HSE Group and NEK as well as from consumption within the balance group (outages, reductions in production due to environmental factors, deviations from predicted water flows, unsold surpluses, etc.) In 2003, the HSE production system also provided the operator of the ELES transmission network with ancillary services, as well as handling the production and consumption of electricity within the HSE balance group.

Financial risk

Of the **financial risks, credit or liquidity risk** is especially important in trading. We can divide this risk into two segments:

- **Specific credit risk** concerns, on the one hand, the soundness of a partner and its ability to make payments; on the other, a company also assesses its own soundness, for this will determine how easy it is for the company to find trading partners or whether it will be necessary to take measures to safeguard credit (bank guarantees) and how much these measures will cost. Based on soundness, a company determines how much it will expose itself to an individual partner or group of partners; in this way it limits the risk of credit exposure.
- **Systematic credit risk** affects all market participants, since problems with market liquidity can make it impossible to close out individual positions at just the right moment.

Other financial risks include interest-rate risk and currency risk.

The companies are regularly monitoring the financial risks to which they are exposed in their operations and are taking measures to control them.

Regulatory risk

In calculating **regulatory risk** we consider extra-market factors, such as legal complications, changes and ambiguities in regulations, and political decisions. This risk is especially present in the initial phases of the reconstruction of the electricity sector and the introduction of the electricity market, as well as of Slovenia's accession to the EU.

Modeling risk

Modeling risk can arise when a company's portfolio has been incorrectly valued due to flawed modeling assumptions, flawed modeling methodology, or the wrong choice of a model.

Human error

We consider **human error** to include mistaken or illegal trade measures, mistakes in evaluation and analysis, and errors in using models.

Policy for managing individual risk categories

In 2003, we continued the project of developing Risk Management Policies and Procedures (RMPP) for the parent company. The aims of RMPP are to define risk strategies, demarcate and delegate responsibilities, and find ways to interweave procedures for determining and managing risks.

At the parent company, we formed a Risk Management Committee, which oversees and directs risk management activities, reports regularly to the Management Board, and suggests needed measures.

Future Plans

In 2004, the company plans to maintain its place as the leading Slovenian electricity provider by taking good care of partner relationships. We will establish ourselves as the primary agent for importing electricity into Slovenia. In foreign markets we will continue to set up balance groups and fulfill other administrative conditions that will allow us to expand our direct market activities in Europe. We will use our familiarity with the markets of Southeastern Europe, our strategic position, and our reputation as a reliable business partner to increase our trade in the countries of Southeastern Europe. We will increase our total electricity sales by 15 %.

In addition to trading in electricity, we will begin dealing in other products, as well. On the basis of our inclusion in Europe's Renewable Energy Certificate System (RECS), we will begin marketing green energy. In anticipation of the natural gas market opening up, we will expand our commercial activities in that sector of the energy market, as well. One practical goal for 2004 is to sign individual deals through an agent for the purpose of optimizing fuel supply for TEB and gaining experience.

Based on obligations arising from the signed Kyoto protocol, countries - including Slovenia - will have to prepare a plan for dividing greenhouse gas emissions. The use of environment-friendly energy and concern for sustainable development will in the future be fundamental principles for conducting businesses. And the HSE Group will be among these businesses.

By joining in RECS International, whose main goals are to stimulate and promote international trade using certificates for energy from renewable sources, we have demonstrated our willingness to accept our part of the responsibility for taking care of the environment.

By constructing the chain of lower Sava River hydropower plants, we prove that we fully understand the basic concept that, when producing electricity from renewable energy sources, you get two products: electricity and "environmental benefit."

We understand that environmental benefit is a value that rewards those who act responsibly. We sincerely believe that all of us are aware of this - even when we act in the role of energy consumers. And given existing levels of consumption, it is high time that we all demonstrate this awareness.

Important Events After the End of the Business Year

Parent Company

RECS Slovenia is founded

In February 2004, at the HSE's offices in Ljubljana, the founding meeting for RECS Slovenia took place. This is the national Slovene committee for RECS International, an international organization that develops and maintains a trading system using certificates for energy from renewable sources.

RECS International is the largest European association of energy companies, with more than 173 companies from more than 20 countries from all over Europe, the USA, Australia, and New Zealand. The main purpose of the association is to promote international trade using certificates for energy from renewable sources; to this end, the Renewable Energy Certificate System was developed.

At HSE's initiative, the National RECS Committee for Slovenia was established, along with the Slovenian Domain Protocol of the Association of Issuing Bodies (AIB), in which the Energy Agency of the Republic of Slovenia will be the body that issues certificates. At the meeting, a decision was taken for RECS Slovenia to be formed officially as a national association of RECS International members. Milan Medved, Ph.D., an HSE Management Board member and HSE's business manager, was named chairman of the executive committee. The main goals of the association are to stimulate and promote international trade using certificates for energy from renewable sources.

The hydropower plants in the companies of the HSE Group are certified in accord with RECS standards, which represents an important step toward improving chances for marketing standardized green certificates. In this way, the Company will open up new sales opportunities for marketing electricity produced through environment - friendly methods in our hydropower plants. We anticipate receiving our first RECS certificates at the beginning of May.

The German market

In February 2004, the HSE Company became a tax payer in Germany.

Daughter Companies

DEM

On 30 January 2004, a licensing agreement was signed for utilizing the Drava River to produce electricity.

SENG

At the SENG company, from October 2003 to January 2004, a tax bureau carried out an inspection review of the company's accuracy and timeliness in calculating tax liabilities in 2001 and 2002. After making its first recording, the tax bureau issued a supplementary recording in which it only partially took account of the company's remarks; for this reason, the company will make a complaint this year in a subsequent tax procedure. After receiving the decision of the tax bureau stating the amount of its tax payment liability on profit from 2002, the company will correct the profit carried forward from 2002 in the year 2004. Remaining liabilities ordered by the decision will be debited on the 2004 statement.

PV

On 1 January 2004, with the consent of the Ministry of Labor, Family, and Social Affairs, 188 employees at PV who carry out the provision and organization of transport equipment were reassigned to the company HTZ I.P.

As of 1 January 2004, the daughter company RGP d.o.o., which originated from the merger of PV's mining construction program and the HTZ concrete company, began operations as part of the PV Group.

TDR - Metalurgija

At the company TDR - Metalurgija, in the first two months of 2004, production was stopped on all three large production lines in order to coordinate available electricity quantities and carry out repairs.

Beginning 1 January 2004, changes and additions in the company organization came into effect.

HSE Invest

In February 2004, capitalization of HSE Invest by the companies DEM, SEL, and SENG was completed. Each partner holds a quarter share in the company.

Financial Report of HSE d.o.o.

Introductory Explanations

Basis for preparing the financial statements

The financial statements and the notes to the financial statements have been prepared as stipulated by the Companies Act and in accordance with the valid Slovenian Accounting Standards (SAS).

The financial statements have been prepared in Slovenian tolars (SIT), rounded to the nearest 1000.

Accounting policies

In preparing these financial statements the following basic accounting policies have been taken into consideration:
- accrual basis;
- going concern; and
- fair presentation under the circumstances of changes in the value of the euro and individual domestic prices.

The Company has taken into account the following general valuation rules in its valuation of items in the financial statements:
- the company is seen to be a going concern, i.e., as continuing its operations in the foreseeable future;
- consistency;
- prudence;
- consideration of revenues and expenses regardless of their payment; and
- individual valuation of assets and liabilities.

Exchange rate and method of translating to domestic currency

Accounting items stated in foreign currency have, in the balance sheet and cash flow statement, been translated into domestic currency at the mean exchange rate of the Bank of Slovenia as of the date of occurrence, except in the case of individual transactions where the contracting parties agreed to a different rate.

The balance of assets and liabilities expressed in foreign currency has been translated into domestic currency at the mean exchange rate of the Bank of Slovenia as of 31 December 2003; however, a different rate has been agreed to by the contracting parties, then the value of this rate at the end of 2003 is used for the transaction. Exchange differences that thus arise are represented as ordinary financial revenues or expenses.

The mean EUR rate as of 1 January 2003 = SIT 230.3072
The mean EUR rate as of 31 December 2003 = SIT 236.6903

Valuation methods for economic categories

In the recording and valuation of items in the financial statements, SAS stipulations have been followed directly, except in the valuation of items for which SAS allows the possibility of choosing among various valuation methods. In such cases, the Company has specified valuation methods in its Accounting Rules or in resolutions adopted by its Management Board.

Tax status

The Company is a taxpayer in accordance with the Act on Value-Added Tax and the Act on Profit Tax for Legal Persons.

Statement from the Management Board

The Management Board of the company Holding Slovenske elektrarne d.o.o. endorses the Financial Statements of the HSE Company for 2003, the Notes to the Financial Statements, and the accounting policies applied.

The Management Board affirms that proper accounting policies were followed consistently in the preparation of the financial statements, that accounting assessments were made on the basis of prudence and good economic management, and that the annual report represents a true and fair view of the state of the Company's assets and the results of its operations for the year 2003.

The Management Board affirms that the financial statements were prepared in accordance with the Companies Act, Slovenian Accounting Standards, and other provisions that regulate the field of accounting. The financial statements were prepared on the basis of the assumption that the Company's operations will continue in the foreseeable future.

Business Manager	**General Manager**	**Technical Manager**
Milan Medved, Ph.D.	Drago Fabijan, M.Sc	Ladislav Tomšič

Ljubljana, 31. march 2004

Auditor's Report

AUDIT'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 2003, 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 also read the directors' report. These 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 and Auditing Practice Statements 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 include an assessment of the compliance of the directors' report 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 2003, 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 directors' report is in conformity with the audited financial statements.

KPMG SLOVENIJA,
podjetje za revidiranje in poslovno svetovanje, d.o.o.

Brane PODBORŠEK, BSc. Ec.
Managing Director and Certified Auditor

Ljubljana, 11 May 2004

KPMG Slovenija, d.o.o.

Balance Sheet

in SIT 1000

ITEM		Year 2003	Year 2002
ASSETS		**222,675,069**	**191,964,427**
A.	***FIXED ASSETS***	***197,333,444***	***170,808,659***
I.	**Intangible fixed assets**	**1,821,557**	**325,079**
1.	Long-term deferred costs of organization	1,600,340	182,602
3.	Long-term property rights	221,217	142,477
II.	**Tangible fixed assets**	**3,776,380**	**313,343**
1.	Land and buildings	460,840	0
	b) Buildings	460,840	0
3.	Other machinery and equipment	350,876	150,849
4.	Tangible fixed assets being acquired	2,964,664	162,494
	a) Advances for acquisition of tangible fixed assets	556,979	0
	b) Tangible fixed assets in construction or in process	2,407,685	162,494
III.	**Long-term investments**	**191,735,507**	**170,170,237**
1.	Shares in the Group	191,729,807	170,170,237
5.	Other long-term shares	5,700	0
B.	***CURRENT ASSETS***	***25,322,852***	***21,154,966***
I.	**Inventories**	**1,362,637**	**327,502**
1.	Material	1,362,637	327,502
II.	**Operating receivables**	**17,459,483**	**11,577,213**
a)	**Long-term operating receivables**	**111,658**	**0**
	4. Long-term operating receivables due from third parties	111,658	0
b)	**Short-term operating receivables**	**17,347,825**	**11,577,213**
	1. Short-term trade receivables	10,097,249	9,202,865
	2. Short-term receivables due from the Group (except associates)	4,577,143	1,008,453
	4. Short-term receivables due from third parties	2,673,433	1,365,895
III.	**Short-term investments**	**6,406,426**	**9,183,423**
1.	Short-term shares in the Group (except in associates)	24,260	0
4.	Other short-term investments	6,382,166	9,183,423
IV.	**Bank balances, checks, and cash**	**94,306**	**66,828**
C.	***DEFERRED COSTS, DEFERRED EXPENSES AND ACCRUED REVENUES***	***18,773***	***802***
OFF-BALANCE-SHEET RECORD		8,177,040	1,475,785

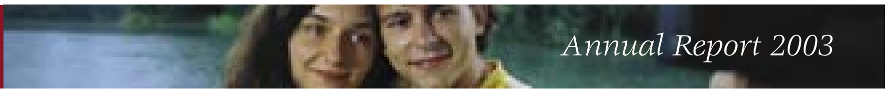
in SIT 1000

ITEM		Year 2003	Year 2002
LIABILITIES AND CAPITAL		**222,675,069**	**191,964,427**
A.	***CAPITAL***	***188,082,513***	***181,934,929***
I.	**Called-up capital**	**1,156,217**	**1,156,217**
1.	Share capital	1,156,217	1,156,217
II.	**Capital reserves**	**166,070,474**	**166,070,474**
III.	**Revenue reserves**	**14,272,080**	**6,142,502**
4.	Other reserves	14,272,080	6,142,502
V.	**Net profit or loss for the financial year**	**1,987,077**	**6,142,502**
VI.	**Equity revaluation adjustment**	**4,596,665**	**2,423,234**
1.	General equity revaluation adjustment	27	27
2.	Specific equity revaluation adjustment	4,596,638	2,423,207
B.	***PROVISIONS***	***2,201,353***	***0***
3.	Other provisions	2,201,353	0
C.	***FINANCIAL AND OPERATING LIABILITIES***	***32,027,119***	***9,685,165***
a)	**Long-term financial and operating liabilities**	**15,246,414**	**0**
	2. Long-term liabilities to banks	15,200,000	0
	4. Long-term trade payables	46,414	0
b)	**Short-term financial and operating liabilities**	**16,780,705**	**9,685,165**
	4. Short-term trade payables	4,035,695	1,391,216
	6. Short-term financial and operating liabilities to the Group (except associates)	11,841,762	8,233,934
	8. Short-term financial and operating liabilities to other entities	903,248	60,015
Č.	***ACCRUED COSTS (EXPENSES) AND DEFERRED REVENUES***	***364,084***	***344,333***
	OFF-BALANCE-SHEET RECORD	8,177,040	1,475,785

Income Statement

in SIT 1000

ITEM		Year 2003	Year 2002
1.	**Net sales revenues**	**90,231,706**	**91,457,765**
a)	Domestic market	67,779,563	70,763,762
	- from Group enterprises	5,103,971	3,264,240
	- from others	62,675,592	67,499,522
b)	Foreign market	22,452,143	20,694,003
4.	**Other operating revenues (including revaluatory operating revenues)**	**417**	**0**
5.	**Costs of goods, material, and services**	**85,840,047**	**78,103,834**
a)	Costs of goods and material sold	85,134,908	77,831,306
b)	Costs of services	705,139	272,528
6.	**Labour costs**	**800,020**	**600,077**
a)	Costs of wages and salaries	552,712	418,367
b)	Social insurance costs	113,126	86,869
	- costs of retirement insurance	70,558	54,786
c)	Other labor costs	134,182	94,841
7.	**Amortization, depreciation, and assets write-offs**	**117,856**	**24,538**
a)	Amortization of intangible fixed assets, depreciation of tangible fixed assets, and revaluatory operating expenses	98,028	24,538
b)	Revaluatory operating expenses from current assets	19,828	0
8.	**Other operating expenses**	**49,502**	**190**
OPERATING PROFIT OR LOSS		***3,424,698***	***12,729,126***
9.	**Financial revenues from participation**	**19,351**	**0**
a)	Financial revenues from participation in Group enterprises (except in associates)	60	0
c)	Other financial revenues (including revaluatory financial revenues)	19,291	0
10.	**Financial revenues from long-term receivables**	**1,822**	**0**
c)	Other financial revenues from long-term receivables (including revaluatory financial revenues)	1,822	0
11.	**Financial revenues from short-term receivables**	**691,361**	**413,733**
a)	Interest revenues and revenues from short-term receivables due from Group enterprises (except associates)	11,695	14
c)	Other interest revenues and revenues from short-term receivables (including revaluatory financial revenues)	679,666	413,719
12.	**Financial expenses for long-term and short-term investment write-offs**	**8,689**	**786,289**
a)	Revaluatory financial expenses arising from investments in Group enterprises (except associates)	8,689	786,289
13.	**Interest expenses and financial expenses from other liabilities**	**203,346**	**70,816**
c)	Other interest expenses and expenses from other liabilities	203,346	70,816
PROFIT OR LOSS FROM ORDINARY ACTIVITY		***3,925,197***	***12,285,754***
15.	***NET PROFIT OR LOSS FROM ORDINARY ACTIVITY***	***3,925,197***	***12,285,754***
16.	**Extraordinary revenues**	**48,956**	**0**
17.	**Extraordinary expenses**	**0**	**750**
a)	Extraordinary expenses exclusive of equity revaluation adjustment	0	750
18.	***PROFIT OR LOSS FROM EXTRAORDINARY ACTIVITIES***	***48,956***	***(750)***
TOTAL PROFIT OR LOSS		***3,974,153***	***12,285,004***
21.	***NET PROFIT OR LOSS FOR THE FINANCIAL YEAR***	***3,974,153***	***12,285,004***



Cash Flow Statement

in SIT 1000

	ITEM	Year 2003	Year 2002
A.	***CASH FLOWS FROM OPERATING ACTIVITY***		
+	**a) Inflows from operating activity**	**86,703,406**	**80,020,293**
	Operating revenues	90,353,086	91,531,604
	Extraordinary revenues relating to operating activity	48,956	0
	Opening minus closing operating receivables	(3,680,665)	(11,510,509)
	Opening minus closing deferred costs, deferred expenses, and accrued	(17,971)	(802)
-	**b) Outflows from operating activity**	**81,751,755**	**69,398,320**
	Operating expenses exclusive of depreciation and long-term provisions	86,737,399	78,710,724
	Extraordinary expenses relating to operating activity	0	750
	Closing minus opening inventories	1,035,135	327,502
	Opening minus closing operating liabilities	(6,001,028)	(9,296,323)
	Opening minus closing accrued costs (expenses) and deferred revenues	(19,751)	(344,333)
=	**c) Net inflows (outflows) from operating activity**	**4,951,651**	**10,621,973**
B.	***CASH FLOWS FROM INVESTING ACTIVITY***		
+	**a) Inflows from investing activity**	**3,367,737**	**269,765**
	Financial revenues relating to investing activity (excluding revaluation)	590,390	269,765
	Offset decrease in short-term investments (excluding revaluation)	2,777,347	0
-	**b) Outflows from investing activity**	**23,398,689**	**10,852,556**
	Financial expenses relating to investing activity (excluding revaluation)	41	0
	Offset increase in intangible fixed assets (excluding revaluation)	1,389,366	120,084
	Offset increase in tangible fixed assets (excluding revaluation and increase of non-cash equity)	2,608,814	178,290
	Offset increase in long-term investments (excluding revaluation)	19,400,468	1,370,759
	Offset increase in short-term investments (excluding revaluation)	0	9,183,423
=	**c) Net inflows (outflows) from investing activity**	**(20,030,952)**	**(10,582,791)**
=	**Net inflows (outflows) from operating and investing activity**	**(15,079,301)**	**39,182**
C.	***CASH FLOWS FROM FINANCING ACTIVITY***		
+	**a) Inflows from financing activity**	**15,200,000**	**31,236**
	Financial revenues relating to financing activity (excluding revaluation)	0	31,236
	Offset increase in long-term financial liabilities (excluding revaluation)	15,200,000	0
-	**b) Outflows from financing activity**	**93,221**	**64,077**
	Financial expenses relating to financing activity (excluding revaluation)	93,221	64,077
=	**c) Net inflows (outflows) from financing activity**	**15,106,779**	**(32,841)**
=	**Total net inflows (outflows) for the financial year**	**27,478**	**6,341**
Č.	***CLOSING BALANCE OF CASH AND CASH EQUIVALENTS***	***94,306***	***66,828***
+	**x) Net cash flow for the financial year**	**27,478**	**6,341**
+	**y) Opening balance of cash and cash equivalents**	**66,828**	**60,487**

Statement of Changes in Equity

in SIT 1000

ITEM		Share capital		Capital reserves	Revenue reserves			
		Called-up capital	Uncalled capital (deduction item)		Legal reserves	Reserves for repurchase of own shares	Statutory reserves	Other reserves
A.	**Opening balance**	**1,156,217**	**0**	**166,070,474**	**0**	**0**	**0**	**6,142,502**
B.	**Transfer to equity**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
d)	Net profit or loss for the financial year	0	0	0	0	0	0	0
f)	Specific equity revaluation adjustment	0	0	0	0	0	0	0
C.	**Transfer within equity**	**0**	**0**	**0**	**0**	**0**	**0**	**8,129,578**
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	1,987,076
b)	Appropriation of net profit for the formation of additional reserves under the resolution adopted by the Shareholders' Assembly	0	0	0	0	0	0	6,142,502
Č.	**Transfer from equity**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
D.	**Closing balance**	**1,156,217**	**0**	**166,070,474**	**0**	**0**	**0**	**14,272,080**
	DISTRIBUTABLE NET PROFIT	**0**	**0**	**0**	**0**	**0**	**0**	**0**

in SIT 1000

ITEM		Retained net profit or loss from previous periods: Retained net profit	Retained net profit or loss from previous periods: Retained net loss	Net profit or loss for the financial year: Net profit for the financial year	Net profit or loss for the financial year: Net loss for the financial year	Equity revaluation adjustment: General equity revaluation adjustment	Equity revaluation adjustment: Specific equity revaluation adjustment	TOTAL
A.	**Opening balance**	**6,142,502**	**0**	**0**	**0**	**27**	**2,423,207**	**181,934,929**
B.	**Transfer to equity**	**0**	**0**	**3,974,153**	**0**	**0**	**2,173,431**	**6,147,584**
d)	Net profit or loss for the financial year	0	0	3,974,153	0	0	0	3,974,153
f)	Specific equity revaluation adjustment	0	0	0	0	0	2,173,431	2,173,431
C.	**Transfer within equity**	**(6,142,502)**	**0**	**(1,987,076)**	**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	(1,987,076)	0	0	0	0
b)	Appropriation of net profit for the formation of additional reserves under the resolution adopted by the Shareholders' Assembly	(6,142,502)	0	0	0	0	0	0
Č.	**Transfer from equity**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
D.	**Closing balance**	**0**	**0**	**1,987,077**	**0**	**27**	**4,596,638**	**188,082,513**
	DISTRIBUTABLE NET PROFIT	**0**	**0**	**1,987,077**	**0**	**0**	**0**	**1,987,077**

Notes to the Financial Statements

Balance Sheet

General notes

Information about the basis for the preparation of the balance sheet and the specific accounting policies chosen and used in relevant business operations and other transactions of the Company is presented in the disclosure of individual assets and liabilities.

The Company does not have at its disposal any additional information not prescribed in the balance sheet form that might be relevant to a fair presentation of the Group.

Assets and liabilities are stated in accordance with fair value.

Assets
SIT 222,675,069,000

Assets take the form of things, rights, or money and may be acquired with capital or liabilities.

Assets are stated in the balance sheet if:
- it is likely that the Company will receive specific economic benefit from them; and
- it is possible to measure reliably their cost of purchase without fail.

Intangible fixed assets
SIT 1,821,557,000
0.82 % of assets

Intangible fixed assets are part of fixed capital and enable the Company to perform its activities, although they do not exist physically.

Under intangible fixed assets the Company presents:
- long-term deferred costs of organization;
- long-term property rights.

Revaluation

The Company did not revalue its intangible fixed assets in 2003.

Financing

The Company used long-term credit to finance the purchase of part of its intangible fixed assets.

Amortization

Intangible fixed assets begin to depreciate on the first day of the next month after they become available for use.

Amortization is calculated individually using straight-line depreciation on the basis of foreseen useful life.

Cost of purchase and adjustment for value as of 31 December 2003

in SIT 1000

Item	Long-term deferred costs of organization	Long-term property rights	Intangible long-term assets under construction and in process	Total
Cost of purchase	1,642	244,594	1,600,430	1,846,666
Adjustment for value	0	25,109	0	25,109

Movement of Intangible Fixed Assets in 2003

in SIT 1000

Intangible fixed assets	Long-term deferred costs of organization	Long-term property rights	Intangible long-term assets under construction and in process	Total
Net carrying amount 1 January 2003	0	39,791	285,288	325,079
Acquisitions	1,642	203,760	1,527,989	1,733,391
Decreases	0	0	(203,760)	(203,760)
Transfers	0	0	(9,087)	(9,087)
Amortization	0	(24,066)	0	(24,066)
Net carrying amount 31 December 2003	1,642	219,485	1,600,430	1,821,557

Tangible fixed assets
SIT 3,776,380,000
1.7 % of assets

Tangible fixed assets are part of the fixed assets owned by the Company, which are used in conducting the activities of the Company.

A tangible fixed asset is valued at the cost of purchase on initial recognition. This cost consists of the purchase price of the asset, as well as import and other non-refundable duties and costs that can be directly attributed to readying the asset for its intended use, in particular, cartage and installation costs. Cost of purchase does not include interest from loans or exchange rate differences after date of delivery.

Expenses incurred subsequently in relation with a tangible fixed asset may increase its cost of purchase if its future benefit increases in comparison with the initial estimation of benefit.

For tangible fixed assets, cost of purchase and adjustment for value are presented separately in bookkeeping, while in the balance sheet they are presented in the net carrying amount as the difference between cost of purchase and adjustment for value.

Revaluation

The Company did not conduct any revaluation of its tangible fixed assets in 2003.

Financing

The Company used long-term credit to finance the purchase of part of its tangible fixed assets.

Amortization

A tangible fixed asset begins to depreciate on the first day of the month after it begins to be used for performing the activities for which it is intended.
Amortization is calculated individually using straight-line depreciation. The depreciation rates used for amortization are defined on the basis of the foreseen useful life for individual kinds of assets

Cost of Purchase and Adjustment for Value of Tangible Fixed Assets as of 31 December 2003

in SIT 1000

Item	Buildings	Equipment	Low-value assets	Advances for tangible fixed assets	Equipment and other tangible fixed assets in process	Total
Cost of purchase	461,385	445,984	1,191	556,979	2,407,685	3,873,224
Adjustment for value	545	95,888	411	0	0	96,844

Movement of Tangible Fixed Assets in 2003

in SIT 1000

Tangible fixed assets	Buildings	Equipment	Low-value assets	Advances for tangible fixed assets	Equipment and other tangible fixed assets in process	Total
Net carrying amount 1 January 2003	0	150,263	586	0	162,494	313,343
Acquisitions	461,385	275,904	478	556,979	2,973,871	4,268,617
Reductions, disposals	0	(2,938)	0	0	(737,767)	(740,705)
Transfers	0	0	0	0	9,087	9,087
Depreciation	(545)	(73,133)	(284)	0	0	(73,962)
Net carrying amount 31 December 2003	460,840	350,096	780	556,979	2,407,685	3,776,380

Amortization / Depreciation Groups for Intangible and Tangible Fixed Assets

Asset category	Depreciation rate	Life expectancy
Buildings	2 % - 3 %	33 - 50 years
Furniture	10 % - 25 %	4 - 10 years
Hardware	33.33 %	3 years
Low-value assets	33.33 %	3 years
Cars	20 %	5 years
Other equipment	20 % - 25 %	4 - 5 years
Software	20 % - 33.33 %	3 - 5 years

Long-term investments
SIT 191,735,507,000
86.1 % of assets

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

Under long-term investments, the Company presents:
- investments in stocks and shares of the companies in the Group;
- investments in the shares of other companies.

Investments in the stocks and shares of companies in the Group are displayed in the next table. The Company, however, holds a majority share in all companies in the Group and prepares consolidated financial statements for the Group.

Long-term Investments of the HSE Group in the Current and Previous Years

in SIT 1000

HSE Group	Year 2003	Year 2002
Dravske elektrarne Maribor d.o.o.	96,174,460	75,150,836
Savske elektrarne Ljubljana d.o.o.	27,864,105	27,842,585
Soške elektrarne Nova Gorica d.o.o.	26,515,927	26,488,978
Termoelektrarna Brestanica d.o.o.	2,880,463	2,407,454
Termoelektrarna Šoštanj d.o.o.	15,640,427	15,640,427
Premogovnik Velenje d.d.	21,480,247	21,473,937
HSE Invest d.o.o.	12,003	10,318
HSE - IIP d.o.o.	6,300	2,485
TDR - Metalurgija d.d.	1,153,217	1,153,217
HSE Italia S.r.l.	2,658	0

Relevant Data about Long-term Investments in the Stocks and Shares of the Companies in the Group

Company	Address	Ownership share of HSE d.o.o. as of December 2003	Capital as of December 2003 in SIT 1000	Net profit (loss) in 2003 in SIT 1000
Dravske elektrarne Maribor d.o.o.	Obrežna 170, 2000 Maribor	99.9 %	96,308,957	1,648,478
Savske elektrarne Ljubljana d.o.o.	Gorenjska cesta 46, 1215 Medvode	79.5 %	35,049,189	27,070
Soške elektrarne Nova Gorica d.o.o.	Erjavčeva 20, 5000 Nova Gorica	79.5 %	33,353,367	33,898
Termoelektrarna Brestanica d.o.o.	Cesta prvih borcev 18, 8280 Brestanica	79.5 %	9,032,067	594,980
Termoelektrarna Šoštanj d.o.o.	Cesta Lole Ribarja 18, 3325 Šoštanj	79.5 %	47,354,796	(1,662,987)
Premogovnik Velenje d.d.	Partizanska cesta 78, 3320 Velenje	77.7 %	32,463,830	(280,006)
TDR - Metalurgija d.d.	Tovarniška cesta 51, 2342 Ruše	74.4 %	3,541,957	(156,113)
HSE Invest d.o.o.	Obrežna 170a, 2000 Maribor	100.0 %	12,003	1,685
HSE - IIP d.o.o.	Trg svobode 9, 8290 Sevnica	100.0 %	6,301	3,816
HSE Italia S.r.l.	Via Roma 20, Gorizia, Italia	100.0 %	2,658	291

In 2003, the Company founded the company HSE Italia S.r.l. in Italy. It carried out a buyout of minority shares in the company DEM except for the share owned by the Republic of Slovenia.

Presented under investments in the shares of other companies is the founding share in the company Elektro.TK, which was founded in April 2003.

Capital method

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 the 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. Simultaneously, the specific revaluatory adjustment decreases and financial revenue is shown.

Investment method

Long-term investments in capital of other enterprises are valued according to the investment method. The long- term investment in the company Elektro.TK is valued according to the investment method.

Revaluation

The revaluation of a long-term investment is a change in its book value and can appear as revaluation due to weakening, elimination of impairment, or strengthening. Once a year, normally at the conclusion of the financial year, the appropriateness of the value of individual presented long-term investments is verified.

Long-term investments expressed in foreign currency are translated into domestic currency at the end of the year at the mean exchange rate of the Bank of Slovenia. Revaluation was conducted with the associate HSE Italia and financial revenue was presented in the amount of SIT 45,000.

Weakening of long-term investments

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

With associates that are joint-stock companies, the book value of the long-term investment is weakened to the book value of the shares in the associate as the only known fair value.

In concluding its buyout of shares in the company PV, the Company made an adjustment to the value of its long- term investment in PV and simultaneously incurred a revaluatory financial expense of SIT 8,689,000.

Elimination of impairment in long-term investments

Long-term investments are revalued due to the elimination of impairment if their proven fair value or redemption value exceeds the book value that had decreased due to impairment. The book value of such an investment must be increased by the difference and the revaluatory financial expense incurred with the earlier impairment must be eliminated. If the impairment and the elimination of impairment do not take place within the same financial cycle, then there is revaluatory financial revenue.

In 2002, the Company weakened its long-term investment in the associate HSE - IIP due to presented loss. In 2003 HSE - IIP showed a profit; therefore, the Company eliminated the impairment of this long-term investment in the amount of SIT 15,000 and presented revaluatory financial revenue.

Strengthening of long-term investments

In the case of the increase in value of a long-term investment on the basis of the valuation of the long-term investments of the companies in the Group according to the capital method, the investment increases by the share in the net profit of the associate and the specific revaluatory adjustment of capital also increases.

Under this heading, long-term investments and the specific revaluatory adjustment of capital increased in the amount of SIT 2,173,431,000.

In our assessment, the investments do not bear high risk.

Movement of Long-term Investments in 2003

in SIT 1000

Long-term investments	Investments in stocks and shares of companies in the Group (except associates)	Other investments in stocks and shares	Total
Net carrying amount 1 January 2003	170,170,237	0	170,170,237
Acquisitions	19,394,813	5,700	19,400,513
Elimination of impairment	15	0	15
Revaluation	2,164,742	0	2,164,742
Net carrying amount 31 December 2003	191,729,807	5,700	191,735,507

Increase in Long-term Investments in Companies in the Group in the Current and Previous Years

in SIT 1000

Increase in long-term investments	Year 2003	Year 2002
Investment in Dravske elektrarne Maribor d.o.o.	19,377,447	0
Investment in Premogovnik Velenje d.d.	14,999	1,365,758
Investment in TDR - Metalurgija d.d.	0	1,153,217
Investment in HSE Invest d.o.o.	0	2,500
Investment in HSE - IIP d.o.o.	0	2,500
Investment in HSE Italia S.r.l.	2,367	0

Strengthening of Long-term Investments in the Current and Previous Years

in SIT 1000

Strengthening of long-term investment	Year 2003	Year 2002
Investment in Dravske elektrarne Maribor d.o.o.	1,646,176	1,905,665
Investment in Savske elektrarne Ljubljana d.o.o.	21,520	195,787
Investment in Soške elektrarne Nova Gorica d.o.o.	26,949	218,262
Investment in Termoelektrarno Brestanica d.o.o.	473,009	95,675
Investment in HSE Invest d.o.o.	1,685	7,818
Investment in HSE - IIP d.o.o.	3,801	0
Investment in HSE Italia S.r.l.	291	0

Inventories
SIT 1,362,637,000
0.61 % of assets

Inventories represent that part of the Company's current assets that will be used in the creation of products.

Quantity units of material inventories are valued at the cost of purchase on initial recognition; this cost consists of the purchase price, import and other non-refundable purchase duties, and the direct costs of the purchase. Discounts and rebates lower the purchase price.

If in the accounting period 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 decreasing these quantities.

Inventory categories

Under inventories the Company presents:
- coal; and
- low-value assets.

Revaluation

Since inventories are used on a current basis, the net realizable value of inventories has not been established.

Operating receivables
SIT 17,459,483,000
7.84 % of assets

Under current assets we also list operating receivables, such as the rights arising from property rights and other kinds of relationships to demand payment of debt, supply of goods, or services from a given party.

Receivables are recognized as assets if it is likely that there will be an inflow of economic benefit in relation to them and if it is possible to measure their original value without fail. On initial recognition, receivables of all kinds are shown in the amounts recorded in the relevant bookkeeping documents under the assumption that amounts owed will be collected.
Granted advances for tangible fixed assets are not presented in the balance sheet as receivables but rather as tangible fixed assets.

Overdue status and security of receivables

We distinguish between long-term and short-term receivables based on the payment-due date.

Trade receivables are for the most part settled on time. In the case of overdue payment, we charge customers in Slovenia and abroad late-payment interest as agreed to by contract. At the end of the year, a share of 98.34 % of receivables were not yet due, and by the end of March 2004 all overdue receivables were settled. The overdue status of receivables by due date is shown in a separate table.

Trade receivables are secured with a blank bill of exchange or bank guarantees; other receivables are not secured due to their low risk.

At the end of 2003, the Company had no reason to present doubtful or questionable receivables.

Short-term Operating Receivables in the Current and Previous Years

in SIT 1000

Category of receivables	Year 2003	Year 2002
Short-term trade receivables in Slovenia	12,835,743	7,799,920
Short-term trade receivables abroad	1,812,436	2,411,384
Short-term advances for unprovided services in Slovenia	773	2,555
Short-term advances for unprovided services abroad	812	78
Short-term operating receivables on foreign accounts	105,634	0
Short-term receivables relating to financial revenues	21,966	38,160
Short-term receivables from the state	2,552,231	1,324,092
Short-term receivables from employees and others	18,230	1,024

Breakdown of Receivables by Due Date in the Current and Previous Years

in SIT 1000

Overdue status	Year 2003	Year 2002
Receivables not yet due	17,169,627	10,803,988
Overdue receivables - up to 3 months	157,688	773,225
Overdue receivables - from 3 to 6 months	72,378	0
Overdue receivables from 6 to 9 months	59,790	0

Note: All overdue receivables were settled by the end of March 2004.

Short-term investments
SIT 6,406,426,000
2.88 % of assets

A short-term investment is one that is held by the Company for no longer than one year and is shown under assets from trade yielding financial revenues.
Short-term investments are valued on initial measurement by their cost of purchase, which is equivalent to the invested cash assets.
Interest not yet due on short-term investments is presented under operating receivables.

Short-term investment categories

The Company holds the following short-term investments:
- short-term loans to companies in the Group;
- short-term tolar deposits in banks in Slovenia;
- short-term foreign-currency deposits in banks in Slovenia; and
- short-term investments in bank shares in Slovenia.

Revaluation

In 2003, the Company had no reason to revalue its short- term investments, and at the same time it made the assessment that these investments bear little risk.

Cash assets
SIT 94,306,000
0.04 % of assets

Under cash assets the Company presents:
- money in tolar transaction accounts;
- money in foreign-currency transaction accounts; and
- tolar and foreign-currency deposits on call.

Deferred costs and accrued revenues
SIT 18,773,000
0.01 % of assets

Deferred costs and accrued revenues are composed of short-term deferred costs or expenses and temporarily unbilled revenues.

Off-balance-sheet record
SIT 8,177,040,000

Off-balance-sheet records include received and granted financial instruments for securing receivables, liabilities, and the performance of contracted labor.

Liabilities and Capital
SIT 222,675,069,000

Capital expresses ownership financing of the Company and represents the Company's liability to the owners.
Liabilities are the present liabilities of the Company; settlement of these liabilities will reduce Company assets.

Capital
SIT 188,082,513,000
84.47 % of liabilities

Total capital is determined by the amounts invested by owners and the amounts that arise in operating activity and that belong to the owners.

Share capital is recorded in domestic currency.

Capital components

The total capital of the Company consist of:
- share capital;
- capital reserves;
- other revenue reserves;
- remainder of net revenues from the financial year;
- general equity revaluation adjustments; and
- specific equity revaluation adjustments.

The share capital of the Company did not change during the year.

Similarly, capital reserves remained unchanged.

In 2003, other revenue reserves increased by SIT 8,129,578,000.

The general equity revaluation adjustment remained unchanged, since in 2002 the euro-to-tolar exchange rate did not increase by more than 5.5 %.

The specific equity revaluation adjustment showed an increase in the amount of SIT 2,173,431,000 in the strengthening of long-term investments in associate companies as one of two possibilities for revaluing long- term investments with the capital method. Distribution among the companies is shown in the disclosures of long-term financial investments.

Restatement of capital using growth in euro rate of exchange

In 2003, the rate of exchange for the euro grew by 2.77 %. Taking account of the growth in the exchange rate of the euro would increase the total capital of the Company by SIT 5,042,434,000. This restatement of capital does not include net profit or loss of the current year or the increase of the specific equity revaluation adjustment from the valuation of long-term investments in associates according to the capital method.

If we take account of this restatement, the Company, because of its capital-intensiveness, would present a net loss in the current year in the amount of SIT 1,068,281,000.

Restatement of capital using growth in cost-of-living

In 2003, the cost of living grew by 4.6 %. Taking account of the growth in the cost of living would increase the total capital of the Company by SIT 8,369,007,000. This restatement of capital does not include net profit or loss of the current year or the increase of the specific equity revaluation adjustment from the valuation of long-term investments in associates according to the capital method.
If we take account of this restatement, the Company, because of its capital-intensiveness, would present a net loss in the current year in the amount of SIT 4,394,854,000.

Total Capital of the Company in the Current and Previous Years

in SIT 1000

Total capital according by individual item	Year 2003	Year 2002
Share capital	1,156,217	1,156,217
Capital reserves	166,070,474	166,070,474
Other revenue reserves	14,272,080	6,142,502
Net profit/loss	1,987,077	6,142,502
General equity revaluation adjustment	27	27
Specific equity revaluation adjustment	4,596,638	2,423,207

Profit / Loss in the Current and Previous Years

in SIT 1000

Profit / loss	Year 2003	Year 2002
Net profit / loss	3,974,153	12,285,004
Profit / loss after euro rate-of-exchange adjustment	(1,068,281)	5,637,746
Profit / loss after cost-of-living adjustment	(4,394,854)	320,793

Long-term provisions
SIT 2,201,353,000
0.98 % of liabilities

In 2003, the Company made long-term provisions for long- term deferred revenues. These were made on the basis of the Joint Venture Contract, signed by five participants, which binds the signatories to invest assets for the construction of hydropower plants on the lower Sava River.

Long-term liabilities
SIT 15,246,414,000
6.85 % of liabilities

Long-term liabilities are recognized liabilities that are related to the financing of the Company's own assets and that must be returned or settled, especially in money, within a period greater than one year.
Long-term financial liabilities are acquired long-term loans on the basis of lending contracts with a date of maturity that is more than a year away. On initial recognition, they are reported in the amounts recorded in the relevant bookkeeping records that prove the receipt of monetary assets.

Long-term operating liabilities originate in transactions between the Company and its business partners on the basis of signed business deals.

Kinds of long-term liabilities

Under long-term liabilities the company presents:
- long-term financial loans from banks; and
- withheld accounts payable.

In October 2003, the Company took out a long-term financial loan with a consortium of Slovene banks, which was used for the buyout of an additional share in the associate DEM and for financing investments in the construction of hydropower plants on the lower Sava River.
The rate of interest is tied to the realized average yield of Republic of Slovenia ten-year bonds issued subsequent to the date of this credit lease. The loan is secured with a blank bill of exchange.

Short-term liabilities
SIT 16,780,705,000
7.54 % of liabilities

Short-term operating debts are recognized in bookkeeping and in the balance sheet as liabilities when, with regard to the date of receipt or income and relevant accounts, there incurs a liability defined by contract or some other legal act. Short-term liabilities of all kinds are initially shown by amounts recorded in the relevant bookkeeping documents, under the assumption that creditors will demand their payment.

The book value of short-term liabilities is equal to their original value, adjusted for their increase or decrease, in accordance with creditors' agreements, until there appears a need to revalue them.

Short-term liabilities to vendors in Slovenia for the most part represent short-term liabilities to vendors of electricity and heat, coal, and coal-processing as electricity and heat.

Due dates

The Company settles all liabilities within agreed time periods.

Short-term Operating Liabilities in the Current and Previous Years

in SIT 1000

Category of short-term liability	Year 2003	Year 2002
Short-term liabilities to vendors in Slovenia	14,219,273	9,432,679
Short-term liabilities to vendors abroad	1,658,184	192,328
Short-term liabilities to employees	57,661	47,199
Short-term liabilities to the state	762,685	12,265
Short-term liabilities for interest	81,976	0
Other short-term liabilities	926	694

in SIT 1000

Short-term Operating Liabilities to Companies in the Group in the Current and Previous Years

Associate	Year 2003	Year 2002
Dravske elektrarne Maribor d.o.o.	1,483,812	2,311,926
Savske elektrarne Ljubljana d.o.o.	361,046	264,507
Soške elektrarne Nova Gorica d.o.o.	25,731	316,157
Termoelektrarna Brestanica d.o.o.	433,199	191,743
Termoelektrarna Šoštanj d.o.o.	5,418,356	2,670,934
Premogovnik Velenje d.d.	4,104,200	2,478,067
HSE Invest d.o.o.	12,925	600
HSE Italia S.r.l.	1,846	0
Gost d.o.o.	44	584
HTZ I.P. d.o.o.	603	112

Accrued costs and deferred revenues

SIT 364,084,000
0.16 % of liabilities

Accrued costs and deferred revenues are liabilities that are anticipated to appear within the period of a year and whose inccurrence is likely; moreover, the size of these liabilities can be measured without fail. These liabilities relate to known persons and entities to whom at a future time actual liabilities will be incurred.

Under short-term accrued costs and deferred revenues the Company includes costs or expenses calculated in advance that will subsequently cover actually occurring costs of the same kind or expenses of the same kind.

Income Statement

General notes

Information about the basis for the preparation of the income statement and the specific accounting policies chosen and used in relevant business operations and other transactions of the Company is presented in the disclosure of individual relevant revenues and expenses.

The income statement has been prepared in accordance with Version I of SAS 25.5.

The amount of expenses is influenced also by methods and accounting policies explained in the disclosures of the balance sheet (amortization, the valuation of inventories). The Company has made no changes in these in comparison with the previous year.

In accordance with explanation 2 to SAS 25, issued by the Slovene Institute of Auditors, tax on income from ordinary and extraordinary operating activity is not presented separately in the income statement, but is presented as accumulated in item 19 of the income statement.

Revenues

SIT 90,993,613,000

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

Revenues are recognized when we can justifiably expect that they will lead to income, if income was not already realized upon occurrence.

We distinguish between operating, financial, and extraordinary revenues.

Operating revenues
SIT 90,232,123,000
99.16 % of revenues

The Company creates 99.99 % of its operating revenues from the sale of electricity and heat.

Financial revenues
SIT 712,534,000
0.78 % of revenues

Financial revenues are revenues from investments. They appear in connection with long-term and short-term financial investments and in connection with long-term and short-term receivables.

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.

Under financial revenues the Company presents revenues from interest, positive exchange differences, and dividends.

Extraordinary revenues
SIT 48,956,000
0.06 % of revenues

Extraordinary revenues consist of unusual items. They are recorded in actual amounts.

Under extraordinary revenues the Company presents received fines and indemnities.

Company Revenues in the Current and Previous Years

in SIT 1000

Revenue category	Year 2003	Year 2002
Operating revenues	90,232,123	91,457,765
Financial revenues	712,534	413,733
Extraordinary revenues	48,956	0

Sectors

The Company itemizes its operating activities in two territorial sectors; namely, it separates net sales revenues in the domestic market from those in foreign markets.

Because operating conditions and risk impacts are the same for individual product groups, the Company does not itemize operating activities by business sector.

Net Sales Revenues by Territorial Sector in the Current and Previous Years

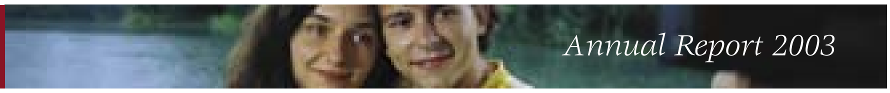
in SIT 1000

Territorial sector	Year 2003	Year 2002
Domestic market	67,779,563	70,763,762
Foreign market	22,452,143	20,694,003

Expenses
SIT 87,019,460,000

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

We distinguish between operating, financial, and extraordinary expenses.



Operating expenses
SIT 86,807,425,000
99.76 % of expenses

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

In 2003, 98 % of operating expenses were tied to the purchase of electricity, heat, coal, and related dependent costs.

Financial expenses
SIT 212,035,000
0.24 % of expenses

Financial expenses are expenses for financing and expenses for investing. They are recognized upon calculation without regard to the income associated with them.
The majority of the Company's financial expenses represent interest expenses and negative exchange differences.

Company Expenses in the Current and Previous Years

in SIT 1000

Expense category	Year 2003	Year 2002
Operating expenses	86,807,425	78,728,639
Financial expenses	212,035	857,105
Extraordinary expenses	0	750

Costs by functional grouping

The Company's income statement presents costs by natural classifications (cost of purchase of sold merchandise and material, service costs, costs of wages and salaries, depreciation costs); the following table presents costs by functional grouping.

Costs by Functional Grouping in the Current and Previous Years

in SIT 1000

Cost category	Year 2003	Year 2002
Costs of purchase for sold goods	85,296,852	77,978,429
Costs of sale	250,898	173,762
General activity costs	1,259,675	576,448

Profit
SIT 3,974,153,000

The Company concluded the year 2003 with a net profit in the amount of SIT 3,974,153,000.

The Company did not establish any liabilities for the payment of income tax.

Profit / Loss for the Company in the Current and Previous Years

in SIT 1000

Profit / loss category	Year 2003	Year 2002
Gross yield from operating activity	90,232,123	91,457,765
Operating profit / loss	3,424,698	12,729,126
Profit / loss from ordinary activity	3,925,197	12,285,754
Profit / loss from extraordinary activity	48,956	(750)
Total profit / loss	3,974,153	12,285,004
Net profit / loss for the financial year	3,974,153	12,285,004

Cash Flow Statement

General notes

The cash flow statement shows changes in the balance of cash and cash equivalents in the financial year.

The Company's cash assets include money in transaction accounts and deposits on call.

The Company did not have any cash equivalents in the current year.

Method

The Company prepares the cash flow statement using the indirect method in the form of successive degrees.

Data in the cash flow statement is obtained from the balance sheets for current and previous years and the income statement from the current year. In order that inflows should be as close as possible to receipts and outflows as close as possible to expenses, additional exclusions were made in the cash flow statement.

In 2003, the Company created cash surpluses of SIT 27,478,000:
- it created a surplus from operating activity in the amount of SIT 4,951,651,000;
- it created a deficit from investing activity in the amount of SIT 20,030,952,000; and
- it created a surplus from financing activity in the amount of SIT 15,106,779,000.

Statement of Changes in Equity

General note

The statement of changes in equity presents changes in capital components in the financial year. The Company prepares the statement of changes in equity so that all capital components can be presented in the form of a spreadsheet.

Transfers to equity

In the current year, the Company's equity increased by SIT 6,147,584,000, which consists of:
- net profit for the current year in the amount of SIT 3,974,153,000; and
- specific revaluatory equity adjustments in the amount of SIT 2,173,431,000, which represent the Company's share in the profits of associates in the current year.

Transfers within equity

The 2002 total distributable net profit in the amount of SIT 6,142,502,000 was allocated by the shareholders' assembly to other revenue reserves in 2003.

With the consent of the Supervisory Board, Company management allocated one half of the 2003 distributable net profit, in the amount of SIT 1,987,076,000, to other revenue reserves already in the preparation of the financial statements.

Distributable net profit

The distributable net profit for 2003 represents one half of the total distributable net profit for the current year and comes to SIT 1,987,077,000.

Distributable net profit for the current and previous years

in SIT 1000

Components of distributable net profit	Year 2003	Year 2002
Net profit / loss of the current year	3,974,153	12,285,004
Transferred net profit or transferred net loss	0	0
Decrease in revenue reserves	0	0
Increase in revenue reserves by resolution of management (legal reserves, reserves for proprietary shares, and statutory reserves)	0	0
Increase in revenue reserves by resolution of management and Supervisory Board (other revenue reserves)	(1,987,076)	(6,142,502)
Net distributable profit for current year	1,987,077	6,142,502

Other Notes

Income of Management Board members and other employees per individual contracts

The income of Management Board members, as well as other employees per individual contract, includes:

- gross income, which is contained in the notice for the income tax return;
- jubilee awards, which are not contained in the notice for tax assessment; and
- premiums paid by the company for optional additional pension insurance.

Income of Supervisory Board members

The income of Supervisory Board members consists of gross meeting fees and travel expenses.

Income of Individual Groups of Persons in the Current and Past Years

in SIT 1000

Income of individual groups	Year 2003	Year 2002
Company Management Board	83,661	67,771
Other employees per individual contract	224,378	162,999
Supervisory Board members	5,003	7,644

In 2003, the Company did not approve any advances, loans, or guarantees to these groups of persons and therefore no receivables due from them are presented.

Financial Report of the HSE Group

Introductory Explanations

Basis for preparing the consolidated financial statements

The consolidated financial statements in this report have been prepared as stipulated by the Companies Act and in accordance with the valid Slovene Accounting Standards (SAS).

The consolidated financial statements include:
- Consolidated balance sheet;
- Consolidated income statement;
- Consolidated cash flow statement; and
- Consolidated statement of changes in equity.

The consolidated financial statements have been prepared in Slovene tolars (SIT), rounded to the nearest 1000.

The Group of companies is an economic entity, but it is not also a legal entity and is not independently subject to rights and duties. The financial statements have been prepared for the Group as if it were a single company. Nevertheless, they have been prepared on the basis of the original financial statements of the companies in the Group, taking into consideration consolidated adjustments.

Companies Included in the Consolidated Financial Statements

Before the HSE Group was consolidated, consolidation was carried out for the PV Group and for the TDR - Metalurgija Group. According to the method of chain consolidation, consolidated financial statements are prepared first on the level of subsidiaries, and these statements are then included in the consolidated financial statements of the HSE Group. Companies included in the consolidated financial statements

Holding Slovenske elektrarne d.o.o.
Dravske elektrarne Maribor d.o.o.
Savske elektrarne Ljubljana d.o.o.
Soške elektrarne Nova Gorica d.o.o.
Termoelektrarna Brestanica d.o.o.
Termoelektrarna Šoštanj d.o.o.
Skupina Premogovnik Velenje
Skupina TDR - Metalurgija
HSE Invest d.o.o.
HSE - IIP d.o.o.
HSE Italia S.r.l.

The company HSE Italia began operating on 14 April 2003.

From here on, the term "Group" refers to the companies in the HSE Group that are included in the consolidated financial statements.

The companies Sava and Elprom are not included in the consolidated financial statements, although the subsidiary companies SEL and SENG hold majority shares, respectively, in these two companies. Because of their static position, Sava and Elprom are not relevant for a true and fair statement of the Group's operations.

Complete consolidation

The financial statements of the Group companies have been incorporated into the consolidated financial statements on the basis of complete consolidation. The financial statements are aggregated from item to item, with related items of assets, liabilities, capital, revenues, and expenses being added together. Because it is necessary to present the Group as if it were a single company, we have excluded the following:

- investments of the parent company in the capital of subsidiaries and adequate shares of the parent company in the capital of subsidiaries and the debts of the subsidiaries;
- intangible fixed assets of the subsidiaries and the long-term provisions of the parent company;
- mutual receivables and liabilities; and
- mutual revenues and expenses.

The consolidated income statement presents minority owners' share in the profit or loss of the Group. By the same token, the consolidated balance sheet and the consolidated statement of changes in equity present the minority share in the capital of the Group.

Audits

All companies included in the consolidated financial statements have been audited, and the opinions of the auditors contain no provisos.

Valuation methods for economic categories

In the preparation of the consolidated financial statements, all the accounting policies and rules for valuing the most important items of the subsidiaries have been harmonized with the policies of the parent company.

Exchange rate and method of translating into domestic currency

Accounting items of individual Group companies that are presented in foreign currency have been translated into domestic currency in the individual balance sheets and statements at the mean exchange rate of the Bank of Slovenia as of the date of occurrence, except in the case of individual transactions where the contracting parties agreed to a different rate.

The balance of assets and liabilities expressed in foreign currency has been translated into domestic currency at the mean exchange rate of the Bank of Slovenia as of 31 December 2003; when, however, a different rate has been agreed to by the contracting parties, then the value of this rate at the end of 2003 is used for the transaction. Exchange differences that thus arise are represented as ordinary financial revenues or expenses.

In translating the financial statements of the company headquartered abroad for inclusion in the consolidated financial statements,

- assets and liabilities are translated at the mean exchange rate of the Bank of Slovenia as of the date of the balance sheet;
- revenues and expenses are translated at the average exchange rate of the Bank of Slovenia from the start of the company's operating activity to the end of the year; and
- exchange differences are listed as a component of capital.

Auditor's Report

KPMG

AUDIT'S REPORT

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

We have audited the accompanying consolidated financial statements of group Holding Slovenske elektrarne Ljubljana consisting of the balance sheet as of 31 December 2003, 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 also read the directors' report. These 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 and Auditing Practice Statements 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 include an assessment of the compliance of the directors' report 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 2003, 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 directors' report is in conformity with the audited financial statements.

KPMG SLOVENIJA,
podjetje za revidiranje in poslovno svetovanje, d.o.o.

Brane PODBORŠEK, BSc. Ec.
Managing Director and Certified Auditor

KPMG Slovenija, d.o.o.

Ljubljana, 11 May 2004

Consolidated Balance Sheet

in SIT 1000

	ITEM	Year 2003	Year 2002
	ASSETS	**337,940,995**	**339,629,666**
A.	***FIXED ASSETS***	***292,309,972***	***295,991,607***
I.	**Intangible fixed assets**	**3,877,246**	**3,182,373**
1.	Long-term deferred costs of organization	2,046	971
2.	Long-term deferred costs of development	321,067	387,793
3.	Long-term property rights	333,554	134,191
6.	Other intangible fixed assets	61,464	179,872
7.	Intangible fixed assets in construction or in process	3,159,115	2,479,546
II.	**Tangible fixed assets**	**282,644,116**	**284,882,725**
1.	Land and buildings	146,398,842	148,541,750
	a) Land	11,539,129	11,536,140
	b) Buildings	134,859,713	137,005,610
2.	Production machinery and equipment	124,525,724	124,262,532
3.	Other machinery and equipment	1,581,138	1,269,849
4.	Tangible fixed assets being acquired	10,138,412	10,808,594
	a) Advances for acquisition of tangible fixed assets	905,625	1,060,285
	b) Tangible fixed assets in construction or in process	9,232,787	9,748,309
III.	**Long-term investments**	**5,788,610**	**7,926,509**
1.	Shares in Group companies	6,038	8,523
3.	Shares in associates	9,518	0
5.	Other long-term investments	928,552	917,530
6.	Other long-term financial receivables	4,844,502	7,000,456
B.	***CURRENT ASSETS***	***45,499,967***	***43,544,562***
I.	**Inventories**	**7,163,537**	**6,330,481**
1.	Material	5,967,009	4,772,108
2.	Work in process	344,035	235,188
3.	Products and merchandise	814,536	1,036,867
4.	Advances for inventories	37,957	286,318
II.	**Operating receivables**	**17,374,576**	**14,460,166**
a)	**Long-term operating receivables**	**353,854**	**323,302**
	4. Long-term receivables due from others	353,854	323,302
b)	**Short-term operating receivables**	**17,020,722**	**14,136,864**
	1. Short-term trade receivables	12,535,509	11,397,423
	3. Short-term receivables due from associates	6,326	0
	4. Short-term receivables due from others	4,478,887	2,739,441
III.	**Short-term investments**	**17,067,474**	**20,458,027**
2.	Shares in associates	59,850	0
4.	Other short-term investments	17,007,624	20,458,027
IV.	**Bank balances, checks, and cash**	**3,894,380**	**2,295,888**
C.	***DEFERRED COSTS, DEFERRED EXPENSES AND ACCRUED REVENUES***	***131,056***	***93,497***
	OFF-BALANCE-SHEET RECORD	18,552,651	23,653,726

in SIT 1000

	ITEM	Year 2003	Year 2002
	LIABILITIES AND CAPITAL	**337,940,995**	**339,629,666**
A.	***CAPITAL***	***222,794,507***	***235,475,484***
I.	**Called-up capital**	**1,156,217**	**1,156,217**
1.	Share capital	1,156,217	1,156,217
II.	**Capital reserves**	**166,070,474**	**166,070,474**
III.	**Revenue reserves**	**14,272,080**	**6,142,502**
4.	Other reserves	14,272,080	6,142,502
IV.	**Retained net profit/loss from previous periods**	**2,423,207**	**0**
V.	**Net profit or loss for the financial year**	**5,020,514**	**6,142,502**
VI.	**Equity revaluation adjustment**	**27**	**2,423,234**
1.	General equity revaluation adjustment	27	27
2.	Specific equity revaluation adjustment	0	2,423,207
VIII.	**Minority equity interest**	**33,851,988**	**53,540,555**
B.	***PROVISIONS***	***37,299,564***	***39,685,033***
3.	Other provisions	37,299,564	39,685,033
C.	***FINANCIAL AND OPERATING LIABILITIES***	***77,298,949***	***63,871,695***
a)	**Long-term financial and operating liabilities**	**52,216,475**	**40,631,573**
2.	Long-term financial liabilities to banks	52,072,448	40,543,283
4.	Long-term trade payables	46,414	28,938
8.	Long-term financial and operating liabilities to other entities	97,613	59,352
b)	**Short-term financial and operating liabilities**	**25,082,474**	**23,240,122**
2.	Short-term financial liabilities to banks	7,721,659	9,714,385
3.	Short-term operating liabilities arising from advances	37,682	18,270
4.	Short-term trade payables	11,419,766	9,121,596
7.	Short-term financial and operating liabilities to associates	37,094	0
8.	Short-term financial and operating liabilities to other entities	5,866,273	4,385,871
Č.	***ACCRUED COSTS (EXPENSES) AND DEFERRED REVENUES***	***547,975***	***597,454***
	OFF-BALANCE-SHEET RECORD	18,552,651	23,653,726

Consolidated Income Statement

in SIT 1000

	ITEM	Year 2003	Year 2002
1.	**Net sales revenues**	**97,488,187**	**98,440,705**
a)	Domestic market	68,803,111	72,398,586
	- from associates	17,710	0
	- from others	68,785,401	72,398,586
b)	Foreign market	28,685,076	26,042,119
2.	**Change in the value of inventory of products and work in process**	**926,624**	**292,669**
3.	**Capitalized own products and/or services**	**1,590,232**	**968,033**
4.	**Other operating revenues (with revaluatory operating revenues)**	**3,527,815**	**1,189,872**
5.	**Costs of goods, material, and services**	**44,847,949**	**35,623,513**
a)	Costs of goods and material sold	32,149,119	24,588,778
b)	Costs of services	12,698,830	11,034,735
6.	**Labour costs**	**27,741,573**	**26,294,305**
a)	Costs of wages and salaries	18,861,005	18,183,782
b)	Social insurance costs	5,281,120	5,072,874
	- costs of retirement insurance	1,340,879	1,154,728
c)	Other labor costs	3,599,448	3,037,649
7.	**Amortization, depreciation, and assets write-offs**	**17,838,911**	**20,174,905**
a)	Amortization of intangible fixed assets, depreciation of tangible fixed assets, and revaluatory operating expenses	17,643,518	20,087,866
b)	Revaluatory operating expenses from current assets	195,393	87,039
8.	**Other operating expenses**	**5,883,782**	**5,197,149**
	OPERATING PROFIT OR LOSS	***7,220,643***	***13,601,407***
9.	**Financial revenues from participation**	**143,814**	**78,089**
a)	Financial revenues from participation in Group enterprises (except in associates)	45	0
c)	Other financial participation (including revaluatory financial revenues)	143,769	78,089
10.	**Financial revenues from long-term receivables**	**732,524**	**252,362**
c)	Other financial revenues from long-term receivables (including revaluatory financial revenues)	732,524	252,362
11.	**Financial revenues from short-term receivables**	**2,003,741**	**1,807,824**
b)	Interest revenues and revenues from short-term receivables due from associates	6,465	0
c)	Other interest revenues and revenues from short-term receivables (including revaluatory financial revenues)	1,997,276	1,807,824
12.	**Financial expenses for long-term and short-term investments write-offs**	**12,207**	**1,091,293**
a)	Revaluatory financial expenses arising from investments in the Group (except in associates)	8,689	786,289
b)	Revaluatory financial expenses arising from investments in associates	1,855	0
c)	Other revaluatory financial expenses	1,663	305,004
13.	**Interest expenses and financial expenses from other liabilities**	**3,427,186**	**4,373,122**
c)	Other interest expenses and expenses from other liabilities	3,427,186	4,373,122
	PROFIT OR LOSS FROM ORDINARY ACTIVITY	***6,661,329***	***10,275,267***
15.	**NET PROFIT OR LOSS FROM ORDINARY ACTIVITY**	**6,661,329**	**10,275,267**
16.	**Extraordinary revenues**	**657,891**	**4,421,854**
17.	**Extraordinary expenses**	**501,463**	**303,450**
a)	Extraordinary expenses exclusive of equity revaluation adjustment	501,463	303,450
18.	**PROFIT OR LOSS FROM EXTRAORDINARY ACTIVITY**	**156,428**	**4,118,404**
	TOTAL PROFIT OR LOSS	***6,817,757***	***14,393,671***
19.	**Income tax**	**115,489**	**4,665**
21.	**NET PROFIT OR LOSS FOR THE FINANCIAL YEAR**	**6,702,268**	**14,389,006**
	Majority owner's share in net profit or loss	7,007,590	14,708,211
	Minority owner's share in net profit or loss	(305,322)	(319,205)

Consolidated Cash Flow Statement

in SIT 1000

	ITEM	Year 2003	Year 2002
A.	*CASH FLOWS FROM OPERATING ACTIVITY*		
+	**a) Inflows from operating activity**	**97,731,294**	**95,927,978**
	Operating revenues	100,220,765	94,525,655
	Extraordinary revenues relating to operating activity	657,891	4,421,854
	Opening minus closing operating receivables	(3,109,803)	(3,792,434)
	Opening minus closing deferred costs, deferred expenses, and accrued revenues	(37,559)	772,903
-	**b) Outflows from operating activity**	**75,347,058**	**59,480,937**
	Operating expenses exclusive of depreciation and long-term provisions	77,535,406	62,612,690
	Extraordinary expenses relating to operating activity	501,463	303,450
	Income tax and other taxes not included among operating expenses	115,489	4,665
	Closing minus opening inventories	833,056	830,605
	Opening minus closing operating liabilities	(3,687,835)	(4,853,717)
	Opening minus closing accrued costs (expenses) and deferred revenues	49,479	583,244
=	**c) Net inflows (outflows) from operating activity**	**22,384,236**	**36,447,041**
B.	*CASH FLOWS FROM INVESTING ACTIVITY*		
+	**a) Inflows from investing activity**	**8,408,531**	**2,138,275**
	Financial revenues relating to investing activity (excluding revaluation)	2,880,034	2,138,275
	Offset decrease from long-term investments (excluding revaluation)	2,137,944	0
	Offset decrease from short-term investments (excluding revaluation)	3,390,553	0
-	**b) Outflows from investing activity**	**16,123,263**	**37,366,221**
	Financial expenses relating to investing activity (excluding revaluation)	12,207	1,091,293
	Offset increase in intangible fixed assets (excluding revaluation)	1,027,417	896,238
	Offset increase in tangible fixed assets (excluding revaluation and increase of non-cash equity)	15,083,639	16,860,307
	Offset increase in long-term investments (excluding revaluation)	0	5,776,712
	Offset increase in short-term investments (excluding revaluation)	0	12,741,671
=	**c) Net inflows (outflows) from investing activity**	**(7,714,732)**	**(35,227,946)**
=	**Net inflows (outflows) from operating and investing activity**	**14,669,504**	**1,219,095**
C.	*CASH FLOWS FROM FINANCING ACTIVITY*		
+	**a) Inflows from financing activity**	**11,556,316**	**2,873,324**
	Increase in capital (excluding net profit)	0	2,154,401
	Offset increase in long-term financial liabilities (excluding revaluation)	11,556,316	0
	Offset increase in short-term financial liabilities (excluding revaluation)	0	718,923
-	**b) Outflows from financing activity**	**24,627,328**	**4,694,294**
	Financial expenses relating to financing activity (excluding revaluation)	3,427,186	4,373,122
	Decrease in capital (without net profit)	19,383,245	0
	Offset decrease in long-term financial liabilities (excluding revaluation)	0	321,172
	Offset decrease in short-term financial liabilities (excluding revaluation)	1,816,897	0
=	**c) Net inflows (outflows) from financing activity**	**(13,071,012)**	**(1,820,970)**
=	**Total net inflows (outflows) for the financial year**	**1,598,492**	**(601,875)**
Č.	***CLOSING BALANCE OF CASH AND CASH EQUIVALENTS***	***3,894,380***	***2,295,888***
+	**x) Net cash flow for the financial year**	**1,598,492**	**(601,875)**
+	**y) Opening balance of cash and cash equivalents**	**2,295,888**	**2,897,763**

Consolidated Statement of Changes in Equity

in SIT 1000

ITEM		Share capital		Capital reserves	Revenue reserves				Retained net profit or loss from previous periods	
		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
A.	**Opening balance**	**1,156,217**	**0**	**166,070,474**	**0**	**0**	**0**	**6,142,502**	**6,142,502**	**0**
B.	**Transfer to equity**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
d)	Net profit or loss for the financial year	0	0	0	0	0	0	0	0	0
f)	Specific equity revaluation adjustment	0	0	0	0	0	0	0	0	0
C.	**Transfer within equity**	**0**	**0**	**0**	**0**	**0**	**0**	**8,129,578**	**(3,719,295)**	**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	1,987,076	0	0
b)	Appropriation of net profit for the formation of additional reserves under the resolution adopted by the Shareholders' Assembly	0	0	0	0	0	0	6,142,502	(6,142,502)	0
f)	Other reappropriations of items of equity	0	0	0	0		0	0	2,423,207	0
Č.	**Transfer from equity**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
b)	Repayment of equity	0	0	0	0	0	0	0	0	0
D.	**Closing balance**	**1,156,217**	**0**	**166,070,474**	**0**	**0**	**0**	**14,272,080**	**2,423,207**	**0**

in SIT 1000

ITEM		Net profit or loss for the financial year: Net profit for the financial year	Net profit or loss for the financial year: Net loss for the financial year	Equity revaluation adjustment: General equity revaluation adjustment	Equity revaluation adjustment: Specific equity revaluation adjustment	Equity adjustment from translation	Minority equity adjustment	Total
A.	**Opening balance**	**0**	**0**	**27**	**2,423,207**	**0**	**53,540,555**	**235,475,484**
B.	**Transfer to equity**	**7,007,590**	**0**	**0**	**0**	**0**	**(304,755)**	**6,702,835**
d)	Net profit or loss for the financial year	7,007,590	0	0	0	0	(305,322)	6,702,268
f)	Specific equity revaluation adjustment	0	0	0	0	0	567	567
C.	**Transfer within equity**	**(1,987,076)**	**0**	**0**	**(2,423,207)**	**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	(1,987,076)	0	0	0	0	0	0
b)	Appropriation of net profit for the formation of additional reserves under the resolution adopted by the Shareholders' Assembly	0	0	0	0	0	0	0
f)	Other reappropriations of items of equity	0	0	0	(2,423,207)	0	0	0
Č.	**Transfer from equity**	**0**	**0**	**0**	**0**	**0**	**19,383,812**	**19,383,812**
b)	Repayment of equity	0	0	0	0	0	19,383,812	19,383,812
D.	**Closing balance**	**5,020,514**	**0**	**27**	**0**	**0**	**33,851,988**	**222,794,507**

Notes to the Consolidated Financial Statements

Consolidated Balance Sheet

General notes

Information about the basis for the preparation of the consolidated balance sheet and the specific accounting policies chosen and used in relevant business operations and other transactions of the Group is presented in the disclosure of individual important assets and liabilities.

The Group does not have at its disposal any additional information not prescribed in the balance sheet form that might be relevant to a fair presentation of the Group.
Assets and liabilities are stated in accordance with fair value.

Intangible fixed assets

SIT 3,877,246,000
1.15 % of assets

The itemization of intangible fixed assets in the 2003 balance sheet differs from that of the 2002 balance sheet in that other intangible fixed assets and intangible assets in construction or in process are here presented as separate items. For the sake of comparability, the balance of intangible fixed assets as of 1 January 2003 is presented in the same way.
The bulk of intangible fixed assets is represented by founding investments in major investments.

In the process of consolidation, SIT 2,201,353,000 was excluded from intangible fixed assets.

Movement of Intangible Fixed Assets in 2003

in SIT 1000

	Long-term deferred costs of organization	Long-term deferred costs of development	Long-term property rights	Other intangible fixed assets	Intangible fixed assets in construction or in process	Total
COST OF PURCHASE						
Balance as of 1 January 2003	**212,024**	**605,462**	**208,586**	**2,537,460**	**2,479,546**	**6,043,078**
Increase	2,115	40,480	259,546	46,529	1,651,478	2,000,148
Disposals, transfers	(6,066)	0	(3,226)	0	(971,909)	(981,201)
Revaluation	0	0	0	0	0	0
Balance as of 31 December 2003	**208,073**	**645,942**	**464,906**	**2,583,989**	**3,159,115**	**7,062,025**
ADJUSTMENT FOR VALUE						
Balance as of 1 January 2003	**211,053**	**217,669**	**74,395**	**2,357,588**	**0**	**2,860,705**
Increase	0	0	0	0	0	0
Disposals, transfers	(5,244)	0	(3,226)	0	0	(8,470)
Amortization	218	107,206	60,183	164,937	0	332,544
Balance as of 31 December 2003	**206,027**	**324,875**	**131,352**	**2,522,525**	**0**	**3,184,779**
Net carrying amount as of 1 January 2003	**971**	**387,793**	**134,191**	**179,872**	**2,479,546**	**3,182,373**
Net carrying amount as of 31 December 2003	**2,046**	**321,067**	**333,554**	**61,464**	**3,159,115**	**3,877,246**

Tangible fixed assets
SIT 282,644,116,000
83.64 % of assets

A tangible fixed asset is valued at the cost of purchase on initial recognition. This cost consists of the purchase price of the asset, as well as import and other non-refundable duties and costs that can be directly attributed to readying the asset for its intended use, in particular, cartage and installation costs.

Donations and state grants for the acquisition of tangible fixed assets are not deducted from their cost of purchase. Rather, they are included in long-term provisions and utilized in accordance with the computed depreciation.

The difference between the net sales value and the carrying amount of a disposed tangible fixed asset is listed 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 value.

Expenses incurred subsequently in relation with a tangible fixed asset may increase its cost of purchase if its future benefit increases in comparison with the initial estimation of benefit. In such a case, expenses that prolong the useful life of the tangible fixed asset first reduce the accumulated depreciation computed so far.

Repairs or maintenance of tangible fixed assets are intended to restore or maintain future economic benefits anticipated on the basis of the original estimated rate of performance of an asset. Repairs and maintenance are recognized as expenses when incurred.

For tangible fixed assets, bookkeeping maintains separate records for cost of purchase and adjustment for value. In the balance sheet, however, tangible fixed assets are presented at their carrying amount as the difference between the cost of purchase and adjustment for value.

In 2003, the companies in the Group made no revaluations for tangible fixed assets.

In 2003, investments of SIT 1,292,465,000 in tangible fixed assets were financed with credit.

In 2003, tangible fixed assets valued at SIT 940,605,000 were pledged as security for long-term and short-term financial liabilities.

Movement of Tangible Fixed Assets in 2003

in SIT 1000

	Land	Buildings	Equipment, replacement parts, low-value assets	Advances for tangible fixed assets	Tangible fixed assets in construction or in process	Total
COST OF PURCHASE						
Balance as of 1 January 2003	**11,536,140**	**294,183,784**	**440,759,334**	**1,060,285**	**9,748,309**	**757,287,852**
Acquisitions	49,107	2,405,672	7,588,977	1,935,088	14,851,493	26,830,337
Disposals, transfers	(46,118)	(547,111)	(5,038,161)	(1,745,161)	(15,333,729)	(22,710,280)
Revaluation	0	17,909	(73,845)	(344,587)	(33,286)	(433,809)
Balance as of 31 December 2003	**11,539,129**	**296,060,254**	**443,236,305**	**905,625**	**9,232,787**	**760,974,100**
ADJUSTMENT FOR VALUE						
Balance as of 1 January 2003		**157,178,174**	**315,226,953**			**472,405,127**
Acquisitions		94,391	(3,773)			90,618
Disposals, transfers		(915,677)	(10,103,667)			(11,019,344)
Amortization		4,838,229	12,079,151			16,917,380
Revaluation		5,424	(69,221)			(63,797)
Balance as of 31 December 2003		**161,200,541**	**317,129,443**			**478,329,984**
Net carrying amount as of 1 January 2003	**11,536,140**	**137,005,610**	**125,532,381**	**1,060,285**	**9,748,309**	**284,882,725**
Net carrying amount as of 31 December 2003	**11,539,129**	**134,859,713**	**126,106,862**	**905,625**	**9,232,787**	**282,644,116**

Long-term investments
SIT 5,788,610,000
1.71 % of assets

In the process of consolidation, long-term investments in Group companies in the amount of SIT 191,729,807,000 were excluded.

The decrease in long-term investments in 2003 is mainly the consequence of transferring part of long-term deposits to short-term deposits.

The bulk of long-term investments is represented by long- term deposits.

Movement of Long-term Investments in 2003

in SIT 1000

	Investments in stocks and shares in Group companies (except associates)	Investments in stocks and shares in associates	Other investments in stocks and shares	Other long-term financial receivables	Total
COST OF PURCHASE					
Balance as of 1 January 2003	**8,717**	**0**	**923,910**	**7,044,403**	**7,977,030**
Increase		13,958	15,018	48,593	77,569
Disposals, transfers	(2,500)		(2,353)	(2,233,987)	(2,238,840)
Revaluation			(247)	3,067	2,820
Balance as of 31 December 2003	**6,217**	**13,958**	**936,328**	**4,862,076**	**5,818,579**
ADJUSTMENT FOR VALUE					
Balance as of 1 January 2003	**194**	**0**	**6,380**	**43,947**	**50,521**
Increase	0	0	1,396	4,212	5,608
Disposals, transfers	(15)	0	0	(30,672)	(30,687)
Amortization	0	0	0	0	0
Revaluation	0	4,440	0	87	4,527
Balance as of 31 December 2003	**179**	**4,440**	**7,776**	**17,574**	**29,969**
Net carrying amount as of 1 January 2003	**8,523**	**0**	**917,530**	**7,000,456**	**7,926,509**
Net carrying amount as of 31 December 2003	**6,038**	**9,518**	**928,552**	**4,844,502**	**5,788,610**

Inventories
SIT 7,163,537,000
2.12 % of assets

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

Operating receivables
SIT 17,374,576,000
5.14 % of assets

Receivables are recognized as assets if it is likely that there will be an inflow of economic benefit in relation to them and if it is possible to measure their original value without fail. On initial recognition receivables of all kinds are shown in the amounts recorded in the relevant bookkeeping documents under the assumption that amounts owed will be collected.

Categories of receivables

The bulk of operating receivables in the Group is represented by short-term receivables. Of these, three-fourths are short- term trade receivables and one fourth are short-term receivables due from the state and others, while the portion of short-term receivables due from associates is negligible.

Adjustment for value of receivables

In cases of doubtful or questionable short-term receivables, adjustments for value are debited as revaluatory operating expenses.

Security of receivables

The share of secured long-term receivables is 90 %.
The majority of short-term trade receivables are secured, while the share of all secured short-term receivables comes to somewhat more than half of all short-term receivables.

Overdue status

The breakdown of operating receivables by due date is shown in a separate table.

In the process of consolidation, short-term receivables between companies in the Group, which total SIT 16,444,319,000, were excluded.

Long-term Operating Receivables by Due Date

in SIT 1000

	Term of maturity			Total
Long-term operating receivables	up to 3 years	3 - 5 years	more than 5 years	
Receivables due from others	118,578	3,826	231,450	353,854
Total	**118,578**	**3,826**	**231,450**	**353,854**

Short-term Operating Receivables by Due Date

in SIT 1000

	Itemization by overdue status						
Short-term operating receivables	not yet due	overdue up to 3 months	overdue 3 - 6 months	overdue 6 - 9 months	overdue 9 - 12 months	overdue more than 1 year	Total
Trade receivables	12,276,692	255,639	581	749	664	1,184	12,535,509
Receivables due from associates	6,326	0	0	0	0	0	6,326
Receivables due from others	4,253,980	14,230	7,866	3,955	21,311	177,545	4,478,887
Total	**16,536,998**	**269,869**	**8,447**	**4,704**	**21,975**	**178,729**	**17,020,722**

Adjustment Movement of Operating Receivables in 2003

in SIT 1000

Category of operating receivable	1 January 2003	exchange differences	use	release	formation	31 December 2003
Long-term trade receivables	179,979	0	0	13,654	15,553	181,878
Short-term trade receivables	51,020	562	1,084	0	103	50,601
Short-term receivables due from others	82,141	0	0	0	32,842	114,983
Total	**313,140**	**562**	**1,084**	**13,654**	**48,498**	**347,462**

Short-term investments
SIT 17,067,474,000
5.05 % of assets

The Group's short-term investments consist of investments in bank deposits, investments in equity securities, and investments in the financial debt of associate companies and others.

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

A short-term investment in a granted short-term loan is measured on initial recognition at the amount paid that represents the principal of the loan.

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

The bulk of the Group's short-term investments is represented by deposits in major Slovenian banks; hence, exposure to risk is minimal.

In the process of consolidation, the amount of SIT 673,694,000 in short-term investments was excluded.

Cash assets
SIT 3,894,380,000
1.15 % of assets

The Group's cash assets consist of cash on hand, money in transaction accounts, and deposits on call with commercial banks.

Deferred costs and accrued revenues
SIT 131,056,000
0.04 % of assets

Under this item are included short-term deferred costs (expenses) and short-term unbilled revenues.

Off-balance record
SIT 18,552,651,000

The bulk of the Group's off-balance-sheet records consist of instruments granted and received for securing payments, guarantees, and mortgages.

Capital
SIT 222,794,507,000
65.93 % of liabilities

The Group's share capital represents the share capital of the parent company, which did not change in 2003; the capital reserves and the general equity revaluation adjustment also did not change.

The other revenue reserves of the parent company increased in 2003 by SIT 8,129,578,000.

The retained net profit or loss from previous periods presents the parent company's share in the profit or loss of the subsidiary companies in 2002 that was presented in 2002 as the specific equity revaluation adjustment.

The Group's net profit for the financial year comes to SIT 5,020,514,000, and consists of the distributable profit of the parent company, in the amount of SIT 1,987,077,000, the profit of subsidiaries in the amount of SIT 2,173,431,000, and SIT 860,006,000 that comes from the drawing of negative goodwill ascertained in the consolidation of capital and long-term investment.

The equity share of minority owners in 2003 decreased as a result of the increase in the equity share of the majority owner and the share in the profit or loss of the subsidiaries. The equity share of minority owners comes to SIT 33,851,988,000.

In the process of consolidation, the capital of the subsidiaries was excluded in its entirety, in the amount of SIT 223,273,137,000.

In accordance with SAS stipulations, the companies in the Group did not carry out any specific equity revaluation adjustment.

Capital of the Group in the Current and Previous Years

in SIT 1000

Total capital by individual items	Year 2003	Year 2002
Share capital	1,156,217	1,156,217
Capital reserves	166,070,474	166,070,474
Revenue reserves (other revenue reserves)	14,272,080	6,142,502
Retained net profit / loss	2,423,207	0
Net profit / loss for the financial year	5,020,514	6,142,502
General equity revaluation adjustment	27	27
Specific equity revaluation adjustment	0	2,423,207
Capital of minority owners	33,851,988	53,540,555

Long-term provisions
SIT 37,299,564,000
11.04 % of liabilities

All long-term provisions are presented under other provisions, from which negative goodwill in the amount of SIT 30,033,890,000 was formed in the process of consolidation.

Negative goodwill appears in consolidation when the parent company's investment in the capital share of a subsidiary is lower than the value of recognized assets and liabilities and when the subsidiary continues to operate as an independent legal person.
In 2003, part of the negative goodwill was transferred to other operating revenues, thus increasing the net profit of the Group.

The rest of the long-term provisions are long-term provisions relating to long-term deferred revenues and long-term provisions relating to long-term accrued costs and expenses. Most of these were made in previous years. In 2003, provisions were drawn for covering depreciation of tangible fixed assets purchased with government grants and for material development of companies for disabled workers in accordance with the Act on Training and Employing the Disabled.

In the process of consolidation, an amount of SIT 2,201,353,000 in long-term provisions was excluded.

Movement of Negative Goodwill in the Current and Previous Years

in SIT 1000

Negative goodwill	Year 2003	Year 2002
Balance as of 1 January 2003	32,544,406	32,683,733
Increase	2,258	3,497,124
Decrease	2,512,774	3,636,451
Balance as of 31 December 2003	30,033,890	32,544,406

Movement of Long-term Provisions in 2003

in SIT 1000

Item	Balance as of 1 January 2003	Increase (formation)	Use (drawing)	Balance as of 31 December 2003
Long-term accrued costs	**3,526,940**	**770,486**	**380,846**	**3,916,580**
Long-term provisions for major repairs	1,385,000	0	0	1,385,000
Other long-term provisions	2,141,940	770,486	380,846	2,531,580
Long-term deferred revenues	**36,158,093**	**16,546**	**2,791,655**	**33,382,984**
Long-term provisions from grants for fixed assets	3,613,687	0	278,881	3,334,806
Other long-term provisions	0	14,288	0	14,288
Negative goodwill from consolidation	32,544,406	2,258	2,512,774	30,033,890
Total	**39,685,033**	**787,032**	**3,172,501**	**37,299,564**

Long-term liabilities
SIT 52,216,475,000
15.45 % of liabilities

Almost all of the Group's long-term liabilities are represented by bank loans secured with drafts, acceptance orders, guarantees, mortgages on real estate and movable property, or warranty of the Republic of Slovenia.

Loans were taken from both domestic and foreign banks; interest rates vary depending on the type of loan, maturity period, and time of borrowing. These also include loans that will be due for payment in more than five years and no later than the year 2015. Long-term liabilities are presented in greater detail in the annual reports of the individual companies in the HSE Group.

All liabilities from long-term debts are settled regularly.

Due Dates of Long-term Liabilities

in SIT 1000

	Payment-due date			
Long-term liabilities	1 - 3 years	3 - 5 years	more than 5 years	Total
Long-term financial liabilities to banks	18,160,810	16,570,597	17,341,041	52,072,448
Long-term financial liabilities to others	25,800	1,351	0	27,151
Long-term operating liabilities to suppliers	46,414	0	0	46,414
Long-term operating liabilities to others	11,268	7,902	51,292	70,462
Total	**18,244,292**	**16,579,850**	**17,392,333**	**52,216,475**

Short-term liabilities
SIT 25,082,474,000
7.42 % of liabilities

Nearly half of all short-term liabilities are represented by trade payables; a third are bank loans (of these the bulk are short-term segments of long-term loans); and the rest are liabilities to the state and to employees.

All short-term financial liabilities are secured with drafts, acceptance orders, guarantees, mortgages on real estate and movable property, or warranty of the Republic of Slovenia.

Overdue status

There are no overdue short-term financial liabilities. Short- term operating liabilities are itemized by overdue status in the table below.

Short-term liabilities are presented in greater detail in the annual reports of the individual companies in the HSE Group.

In the process of consolidation, short-term operating and financial liabilities between companies in the Group, in the amount of SIT 16,468,579,000, were excluded.

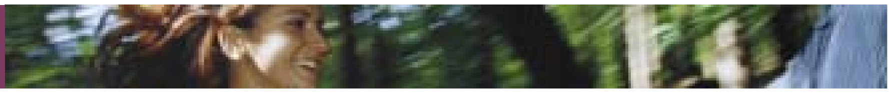
Due Dates of Short-term Operating Liabilities

in SIT 1000

	Itemization by due date						
Short-term operating liabilities	not yet due	up to 3 months overdue	3 - 6 months overdue	6 - 9 months overdue	9 - 12 months overdue	overdue more than 1 year	Total
Short-term liabilities to associates	37,094	0	0	0	0	0	37,094
Short-term liabilities from advances	37,682	0	0	0	0	0	37,682
Short-term trade payables	11,378,565	28,431	8,394	1,238	98	3,040	11,419,766
Short-term liabilities to others	5,377,909	3,296	3,955	0	0	305,284	5,690,444
Total	**16,831,250**	**31,727**	**12,349**	**1,238**	**98**	**308,324**	**17,184,986**

Accrued costs and deferred revenues
SIT 547,975,000
0.16 % of liabilities

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



Consolidated Income Statement

General notes

Information about the basis for the preparation of the income statement and the specific accounting policies chosen and used in relevant business operations and other transactions of the Group is presented in the disclosure of individual relevant revenues and expenses.

The Group has prepared its income statement in accordance with Version I of SAS 25.5.

In accordance with explanation 2 to SAS 25, issued by the Slovene Institute of Auditors, which states that, according to regulations, the expense or liability for income tax of legal persons is ascertained on a joint basis (from ordinary and extraordinary operating activity), tax on income from ordinary and extraordinary operating activity is not presented separately in the income statement, but is presented as accumulated in item 19 of the income statement.

Revenues

SIT 107,070,828,000

Revenues are recognized if during the accounting period the increase in economic benefit is related to the increase of an asset or the decrease of a liability and if the relevant increase can be measured without fail.
Revenues are recognized when we can justifiably expect that they will lead to income, if income was not already realized upon occurrence. We distinguish between operating, financial, and extraordinary revenues.

Operating revenues
SIT 103,532,858,000
96.70 % of revenues

The sale of electricity accounts for more than 80 % of the Group's total operating revenues.
Of other revenues, more than 70 % derive from the removal of negative goodwill ascertained in consolidating the parent company's long-term investment with the capital of the subsidiaries.

In the process of consolidation, operating revenues between companies in the Group, in the amount of SIT 72,459,775,000, were excluded.

Financial revenues
SIT 2,880,079,000
2.69 % of revenues

Of financial revenues, 70 % are financial revenues from short- term receivables, which mainly consist of interest on short- term investments and cash assets. The bulk of other financial revenues were created by the Group from interest on long- term investments. In both cases, positive exchange differences are presented when involving invested foreign-currency assets.

In the process of consolidation, financial revenues between companies in the Group, in the amount of SIT 11,695,000, were excluded.

Extraordinary revenues
SIT 657,891,000
0.61 % of revenues

Extraordinary revenues include indemnities, subventions, and collection on receivables that had been written-off.

In the process of consolidation, extraordinary revenues in the amount of SIT 12,000 were excluded.

Sectors

The Group divides its operating activities into two territorial sectors; namely, net sales revenues are split into:

- the domestic market - SIT 68,803,111,000; and
- the foreign market - SIT 28,685,076,000.

The Group also divides its operating activities into two business sectors; namely, net sales revenues are split into:

- sale of electricity - SIT 86,401,209,000; and
- other - SIT 11,086,978,000.

Expenses
SIT 100,253,071,000

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

We distinguish between operating, financial, and extraordinary expenses.

Operating expenses
SIT 96,312,215,000
96.07 % of expenses

Costs of goods, material, and services account for nearly half of all operating expenses, of which the most important are:
- the cost of purchase of electricity;
- the cost of material, replacement parts, and services for the maintenance of tangible fixed assets; and
- the cost of fuel and lubricants.

Labor costs account for nearly a third of operating expenses and consist of the cost of wages and salaries, the costs of social insurance, the costs of additional pension insurance, and other labor costs.

Value write-offs account for somewhat less than 20 % of total operating expenses. The majority of value write-offs are represented by the amortization of intangible fixed assets and the depreciation of tangible fixed assets, in the amount of SIT 17,249,429,000; a very small share represents revaluatory operating expenses associated with intangible fixed assets, tangible fixed assets, and current assets.

The Group applies the method of straight-line depreciation. Assets are depreciated individually on the basis of their anticipated useful life.

Amortization is calculated separately for tangible fixed assets acquired with government grants; long-term provisions are drawn for the amount of this amortization and revenues are presented.

Amortization / Depreciation Rates of Intangible and Tangible Fixed Assets in the Group

Buildings	1 - 8 %
Production equipment	1 -15 %
Other equipment	5 - 33.33 %
Computer equipment	33.33 - 50 %
Intangible fixed assets	20 - 33.33 %

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

Other operating expenses include, above all, contribution for the use of building land, water-related contribution, expenditures for environmental protection, and licensing contribution to the state.

In the process of consolidation, operating expenses between companies in the group, in the amount of SIT 72,459,824,000, were excluded.

Financial expenses
SIT 3,439,393,000
3.43 % of expenses

The Group's financial expenses are expenses for interest on short-term and long-term liabilities and expenses for the revaluation of these liabilities.

The bulk of financial expenses are represented by financial expenses for interest.
In the process of consolidation, financial expenses between companies in the group, in the amount of SIT 11,658,000, were excluded.

Extraordinary expenses
SIT 501,463,000
0.50 % of expenses

Extraordinary revenues consist of unusual items and are recorded in actual amounts. They include indemnities presented in the Group.

Costs by functional grouping

The Group's income statement presents costs by natural classifications (cost of purchase of sold merchandise and material, service costs, costs of wages and salaries, depreciation costs); the accompanying table presents costs by functional grouping.

Cost by Functional Grouping in the Current and Previous Years

in SIT 1000

Functional grouping	Year 2003	Year 2002
Cost of goods sold and/or production costs of quantities sold	76,555,084	63,570,989
Cost of sales	6,189,355	6,308,288
Cost of general activities	11,050,920	16,149,893

Tax on profit
SIT 115,489,000

Tax on profit is calculated with regard to the prescribed tax rates of the countries in which Group companies are located.
In 2003, five companies in the Group presented a liability for payment of tax on profit.

Net profit
SIT 6,702,268,000

The net profit of the Group represents the net profit of the parent company, in the amount of SIT 3,974,153,000; shares in the net profit of subsidiaries, in the amount of SIT 2,173,431,000, and net profit from the use of negative goodwill, in the amount of SIT 860,006,000; decreased by the consolidated profit/loss of other (minority) owners in the Group, in the amount of SIT 305,322,000.

Profit / Loss of the Group in the Current and Previous Years

in SIT 1000

Profit / loss category	Year 2003	Year 2002
Gross yield from operating activity	103,532,858	100,891,279
Operating profit / loss	7,220,643	13,601,407
Profit / loss from ordinary activity	6,661,329	10,275,267
Profit /loss from extraordinary activity	156,428	4,118,404
Total profit / loss	6,817,757	14,393,671
Net profit / loss for the financial year	6,702,268	14,389,006

Consolidated Cash Flow Statement

General notes

The consolidated cash flow statement shows changes in the balance of cash and cash equivalents in the financial year.

The Group's cash assets include money in transaction accounts and deposits on call.

The Group did not present any cash equivalents in the current year.

Method

The Group prepares the cash flow statement using the indirect method in the form of successive rates.

Data in the consolidated cash flow statement is obtained from the consolidated balance sheets for the current and previous years, the consolidated income statement, and additional data required for the adjustment of inflows and outflows.

Disclosures

In 2003, the Group created cash surpluses of SIT 1,598,492,000:
- it created a surplus from operating activity in the amount of SIT 22,384,236,000;
- it created a deficit from investing activity in the amount of SIT 7,714,732,000; and
- it created a surplus from financing activity in the amount of SIT 13,071,012,000.

Consolidated Statement of Changes in Equity

General note

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

Method

The consolidated statement of changes in equity has been prepared in accordance with version II in SAS 27.
Distributable profit is not ascertained at the Group level.

Transfers to equity

In 2003, transfers to the equity of the Group were presented in the amount of SIT 6,702,835,000.

In 2003, the equity of the Group exclusive of that of minority owners increased by a net profit in the amount of SIT 7,007,590,000.

In 2003, the equity of minority owners decreased by SIT 304,755,000, as follows:
- from participation in the loss presented by companies, in the amount of SIT 305,322,000; and
- due to the specific equity revaluation adjustment in the amount of SIT 567,000, which represents the share of minority owners in the increase of the specific equity revaluation adjustment in one of the subsidiaries.

Transfers within equity

Transfers within the equity of the Group were made in the amount of SIT 10,552,785,000, and were the result of the following:
- transfer of the parent company's share in the 2002 net profit of subsidiaries from the specific equity revaluation adjustment to retained net profit, in the amount of SIT 2,423,207,000;
- the appropriation of the parent company's 2002 distributable profit to other revenue reserves, in the amount of SIT 6,142,502,000, by resolution of the shareholders' assembly; and
- the appropriation of one half of the net distributable profit of the current year, in the amount of SIT 1,987,076,000, by resolution of the Management Board and with the consent of the Supervisory Board.

Transfers from equity

Transfers from equity in the amount of SIT 19,383,812,000 refer in their entirety to the equity of minority owners, due to the following:
- the sale of a share in the subsidiary DEM in the amount of SIT 19,377,447,000; and
- the sale of a share in the subsidiary PV in the amount of SIT 6,365,000.

Other Disclosures

Income of members of management and other employees per individual contracts

The income of managers and administrators, as well as other employees per individual contract, include:
- gross income, which is contained in the notice for the income tax return;
- jubilee awards, which are not contained in the notice for tax assessment; and
- premiums paid by Group companies for optional additional pension insurance.

Income of Supervisory Board members

The income of supervisory board members includes:
- gross meeting fees and travel expenses.

In 2003, neither members of the administration or management, nor other employees per individual employment contract, nor members of the supervisory boards of the companies in the Group received any shares in the profit by resolution of the shareholders' assembly; nor did the companies approve any advances, new loans, or warranties for them.

For these groups of persons, income and receivables listed under received housing loans approved before the year 2003 are shown in the accompanying tables.

In 2003, repayment of receivables listed as loans came to SIT 1,839,000.

Rates of interest on granted loans are as follows:
- basic interest rate + 2%-3%;
- currency clause; and
- point value for ascertaining the value of the housing, defined in accordance with the growth of the euro at the mean exchange rate of the Bank of Slovenia.

Income of Individual Groups of Persons in the Current and Previous Years

in SIT 1000

Groups of persons	Year 2003	Year 2002
Members of Management Boards and administration	279,377	308,745
Other employees per individual contract	795,189	853,301
Members of Supervisory Boards	14,375	21,003

Receivables from Loans Due from Individual Groups of Persons in the Current and Previous Years

in SIT 1000

Groups of persons	Year 2003	Year 2002
Members of Management Boards and administration	0	551
Other employees per individual contract	13,938	20,138
Members of Supervisory Boards	1,215	1,329

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Acronyms Used in the Annual Report

Acronym	Explanation
DEM	Dravske elektrarne Maribor d.o.o.
EEX	European Energy Exchange
ELES	Elektro-Slovenija d.o.o.
EU	European Union
EUR	Euro
EXAA	Energy Exchange Austria
HPP	hydropower plant
HSE	Holding Slovenske elektrarne d.o.o.
ISO	The International Organization for Standardization
NEK	Nuklearna elektrarna Krško d.o.o. (Krško Nuclear Power Plant)
NEP	National energy program
OHSAS	Occupational Health and Safety Standard
PV	Premogovnik Velenje d.d.
RECS	Renewable Energy Certificate System
RMPP	Risk Management Policies and Procedures
SAS	Slovenian Accounting Standards
SEL	Savske elektrarne Ljubljana d.o.o.
SENG	Soške elektrarne Nova Gorica d.o.o.
SIT	Slovenian tolar
TDR - Metalurgija	Tovarna dušika Ruše - Metalurgija d.d.
TEB	Termoelektrarna Brestanica d.o.o.
TEŠ	Termoelektrarna Šoštanj d.o.o.

HSE Annual Report 2003

Published by: HSE d.o.o., Koprska ulica 92, 1000 Ljubljana, Slovenia

Photo: Borut Peterlin

Text: HSE d.o.o.

Translation: Rawley Graw

Production: Luna\TBWA

September 2004

This document was published in accordance with Paragraph 8, Article 55 of the Corporate Law - F - novel

The Slovenian version of this annual report is authoritative.