



# Energy.

# Key to the Future.

ANNUAL  
REPORT  
2004

**hse**

## Key Numbers

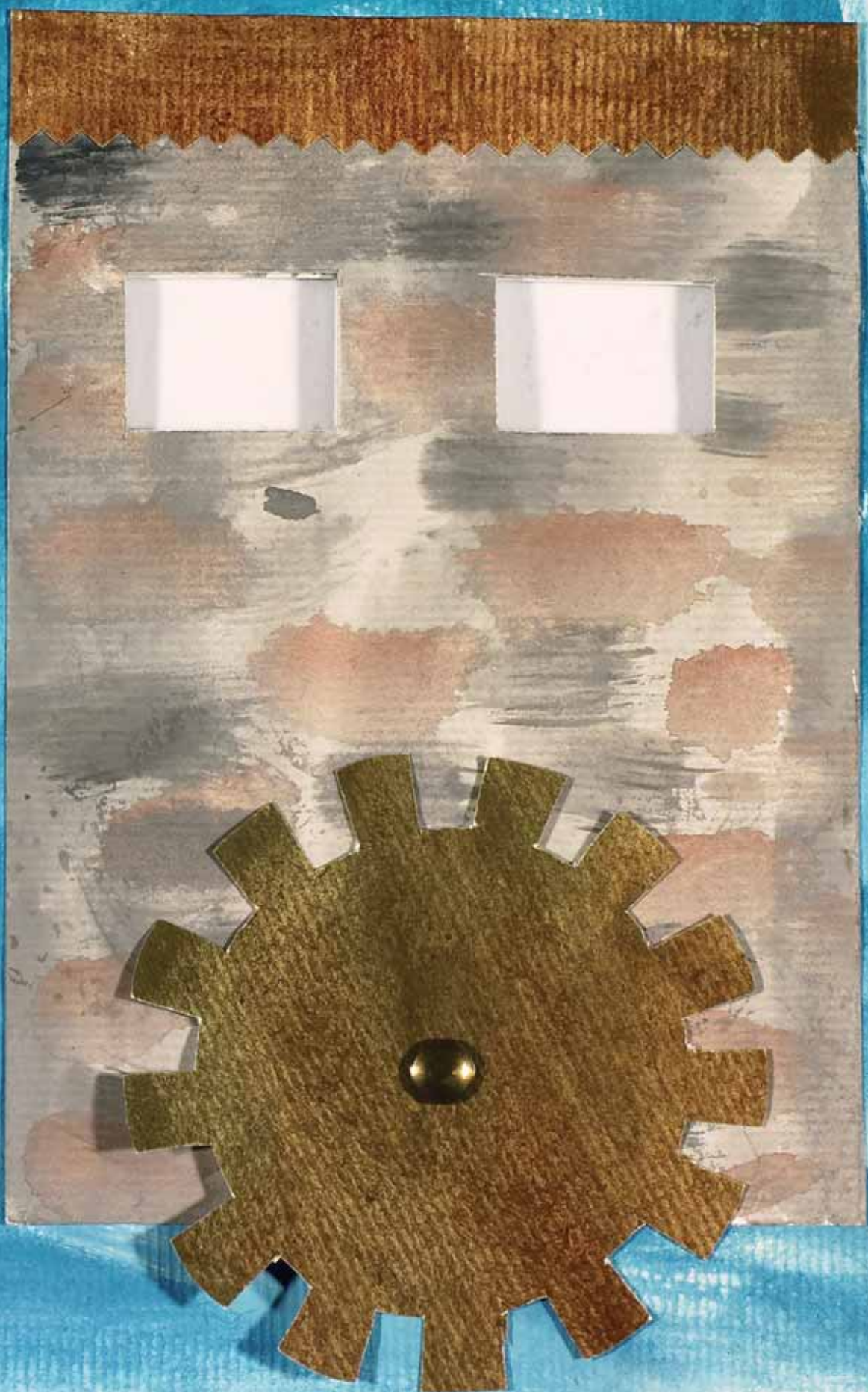
- 7,272 GWh of electricity produced
- 3,700 GWh of electricity generated from renewable sources
- 11,000 GWh of electricity sold
- 9.9 billion SIT of net profit of the *HSE d.o.o.*
- 17.9 billion SIT of net profit of the *HSE Group*
- Harmonized group of 24 companies with 4,998 employees
- 365 + 1 days of safe and reliable power supply

### HSE d.o.o. – Year-on Comparison of Key Figures

	2004	2003	Index 04/03
Net sales revenues (SIT thousand)	116,294,167	90,231,706	129
Total revenues (SIT thousand)	116,771,579	90,993,613	128
Operating income (SIT thousand)	10,253,296	3,424,698	299
Net profit (SIT thousand)	9,862,827	3,974,153	248
Assets (SIT thousand)	238,348,554	222,675,069	107
Equity (SIT thousand)	204,620,006	188,082,513	109
Cash flow from operating activities (SIT thousand)	16,193,072	4,951,651	327
Economic value added (SIT thousand)	11,483,876	4,342,574	264
Electrical energy sold (GWh)	11,569	9,210	126
Number of employees as of 31 <sup>st</sup> December	86	73	118

### HSE Group – Year-on Comparison of Key Figures

	2004	2003	Index 04/03
Net sales revenues (SIT thousand)	124,855,234	97,488,187	128
Total revenues (SIT thousand)	131,198,861	107,070,828	123
Operating income (SIT thousand)	19,509,994	7,220,643	270
Net profit (SIT thousand)	17,986,422	6,702,268	268
Assets (SIT thousand)	342,271,621	337,940,995	101
Equity (SIT thousand)	240,753,971	222,794,507	108
Cash flow from operating activities (SIT thousand)	36,105,306	22,384,236	161
Economic value added (SIT thousand)	67,342,225	52,801,127	128
Number of employees as of 31 <sup>st</sup> December	4,998	5,104	98
Electrical energy generated (GWh)	7,272	6,269	116
Electrical energy sold (GWh)	10,754	8,773	123
Number of Group enterprises as of 31 <sup>st</sup> December	24	23	104





An aerial photograph of a coastline. A large, deep blue body of water, possibly a bay or a large lake, occupies the upper half of the frame. The water's surface shows some whitecaps and ripples. The shoreline is irregular, with small inlets and peninsulas. The land surrounding the water is a vibrant green, with visible textures of fields or forests. The overall composition is a high-angle, wide shot, emphasizing the natural landscape.

# ANNUAL REPORT

of HSE d.o.o.

and HSE Group

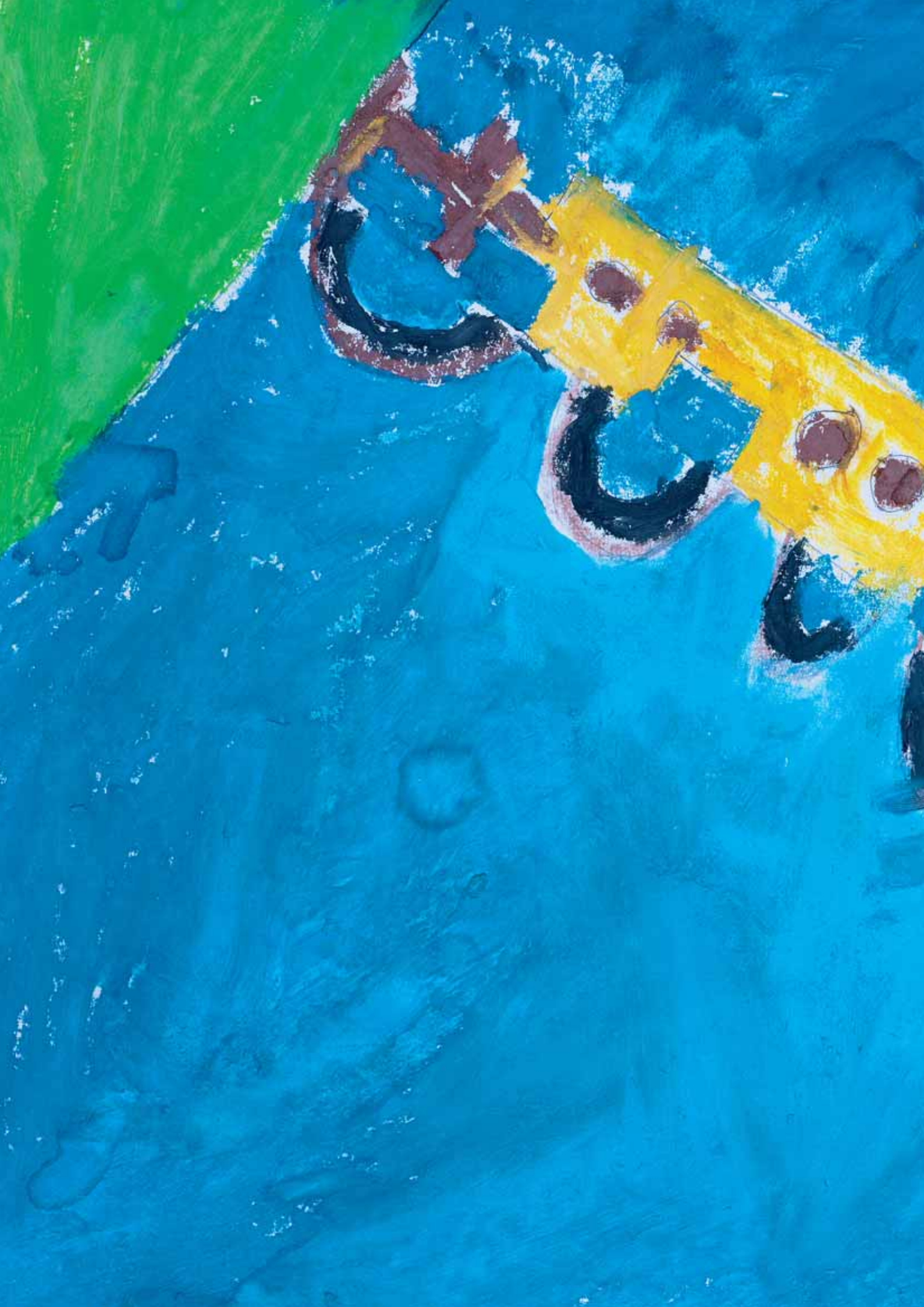
2004

























# Key to Every Success in the Future is the Energy of Today.

DYNAMIC AND SUSTAINABLE GROWTH FOREVER STEMS FROM VISION. TODAY WE REQUIRE VIABLE INVESTMENT-EFFICIENT WAYS TO MEET OUR NEEDS, WHEREAS FUTURE GENERATIONS REQUIRE NO MORE — AND NO LESS — THAN A VIABLE PLANET. RECONCILIATION AND FULFILMENT OF THE DEMANDS OF TODAY AND TOMORROW CAN ONLY BE ACHIEVED THROUGH THE PRUDENT EMPLOYMENT OF NON-POLLUTING TECHNOLOGIES — RIGHT NOW. THIS IS WHAT *HSE* IS ENDEAVOURING TO DO. OUR DESCENDANTS WILL JUDGE WHETHER OR NOT WE WERE ON THE RIGHT COURSE.



Aleksej 5 years old



Karin 8 years old



Tadej 9 years old



Andraž 9 years old



Timotej 6.5 years old



Jernej 10 years old



Sara 7 years old



Polona 10 years old



Tjaša 5 years old



Žan 6.5 years old



Mia 6 years old



Anja 8 years old



Polona 10 years old



Rene 7 years old



Uroš 8.5 years old



Karin 8 years old

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## A Year of Wise Decisions

It is said that a child really starts to grow up after the age of three. By that time he's over most of the diseases to which infants are so prone; he is out of the pram and push-chair, while diapers, bottles and dummies and similar such habits that make parents worry, gradually become trappings of the past. Until finally all there is to remind us of those days are photographs and occasional encounters with children who still have to make those first steps up the ladder of life.

2004 marked HSE's third year of operations – out of diapers, and growing up fast. All the objectives have been set, decisions taken, and moves made. Our performance, in the light of the company's actions and achievements, once again demonstrates that our mission – namely the safe and reliable provision of electrical energy to the Slovenian consumer – has been given absolute priority. The continuing accomplishment of this undertaking is vindicated by a mere glance at last year's operations-related events, including the construction of the new hydropower plants on the Sava according to schedule; initiation of works on the Avče pumped storage plant; commencement of the modernisation of generating unit No. 5 at Šoštanj; renovation of Zlatoličje and Medvode hydropower plants; preliminary activities pertaining to investment in a new combined cycle gas turbine (CCGT) in power plant at Kidričevo, as well as many other actions aimed at increasing this nation's generation capacities. The point of all this investment is simple. If Slovenia is not to depend upon – and thus become beholden to – others for its power, then electricity has to be generated at home. Such is also the only way to ensure the long-term competitiveness of both HSE and the Slovenian economy as a whole. In addition to this, and in the interests of adaptability, flexibility and efficiency, energy has to be generated from a variety of sources. And today, most important of all, electrical energy must be generated in a clean and sustainable way that will allow future generations to live in a world that is not degraded by thoughtless exploitation. Sustainability is henceforth the watchword of all our operations and investments. Congruent to the international standards with which Slovenia – and by way of this also HSE – has chosen to comply, only those options that involve minimal impact on the environment can be considered as the correct ones. Ratification of the Kyoto Protocol, which has been in force since January 2005, involves commitment to enhancing our respect and concern for the environment in which we live and work, while the gradual liberalization of the electricity market is providing the Slovenian consumer with a choice as to the source of the power they use.

The era when electricity was just electricity is most definitely a bygone one. The electrical energy of the future comes in a variety of forms which are marketed as a range of products. HSE's business plan has anticipated this trend, and in late-2004 we launched our new trademark – *Modra Energija*. Although fairly simple, the promotional graphics, colour and design tell it all: this is energy produced from a clean and renewable resource: the azure waters of Slovenia's rivers. By purchasing this energy every citizen can show their concern for tomorrow through actively participating in a scheme that helps preserve the environment. Henceforth, any claim of success today shall be measured through a consideration as to what such actions will yield future generations.

Future plans thus include two essential components: firstly, the bedrock of successful operations in the past, and secondly, motivation deriving from an aspiration to rise and meet the clearly determined challenges of the future.

HSE's operations are founded on power generation that continues to remain ahead of projections; ongoing cost-reductions that are providing a competitive advantage; penetration of the most demanding European markets, as well as energy trading on the most significant electricity exchanges. Further to this, all HSE Group enterprises

generated a profit in 2004. In our opinion the aforementioned is not just solid ground for future development, but also firm evidence that *HSE* is on the right track.

As regards the setting-out of challenges for the future, the company has prepared a ten-year development plan for the entire *HSE Group*. Endorsed by the government, this plan encompasses numerous objectives as well as clearly prescribes how they will be met. Over the coming years, *HSE* shall continue with its ambitious investment programme, the initial tangible result of which will be the coming on stream of Boštanj HPP, the first in the series of five new hydropower plants on Slovenia's lower Sava River. The company shall increase its trade in electrical energy on both domestic and foreign markets, and thus further build its position and reputation as an international operator. Cost reductions and improved efficiency at home shall yield benefits to the Slovenian consumer as well as ensure *HSE* is evermore competitive internationally.

Fully aware of the numerous risks that the *HSE* encounters in its operations, major attention shall be paid to timely risk management, further to which there shall be continued concern for the total quality management of all *HSE Group* enterprises.

And lastly, but by no means least, *HSE* shall do its best to meet the expectations and deliver satisfaction to its owners – the state – as well as its customers and employees; indeed, all those who benefit from, are involved in or influenced by our operations. Further to which, I would like to take this opportunity to personally thank all those who have contributed to the successful operations of the *HSE Group* in 2004. Together we have proven that the decisions taken during 2004 were wise ones, which gives us encouragement for the future too.

A handwritten signature in blue ink, appearing to read 'D. Fabijan', with a stylized flourish at the end.

Drago Fabijan, M.Sc.

GENERAL MANAGER

HOLDING SLOVENSKE ELEKTRARNE D.O.O.

## 1.2 Supervisory Board Report

### 1.2.1 Supervision and Control Over the Company's Operations

IN 2004, THE HSE d.o.o.  
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

In 2004, the Supervisory Board of *Holding Slovenske Elektrarne d.o.o.*, the parent company of the *HSE Group*, continued to actively monitor and supervise the management of business operations in accordance with its mandate and authority, as determined by Law and the company's Articles of Association.

At seven sessions during 2004, of which five were regular and two were correspondence, the Supervisory Board handled numerous matters of strategic importance as well as other issues pertinent to company operations. The Management submitted good-quality and accurate written reports and other materials for discussion, and in turn these became the items of agenda at subsequent Supervisory Board meetings at which they were addressed in detail. At the same time, however, information regarding some agenda items was also provided verbally. Forty-one issues were discussed at Board meetings during 2004, and forty-two decisions were adopted, further to which the Supervisory Board regularly monitored the implementation of resolutions as well as other corporate operations.

The operational objectives of *HSE d.o.o.*, and indeed the *HSE Group* as a whole during 2004, were defined in the business plan adopted by the Supervisory Board at its tenth regular session on 23<sup>rd</sup> March 2004, during which abstracts of the business plans and cost analyses of all *HSE Group* enterprises were also introduced.

At its 13<sup>th</sup> regular session on 18<sup>th</sup> November 2004, the Supervisory Board adopted the rescheduled *HSE d.o.o.* trading operations plan.

One of the most important strategic issues – and something discussed by the Supervisory Board at several of its meetings during 2004 – were the *HSE Group's* investment ventures, and specifically the construction of new power generation facilities. The classification of these investments, under primary and secondary orders of priority, was adopted at the Supervisory Board's tenth session on 23<sup>rd</sup> March 2004. Details of these projects are also incorporated in the *HSE Group Development Plan (2004-2013)* – with a *Look Ahead to 2023* which was endorsed by the Supervisory Board at its eleventh regular session on 27<sup>th</sup> May 2004. As the owner of *HSE*, the state's adoption of the *Development Plan* on 2<sup>nd</sup> August 2004 provided formal grounds for the basic development orientations of the entire *HSE Group* until 2013.

At its eleventh regular session on 27<sup>th</sup> May 2004, the Supervisory Board also discussed and endorsed the *HSE d.o.o.* and the *HSE Group* Annual Reports for 2003, together with the respective positive appraisals by the auditors *KPMG Slovenija d.o.o.* Additionally, the Supervisory Board consented to the Management Board proposal that distributable net profit for 2003 be retained, and such a decision was thence submitted for endorsement to the state authority in its capacity as the sole owner and founder.

By way of written and verbal reports provided by the Management, the Supervisory Board monitored the company's operations over the course of the year, and based

on the quarterly reports, as well as the six-month Management Board report on the operations of both *HSE d.o.o.* and the *HSE Group*, the Supervisory Board was informed as to business, performance and attained objectives.

In addition to the above, the Supervisory Board also:

- supported *HSE's* intention to enter into a joint-venture with *Verbund*, Austria, to construct a new thermal power plant facility, and further to that effect endorsed the agreement to establish a limited-liability subsidiary – *Plinsko Parna Elektrarna d.o.o.*, Kidričevo;
- sanctioned the capitalisation of *Elektro.TK d.o.o.*, which in early 2005 was renamed *Stelkom d.o.o.*;
- was notified as to the intent to conclude a long-term agreement with *PV* and *TEŠ* on the purchase of lignite, reserve power and electrical energy, and approved the Management Board's grounds and argumentation as to the requisites of said agreement;
- was informed on trading strategy regarding allocated cross-border transmission capacities;
- received reports on the progress of construction of the new HPPs on the lower Sava;
- endorsed the projected electrical energy trading strategy for 2005 and 2006, as well as the anticipated strategy for marketing electricity generated from the renewable sources on Slovenia's domestic market;
- received the interim and final report on the deals concluded for the purchase and sale of electrical energy in 2005 and 2006;
- was introduced to the conclusions of the *Second Strategic Conference* of the *HSE Group*;
- was provided with details of risk management activities within *HSE d.o.o.*;
- was informed as to the lending procedures of the *European Investment Bank*;
- sanctioned commencement of the liquidation of *HSE – IIP d.o.o.*, the company formerly charged with the construction of hydropower infrastructure in the Posavje region.

### 1.2.1 Review and Appraisal of the Annual Report

At its seventeenth regular session on 23<sup>rd</sup> May 2005, the Supervisory Board discussed the *HSE d.o.o.* and *HSE Group* Annual Reports for 2004, together with the respective auditor's reports as well as the Management Board's proposal as to the allocation of distributable net profit.

The audits of *HSE d.o.o.* and *HSE Group* financial statements, as well as the revision as to the conformity of the business reports of both entities for 2004, were performed by the *KPMG Slovenija, d.o.o.*, the appointed auditors.

According to the auditor's appraisal as of 10<sup>th</sup> May 2005, the Financial Statements of *HSE d.o.o.* and *HSE Group* together with the accompanying Notes, disclose a true and fair picture of the Company's and Group's finances as of 31<sup>st</sup> December 2004, as well as

their business operations (revenues and expenses) and cash flow for that same period in compliance with *Slovenian Accounting Standards*. The Business Report is congruent with the audited financial statements.

Based on a review of the auditor's reports, and the explanations delivered at the SB's session, the Supervisory Board of HSE d.o.o. and the HSE Group has no commentary on the auditor's reports. Based on its regular monitoring of HSE d.o.o. operations, the positive auditor's appraisals, net profit generated by the Company and the Group, the accomplishment of objectives set forth in the 2004 business plan, as well as upon final revision and in compliance with its competences and authorities, the HSE d.o.o. Supervisory Board has no commentary upon the Company's and Group's Annual Reports for 2004, and thus endorses them.

The HSE d.o.o. net profit for 2004 amounts to 9,862,827,143.45 Slovene tolar. At its sixteenth regular session on 24<sup>th</sup> March 2005, during the compilation of the 2004 Annual Report, the Supervisory Board consented to the Management Board proposal that 4,931,413,571.72 Slovene tolar be allocated to other retained earnings. The remainder of the net profit is distributable net profit for 2004, and amounts to 4,931,413,571.72 Slovene tolar.

In compliance with the strategic objectives and the investment policy, the Supervisory Board of the HSE d.o.o. endorses the Management Board proposal to the state authority, in its capacity as the sole owner and founder, that distributable net profit in the amount of 4,931,413,571.72 Slovene tolar shall exclusively be allocated to other retained earnings.



Djordje Žebeljan, M.Sc.

CHAIRMAN OF THE SUPERVISORY BOARD  
HOLDING SLOVENSKE ELEKTRARNE D.O.O.

Ljubljana, Slovenia

23<sup>rd</sup> May 2005

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Supervisory Board of HSE d.o.o. prepared this Report in compliance with the Article 274a of the *Companies Act*. The Report is aimed at the company's General Assembly.

## 1.3 Significant Events in the HSE Group during 2004

1

January

- Renovated generator No. 2 of the Ožbalt HPP is synchronised with the transmission network.
- PV becomes a member of Eurocoal – the European coal and lignite association.

2

February

- The constituent assembly of Slovenia's national committee of the RECS Association adopts the decision that RECS Slovenia is officially constituted as the national association of RECS International.
- Generator No. 2 at Medvode HPP was taken off-line for a refit. It was successfully reinstalled in December 2004.

3

March

- Signing of a contract for the supply of control centre equipment for Boštanj HPP.
- Signing of a contract for the construction of the reservoir for Boštanj HPP.
- HSE participates at the strategic conference of the Energy Association at the Chamber of Commerce and Industry of Slovenia.
- SENG prepares a project for the acquisition of planning permission and publishes a call for tenders for the construction of a small hydroelectric plant on the Klavžarica stream near Idrija.

4

April

- Technical assessment of the SENG control centre.
- HSE, DEM, SEL and SENG complete the re-capitalisation of HSE Invest.
- DEM holds a press conference to mark the 35<sup>th</sup> anniversary of the Zlatoličje HPP.
- Commencement of the overhaul of two 114 MW gas turbines at the TEB in order that certain faults can be rectified prior to the expiration of the warranty period which runs out on 30<sup>th</sup> June. The overhaul was completed in due time.

5

May

- HSE commences trading in futures contracts on the EEX.
- Completion of concrete pouring for the spillways at Boštanj HPP.
- Final permission is issued for the construction of the Boštanj HPP reservoir.
- PV participates in a new safety-related project entitled *How Safe is Safe Enough?*
- Based on a fixed-term concession, Karbon – Čiste Tehnologije – a PV associate enterprise – begins the ecologically-sound dismantling of scrapped motor cars in order that the component parts can be appropriately recycled.
- TEŠ successfully completes the overhaul of generating units Nos. 1 and 3.

6

June

- A new three-member Supervisory Board is appointed at DEM.
- DEM employees negotiate a new collective bargain.
- SENG adopts a development plan to the year 2010, as well as a location plan for the Avče pumped storage plant.
- Start of construction work on the Boštanj HPP reservoir.
- Contract signed with IBE Ljubljana for the complete project engineering of the Blanca and Krško HPPs.
- SEL signs a general agreement with HSE Invest on the provision of engineering services re the renovation and construction of new generating facilities on the Sava River and its tributaries.
- SEL invests much effort and activities into a public information that shall hopefully result in the granting of permission for the refurbishment and reconstruction of the Moste HPP – the only Slovenian HPP which has not undergone necessary renovation work; as a result of this postponement, the capacities of the Moste plant, with its potential weekly storage facility, are not being fully utilised.
- New members of the Workers' Council are voted at TEŠ.
- TEŠ's General Assembly adopts the ten-year development plan which was discussed at the first strategic conference of the HSE Group in 2003.

7

July

- TEB successfully passes a test of its new gas turbines under an emergency operating regime, in which generation commenced without grid power (black start).
- Contract awarded for the provision of the main transformer for the new Boštanj HPP.

8

August

- The Slovenian government adopts a *HSE Group Development Plan (2004-2013) – with a Look Ahead to 2023*.
- The new collective bargain adopted by SEL results in the harmonisation of all collective bargains of HSE Group hydropower facilities.
- PV supports the post-earthquake rehabilitation of the Soča Valley region by donating money for the construction of a prefabricated house.

9

September

- HSE relinquishes infrastructure investment contracts to *Infra* company.
- PV and the Ljubljana-based *BTC d.d.* sign an agreement on the development of a sport and recreational facility around Velenje lake.
- HSE Invest's Nova Gorica office begins operations.
- PV, TEŠ and HSE sign a ten-year agreement on the purchase of lignite, reserve power and electrical energy.
- The foundation stone for the new Avče pumped storage plant is laid.

10

October

- The launching of the *Modra Energija* trademark.
- PV's *How Safe is Safe Enough?* is selected as project of the year at a Slovenian human resources management conference.
- TEŠ and *Siemens Slovenija* sign a contract on the supply and installation of two turbo-generators.
- The overhaul of TEŠ's generating unit No. 2 is successfully completed.

- Initiation of the gantry crane installation at Boštanj HPP.
- Signing of contracts for power protection and SCADA as well as pertaining remote and local control system equipment for Boštanj HPP.
- A new Workers' Council is formed at TEB.
- DEM and HSE Invest sign an agreement on the provision of engineering services in the renovation of the Zlatoličje HPP, the Melje dam and the construction of the small HPP Melje.

11

November

- On November 11<sup>th</sup> and 12<sup>th</sup> the *Second Strategic Conference* of the HSE Group takes place in Ribno near Bled.
- PV organises the eighth business and strategic conference of the PV Group, at which the development plans of both parent and subsidiary enterprises were discussed.
- Celebration of the 20<sup>th</sup> anniversary of the opening of Solkan HPP.
- The second spatial planning conference for the Blanca HPP takes place.

12

December

- A contract on preparatory works for the construction of the 800 MW Kidričevo CCGT power plant is signed.
- DEM signs a preliminary agreement on the purchase of the Ceršak small HPP.
- SENG begins preliminary works on the Avče pumped storage plant.
- Within the context of the programme for the post-earthquake rehabilitation of the Soča region, HSE and SENG donate money for the construction of a prefabricated house in Čezsoča.

# Keys are for Opening Doors.

WHEN WE OPEN A DOOR WE  
CAN TURN ON AN ELECTRIC  
LIGHT TO SEE WHERE THINGS  
ARE. GRANDMA TOLD ME THAT  
ELECTRICITY IS MADE FROM  
BURNING COAL, BUT IT CAN  
BE MADE IN OTHER WAYS TOO.  
MAYBE WHEN I GROW UP WE  
WON'T USE COAL ANYMORE,  
BECAUSE THERE WILL BE  
NEW THINGS. MAYBE EVEN  
NEW KEYS ...







BUSINESS  
REPORT  
2004

## 2.1 General Information about the Parent Company – HSE d.o.o.

FULL TITLE	Holding Slovenske Elektrarne d.o.o.
SHORT TITLE	HSE d.o.o.
LEGAL STATUS	Limited liability company
HEADQUARTERS	Koprska ulica 92, SI-1000 Ljubljana, Slovenia
TELEPHONE	+386 (0)1 470 41 00
FAX	+386 (0)1 470 41 01
ENTRY NUMBER	Application No. 1/35036/00, registered with the Ljubljana District Court
ISSUED SHARE CAPITAL	1,156,216,668 Slovene tolar
SIZE DEFINITION	Large company
OWNERSHIP STRUCTURE	100 % ownership of the Republic of Slovenia
TRANSACTION ACCOUNT	04302-0000317271
TRANSACTION ACCOUNT (JOINT VENTURE PROJECT)	04302-0001020424
TAX NUMBER	99666189
REGISTRATION NUMBER	1662970
URL	www.hse.si
E-MAIL	hse@hse.si, info@hse.si
CHAIRMAN OF MANAGEMENT BOARD	Drago Fabijan, M.Sc.
MEMBERS OF MANAGEMENT BOARD	Milan Medved, Ph.D. / Ladislav Tomšič
CHAIRMAN OF SUPERVISORY BOARD	Djordje Žebeljan, M.Sc.

### Act of Establishment

Through an executive act, the Government of the Republic of Slovenia established *Holding Slovenske Elektrarne d.o.o. (HSE)* at its 38<sup>th</sup> session on 26<sup>th</sup> July 2001.

HSE was established for the following reasons:

- to consolidate and make uniform the performance of those power generation enterprises that henceforth encompassed the subsidiaries of HSE – the parent company – particularly as regards the generation and sale of electrical energy in the context of a free market;
- to enhance the competitiveness of Slovenian power generation enterprises;
- to realize the construction of hydropower plants along Slovenia's Lower Sava River.

### Ownership Structure of HSE

In establishing *Holding Slovenske Elektrarne*, the state agglomerated its commercial holdings in the individual enterprises that were thenceforth controlled by the new holding company. The share capital of HSE is in the entire (100 %) ownership of the state, namely the Republic of Slovenia.

## 2.2 HSE Group Profile

### Integrated Diversity

The integration of hydro and thermal power generation plants – as well as a lignite mining operation – within the context of a single entity, the co-ordinated marketing of electrical energy derived from an array of sources, joint penetration of foreign markets, as well as agglomerated investment into development projects, provide HSE Group enterprises with enhanced flexibility, a competitive advantage, as well as near total diminution of the likelihood of any outage in the collective provision of a steady supply of electrical power to the customer.

### Primary Activities of the Group

The HSE Group is primarily engaged in the management of energy provision as well as environmental, logistical and risk management processes related to its core business.

This broad range of activities and concerns may be grouped into the following main categories of operations:

- production of electrical energy and heat (power generation and provision)
- mining of lignite
- sale and trade of electrical energy and heat
- optimisation of production capacities and supply provision
- provision of ancillary services necessary to ensure power system operations
- management and implementation of energy and environmental projects; and
- production of calcium carbide, ferrosilicon, together with mass ferroalloys and complex alloys.

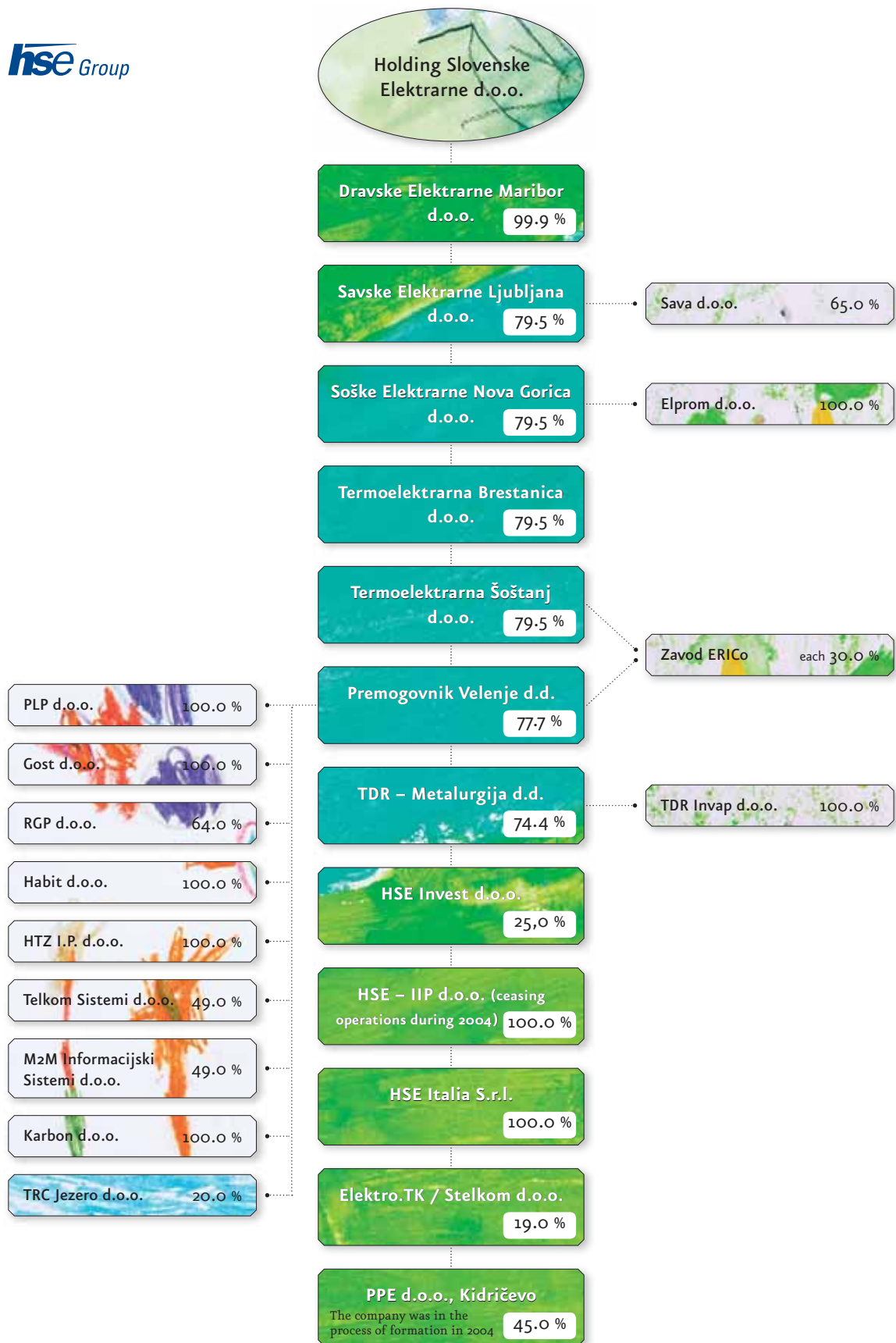
The core business of the Group pertains to the production and trade of electrical energy, thus the major portion of this Annual Report pertains to this same area.



IN 2004, THE HSE Group WAS COMPRISED  
OF THE FOLLOWING ENTERPRISES:

- *Holding Slovenske Elektrarne d.o.o. (HSE)*  
as the parent company; together with:
- *Dravske Elektrarne Maribor d.o.o. (DEM)*
- *Savske Elektrarne Ljubljana d.o.o. (SEL)*  
→ itself with one subsidiary
- *Soške Elektrarne Nova Gorica d.o.o. (SENG)*  
→ itself with one subsidiary
- *Termoelektrarna Brestanica d.o.o. (TEB)*
- *Termoelektrarna Šoštanj d.o.o. (TEŠ)*
- *Premogovnik Velenje d.d. (PV)*  
→ itself with six subsidiaries and three associated companies
- *TDR – Metalurgija d.d.*  
→ itself with one subsidiary
- *HSE Invest d.o.o.*
- *HSE – IIP d.o.o. (ceasing operations during 2004)*
- *HSE Italia S.r.l.*

TEŠ and PV each hold a 30 % interest in ERICo; although basic information is provided herein as to the activities of this Institute, its financial operations are not encompassed by the Group Annual Report. Likewise, the Annual Report does not include any performance-related information on Sava and Elprom, both of which are dormant, or TRC Jezero, a lakeside tourism and recreation enterprise.





### Dravske Elektrarne Maribor d.o.o.

With its chain of facilities along the Drava River in northeastern Slovenia, *Dravske Elektrarne Maribor (DEM)* is the largest operator of hydropower plants in the country. Upon completion of the second phase of overhaul and refurbishment in late 2005, the total net capacity of this enterprise's eight river plants shall amount to 575 MW. DEM's control centre ensures uninterrupted power generation in the chain, as well as monitors the flow of the Drava River within the territory of Slovenia. In total DEM meets some 25 % of the nation's electrical power needs, and it also runs the operational control centre for the entire generation capacities of the HSE Group.



### Savske Elektrarne Ljubljana d.o.o.

In addition to its core function of operating a series of four hydropower stations in northern central Slovenia, *Savske Elektrarne Ljubljana (SEL)* provides operational and maintenance services for all the Group's hydropower facilities. SEL is also engaged in project engineering pertaining to power infrastructure, installation services, testing, metrology, start-up, commissioning and experimental development. SEL's combined net power generation capacity amounts to 117 MW.



### Sava d.o.o.

Sava d.o.o., a subsidiary of SEL, was established to help meet the needs of constructing a chain of new hydropower plants along Slovenia's Lower Sava River.



### Soške Elektrarne Nova Gorica d.o.o.

With a combined total net generation capacity of 160 MW, *Soške Elektrarne Nova Gorica (SENG)* operates and maintains the hydropower plants in the Soča Valley of western Slovenia. This company is also actively involved in the formulation of projects for the exploitation of sources of renewable energy in Slovenia, paying particular attention to the conditions and requirements of both the natural and social environments. The control centre in the town of Nova Gorica ensures the optimal quality operation of the power plants along the Soča river as well as nineteen small hydropower facilities on its tributaries. The Tolminka stream plant is of particular interest due to the fact that it also features as a trout hatchery, while the reservoir of the Zadlaščica facility provides the entire Tolmin and Most na Soči region with potable water.

### Elprom d.o.o.

Elprom d.o.o., a subsidiary of SENG, was established in order to conduct electrical energy trading operations.



### Termoelektrarna Brestanica d.o.o.

Over sixty years old now, *Termoelektrarna Brestanica (TEB)* has a net generation capacity of 312 MW. Further to the generation of power and the provision of ancillary services to the Group enterprises as a whole, this thermal plant is also engaged in the production of steam and hot water for local heating systems, the storage of liquid fuels, as well as project engineering, technical consultancy and expert valuation and analyses. First and foremost, TEB maintains a considerable reserve capacity, and is therefore a reliable provider in emergency situations. Due to its short response time – the plant can be producing 291 MW within a mere 15 minutes – it

is capable of prompt intervention in the event of any system over-load, or grid or plant outages. Primarily utilising natural gas and light oil, as well as combinations of both, *TEB* is very flexible and technologically adaptable as regards fuel.



### Termoelektrarna Šoštanj d.o.o.

With a net capacity of 683 MW, *Termoelektrarna Šoštanj (TEŠ)* is the largest single generating facility in the HSE Group. This thermal plant is easily capable of generating one third of Slovenia's power needs, and in an emergency it can meet more than one half of national demand. In addition to electrical energy, it also provides community heating to a major part of the adjacent Velenje district. The plant encompasses five generating units and two thermal stations. Utilising lignite from the nearby Velenje mine, *TEŠ* is fairly similar to other such European facilities; however, the operational ability of its generation capacity is well above average. *TEŠ* also provides a number of auxiliary services to Slovenia's power generation sector.



### Premogovnik Velenje d.d.

With its high safety standards, cutting-edge technology and state-of-the-art equipment, *Premogovnik Velenje (PV)* ranks among the most important lignite sources in Europe. Distinguished by its broad seams and high levels of productivity, this mine also boasts a unique extraction technique – the *Velenje Longwall Method* – which features especially adapted moveable hydraulic supports as well as integrated infill and post-extraction land reclamation.

The annual production of the Velenje mine very much correlates with the needs of *TEŠ*; however, on average it amounts to some four million tonnes of lignite.

The mine's skilled experts, adroit in various aspects of geo-technology, including subterranean and open cast project engineering, are regularly engaged in geo-mechanical studies as well as other excavation and engineering consultancy work on behalf of third parties. Modern equipment and technical expertise form the keystone of employee-safety and – through high productivity – the provision of a very competitively priced energy resource which strengthens the position of *TEŠ* and the HSE Group as a whole.

The following companies operate within the *Premogovnik Velenje Group*:



### PLP d.o.o.

*PLP d.o.o.* is a timber-processing enterprise which provides timber elements for the needs of the Velenje mine operation. In order to ensure maximum safety, the elements supplied have to meet the very highest quality standards.



### Gost d.o.o.

*Gost d.o.o. Velenje* which was initially solely engaged in the restaurant business, has gradually expanded its operations into the provision of a range of tourist and catering services.



### RGP d.o.o.

*RGP d.o.o.* is involved in the engineering of penstocks as well as similar such subterranean civil engineering operations, including reinforcement and special mining construction works. The enterprise is also engaged in the execution of pertaining

engineering-mechanics and statics studies, together with the planning and implementation of services related to geo-metrology and geo-mechanics.



#### **Habit d.o.o.**

Habit d.o.o. is a Velenje-based real estate enterprise, which specialises in realty management. In addition to this, the firm handles the organisation and management of specialist construction and installation works for residential and other civil engineering projects.



#### **HTZ I.P. d.o.o.**

HTZ Velenje I.P. d.o.o. is engaged in the production, service and maintenance of machinery and systems installations. It is particularly distinguished by its rich experience and expertise in the maintenance of plant typical to the mining sector. HTZ Velenje I.P. also plays a significant role in the training and employment of the disabled.



#### **Telkom Sistemi d.o.o.**

Telkom Sistemi d.o.o. is involved in the provision of telecommunications services, encompassing project engineering, the installation, maintenance and servicing of telecommunication systems, networks and devices, as well as field-related sales and consultancy.



#### **M2M Informacijski Sistemi d.o.o.**

M2M Informacijski Sistemi d.o.o. develops and implements integrated information systems for enterprises. These engender cost-savings and more rapid response times in production facilities and supply chains.



#### **Karbon d.o.o.**

Founded in 2002, Karbon – Čiste Tehnologije d.o.o. is active in the development of clean technologies, namely, the carbonisation of lignite in order to form clean coal briquettes and active charcoal. The company is also evermore establishing itself as a centre for clean coal technologies.



#### **TRC Jezero d.o.o.**

TRC Jezero d.o.o. was founded in order to establish a tourist and recreational facility on the degraded land of Šaleška Valley, an area of erstwhile lignite excavation. This developing lakeside reserve will be distinguished by its sports and leisure facilities, including a water park with thermal water; indeed there shall be nothing to compare with it in all Slovenia.



#### **Zavod ERICo**

ERICo Velenje – Environmental Research & Industrial Co-operation Institute – is engaged in research and experimental development in the natural and social sciences, as well as pertaining ecological project engineering and technological applications, together with related consultancy, testing and analyses. In addition to all of this, the Institute plays a significant role in the field of education and training.



#### HSE Invest d.o.o.

The core activity of *HSE Invest* is the implementation of investments in the energy sector. Of particular significance is the company's role in the construction of the series of hydropower plants along Slovenia's Lower Sava River, which is currently the most important investment project – not merely for *HSE* but for the entire Slovenian power sector as a whole. In 2004, the company was re-capitalised by the *DEM*, *SEL* and *SENG* subsidiaries.



#### HSE – IIP d.o.o.

Ceasing operations during 2004, *HSE – IIP* was established for the management of the construction and regulation of infrastructure pertaining to the new hydropower facilities along the Lower Sava River. As of 1<sup>st</sup> September 2004 the company was no longer involved in these activities due to the fact that the state has founded a new public enterprise – *Infra* – which has taken over responsibilities related to the provision of the new hydropower generation infrastructure on the Sava River.



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

Headquartered in Gorizia (Italy), *HSE Italia S.r.l.* was established in 2003 to help meet the Group's need to become engaged in electricity trading within the European Union. This company also presents an opportunity to accomplish investment-related partnerships in Italy. In 2004, by way of the creation of balance groups, *HSE Italia S.r.l.* provided accession to the markets of Central Europe and, consequently, also to the Leipzig-based *EEX*, Europe's most important electricity exchange.



#### TDR – Metalurgija d.d.

*TDR – Metalurgija d.d.* is the largest component of the former *Tovarna Dušika Ruše*, one of the earliest electro-chemicals manufacturers in Central Europe. Today the enterprise is involved in the production of calcium carbide and ferroalloys.



#### TDR Invap d.o.o.

In 2003 *TDR – Metalurgija* founded *TDR Invap*, a company employing disabled workers. *TDR Invap*'s operations encompass the provision of a variety of services, such as security, cleaning and catering, both on behalf of the parent company as well as an independent external contractor.



#### Elektro.TK / Stelkom

*Stelkom d.o.o.* – formerly *Elektro.TK* – is a joint venture created in late 2002 by *ELES*, *HSE* and a number of local distribution companies. The aim of this new enterprise is to market and trade the redundant telecommunications capacities which are provided by Slovenia's power distribution network. The company renamed *Stelkom* in January 2005.

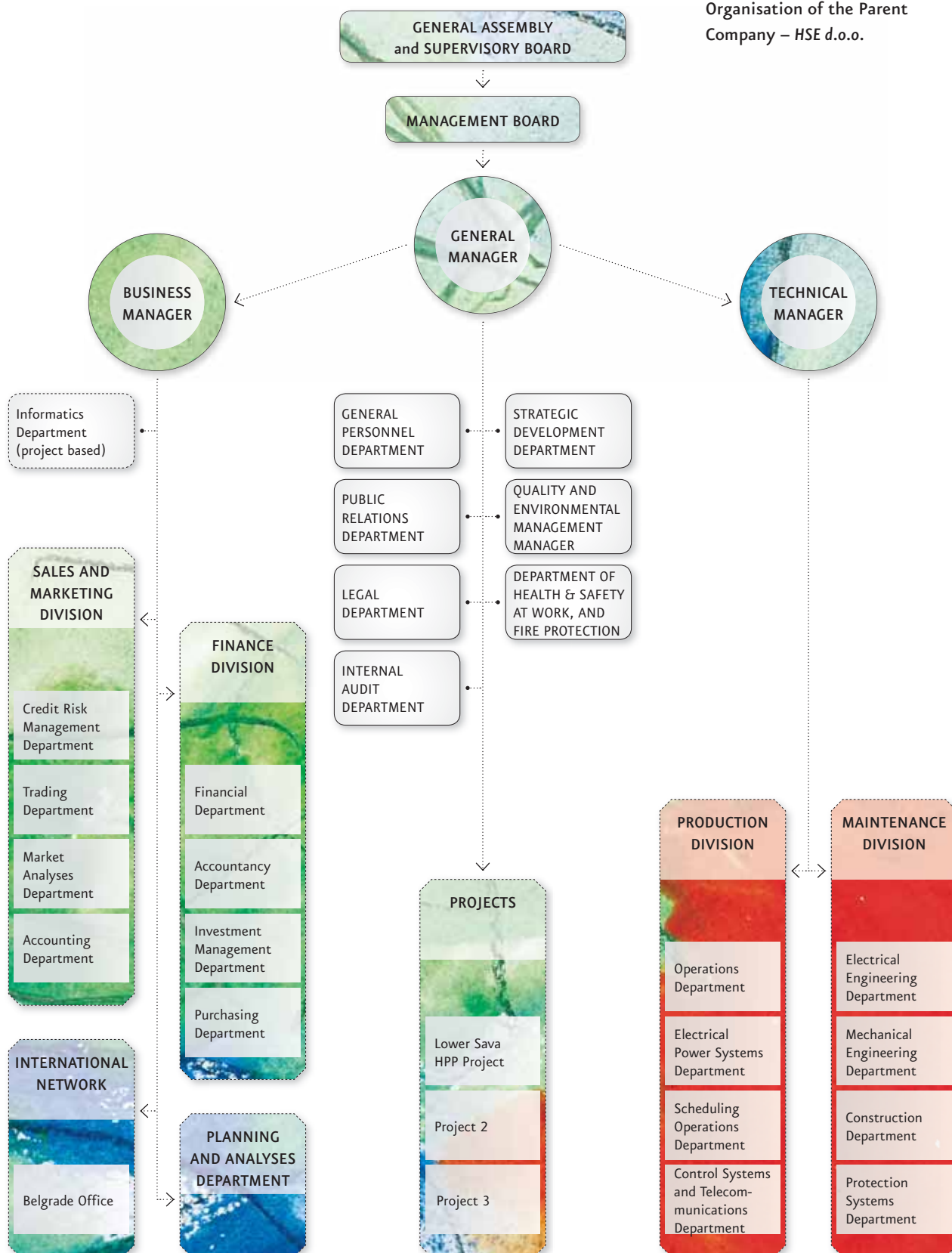


#### Skupni podvig

The Joint Venture project is a commercial endeavour involving *HSE*, *DEM*, *SEL*, *SENG* and *TEB* in the construction of a new series of hydropower plants along Slovenia's Lower Sava River – namely the Boštanj, Blanca, Krško, Brežice and Mokrice HPPs. The aforementioned enterprises of the *HSE Group* are working together in order to provide the requisite expert, technical and financial resources necessary to elaborate and thence accomplish these momentous clean-energy investments.

## 2.2.1. Structure of the HSE Group

Organisation of the Parent Company – HSE d.o.o.



HSE d.o.o. is the parent company of the HSE Group and operates from six locations.

#### Ljubljana Headquarters

The HSE headquarters, located in Slovenia's capital, is the seat of the company's Management Board, as well as administration, marketing and finance operations.

#### Maribor Office

In addition to being the generation management centre, Maribor is also responsible for strategic development.

#### Velenje Office

The Velenje division is primarily engaged in maintaining power provision for the domestic market, trading activities within the HSE Group, the monitoring and calculation of energy imbalances, and long-term planning.

#### Nova Gorica Office

Nova Gorica is responsible for foreign markets.

#### Sevnica Office

Sevnica is primarily responsible for the co-ordination of activities related to the construction of new HPPs along Slovenia's Lower Sava River.

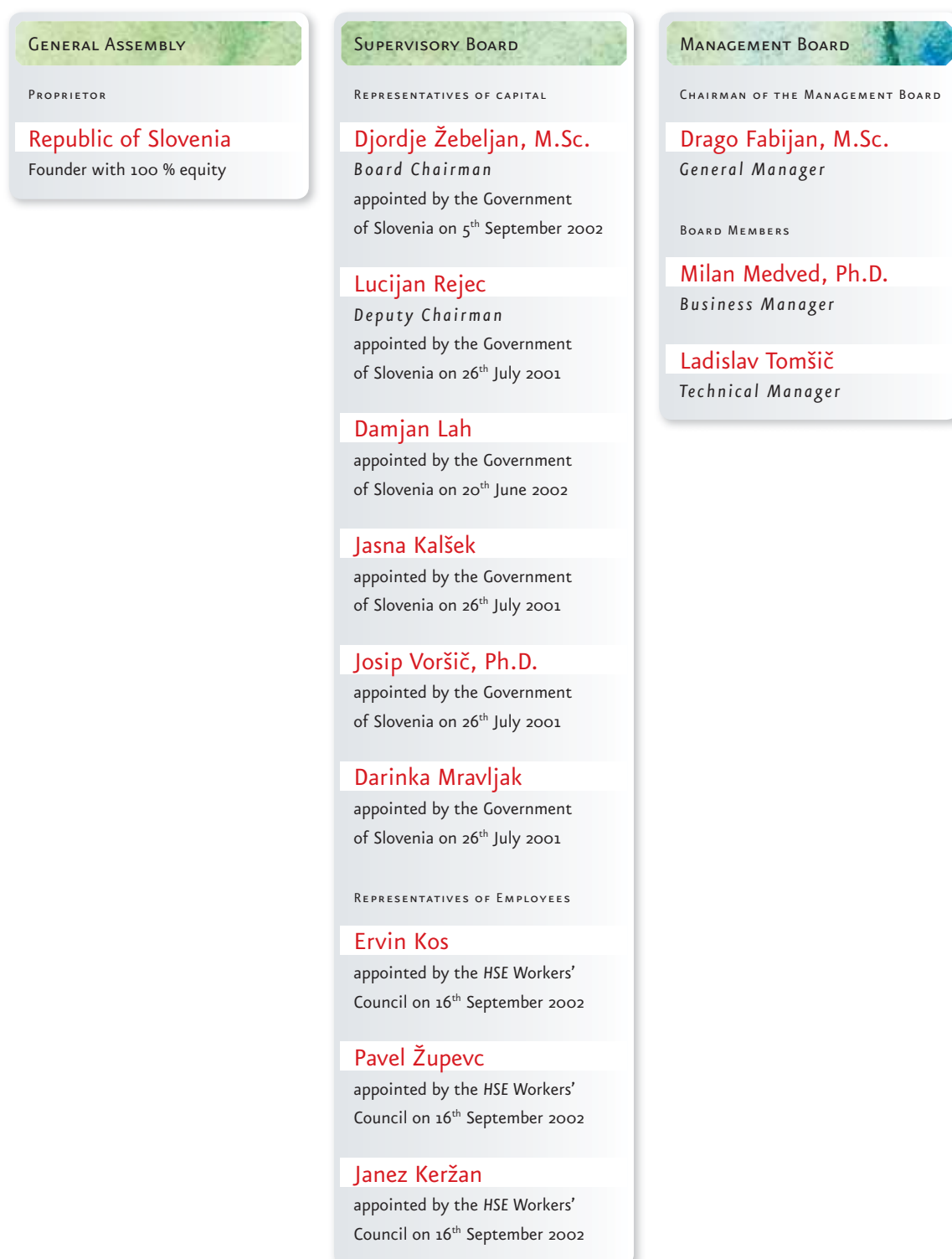
#### Belgrade Office

Established in 2003, HSE's Belgrade office is another platform for the further expansion of Group's operations on foreign markets, in particular Southeastern Europe. With regard to electricity supply and consumption, as well as transit and trading, the Balkans can be considered a very important new market for HSE.

## 2.2.2 Governance of the HSE Group

### Governing Bodies of the Parent Company – HSE d.o.o.

As the sole owner, the Republic of Slovenia governs the parent company, both directly and indirectly, through its Management Board and Supervisory Board.



### Governance of the Parent Company – HSE d.o.o.

In accordance with the competences determined and stipulated in the *Act of Establishment*, the Founder decides independently on the strategic and developmental orientations of the Company, the allocation of distributable net profit, changes in equity, as well as on any other matter which provides direction or impetus as to the Company's operations.

The Supervisory Board consists of nine members, six of whom represent the interests of the Founder (the state) while the remaining three represent the interests of the employees (the Workers' Council). The Supervisory Board oversees the management

of the Company, and within the context of its remit it submits proposals which are thence considered by representatives of the state; it also examines and endorses annual and other reports, as well as appoints the members of the Management Board.

The Company is directed by a three-member Management Board, comprised of a General Manager, as well as Business and Technical Managers.

### Governance of Subsidiary Enterprises

All subsidiaries, with the exception of *HSE Italia*, are headed by a single managing director or a management board, and overseen by three-member supervisory boards.

Management of HSE Group Enterprises		
Enterprise	Managing Director	Other Management Board Members
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 Invest	Vili Vindiš	
HSE – IIP (ceasing operations)	Vojko Sotošek, M.Sc. (until 26 <sup>th</sup> Oct. 2004) Irena Stare (from 26 <sup>th</sup> Oct. 2004)	
HSE Italia	Igor Orel	Milan Medved, Ph.D. / Aleš Feri
TDR – Metalurgija	Miran Kunst (until 15 <sup>th</sup> Dec. 2004) Andrej Kokalj, M.Sc. (from 15 <sup>th</sup> Dec. 2004)	

### Employee Participation in Management

During 2004 the management of Group enterprises pursued regular and close collaboration with the trade unions and workers' councils that have operated within these companies since their very beginnings.

### HSE Group Enterprises and the Trade Unions

Trade-union activity in the DEM, SEL, SENG, TEB and TEŠ subsidiaries is co-ordinated by the *Sindikat Delavcev Dejavnosti Energetike Slovenije* (SDE – Slovenian power sector union), one of the strongest within the *Zveza Svobodnih Sindikatov Slovenije* (ZSSS – Slovenian trade union congress). HSE d.o.o. and HSE Invest are in the process of establishing union representation.

In addition to the SDE, two other trade unions operate within the HSE Group: *Neodvisnost* (representing some 10 % of SENG employees) and *Sindikat Pridobivanja Energetskih Surovin Slovenije* (SPES – union of coalminers) which is active in the PV Group.

The SDE's Electrical Energy Sector Conference also encompasses its co-ordination of union activities within the HSE Group as well as the appointment of trade union representatives in the subsidiaries in which it operates. Union representatives communicate directly with HSE management as well as the managers of the subsidiaries in which the individual branches operate. This spirit of co-operation ensures timely reaction and rapid solution to any problems as and when they arise, as well as open discussion of suggestions and proposals. Such co-ordinated collaboration also extends to the Joint Workers' Council of the HSE Group.

### Workers' Councils in HSE Group Enterprises

Through the workers' councils, HSE Group employees enjoy their statutory right to participate in management. Each such workers' council co-opts representatives drawn from the workforce onto the supervisory board of the company in which they operate.

### Joint Workers' Council of the HSE Group

In compliance with Slovenia's *Worker Participation in Management Act*, the HSE Group also features a Joint Workers' Council, a body which further reinforces the statutory rights of employees. By way of this, various interests are taken into consideration, and broad consensus is achieved both in terms of the Group's developmental plans as well as the implementation of various aspects of the social contract.

## 2.3 HSE Group Mission, Vision and Values

### Mission

The mission of the HSE Group – the prime mover of Slovenia's power generation sector – is to remain the largest provider of electrical energy in the domestic market. It shall achieve this through the pursuit of a research, development and investment strategy that will expand the nation's renewable generation capacities and thus gain an increasing presence on international markets as a reliable provider of clean energy.

### Vision

It is the Group's vision to attain the optimal exploitation of renewable energy sources in Slovenia, and – through competent risk management and adroit diversification into new areas of business – establish itself as a successful and competitive international power-generation enterprise.

### Values

Ever considerate of the broader social environment in which it operates, HSE Group values are reflected in its relationships with customers and the consumer, as well as business partners, employees and indeed the citizens of Slovenia who are its de facto owners. The Group's core values encompass the following:

- Concern for the satisfaction of its customers, namely all those who rely on HSE's generated power.
- The development of conscientious long-term relationships with clients and business partners.
- Concern for the environment and with that ever-greater reliance on clean and renewable energy sources.
- Continual augmentation of existing competencies and proficiencies.
- Ongoing employee education and training programmes which foster the abilities, competence and creativity of the workforce.
- Ensuring a healthy, safe and stable working environment.
- Efficient performance and the generation of a return for its owners.
- On-going development and enhancement of the management system.

### Strategic Objectives of the HSE Group

- Provision of safe and reliable power generation in Slovenia
- Increase in the Group's presence in foreign electricity markets
- Construction of the series of HPPs along Slovenia's Lower Sava River, as well as other new generation facilities
- Reduction of operational costs in the Group enterprises
- Enhancement of the competitiveness of the Group enterprises
- Multi-commodity trading
- Expansion of operations into power engineering
- Successful management and supervision of power-related projects
- Management of strategic development and investments
- Improvement of quality as well as environmental awareness in every field of operation
- Enhancement of the satisfaction of customers, employees and owners.

### HSE Group Development Plan (2004-2013) – with a Look Ahead to 2023

Being aware of its pivotal role as a true powerhouse of the Slovenian economy, the HSE Group has since its very inception – and even more intensively after its first strategic conference – engaged in the preparation of a list of prospective projects and locales for the construction of power generation facilities in Slovenia. The government's adoption of the *HSE Group Development Plan (2004-2013)*, which also provides a projective development assessment to 2023, and is itself based on the Slovenia's *National Energy Program*, is vindication that the Group is making apt decisions as to its strategic orientation and future development.

## Priority Investments into New Power Generation Facilities

as identified in the HSE Group Development Plan (2004-2013)

Project	New installed capacity (MW)	Output (GWh)	Estimated investment (million EUR)	Envisaged construction (year)
<b>I. HIGH PRIORITY INFRASTRUCTURE INVESTMENTS</b>				
<b>A. Facility reconstruction</b>				
Overhaul of Zlatoličje HPP (Drava River)	24	45	50	2005 – 2007
Refurbishment of Moste HPP (Sava River)			36.1	2005 – 2007
<b>B. New generation capacities</b>				
HPPs along Lower Sava River				
• Boštanj	33	115	68.7	2003 – 2006
• Blanca	42.5	160	60.3	2005 – 2008
• Krško	39.5	149	63.6	2008 – 2011
• Brežice	41.5	161	57.2	2011 –
• Mokrice	30.5	135	53.8	
TEŠ – rebuilding generating unit No. 5	2 x 50	570	42.4	2004 – 2007
Avče pumped storage plant	178	426	85.8	2004 – 2008
800 MW CCGT power plant – PPE Kidričevo *	800	6,000	350 (158)	2005 – 2008
<b>II. SECONDARY PRIORITY INFRASTRUCTURE INVESTMENTS</b>				
<b>A. Facility reconstruction</b>				
Overhaul of Formin HPP (Drava River)	10	32		2012 –
<b>B. New generation capacities</b>				
Kozjak pumped storage plant	2 x 200	776		2007 – 2011
HPPs along Middle Drava River				2010 –
HPPs along the Mura River				2010 –
HPPs along the Idrijca River				2010 –
Other small and micro HPP facilities	5	26		2005 – 2013
Wind generation plants in the coastal region	1	1		2006 – 2008
Solar power plants in the coastal region	10	30		2005 – 2008
New steam generation plant at TEB	56	1,037		
TEŠ – rebuilding generating unit No. 4	50	323		

\* HSE shall have a 45 % share in the new PPE Kidričevo entitling it to some 360 MW of output.

The projects involving the reconstruction of existing and construction of new power facilities are – with regard to commercial, sector, environmental, spatial and operational criteria – divided into two orders of priority. The comparative economic calculations unreservedly justify the implementation of all the projects itemised under the first order of priority (High Priority), whereas those listed under the

second order (Secondary Priority) shall be accomplished in the event that changes in the electrical energy market support their realisation both in terms of commercial as well as technical legitimacy. The independent review commission also affirmed the adequacy of this priority-based classification of investment projects.





## 2.4 Quality Management System

### Market Requirements

Free competition – on the domestic electricity market, and in particular on foreign markets – necessitates certified quality in terms of system and environmental management, and, deriving from that, a responsible approach to power generation. Appropriately certified products achieve an improved sales performance, and in order to penetrate an increasing number of markets the provision of such warranties is mandatory.

Being fully aware of this, HSE Group enterprises hold both ISO 9001 and ISO 14001 certification.

List of Certificates Granted to HSE Group Enterprises

Enterprise	ISO 9001	ISO 14001	EE-08/02 <sup>1</sup>	RECS <sup>2</sup>
HSE	✓	✓	✓	✓
DEM	✓	✓	✓	✓
SEL	✓	✓	✓	✓
SENG	✓	✓	✓	✓
TEB	✓	✓		
TEŠ	✓	✓		
PV	✓	✓		
TDR – Metalurgija	✓			

<sup>1</sup> EE-08/02 is certification as to the production of electrical energy from renewable sources, granted by TÜV.  
<sup>2</sup> Renewable Energy Certificate System administered by the Energy Agency of the Republic of Slovenia in conjunction with TÜV.

The total quality management system is based on the following principles:

- responsibility in the accomplishment of specific tasks and clearly defined pertinent competences;
- responsibility in achieving high standards of quality, as well as ensuring environmental management and safety as a fundamental prerequisite in the undertaking all operations;
- the responsibility of every single individual – executive, manager or worker – in attaining high standards of quality, environmental management as well as safety in accordance with obligations and competency.

In accordance with the deliberations of the Second Strategic Conference of the HSE Group, 2004 saw the elaboration of a strategy related to the development of quality management systems for the coming decade. This new scheme maps out systems for the promotion of business excellence as well as the further integration of existing quality management systems within Group enterprises.

### 2.4.1 Quality



ISO 9001 quality management standard was introduced into the operations of HSE d.o.o. at the end of 2003.

In 2004 all documents pertaining to the quality management system were reviewed and updated. Two internal audits evaluated all processes related to quality management, while the external audit at the end of 2004 did not establish any non-conformity with the ISO standard. In addition to this, a full management review was executed, and recommendations as to future endeavours were adopted. In meeting the requirements of the quality management standards, particular attention is paid to the education of the certificate holders and those who are directly involved in the implementation of standards in day-to-day operations, as well as mutual exchange of information on the quality management processes between the various divisions of HSE.

## 2.4.2 Concern for the Environment



### Sustainable Development

HSE's environmental management is predicated upon the strategic objectives of the HSE Group. Thus it is aimed at attaining sustainable development through implementing preventive measures, forestalling environmental damage and degradation, sharing responsibilities, as well as full consideration as to the impact of every individual portion of the production process. Well-considered objectives incorporated into each and every aspect of HSE's operations promote on-going improvement to environmental protection and management processes. At the same time, all requisite remedial actions are executed promptly in the event of any discrepancy with the established objectives, and in particular as regards emergency situations. HSE is fully aware that development of today must not jeopardise, compromise or hinder the development of future generations.

In attaining the ISO 14001 certification, HSE d.o.o. – together with the rest of the HSE Group enterprises – has further demonstrated that it is an ecologically aware corporation which provides a pleasant working environment and enjoys harmonious relations with its immediate as well as the broader community. In 2004, a great deal of effort was invested in the implementation of the European environmental legislation, the reduction of CO<sub>2</sub> emissions in accordance with the provisions of the Kyoto Protocol – national allocation plan for CO<sub>2</sub> allowances, and the provision of a sufficient portion of said allowances in order that the HSE Group could meet its essential needs. A research study has been elaborated into the impact of the Kyoto Protocol provisions on the operations of HSE Group enterprises over the coming three years, and this same study shall further investigate its influence to the year 2012.

## 2.4.3 Health and Safety in the Workplace

### HSE Corporate Culture

Concern as to the on-going improvement of health and safety at work, particularly through observance of prescribed procedures, is an essential part of the HSE Group's corporate culture. This reflects the genuine concern the Group has for its personnel, as well as its attitude to the social milieu in which it operates.

### OHSAS 18001 Certification

Compliance with legislative provisions is merely the essential minimum, and these are upgraded and supplemented by Group enterprises through their fulfilment of the requirements of the OHSAS 18001 standard. Such is also the first step towards the harmonisation and integration of management systems across all HSE enterprises. In 2004, the activities and procedures for the implementation of this new standard were set in motion, and the project's completion is anticipated in 2006.

### Concern for Health

The HSE Group firmly believes that the ultimate objective of health and safety at work is not merely the prevention of workplace accidents, but maintaining and even improving the health of its employees.

In order to ensure conditions that provide an optimal working environment, investments have been made into ergonomic studies, from the results of which improvements and refinements were carried out to the workplace. The majority of employees take fairly good care of their health and physical condition, a feature which is also evident through their participation in the various sports clubs and associations that operate within the HSE Group.

In addition to the preventive health checks upon their employment, all personnel attend scheduled medical examinations on a regular basis. Furthermore, all employees are also provided with the mandatory personal safety equipment.

## 2.5 Commitment to Global Community

### A Company Oriented Towards Sustainable Development

The contemporary paradigm of economic development places ever-greater significance on the protection of the environment. Combined with the consumers' increasing awareness of environmental issues – a characteristic which is also reflected in their behaviour patterns – ecology and sustainability exert a strong impact on the commercial decisions of corporations. Commitment to environmental protection is thus a constituent part of the HSE's strategic orientation, as is the public image of a responsible company committed to sustainable development. After all, such perspective is also crucial in meeting mandatory statutory requirements, in particular the *Kyoto Protocol*, which was formally enforced in Slovenia at the beginning of 2005. The objective of the *Kyoto Protocol* is the reduction of the greenhouse gas emissions that are – according to the overwhelming body of scientific evidence – the major reason behind global warming. In order to support the reduction of harmful emissions in a cost-effective and economically efficient manner, as well as reduce the negative impacts on the competitiveness of European industry to the highest possible degree, the EU has elaborated an emissions trading scheme for greenhouse-gas-emission quotas. The first stage of this scheme has involved the establishment of predetermined CO<sub>2</sub>-emission-allowance entitlement quotas, which are then allotted free-of-charge to emissions-producers – the polluters – who are then free to either use and/or trade in them. HSE – which shall operate emissions allowance allocation and trading on behalf of its subsidiaries – joined the trading scheme in early 2005.

### Renewable Energy Sources

With the focus firmly on the need for power generation from renewable sources, and with that the construction of a new series of hydro plants on the Sava, the pace towards sustainable power generation is ever quickening.

As a member of the European Union, and in compliance with the EU Directive 2001/77/EC, Slovenia is obliged to increase its percentage consumption

of electricity generated from renewable sources (RES-E) from 32 % in 2001, to 33.6 % in 2010.

### HSE – The Largest Generator of Hydro Power in Slovenia

With regard to quantity, power generated by hydro-electric plants is by far the most important source of RES-E in Slovenia, and the HSE Group is the largest domestic producer of hydropower. Thus the field of RES-E is of particular significance – not only for HSE operations – but also in establishing the corporate identity and reputation of the HSE Group. As a result, based on newly prepared executive regulations in this field, late 2004 witnessed the inauguration of Slovenia's RES-E market, as well as the initiation of HSE's *Modra Energija* (Azure Energy) campaign – a marketing scheme promoting the consumption of clean and renewable hydropower.

All these activities form part of the preparations for the international trade of certificates that vindicate the supplied electrical energy has been generated from a non-carbon-emitting renewable resource.

### The RECS System and Renewable Energy Guarantees of Origin – RE-GO

In 2004, the Energy Agency of the Republic of Slovenia and HSE jointly adopted the RECS system (*Renewable Energy Certificate System*). RECS is a unique and open trans-national initiative that standardises and harmonises local (national) systems in order to facilitate international trade in renewable energy certificates. This open system has also been adopted by the AIB (*Association of Issuing Bodies*), the organisation charged with the development of the new EECS certificate (*European Energy Certification System*) that shall facilitate the European trade in certificated renewable energy on the basis of Renewable Energy Guarantees of Origin (RE-GO). Issued EECS – which are basically a format of the RECS certificate that also meet the requirements of specific guarantee of origin – can be traded, tracked and redeemed within the context of RECS.

The Energy Agency of the Republic of Slovenia is responsible for the certification and monitoring of the

RES-E in Slovenia, and accordingly all of the HSE Group's hydropower plants have been duly certified in concord with the new European system. It is anticipated that Slovenia shall fully adopt the provisions of EECS together with the RE-GO system of guarantees of origin in 2005, which shall then facilitate its complete integration into the European system by year's end.

### **Modra Energija – Azure Energy (Renewable Sources for Today and Tomorrow)**



In late 2004, as a result of its own concern for the environment as well as a desire to fully integrate itself into European and world markets for clean and renewable energy, HSE launched its *Modra Energija* (Azure Energy) scheme. This new trademark distinguishes and promotes the use of energy generated from renewable sources, as well as provides the Slovene consumer with the possibility to choose the type and source of the energy they use. *Modra Energija* is produced exclusively from renewable energy sources – the HSE Group hydropower plants. Its generation does not exploit fossil fuels or generate radioactive waste, nor does it pollute the environment with greenhouse gases or other hazardous emissions.

By the end of 2004, more than 500 enterprises decided to purchase *Modra Energija*, and in 2005 this number is expected to increase rapidly due to an intensive information and promotion campaign launched by HSE.

### **Modri Jan**



The *Modra Energija* campaign is also supported by *Modri Jan* – the eco-friendly little champion of clean energy – a cartoon character who is at the forefront of HSE's educational and promotion activities that call public attention to energy issues in the context of environmental management.

### **In Harmony with the Environment**

HSE shall further strive to achieve sustainable power generation that does not damage or degrade the environment in which we all live and work. All of the Group's activities shall support and enhance sustainable development through the utilization of renewable energy sources. Such is the only guarantee that future generations can enjoy their entitlement to a quality life.

## 2.6 Human Resources Management

### The Architects of Success

People are the essential prime movers and engenders of the successful operations of any company, thus it's of crucial importance for an enterprise to develop effective human resources management. Only a motivated individual who is able and willing can efficiently perform their task within the organisation, and such is a prerequisite both as regards personal development as well as the success and prospective future of the company.

### In Partnership with the Employee

Human resources management remains one of the key components of *HSE Group* business strategy, the guiding principle of which is founded on partnership with the employee, namely, all those individuals who share their values, abilities, skills and knowledge in order to achieve our common objective. Indeed it is they who are the architects of our success. In 2004 this precept of symbiotic synthesis once again proved to be a firm foundation for the solid performance of the entire *HSE Group*. It is undoubtedly true that a healthy organisational climate, with on-going education and training

programmes, fosters employee-satisfaction, reciprocal respect and trust. Out of this develops such elements as responsibility, congruity, efficiency, which in turn leads to the mutual development and growth of both the individual employee as well as the company and *Group* as a whole.

### Primary Activities during 2004

Over the course of the year, particular attention was paid to:

- employee participation in various forms of additional education and training programmes which provide workers with long-term professional competence and competitiveness;
- promotion and development of the concept of integrated ongoing education;
- the creation of conditions that provide employees with opportunities to employ the skills and knowledge they have attained;
- ensuring the provision of a healthy and safe workplace and working environment;
- the initiation of health-related promotion and prevention programmes which encompass both the working as well as the broader social milieu.

### 2.6.1 The Parent Company – *HSE d.o.o.*

As of 31<sup>st</sup> December 2004, *HSE d.o.o.* had 86 employees, which is 13 more than the previous year and 93 % of the projected level of staffing. Over the course of the year, sixteen workers joined the company and three left; six positions remained unfilled, two in production and four in admin.

### Recruitment from Within the *HSE Group*

Due to the fact that *HSE Group* employees have a wide range of general and specific skills and competences, and are thus an excellent source of highly-qualified professionals, the existing human-resource reserves of *HSE* subsidiaries form the basis of new recruitment.

## 2.6.2 Employees of the HSE Group

### Increase in Productivity

Increased productivity is a prerequisite for any further enhancement of the competitiveness of the HSE Group. Thus, in addition to a restrictive employment policy, which is the result of a general downsizing, it is one of the Group's priorities to reduce the number of employees who are directly involved in the domain of power generation. It is achieving this through the simultaneous creation of a number of new positions in sector-related disciplines as well as complementary ancillary services, particularly in the field of environmental sciences and management. Group personnel have accumulated a wide range of skills and expertise that can efficiently meet the requirements of any such redistribution.

### Downsizing

As of 31<sup>st</sup> December 2004, the HSE Group had 4,998 employees, which is a year-on decrease of some 2 %. This reduction is in line with Group objectives regarding the rationalisation of its business.

### Educational Structure

The educational structure of HSE Group employees has been improving year on year. In 2004, there was a year-on increase on the proportion of personnel with tertiary education.

Number of Employees in the HSE Group					
Enterprise	31 <sup>st</sup> Dec. 2004	%	31 <sup>st</sup> Dec. 2003	%	Index 04/03
HSE	86	1.7	73	1.4	118
DEM	301	6.0	309	6.1	97
SEL	130	2.6	129	2.5	101
SENG	126	2.5	130	2.5	97
TEB	125	2.5	126	2.5	99
TEŠ	570	11.4	580	11.4	98
PV Group	3,227	64.6	3,329	65.2	97
HSE Invest	28	0.6	17	0.3	165
HSE – IIP (ceasing operations)	0	0.0	1	0.0	0
HSE Italia	0	0.0	0	0.0	0
TDR Group	405	8.1	410	8.0	99
<b>TOTAL</b>	<b>4,998</b>	<b>100</b>	<b>5,104</b>	<b>100</b>	<b>98</b>

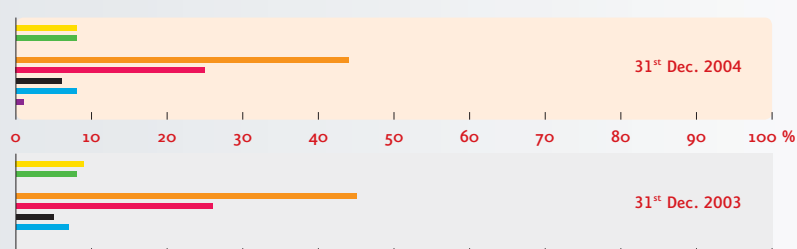
HSE – Employee Education Structure					
Level of education		No. of employees as of 31 <sup>st</sup> Dec. 2004		Average no. of employees during 2004	
		Parent Company	Group	Parent Company	Group
I.	Primary education	0	419	0	450
II.	Primary education	0	392	0	400
III.	Primary education	0	23	0	23
IV.	Occupational education	2	2,200	2	2,249
V.	High school / Grammar school	10	1,267	9	1,283
VI.	Technical college / University college	11	276	8	271
VII.	Bachelor's Degree	52	383	51	373
VIII. – IX.	Master's Degree and Doctorate	11	38	10	38
<b>TOTAL</b>		<b>86</b>	<b>4,998</b>	<b>80</b>	<b>5,086</b>

### HSE d.o.o. – Employee Education Structure



(%)		31 <sup>st</sup> Dec. 2004	31 <sup>st</sup> Dec. 2003
I.	Primary education	0	0
II.	Primary education	0	0
III.	Primary education	0	0
IV.	Occupational education	2	3
V.	High school / Grammar school	12	11
VI.	Technical college / University college	13	8
VII.	Bachelor's Degree	60	66
VIII. – IX.	Master's Degree and Doctorate	13	12

### HSE Group – Employee Education Structure



(%)		31 <sup>st</sup> Dec. 2004	31 <sup>st</sup> Dec. 2003
I.	Primary education	8	9
II.	Primary education	8	8
III.	Primary education	0	0
IV.	Occupational education	44	45
V.	High school / Grammar school	25	26
VI.	Technical college / University college	6	5
VII.	Bachelor's Degree	8	7
VIII. – IX.	Master's Degree and Doctorate	1	0

## 2.6.3 Education and Training

### Investing in Knowledge

Improving the abilities, capacities and potential of employees is considered one of the key objectives of HSE's personnel policy, a fact which is also evident from the data pertaining to investments in education and training. As the keystone of development and commercial success, investment into the Group's indigenous human resources accounts for a significant portion of total investments. Having stated that, however, it is not solely the magnitude of education and training programmes, but the eventual benefits they yield the individual – and thence the company as a whole – which are of ultimate importance. Such is also reflected in employee satisfaction, enhanced motivation and creativity, quality of work and last – but by no means least – loyalty towards the company. Thus the HSE Group provides education and training programmes and courses with the objective of engendering new knowledge and skills, as well as the capacities to put such erudition to use both for self-improvement and, by way of that, the future success of HSE as a whole.

### Dissemination of Knowledge

Further to the acquisition of knowledge, its practical application and dissemination throughout the Group is of essential importance. Such is certainly one of the key goals of HSE's human resources management operations, as well as one of the fundamental tools in the establishment of permanent and ongoing education and development, which involves not merely the engagement of the individual in education, but the HSE Group as a whole.

### Education and Training in the Parent Company

130 education and training programmes were organised by HSE during 2004, and these embraced 90 % of all employees, an increase of 5 % on the previous year. Courses encompassed a total of 3,502 hours – an average of 44 hours per employee, a reduction of 18 % per capita on 2003 levels due to downsizing. These programmes were organised both during working hours as well as after them. Increasing participation, together with the multiplicity and diversity of education and training on offer, provide solid evidence that HSE is on the right track in accomplishing the edification of every employee

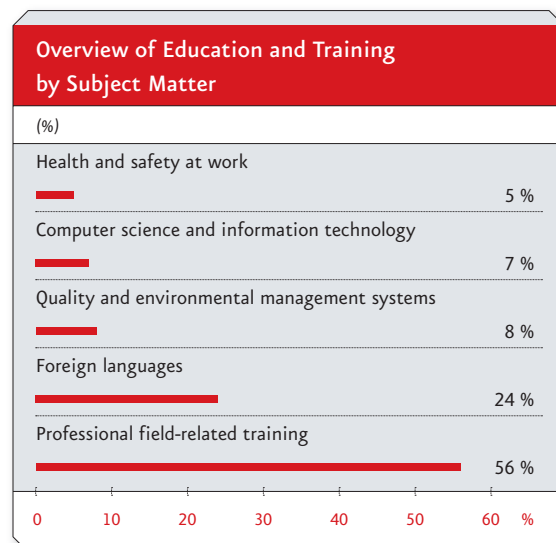
congruent with and supplementary to its own vision of business excellence.

### Evaluation of Education and Training Programmes

Every year participants evaluate the implementation of courses from various perspectives, such as the definition of scope, pedagogic dimension as well as the depth and quality of the subject matter being presented; at the same time, course materials as well as accomplishment of the objectives set are also assessed. Each of the aforementioned components are given grades by participants – from 1 to 5 – 1 being the lowest, and 5 the highest on the assessment scale. In 2004, HSE education and training programmes were, overall, scored with an average grade of 4, which is most satisfactory.

### Professional Training

As to the total amount of hours, more than the half of education and training on offer – some 56 % – was aimed at professional field-related training because such is the only way to keep abreast of developments and trends in many sector-related disciplines. As regards their subject matter, the remaining programmes were apportioned as follows: foreign language courses accounted for 24 %; training in the field of quality and environmental management stood at 8 %; computer science and information technology, 7 %; with health and safety at work making up the remaining 5 %.



### Topical Workshops

During 2004 HSE organised a range of workshops and seminars covering a variety of themes topical for the entire Group. They encompassed such subjects as the compilation of annual reports, VAT regimes upon the EU accession, as well as a variety of technological processes common to subsidiaries within the HSE Group. They are yet another step forward towards the establishment of the much anticipated HSE Educational Centre.

### Organisational Climate Research

Employee satisfaction within the context of the general internal environment – something which is itself determined by the organization's structure, leadership, philosophy, technology, people and culture – is of great importance to HSE, for which reason 2004 witnessed the Group's participation in a national research and monitoring study into organisational climate and employee satisfaction within Slovenian companies.

Analyses of the research results were for the most part satisfactory. Ratings given by employees on a range of issues were fairly high, and comparisons of Group enterprises with the sector average for all the most significant categories were very favourable.

### Keeping Up the Good Work

Based on the results attained, sustaining a beneficent organisational climate as well as employee satisfaction at the current high levels, shall remain a top priority for the HSE Group. Further to this, more attention shall be paid to improving all those categories for which the ratings and survey results were less favourable.

### Scholarships

During the 2004/2005 academic year, HSE invited applications for four scholarships – three for graduate study (one each for electrical engineering, mechanical engineering and economics) as well as one for post-graduate study of electrical engineering.

One electrical engineering scholarship was granted at the beginning of 2005, whereas the other two were not awarded due to the fact that none of the applicants fulfilled the requirements of the scholarship policy. HSE scholarships support students both financially as well as with regard to actual training and work experience, with gradual introduction into the organisation where they may eventually take up employment. Scholarship applicants should not be freshmen or seniors and they should have already attained a minimum average exam grade of 7.5 (75 %).

Due to the fact that there were no suitable applicants for post-graduate study scholarship, one of HSE's own employees was instead enrolled in the Consortium MBA Programme for Slovenian Energy Companies facilitated by Ljubljana University's Faculty of Economics.

## 2.7 Market Position

### 2.7.1 General Economic Outlook

#### Highest Growth for Five Years

Following several lacklustre years, which coincided with a general downturn in the global environment, 2004 witnessed a modest upturn in the fortunes of the Slovenian economy. Based on preliminary estimations, the country's GDP increased by 4.6 % in real terms, which is the highest rate of growth since 1999. This improvement is mainly attributable to the following factors: an expansion of trade with Slovenia's most important trading partners, a further increase in both investment and domestic consumption, as well as the one-off effect of the EU accession. The immediate benefits of Union membership also exceeded expectations and had – mostly due to the changes in taxation and foreign trade provisions – a significant impact on the dynamics of export-import flows.

#### Growth in Exports to EU States

Favourable business prospects are also reflected in the accelerated growth in exports to EU member states. According to the estimations of the Slovenia's national statistical office, 2004 exports in goods to the EU – which amounted to 66 % of total – were 12.2 % ahead of 2003 levels.

Indeed, total visible exports grew by 13.7 % in nominal terms, while imports were up by 15.1 %. The trade deficit thus remained, with exports covering 91.1 % of imports.

#### Joining ERM II

At the end of June 2004, Slovenia's stable domestic macroeconomic environment facilitated its early entry into the *European Exchange Rate Mechanism II*; together with Estonia and Lithuania it made up the first group of new accession states to attain the status. Upon admission to the *ERM II*, an exchange rate of 239.64 Slovene tolar per euro was prescribed, which is a little ahead of the 2004 average value of the tolar against euro that stood at 238.86.

#### A Further Decrease in Inflation

A further decrease in the annual rate of inflation has been one of the major achievements of macroeconomic policy in 2004. Inflation in Slovenia was calculated as 3.6 % for the year, while the year-on rate (December 2004/December 2003) stood at 3.2 %. Average annual inflation in the eurozone stood at 2.1 %, while the rate of inflation according to the HICP was 2.4 %. The upturn in economic growth during 2004 engendered a gradual rise in employment, and thus a corresponding decrease in the number of unemployed.

#### Republic of Slovenia – Some Significant Economic Indicators

	2004	2003
<b>GROSS DOMESTIC PRODUCT</b>		
• at current prices (million SIT)	6,191,161	5,747,168
• real growth (%)	4.6	2.5
<b>EXPORTS (million SIT)</b>	2,998,930	2,637,973
<b>IMPORTS (million SIT)</b>	3,292,112	2,860,939
<b>EXPORTS AS PERCENTAGE OF IMPORTS</b>		
• export/import (%)	91.1	92.2
<b>INFLATION</b>		
• annual (%)	3.2	4.6
• average (%)	3.6	5.6
<b>EUR (spot rate of BoS)</b>		
• as of 31 <sup>st</sup> Dec. (SIT per 1 EUR)	239.74	236.69
• average (SIT per 1 EUR)	238.86	233.70
<b>USD (spot rate of BoS)</b>		
• as of 31 <sup>st</sup> Dec. (SIT per 1 USD)	176.24	189.37
• average (SIT per 1 USD)	192.38	207.11

Source: SURS – Statistical Office of the Republic of Slovenia, and UMAR – Institute of Macroeconomic Analyses and Development

## 2.7.2 Electricity Market

### Slovenia's Accession to the European Union

Due to the fact that the Slovenia's electricity market has already been regulated in accordance with European directives, the country's accession to the EU did not exert any significant influence on the operations of its power generation enterprises.

Together with the Netherlands, Slovenia was the first EU member to have incorporated in its legislation the provisions of the latest EU Directive 2003/54/EC concerning common rules for the internal market in electricity. As to EU Regulation (EC) No. 1228/2003 on the conditions for access to the cross-border electricity exchange network, the European Commission granted Slovenia the right to apply its own solutions for the duration of the transition period, which shall come to an end on 30<sup>th</sup> June 2007.

The amendments to Slovenia's *Energy Act* were another step in the further opening of this country's electricity market. As a result, all non-household customers are now entitled to freely choose their energy supplier, and the price of electricity is thus thenceforth determined by supply and demand on the market. Legislation classifies households as tariff customers until 2007, and thus for the private non-commercial consumer the price of energy is still regulated by the state, and determined on the basis of coverage of production and supply costs, rather than by market forces.

### Development of the Slovenian Market

The development of the Slovenia's electricity market and its competitiveness in 2004 is favourably assessed in a European Commission report published in January 2005. Based on a number of indicators the Commission concluded that there are no deviations from the average level of competitiveness in EU states; indeed, with regard to most indicators there are even less constraints as to competition than there are in other European markets. According to the Commission, the only actual deficiency in the case of Slovenia derives from its rather narrow ownership structure, which is itself the result of the country's small size. Although the size-related structural deficiencies can never be entirely overcome, they are somewhat mitigated by exceptionally good interconnections with its neighbouring electricity markets. Under such circumstances Slovenia's wholesale power sector can potentially benefit from higher than average levels of competition.

## 2.7.3 Electricity Markets in 2004

### An Unspectacular Year

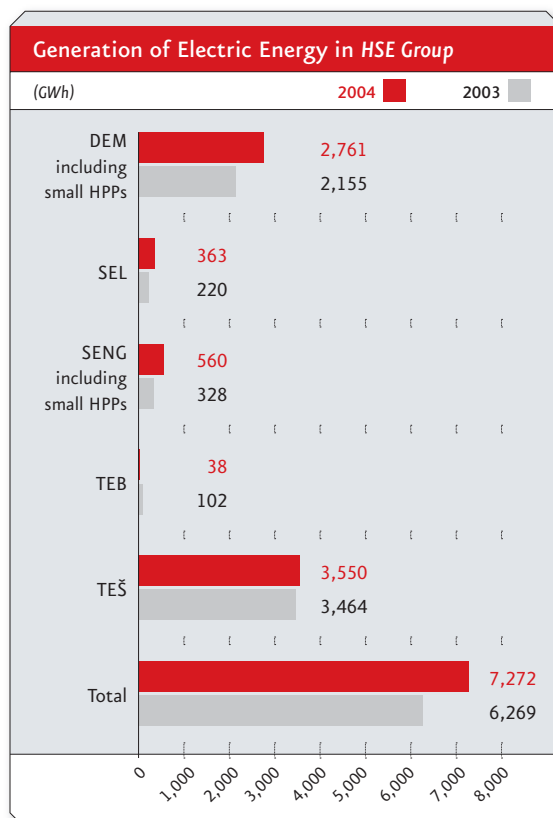
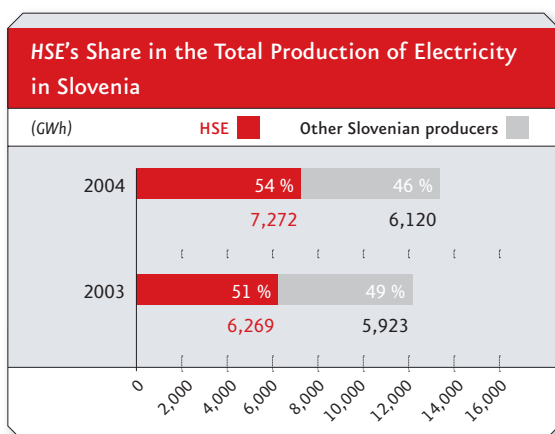
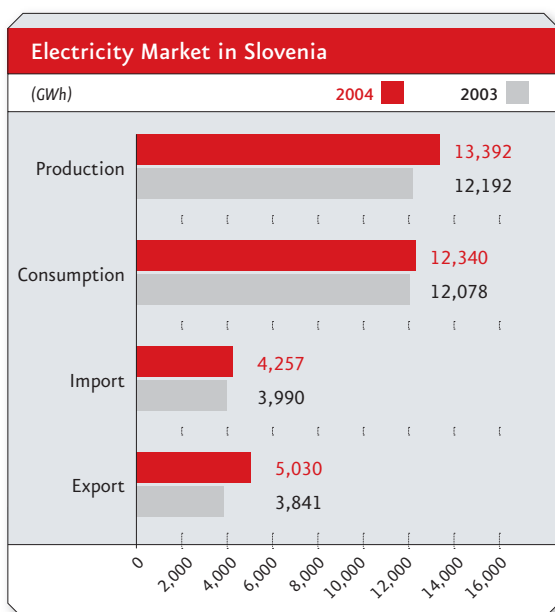
With regard to supply and prices, 2004 was a rather ordinary year, both on the Slovenian market as well as in the mainland EU and Southeastern European electricity markets as a whole.

### The Slovenian Electricity Market

2004 witnessed a 9.8 % rise in electricity production in Slovenia. Output by hydropower plants increased by 36 % due to increased precipitation and thus higher through-flow; the output of the Krško nuclear plant was also up by 5.1 %. At the same time, however, thermal power plant production was down by 0.2 % as a result of the hydropower increase.

Electricity consumption witnessed a 2.2 % increase in 2004, the power used by the country's five largest consumers rose by 0.7 %, while withdrawals by Slovenia's five distribution companies grew by 2.6 %. Total electricity consumption in Slovenia in 2004 amounted to 12,340 GWh. 4,257 GWh of power was imported (6.7 % annual growth), whereas 5,030 GWh was dispatched to foreign transmission systems, a 31 % increase in exports above the 2003 figures.

In addition to its having a significant share in the Slovenian electricity market, the HSE Group also played an important role in the provision of the ancillary services for ELES, the national grid network operator, which were essential for the smooth operation of Slovenia's transmission system and consequently the supply of electrical energy.



## Continental Europe

Despite quite contrary expectations at the end of 2003, the day-ahead markets across continental Europe during 2004 were characterised by stable and relatively low electricity prices. Due to the mild temperatures and above-average precipitation, day-ahead-market prices in the first quarter of 2004 were substantially lower than those that had been traded on the futures markets. Prices in May, which is traditionally the month with the lowest prices, came as a real surprise. Many producers decide to stand down their thermal facilities during that month in order to perform maintenance, refits and overhauls; in May 2004 the resultant decrease in supply consequently led to higher prices in the day-ahead markets.

The bitter experience of the summer of 2003 instigated an increase in available production capacities for the summer 2004. The summer months were, however, not marked by exceptionally high temperatures, and both general consumption and prices remained way below 2003 levels. Yet another characteristic of the summer were low ratios between peak-load and base-load prices; with the exception of a few days in June there were practically no price spikes during periods of peak demand.

The last quarter of the year also witnessed rather thin and calm trading in the day-ahead markets.

## Growth in the Prices of Fossil Fuels

In summarising movements in the electricity market during 2004, special attention should be drawn to the rapid growth in the prices of energy sources, in particular fossil fuels. As the result, the variable fuel-dependant prices of thermal plant power production increased, which itself contributed to the increase in the price of off-peak and weekend energy.

## Above-average Energy Production from Renewables

In addition to the mild temperatures, the relatively low prices in the day-ahead markets can be attributed to energy emanating from renewable sources (such as hydropower plants, wind generators) whose total output in 2004 was above the average for recent years. Due to the fact that this type of energy is sold on the day-ahead market at any price, it more than neutralised the increase in the variable costs of thermal plant output across the whole year.

## Expectation of Further Price Rises

Despite stable electricity prices in 2004, the market situation points towards further price increases over the next few years. Unsubsidised investment in Europe's power generation facilities remains minimal, and in the light of increased consumption, electricity prices can be expected to rise to a level where new investments will be justified.

## Southeastern Europe

By far the most significant event that characterised the Southeast European electricity market in 2004 was the resynchronisation of the two former UCTE zones (Southeastern Europe and Continental Europe) into a single system which from November 2004 facilitated the trade in electrical energy between these two erstwhile separate transmission systems. Nevertheless, any increase in the volume of trade is still hindered by a variety of costs and restraints pertaining to the transit of electricity, which are – contrary to European legislation – imposed on the electricity traders by transmission systems operators. This said, however, prospects as regards Southeastern European markets have never looked better.

The high rate of economic growth in Southeastern Europe – which given the low base levels is certainly higher than elsewhere in continental Europe – has increased the demand for electrical energy. More consumption reduces the amount of surplus production capacity, which in turn enhances growth in prices and investment in infrastructure development.

## 2.8 Sales

### 2.8.1 Electrical Energy

#### Co-ordinated Activities

In order to maximise the performance of its power generation enterprises, HSE has a single production control centre that administers the output of the entire Group. The sale of generated electricity as well as the trading in power from other sources is also co-ordinated and accomplished at the Group level.

#### Sales Volume

In 2004, the total sales volume of the HSE Group on both domestic and foreign markets amounted to 10,754 GWh of electrical energy. The domestic market accounted for 79 % of this total, of which 59 % went to the five regional distribution companies, and 20 % direct to the customer; the remaining 21 % encompassed exports and include sales made through Ljubljana's *Borzen Power Exchange*. Thus 21 % of electrical energy was exported, mostly to Italy; by way of this the company further penetrated the Italian market which is – due to its relatively high prices – the most lucrative one for the HSE Group.

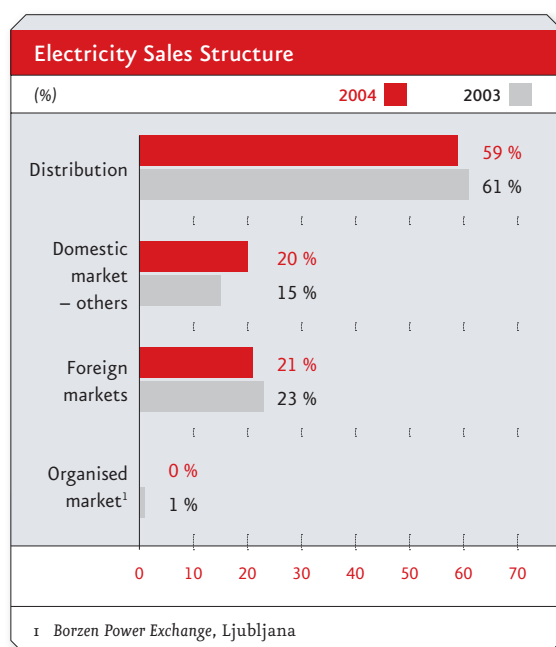
#### Futures and Day-ahead Markets

The HSE Group generated the bulk of its revenues through futures trading. Trade on day-ahead and spot markets was undertaken in order to balance contractual obligations with the production capacities of HSE Group enterprises, as well as to optimise the Group's product portfolio and the exploitation of market opportunities. Surpluses generated from increased through-flow on river hydro-plants were sold on day-ahead markets, as were additional quantities of power when the market price was exceeding the costs of any such additional production.

#### Ancillary Services

In addition to the provision of electrical and thermal energy, HSE also provided the following ancillary services under contract during 2004:

- VCG voltage control generator applications;
- primary frequency control;
- secondary frequency control in the range of  $\pm 76$  MW (from 1<sup>st</sup> January to 4<sup>th</sup> July; from 19<sup>th</sup> July to 6<sup>th</sup> August; and from 24<sup>th</sup> August to 31<sup>st</sup> December),  $\pm 77$  MW (from 5<sup>th</sup> June to 18<sup>th</sup> June), and  $\pm 70$  MW (from 6<sup>th</sup> August to 23<sup>rd</sup> August);
- tertiary frequency control through the activation of non-spinning and spinning reserves amounting to 163 MW throughout the year;
- black start capability;
- reactive power support;
- secondary control services.



## 2.8.2 Other Activities

### Sales Revenue Structure

In 2004, the HSE Group generated more than 124 billion Slovene tolar in net sales, of which 26 % emanated from its export markets. Electricity accounted for 90 % of the total, while other products and services together accounted for the remaining 10 % of Group net sales revenues.

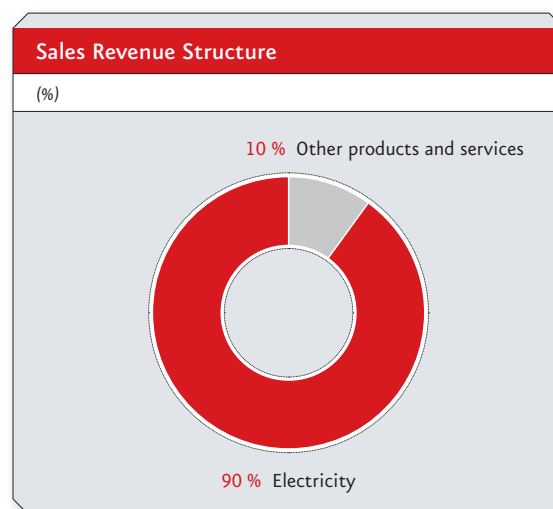
### Other Products and Services

The production of calcium carbide, ferrosilicon, ferroalloys and complex alloys account for the major portion of non-power sales revenues. These were for the most part generated on foreign markets, in particular Austria, Germany and Italy, while the domestic market accounted for only a minor portion. Sales on other markets increased in 2004, and this improved dispersion is as a result of the Group attaining new customers for its products and services.

Other activities also encompass the production and sale of heat and coal derivatives as well as other services and products rendered or manufactured by the Group enterprises as part of their commercial operations.

### Thermal energy

In 2004 the HSE Group sold 426 GWh equivalent of thermal energy, produced as a by-product of power generation, which was used locally in communal heating systems etc.



## 2.9 Purchase and Supply

### 2.9.1 Electrical Energy

#### Synergy

In aiming to achieve maximal performance, the HSE Group strives to take advantage of the synergies provided by its extensive array of operations and production capacities. The operating and cost-related profiles of individual generating units within the Group differ substantially, thus appropriate

scheduling facilitates cost-effective power production. And because the price of electricity fluctuates on the market, it is all the more important that production facilities sustain tight tolerances while maintaining the economic dispatch of generated power.

HSE Group Power Generation Units										
		Dravograd	Vuzenica	Vuhred	Ožbalt	Fala	MB otok	Zlatoličje	Formin	Total
DEM	No. of turbines	3	3	3	3	1+2	3	2+1	2	
Net capacity (MW)		25	56	52.4	52.8	58	60	115	116	535
Rated generation capacity (MVA)		36	78	60	60	74	78	149	148	683
Gross head (m)		8.9	13.7	17.4	17.4	14.6	14.2	33	29	148
Rated flow Qi (m³/s)		405	550	366.7	366.7	525	550	463	500	
		Moste I.	Moste II.		Mavčiče	Medvode		Vrhovo		Total
SEL	No. of turbines	3			2		2		3	
Net capacity (MW)		13	8		38		21		37	117
Rated generation capacity (MVA)		22.5	11		50		27		42.9	153
Gross head (m)		70.45	177.2		17.5		21.2		8.12	294
Rated flow Qi (m³/s)		3 x 9.5	6		2 x 130		2 x 71		3 x 166.7	
		Doblar I.	Doblar II.	Plave I.	Plave II.	Solkan	Zadlaščica	Small HPPs		Total
SENG	No. of turbines	3	1	2	1	3	2			
Net capacity (MW)		30	40	15	19	32	8	15.8		160
Rated generation capacity (MVA)		48	50	22	23	39	10	19.4		211
Gross head (m)		47.2	48.5	27.5	27.5	23				174
Rated flow Qi (m³/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 capacity (MW)		10	11	21	21	21	114	114		312
Rated generating capacity (MVA)		16	15	32	32	32	155	155		437
TEŠ		Generator 1	Generator 2	Generator 3	Generator 4	Generator 5*				Total
Net capacity (MW)		27	27	68	246	315				683
Rated generating capacity (MVA)		37.5	37.5	94	324	377				870
* Generator 5 has a capacity of 377 MVA at 3 bar.										

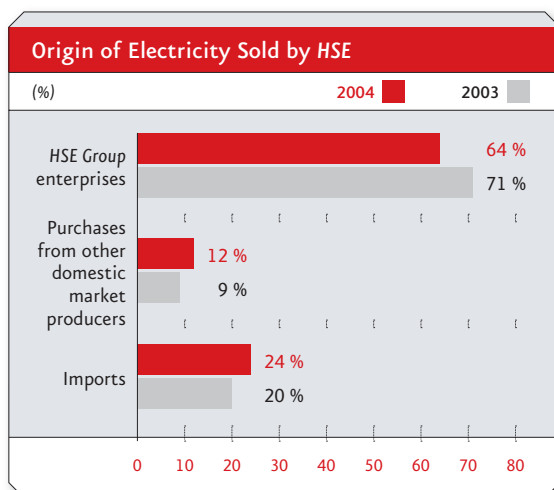
\* Generator 5 has a capacity of 377 MVA at 3 bar.

## Structure of Sources

Some 64 % of the electrical power supplied to customers in 2004 was generated by *HSE Group* enterprises; of the remaining portion, 24 % was imported, while 12 % was purchased from *Eles Gen* (an *ELES* subsidiary) and through the Ljubljana-based *Borzen Power Exchange*.

Sources of Electricity Sold by HSE				
Source	2004		2003	
	GWh	Share	GWh	Share
HSE Group* enterprises	6,868	64 %	6,269	71 %
Purchases from other producers on the domestic market	1,248	12 %	779	9 %
Imports	2,638	24 %	1,725	20 %
TOTAL	10,754	100 %	8,773	100 %

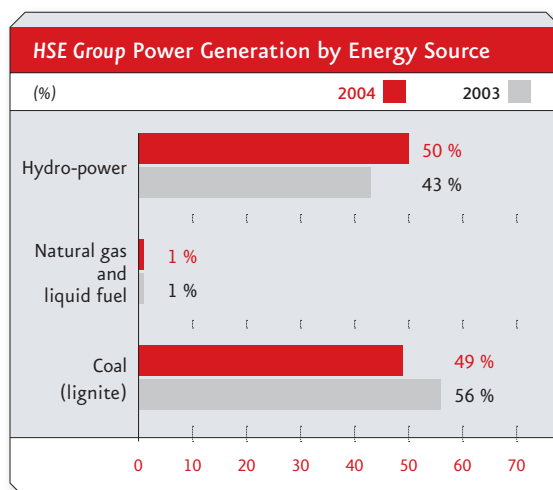
\* The sources incorporate the electricity generated by *DEM*'s small HPPs as well as *SENG*'s small HPPs ; intra-Group sales are eliminated herein.



The Group purchased electricity on the spot market in order to balance shortages in the event of outages or low through-flows on its run-of-river hydro plants.

## Source of Energy Production

Hydropower accounted for the 50 % of the total power directly produced by *HSE* enterprises, followed by lignite with 49 %, and natural gas and liquid fuels accounting for the remaining 1 %.



## Optimising Output in Accordance with Market Demand

*HSE*'s production in 2004 was marked by:

- extremely high through-flow on run-of-river plants, as a result of which hydro-generation costs were lower and output was 8.7 % ahead of projections;
- production (consumed production) by *TEŠ* was 14.5 % ahead of expectations due to the availability of additional quantities of lignite at favourable prices;
- due to ample supply on the market, the output of *TEB*'s thermal power plant was a mere 38 % of projected;
- a buoyant market in which *HSE* enjoyed lucrative trading operations.

### Power Production from Lignite

In order to meet its electrical power and thermal energy production needs, TEŠ purchased 40,644 TJ of lignite from the Velenje mine (PV). The remainder – in the amount of 2,381 TJ – was drawn from HSE stocks.

### Long-term Agreement Between PV, TEŠ and HSE

In September 2004, PV, TEŠ and HSE signed a long-term agreement on the purchase of lignite, reserve power and electrical energy. According to this new Agreement, TEŠ no longer provides the service of processing coal into electricity and thermal energy on behalf of HSE, but instead markets its energy production directly to HSE; thus henceforth TEŠ purchases lignite directly from PV, by way of which HSE no longer acts as an intermediary with regard to stocks of lignite fuel.

### Combined Thermal and Electrical Power Production by TEŠ

It was envisaged that TEŠ would produce 406 GWh of power in 2004; however, due to increased demand, annual output amounted to 426 GWh, which was 5 % ahead of projections, and a direct result of its relatively low cost and a dynamic market.





## 2.10 Investments

### 2.10.1 High Priority Investments

#### 2.10.1.1 Hydropower Plants on Slovenia's Lower Sava River

##### Construction of New Hydropower Plants

The construction of the series of five new hydropower plants – Boštanj, Blanca, Krško, Brežice and Mokrice – on the Sava River in southern Slovenia shall substantially improve the disposition of the nation's power generation sector. The new Lower Sava chain (excluding the Vrhovo HPP which has already been constructed) shall increase the net capacity of the total power system by 183 MW, and hydropower aggregate capacity to 720 MW. It is anticipated that upon their completion the Lower Sava HPPs shall meet some 6 % of the nation's electrical power requirements.

The new hydropower facilities on the River Sava are also of great significance because they exploit a non-polluting renewable source of energy – water – and thus help Slovenia meet its international obligations regarding carbon and other emissions as well as environmental protection standards.

- The Kyoto Protocol binds Slovenia to reducing its emissions of greenhouse gases by 8 % between 2008 and 2012.
- In 2003 Slovenia signed an Accession Treaty with the European Union. The Act of Accession detailed numerous obligations. One of these stipulations is that 33.6 % of Slovenia's total energy consumption should be supplied from renewable sources by the year 2010.
- Further to this it is anticipated that the price of energy derived from fossil fuels will rise in accordance with the rising price of the traded emission coupons within the EU.
- Each power plant that produces energy from renewable sources can attain RECS (Renewable Energy Certificate System) certification as proof of its generation of a megawatt-hour of environment-friendly (green) energy from a renewable source. The RECS certificate, which is sold or otherwise traded on the basis of the actual certified power fed into the grid, also carries the exact evidence of the energy's origin.

##### The Joint Venture Project

In 2003, in order to implement such a massive project as the construction of the new hydropower plants along Slovenia's Lower Sava River, the HSE subsidiaries together signed a *Joint Venture Agreement* with the holding company. The Venture, which shall ultimately combine assets to the total value of 71.5 billion Slovene tolar, is capitalised by HSE Group enterprises in the following proportions:

- HSE d.o.o. . . . . 51.00 %
- DEM . . . . . 30.80 %
- SEL . . . . . 12.60 %
- SENG . . . . . 2.80 %
- TEB . . . . . 2.80 %

##### Accounting of the Joint Venture

Based on the *Joint Venture Agreement*, HSE d.o.o. has established long-term provisions in its accounts to the total amount of its investments in the Joint Venture Project, while the subsidiary enterprises – DEM, SEL, SENG and TEB – have accounted their investments in the Project under investments in other fixed assets.

##### Boštanj Hydropower Plant

Work on the site of this new run-of-river hydroelectric plant on the Sava is on schedule and the construction shall – according to the current situation – be completed within the due term. This project has required huge efforts from all the involved parties – the investor, local communities, construction engineers and contractors.

As of the end of 2004, major construction works on the Boštanj HPP dam and spillways had been accomplished, while gates with stoplogs had been installed on the spillways, penstocks and other intakes. Construction works on the powerhouse were completed in early 2005, while the gantry crane has also been installed and is now operational. Manufacture of the turbines and auxiliary equipment is well underway, while the first stay ring was delivered on time which will allow the scheduled assembly of the turbine-generators together with related auxiliary equipment. The contracts for all the electrical installations, including the 110 KV switchyard and 110 KV grid connection, have also been concluded, and these, of course, also encompass transformer, powerhouse and other auxiliary sys-

tems as well as control-centre equipment, including electrical protection devices and control systems.

Of course, there is more to the construction of the new Boštanj HPP facility than merely building a dam and powerhouse; the project also encompasses a mass of pertaining infrastructure essential to the smooth operation of the plant. Construction of the Boštanj HPP reservoir began in late 2004 and is now fully underway, as is the boulder-reinforcement of the banks of the Sava at Orehovo. Delays had been incurred due to the fact that archaeological finds and second-world-war mines had to be safely removed, while occasional high waters stopped work on the project entirely. Embankment consolidation work, from Orehovo to the dam itself, is now back on track, while the execution of all contracted works pertaining to the creation and installation of the facility's infrastructure have either been concluded or are in their final stages.

### Blanca Hydropower Plant

HSE is now gearing up for the construction of the next power plant in the new Sava series, Blanca HPP. Processes pertaining to the location plan for this facility remain on schedule. All pertaining studies have been completed, and the optimal variant solution for the dam and powerhouse – which now forms the basis for the drafting of final project documentation – has been adopted, though the final design is currently under review. As regards public consultation and participation in the planning process, all submissions re amendments prior to the final drafting of the design documentation have been received from local communities and other interested parties, and are now under review. It is anticipated that the final location plan shall be adopted by the end of June 2005.

### Krško Hydropower Plant

All studies pertaining to the location plan and design documentation for the Krško HPP are now being elaborated. Namely, with regard to the site location options, both variants are related to such an extent that it is reasonable to perform the requisite studies for the entire area, despite some specificities pertaining to the ultimate micro-location. Intense studies of geology, geophysics, geo-hydrology and

archaeological potentials of the site area are being elaborated.

Yet another issue is the synergy with the Krško nuclear power plant, which is being considered in all studies related to the Lower Sava HPPs. All the existing and new studies are currently being reviewed and harmonised as a result of environmental concerns, as well as due to the fact that professional standards and data processing methodologies are altering and evolving over time.

### Key Events in the Construction of the Lower Sava HPPs in 2004

Mar. 12	Contract for the supply of control centre equipment signed
Mar. 19	Contract for the engineering design of the Boštanj HPP reservoir signed
Apr. 23	Contract for the construction of the Boštanj HPP reservoir signed
May 15	Completion of concrete pouring for Boštanj HPP spillways
May 26	Construction permission issued for the Boštanj HPP reservoir
Jun. 8	Start of construction work on the Boštanj HPP reservoir
Jun. 21	Contract signed with IBE Ljubljana for the complete project engineering of the Blanca and Krško HPPs
Jul. 16	Contract concluded for the main transformer for the Boštanj HPP
Sep. 1	HSE relinquishes contracts to Infra
Sep. 20	Commencement of gate installation at the Boštanj HPP
Oct. 11	Initiation of gantry crane installation at the Boštanj HPP
Oct. 13	Power protection systems contract signed
Oct. 14	Signing of contracts for the provision of SCADA systems and pertaining remote and local control system equipment
Oct. 22	Public unveiling of the site location plan for the Blanca HPP
Nov. 17 and 18	Second spatial planning conference for the Blanca HPP
Dec. 14	Installation of the first stay vanes unit at the Boštanj HPP.

### 2.10.1.2 Upgrade of Generator 5 in TEŠ

#### Installation of Two Gas Turbines

2004 witnessed the commencement of work on the modernisation of TEŠ's generator No. 5. The project involved the installation of two new turbines and the introduction of combined cycle generation, which utilises the heat available in the exhaust stream to provide energy for cogeneration in the steam plant.

Power generation from the coal-powered station shall continue in accordance with projections based on the long-term contract for the supply of lignite from PV's mining operations. This new investment shall thus increase power generation capacities and efficiency, while at the same time reduce CO<sub>2</sub> emissions in accordance with the mandatory requirements of the Kyoto Protocol.

Arising from the tender to supply two turbo generators and ancillary equipment, the contract has now been signed.

The project's investor is TEŠ.

### 2.10.1.3 Avče Pumped Storage Plant

A pumped storage plant is a power generating facility that pumps water to a storage reservoir during off-peak periods (at night, during weekends, etc), and uses the stored water to generate electricity during spikes in demand (such as for the duration of workday peak demand).

#### A Sound Investment

Based on SENG's analyses as to the cost-effectiveness of this investment, and taking into consideration the current structure of the Slovenian power generation sector, together with likely conditions on both the domestic and foreign electricity markets, the Avče pumped storage facility appears prudent from technical, generational, economic as well as environmental perspectives.

#### Construction

2003 saw the preparation of the requisite design and planning documentation that served as the initial

basis for approval of the Avče plant. The investment programme audit was completed in January 2004, and in March said documentation was endorsed by SENG's Supervisory Board. The construction permit was attained in September 2004.

The project's investor is SENG.

### 2.10.1.4 Renovation of Medvode HPP

#### Enhanced Generation Capacity

In April 2004 SEL began the renovation of generator No. 2 at the Medvode HPP on the upper Sava River. In addition to enhancing output capacity, performance and eco-friendly operations, this investment project, which is anticipated to be concluded in 2006, shall extend the plant's useful life as well as further reduce the need for and duration of general overhauls. The work shall also include the installation of SCADA systems that will allow the plant to be operated and controlled remotely.

The project remains on schedule, and generator No. 2 came on line in December 2004.

The project's investor is SEL.

### 2.10.1.5 Renovation of Zlatoličje HPP

#### Extension of the Plant's Useful Life

Zlatoličje HPP is the first and the largest channel hydropower plant on the Drava. DEM's full renovation of this facility, without which output would decline substantially or even cease altogether over the next few years, shall extend its useful life. The project also encompasses the rehabilitation of the Melje Dam, at the upstream end of the Zlatoličje channel. Work on the Melje cataract also encompasses the installation of a new generator, providing year-round generation capacity as well as ensure an ecological flow along the natural course of the Drava River. The total investment shall result in a 24 MW rise in the rated power of the Zlatoličje HPP and increase its mean annual production by 34 GWh.

The project's investor is DEM.

## 2.10.2 Significant Investments by HSE d.o.o.

### Balance Group Control Centre

Upon the technical elaboration of a project for new system control centre facilities for both *DEM* and the *HSE Group*, the general specifications of an invitation to tender have now been elaborated.

With resort to real-time displays and events logs, operators shall be able to administer balancing operations from the new control centre, which will also exert secondary capacity and voltage regulation control over *HSE Group* installations. Exerting control over the *HSE* balance group, the new facilities shall thus be responsible for the regulation of sources of reactive power; it will also optimise hydro- and thermal power outputs, as well as prepare production and consumption schedules in order to facilitate short, medium, and long-term planning.

### Integrated Telecommunications Network Project

The objective behind this *Group* project is to establish an independent integrated telecommunications network that can fulfil the requirements of management and control operations pertaining to *HSE's* power facilities, as well as the supervision of balance group systems and interconnection with the grid operator. The system's design shall facilitate the reliable performance of all *HSE* operations, and despite its distributed nature provide a maximum degree of safety through modular redundancy which remains a prerequisite for the guarantee of optimal power system operation.

The invitation to tender for the provision and installation of this new system was published in 2004; the selection procedure is now underway.

### Kidričevo CCGT Power Plant – PPE Kidričevo

Preparations are underway for the construction of 800 MW CCGT power plant at Kidričevo in north-eastern Slovenia, which was one of the projects that was introduced at the *HSE's* first strategic conference. This gas-turbine plant would also utilise heat recovery steam generators, while turbines would provide a high capacity generating unit that could meet the requirements of the base-load and partial peak-load. The investors in this project are *HSE* (with a 45 % stake), *Verbund*, Austria's largest

power company (with 40 %) and the Kidričevo-based aluminium producer *Talum* (15 %). It is anticipated that this facility shall benefit from the most advanced technology and equipment thus guaranteeing low NO<sub>x</sub> emissions. Utilising natural gas as the fuel of choice shall further ensure minimal CO<sub>2</sub> emissions in accordance with the provisions of the *Kyoto Protocol*.

### HSE Central Analyses of Faults and Events

This project encompasses the creation of power system protection and management for *HSE Group* power plants and other operations. In addition to fault-detection and the handling of events and emergencies, the management system shall automatically detect any operation of protective relays and associated circuit breakers as well as other parameter-selected events through the real-time analysis of control-system data. Such protection and management will pre-empt problems as well as enable a more rapid assessment of faults. By way of this, normal operations can be maintained, and in the event of any fault, normal system operations can be swiftly re-established.

The conceptual design for this new project was examined in February 2004, while the tender documentation was drawn up in March. *HSE Group* enterprises also signed an agreement on the *HSE* Protection System project, which is anticipated to be implemented during the second half of 2005.

### HSE Group Maintenance System

The objective behind this project is to establish a system for maintenance supervision, as well as unify, optimise and fully exploit commercial, technical and human reserves within the *HSE Group*. The direct result of this shall be the broader and more enhanced exploitation of potentials within the *Group*, particularly as regards maintenance and engineering works. Such shall consequently result in a decrease in running costs and thus total production costs.

The technical parameters of this project were prepared in 2004, further to which analyses were performed on maintenance and related procedures within the *Group's* hydropower facilities.

### HSE Ecology System

This project shall establish a system to monitor power production at *HSE Group* plants and thence reduce environmental impacts to the highest possible degree. The system will facilitate supervision and control over all *HSE* operations, as well as promptly detect disturbances in production that breach environment protection standards. One of the significant components of the *HSE Ecology System* shall be the institution of an ecology consortium in compliance with the requisites of the ISO 14001 environment management system.

Activities pertinent to the establishment of the ecology information system, in which representatives of all *Group* enterprises are now participating, were undertaken during 2004.

## 2.10.3 Other Significant Investments by *HSE* Subsidiaries in 2004

### DEM

During 2004 *DEM* continued the renovation of its Vuhred and Ožbalt HPPs, and these works are now drawing to a close. The investment will extend the useful life of both plants as well as increase production capacities.

### SEL

*SEL* did not realise its intended renovation and modernisation of the Moste HPP in 2004, due to the result of a referendum held in the Bled Municipality that vetoed the project.

### SENG

In 2004 *SENG* realised 50 % of its projected investments, one of the more important of which was the construction of the Klavžarica small HPP.

### TEB

*TEB*'s investments in 2004 were congruent with its business plan, however, as a result of the findings of research studies the 115 MW *Alstom GT11 N2* gas turbine was not complemented with steam plant co-generation. In addition, further investigations were made into construction design for a high-pressure subterranean natural gas storage facility, while the *TEB-HSE* information system was further upgraded.

### TEŠ

Improvement of production reliability accounted for the major portion of *TEŠ* investments during 2004, namely the upgrade of plant – some of which have been in operation since 1956 when generating units 1 and 2 were installed, whereas the newest unit, No. 5, itself dates from 1977 – in order that it will operate reliably and safely for the remainder of its useful life.

### PV

The major portion of investments was utilised to purchase equipment for the renovation of hydraulic shield support, namely a new chain and roadway conveyer, as well as variable speed drive engines for conveyers. As regards the mine's underground structures, all resources were invested into the construction of the main transport and haulage gallery to the bottom of the coal seam.

### TDR

*TDR* continued investment into the modernisation of its magnesium alloy and carbide production facilities, as well as general refurbishment and the replacement of obsolete plant.

## 2.11 Information Technology

### Trends

The world of IT development is evermore oriented in two somewhat disparate directions: on one hand, there is lowering of IT-related investment costs which is a result of an ongoing reduction in the prices of suitable hardware and software systems, while on the other there is a constant growth in information needs, which is leading to the use of IT applications in an increasing number of areas of operation.

HSE investments have been primarily aimed at ensuring a progressively more rapid exchange of information between subsidiaries and with business partners, as well as safe and reliable data management which enhances the flow, access and processing of information of every imaginable type, much of which is, of course, production and management systems related.

### Projects of the Parent Company

Among the most important projects implemented by HSE d.o.o. have been the establishment of new database links, the upgrade of information system management as well as initial steps in the introduction of an integrated document system.

### IT Support to the HSE Group Maintenance System

Further to the elaboration of a concept and design for uniform IT support to the HSE Group Maintenance System, a tender has now been selected for the first and second stage implementation of an IT-based solution capable of fully supporting all the operations of HSE Group enterprises.

### Security Standards

In 2004 a technical inspection performed on all IT systems in accordance with the BS17799 information security standard revealed that all possible mechanisms and measures for the prevention of unauthorised entry are being implemented.

## 2.12 Financial Operations

### Primary Activities

During 2004, HSE's financial operations were primarily aimed at ensuring the solvency and optimising liquidity at the Group level, undertaking infrastructure investment activities, and consequent risk management. Commercial decisions were made on the basis of ensuring ongoing solvency, as a result of which the consistent collection of trade receivables, detailed cash-flow planning and the optimisation of liquidity, form the core of the Group's day-to-day business operations.

### Achieved Objectives

Analyses of HSE Group financial operations in 2004 reveal that all objectives set were accomplished. None of the subsidiary enterprises had solvency problems, investment funds were secured, and in compliance with the principles of investment diversification and safety, capital and liquid assets were used in the generation of an optimal yield.

### 2.12.1 Enhanced Competitiveness

Today's competitive business environment heightened and enhanced by IT-supported operations present the HSE Group with new challenges. Many of these are related to achieving evermore cost-efficient operations, as well as re-allocating personnel from power generation operations to market-oriented activities and service provision.

#### A Successful Cost-Reduction Policy

The fact that HSE invests a great deal of effort and resources into cost-reduction is attested to by its financial statements. Further to a strategy of restraint, much emphasis has been placed on cost-cutting and capping measures throughout the Group, and further cost reductions in real terms are anticipated for 2005.

One of HSE's highest priorities continues to be the safe and reliable provision of electrical energy to the Slovenian market. It is of the utmost concern that despite the enhancement of cost-efficiency, new investments and all requisite maintenance works on existing power generating facilities are fully implemented in a manner concordant with every health and safety at work requirement.

#### Good Business Practise

Further to the interests of good business practice, HSE constantly investigates its commercial options and sources of financing, and through the selection of the most advantageous of these increases yield as well as decreases investments-related expenses.

## 2.12.2 Analyses of Operations and Business Performance Indicators

Performance Indicators of the Parent Company – HSE d.o.o.		p. 1/2
(SIT thousands)	2004	2003
<b>EQUITY FINANCING RATE</b>		
1. Liabilities	238,348,554	222,675,069
2. Equity	204,620,006	188,082,513
Equity financing rate = 2 / 1	85.85 %	84.47 %
<b>LONG-TERM FINANCING RATE</b>		
1. Equity	204,620,006	188,082,513
2. Long-term financial and operating liabilities	7,769,920	15,246,414
3. Long-term provisions	4,290,932	2,201,353
4. Total (1+2+3)	216,680,858	205,530,280
5. Liabilities	238,348,554	222,675,069
Long-term financing rate = 4 / 5	90.91 %	92.30 %
<b>OPERATING FIXED ASSETS RATE</b>		
1. Tangible fixed assets	6,889,929	3,776,380
2. Intangible fixed assets	2,862,433	1,821,557
3. Total book value of fixed assets (1+2)	9,752,362	5,597,937
4. Assets	238,348,554	222,675,069
Operating fixed assets rate = 3 / 4	4.09 %	2.51 %
<b>LONG-TERM ASSETS RATE</b>		
1. Tangible fixed assets	6,889,929	3,776,380
2. Intangible fixed assets	2,862,433	1,821,557
3. Long-term investments	198,426,663	191,735,507
4. Long-term operating receivables	30,000	111,658
5. Total (1+2+3+4)	208,209,025	197,445,102
6. Assets	238,348,554	222,675,069
Long-term assets rate = 5 / 6	87.35 %	88.67 %
<b>EQUITY TO OPERATING FIXED ASSETS</b>		
1. Equity	204,620,006	188,082,513
2. Tangible fixed assets	6,889,929	3,776,380
3. Intangible fixed assets	2,862,433	1,821,557
4. Total book value of fixed assets (2+3)	9,752,362	5,597,937
Equity to operating fixed assets = 1 / 4	20.98	33.60
<b>ACID TEST RATIO</b>		
1. Cash and liquid assets	760,326	94,306
2. Short-term investments	13,796,393	6,406,426
3. Total liquid assets (1+2)	14,556,719	6,500,732
4. Short-term financial and operating liabilities	21,298,292	16,780,705
Acid test ratio = 3 / 4	0.68	0.39
<b>QUICK RATIO</b>		
1. Cash and liquid assets	760,326	94,306
2. Short-term investments	13,796,393	6,406,426
3. Short-term receivables	15,556,863	17,347,825
4. Total (1+2+3)	30,113,582	23,848,557
5. Short-term financial and operating liabilities (current liabilities)	21,298,292	16,780,705
Quick ratio = 4 / 5	1.41	1.42



		p. 2/2
(SIT thousands)	2004	2003
<b>CURRENT RATIO</b>		
1. Current assets	30,143,825	25,322,852
2. Long-term operating receivables	30,000	111,658
3. Deferred costs (deferred expenses) and accrued revenues	25,704	18,773
4. Total short-term assets (1-2+3)	30,139,529	25,229,967
5. Short-term financial and operating liabilities	21,298,292	16,780,705
Current ration = 4 / 5	1.42	1.50
<b>OPERATING EFFICIENCY RATIO</b>		
1. Operating revenues (net sales revenues + other operating revenues)	116,332,671	90,232,123
2. Costs of goods, materials and services	104,414,153	85,840,047
3. Labour costs	1,029,533	800,020
4. Value write-downs	201,047	117,856
5. Other operating expenses	434,642	49,502
6. Total operating expenses (2+3+4+5)	106,079,375	86,807,425
Operating efficiency ratio = 1 / 6	1.10	1.04
<b>RETURN ON EQUITY (ROE)</b>		
1. Net profit for the financial year	9,862,827	3,974,153
2. Average common equity	196,351,260	185,008,721
Return on equity = 1 / 2	0.05	0.02

### Equity Financing Rate

Due to the fact that the Company is primarily financed from its own resources, it does not present significant risk to its creditors, as a result of which its equity financing rate amounts to nearly 86 %. The increase in the equity-financing rate on the 2003 level is due to an increase in equity (namely, net profit for the financial year) as well as the decrease in long-term financial liabilities (repayment of a portion of a loan).

### Long-term Financing Rate

Nearly 91 % of the company's sources of financing are itemized as long-term liabilities, with the remaining 9 % accounted as short-term liabilities. Due to accounting reclassifications of liabilities from long to short, short-term financial and operating liabilities increased, accordingly long-term financing liabilities fell by 1.4 percentage points on 2003 levels.

### Operating Fixed Assets Rate

Tangible and intangible fixed assets account for 4.1 % of total assets, which is due to the fact that long-term investments in power-generation infrastructure encompass the major portion of the Company's assets. New investments in tangible and intangible fixed assets during 2004 resulted in a year-on 1.6 % percentage point increase in the operating fixed assets rate.

### Long-term Assets Rate

The pertinent rate, calculated for 2004, amounts to 87.4 %, which is a 1.3 percentage-point decrease on the previous year. The decline can be attributed to the increase in short-term investments.

### Equity to Operating Fixed Assets

This indicator gives the ratio between equity and fixed assets (intangible fixed assets and tangible fixed assets). It shows the coverage of operating fixed assets by equity. The respective indicators value for 2004 was 21, which means company, equity entirely covers illiquid assets as well as a portion of current assets. The year-on equity to operating fixed assets rate fell by more than on third (37.6 %) in 2004; the increase in fixed assets in relative terms was a lot more substantial than the corresponding increase in equity due to new investments.

### Acid Test Ratio

The acid test ratio is attained through dividing liquid assets by short-term liabilities. The rate grew to 0.7 in 2004, vindicating the fact that the Company had no problems with immediate solvency.

### Quick Ratio

The quick ratio is a measure of short-term liquidity and the company's ability to meet its financial obligations in a timely manner. In 2004, as in 2003, the ratio remained positive which indicates that if sales revenue disappeared, the business could meet its current obligations with the readily available funds on hand.

### Current Ratio

The current ratio is a measure of the Company's ability to meet its financial obligations in a timely manner. In 2004 this ratio fell to 1.4, but it nevertheless indicates a high degree of solvency.

### Operating Efficiency Ratio

In 2004 the Company's operating revenues surpassed its operating expenses by 10 %, a rate which is up by 5.8 % on the previous year.

### Return on Equity

This indicates the rate of return on equity investment, which in 2004 was 150 % ahead of the 2003 level, and the shareholder attained a 5 % yield on their invested capital, which can be considered satisfactory given market conditions.

# Business Performance Indicators of the HSE Group

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(SIT thousands)

2004

2003

## EQUITY FINANCING RATE

1. Liabilities	342,271,621	337,940,995
2. Equity	240,753,971	222,794,507
Equity financing rate = 2 / 1	70.34 %	65.93 %

## LONG-TERM FINANCING RATE

1. Equity	240,753,971	222,794,507
2. Long-term financial and operating liabilities	39,045,152	52,216,475
3. Long-term provisions	36,066,749	37,299,564
4. Total (1+2+3)	315,865,872	312,310,546
5. Liabilities	342,271,621	337,940,995
Long-term financing rate = 4 / 5	92.29 %	92.42 %

## OPERATING FIXED ASSETS RATE

1. Tangible fixed assets	279,230,452	282,644,116
2. Intangible fixed assets	5,076,640	3,877,246
3. Total book value of fixed assets (1+2)	284,307,092	286,521,362
4. Assets	342,271,621	337,940,995
Operating fixed assets rate = 3 / 4	83.06 %	84.78 %

## LONG-TERM ASSETS RATE

1. Tangible fixed assets	279,230,452	282,644,116
2. Intangible fixed assets	5,076,640	3,877,246
3. Long-term investments	1,349,304	5,788,610
4. Long-term operating receivables	1,044,204	353,854
5. Total (1+2+3+4)	286,700,600	292,663,826
6. Assets	342,271,621	337,940,995
Long-term assets rate = 5 / 6	83.76 %	86.60 %

## EQUITY TO OPERATING FIXED ASSETS

1. Equity	240,753,971	222,794,507
2. Tangible fixed assets	279,230,452	282,644,116
3. Intangible fixed assets	5,076,640	3,877,246
4. Total book value of fixed assets (2+3)	284,307,092	286,521,362
Equity to operating fixed assets = 1 / 4	0.85	0.78

## ACID TEST RATIO

1. Cash and liquid assets	1,388,430	3,894,380
2. Short-term investments	29,297,874	17,067,474
3. Total liquid assets (1+2)	30,686,304	20,961,854
4. Short-term financial and operating liabilities	25,675,615	25,082,474
Acid test ratio = 3 / 4	1.20	0.84

## QUICK RATIO

1. Cash and liquid assets	1,388,430	3,894,380
2. Short-term investments	29,297,874	17,067,474
3. Short-term receivables	17,886,397	17,020,722
4. Total (1+2+3)	48,572,701	37,982,576
5. Short-term financial and operating liabilities	25,675,615	25,082,474
Quick ratio = 4 / 5	1.89	1.51



		p. 2/2
(SIT thousands)	2004	2003
<b>CURRENT RATIO</b>		
1. Current assets	56,498,814	45,499,967
2. Long-term operating receivables	1,044,204	353,854
3. Deferred costs (deferred expenses) and accrued revenues	116,411	131,056
4. Total short-term assets (1-2+3)	55,571,021	45,277,169
5. Short-term financial and operating liabilities	25,675,615	25,082,474
Current ratio = 4 / 5	2.16	1.81
<b>OPERATING EFFICIENCY RATIO</b>		
1. Operating revenues (net sales revenues + other operating revenues)	128,994,686	103,532,858
2. Costs of goods, materials and services	55,700,137	44,847,949
3. Labour costs	29,685,116	27,741,573
4. Value write-downs	18,147,115	17,838,911
5. Other operating expenses	5,952,324	5,883,782
6. Total operating expenses (2+3+4+5)	109,484,692	96,312,215
Operating efficiency ratio = 1 / 6	1.18	1.07
<b>RETURN ON EQUITY (ROE)</b>		
1. Net profit for the financial year	17,986,422	6,702,268
2. Average common equity	231,774,239	229,134,996
Return on equity = 1 / 2	0.08	0.03

### Equity Financing Rate

The Group's equity financing rate for 2004 amounts to over 70 %. In consideration of the high value of this rate, and due to the fact that its operations are primarily financed from indigenous resources, HSE Group does not present any significant risk to creditors. The year-on 4.4 percentage-point increase in the equity-financing rate is due to the increase in equity (namely, the net profits for 2004) as well as a decrease in long-term debt (repayment of a portion of an outstanding loan).

### Long-term Financing Rate

92.3 % of the Group's sources of financing are accounted as long-term liabilities, with the remaining 7.7 % accounted as short-term liabilities. This is a year-on shift of one-tenth of a percentage point out of long-term liabilities and into short-term ones.

### Operating Fixed Assets Rate

Tangible and intangible fixed assets accounted for 83.1 % of aggregate Group assets, which is understandable given the nature of the HSE's core business. The rate is down by 1.7 percentage points on the 2003 level.

### Long-term Assets Rate

The pertinent rate calculated for 2004 amounts to nearly 84 %, which is a 2.8 percentage-point decrease on the previous year. The decline can be attributed to a decrease in long-term investments.

### Equity to Operating Fixed Assets

In 2004 this indicator was 0.9, ahead by 0.01 on the previous year, which means that most of Group's illiquid assets (intangible fixed assets and tangible fixed assets) are covered by its equity.

### Acid Test Ratio

The acid test ratio, a test of the corporation's liquidity, is attained through dividing liquid assets by short-term liabilities. The ratio had stood at 0.8 in 2003, and grew to 1.2 in 2004. The increase, which indicates the Group has no problems with solvency, can be attributed to the increase in short-term investments.

### Quick Ratio

The quick ratio is attained through dividing current assets by current liabilities, and the result reveals how the Group finances its inventories and other short-term assets, namely, solely through short-term liabilities or also through long-term ones. The 2004 ratio witnessed a 0.4 increase on the previous year when it had stood at 1.5. The value of this indicator remained well above 1 for both years, which means that in addition to inventories the Group also finances other short-term assets through its long-term liabilities.

### Current Ratio

The current ratio is a measure of the Group's ability to meet its financial obligations in a timely manner through an ability to pay its current obligations using current assets. In 2004 this ratio increased to 2.2, and indicates a high degree of solvency.

### Operating Efficiency Ratio

The operating efficiency ratio is above 1, which means that the Group's operating revenues exceed its operating expenses, and thus the HSE Group achieved an operating profit. The value of this ratio increased from 1.01 in 2003 to 1.2 in 2004.

### Return on Equity

This indicator reveals the rate of return on the shareholder's equity investment. In 2004 Group equity yielded an 8 % return, which, taking into consideration the capital-intensive nature of the business and the current market situation, can be considered as very positive.

## 2.13 Risk Management

The HSE Group is fully aware that risk management encompasses two inter-related and inter-dependable components – risk identification and the appropriate management of all categories and types of risk in each and every area of its business.

The Group indeed encounters risk in all areas of its operations, in particular the generation of electrical energy and the consequent financial activities that pertain to investment, production, marketing and sales. A general assessment for 2004 is that the Group continued to apply conservative risk-management practises.

### Market Risk

Price or market risk comprises those risks that are directly related to fluctuations in the price of electricity on both domestic and foreign markets, as well as those which emanate from the necessity to maintain an open position in electricity trading. In 2004, as in 2003, spot trading was hedged by futures contracts for specific deliveries, and these accounted for the major portion of trade in electrical energy. The impact of price fluctuations and the potential threat of extremes on the spot market were mitigated through futures trading.

### Volumetric Risk

Electricity production entails the potential risk that generation could be interrupted, thus leading to an immediate situation in which scheduled deliveries could not be accomplished. Volumetric risks encompass:

- the risk of non-delivery of power from through-flow HPPs, due to outages or low river levels;
- the risk of non-delivery of power from thermal plants, due to outages or technical and environmental constraints on production;
- the risk of non-delivery of lignite from PV due to production hold-ups or shut-downs caused by break-downs, accidents, as well as a number of other human, technological and geological factors that could ultimately disturb power production.

In 2004, due to improved precipitation in the region, the Group's HPP generation exceeded projections by 296 GWh; TEŠ's output was by 450 GWh above anticipated, whereas TEB realised only 38 % of the projected volume, namely 62 GWh less than had been planned.

Deviations in actual HPP through-flows from the projections made on the basis of daily forecasts were balanced through the adjustment of generation output by thermal plants, as well as through increased sales or purchases on the power exchange.

TEŠ recorded an unanticipated 1.5 % reduction in its projected total output for 2004 as a result of an essential overhaul. Such works are necessary every 3 to 5 years, while the diminution itself is comparable to other power plants of its age and type, and is thus fairly satisfactory. HPPs regularly lose up to 0.5 % of anticipated output due to unscheduled maintenance works.

Due to the risk of interruption in the supply of coal, minimal lignite stocks – that must be maintained at all times – have been determined; during 2004 coal reserves remained above the mandatory requirements.

### Successful Balance Group Management

Electricity production for all Group enterprises is managed by the HSE control centre in the city of Maribor. The basic objectives of production control encompass:

- ensuring the minimum possible deviation from the production and balance group schedules;
- the provision of optimal power flow;
- prompt activation of reserve capacities in the event of emergencies.

The quality of balance group management is revealed through the minimisation of costs deriving from deviations. In 2004, total deviations from schedules amounted to 1.4 GWh, which corroborates the notion of successful balance group management.

## Financial Risks

All HSE Group enterprises pay particular attention to the financial risks which they are exposed to as a result of their operations, and take appropriate measures to minimise and manage such risk.

The Group is not exposed to significant risk as regards its trading with foreign currencies. It is entirely able to meet its euro-related obligations with revenues generated on euro markets. Other foreign currency operations are extremely rare.

Credit risk is managed through the ongoing monitoring of the credit standings of business partners. Outstanding receivables are mainly secured by blank bills of exchange, whereas some electricity buyers abroad were obliged to submit bank guarantees.

Due to the large portion of own equity, in combination with a low debit rate equal to 3 % of HSE d.o.o. balance sheet total and 14 % of the HSE Group balance sheet total, exchange rate interest risk is not an issue.

In 2004 the HSE Group introduced a system aimed at monitoring and optimising short-term cash surpluses and deficits within its enterprises. This new measure, in conjunction with investments and liabilities diversification, co-ordination of the term-structure of receivables and liabilities, together with the consistent collection of receivables, provide the Group with adequate cash-flow management that is a guarantor of the solvency of the parent company as well as the HSE Group as a whole.

## Regulatory Risk

Regulatory risks, deriving from alterations and amendments to market or legislative regulations, on the Slovenian electricity market as well as abroad, directly impact HSE's business operations and consequent performance. Such risks are the most difficult to manage because they are not easily quantified and their effects are not easy to control. Thus the HSE Group constantly monitors activities and developments on both domestic and foreign markets, as well as the pertaining regulations, and responds to any changes through adjusting its trading strategy.

## Risk Management Policies and Procedures

In 2004 HSE pursued a market and credit risk identification and management project through the implementation of a software programme that encompasses the Group's trading activities as well as monitors price changes on both domestic as well as foreign electricity markets. Another important tool, which is currently under development, is the Risk Management Policies and Procedures (RMPP) project. It is aimed at risk identification, the demarcation and delegation of pertaining responsibilities as well as the definition of individual procedures and strategies regarding risk identification and its respective management.

## 2.14 Public Relations

In 2004 HSE again paid much attention to the timely delivery of updated information concerning pertinent business operations – as well as other activities and events related to the HSE Group enterprises – to its key audiences; namely, its customers, business partners and employees, the media, other operators in its sector, as well as the state authorities, local authorities and the Slovenian general public.

A variety of public relations exercises addressed a number of topical issues during 2004, and HSE also endeavoured to bring a number of other important events and issues into the public arena. Special attention was paid to media communication regarding the construction of new power generating facilities, and Slovenia's citizens were provided with a steady flow of information through national as well as local media. Local inhabitants of the Posavje region – where five new HPPs on the Sava River are in various stages of development and construction – have been vigorously engaged and encouraged to air their questions and misgivings, especially during the planning process. HSE made available all the pertinent information regarding these infrastructure projects, as well as provided answers to questions and resolutions of the objections raised.

### Modra Energija – Azure Energy from Pure Water



Renewable energy sources also featured as a common media topic during 2004. This was heightened by the establishment of RECS in Slovenia as well as HSE's launch of its *Modra Energija* (Azure Energy) trademark,

both of which were part of the Group's active participation in the creation of an electricity market in compliance with the EU directives regarding the provision of environment-friendly power. The initiation of the *Modra Energija* campaign encompassed a new logo, brochures, a website, together with an extensive public information drive, not to mention a whole host of other public education and promotion endeavours. The objective of all of this activity was the market launch of *Modra Energija* by presenting its many advantages. It is anticipated that the Slovenian consumer – the potential customer for

this new product – now has a heightened awareness as to the environmental issues surrounding power generation.

The younger generation – children and teenagers – has been especially targeted by the *Modra Energija* campaign. In order to provide a stimulating introduction to the theme of renewable energy sources, part of the promotion included affable cartoon mascots and special didactic tools that hopefully spur further investigation of this issue.

### Energija – The HSE Group In-house Magazine



Communication with its employees is yet another constituent part of HSE's public relations endeavours, and is at least partially accomplished through *Energija* (Energy), an in-house magazine first published in 2002. With subsidiaries dispersed right across the country,

there is need of a common tool of communication that embraces all those within the organisation. In addition to enhancing employee-education and good business practise, *Energija* facilitates delivery of the latest information as to significant events at the Group level as well as in the Slovenian power generation sector as a whole.

Published in nine regular issues per year, a special edition of *Energija* was issued following the Second Strategic Conference of the HSE Group. The design of the magazine was completely revamped at the end of 2004.

### HSE Group Website ([www.hse.si](http://www.hse.si))

The company's website – [www.hse.si](http://www.hse.si) – also underwent a re-launch in 2004. Its new design is easily browsed and thus more user friendly, while its content has been complemented with information that provides better insight into HSE Group operations and activities. In accordance with the ISO 14001 environment management standard, the website also encompasses information as to how power-generation impacts the environment.

## 2.15 Research & Development

### Identification of Optimal Investment Opportunities

As in previous years, the identification of optimal investment opportunities remained a priority of HSE's research & development endeavours. In addition to clear vision, overall growth as the result of well-grounded investment is a prerequisite in accomplishing long-term objectives.

### Investments

At the beginning of 2004, a commission of independent external experts was appointed to determine the list of HSE Group priorities re the reconstruction of existing and the construction of new power generating facilities. The projects thus determined were classified as primary and secondary priority and integrated into HSE Group Development Plan (2004-2013) – With a Look Ahead to 2023.

### Investment Financing

Late 2004 witnessed preparation of a financial plan for securing the resources for the infrastructure investments identified in the development plan. In October, upon a thorough review of the submitted list, the European Investment Bank identified those projects which are potentially applicable for funding.

### HSE's Second Strategic Conference

HSE's Second Strategic Conference in November 2004 also encompassed an introduction to the principal tasks and objectives elucidated in the Group's Development Plan. The schedule of proposed new power generating facilities was presented, as was an overview of each of these potential new investments.

### Research and Studies

HSE undertook numerous research studies during 2004, and these can be categorized into the following categories:

- research into the potentials and impacts of new power generating facilities;
- environmental protection studies;
- research into renewable energy sources; and
- studies related to the connection of power generating facilities into the electricity transmission network.

### Feasibility Study on the Prototype Wind Power Plant using an Augmentor – Phase II

Works related to the construction of a prototype wind turbine with an augmentor in northeastern Slovenia have been completed, and wind-tunnel tests on a scale model have also been carried out. The technical documentation has been prepared and all the requisite permits necessary for the construction of the plant have been obtained, while manufacture of the augmentor is underway.

### Feasibility Study on the 1.56 kW Solar Plant with a Prototype DC / AC Inverter

Requisite documentation for the technical inspection of the existing solar plant in Slovene Styria has been prepared. In addition to which, the prototype of DC / AC inverter with integrated load frequency control and conversion of direct to alternating current has been fabricated. The new converter facilitates maximum power transfer between photovoltaic source and the distribution system, and the possibilities regarding its industrial production are now under examination.

### Impact Study of the Slovenian Allocation Plan of Greenhouse Gas Emission Allowances on the HSE Group

With the context of emissions trading within the EU, this study provides an overview of CO<sub>2</sub> emission allowances within the context of the 2005 to 2007 national allocation. Slovenia was granted a 0.3 % (24.8 million tonnes) quota of the Union's total allowance, and of this more than half has been allocated to the HSE Group. The study introduces various scenarios for the trading period to 2012, together with proposals for HSE activities re the organisation of trading in allowances as well as pertaining risk management.

### Feasibility Study on the Production of Photovoltaic Cells by TDR – Metalurgija

The basic raw material in the production of photovoltaic cells is silicon, and there is a possibility of the production of solar grade silicon from ferrous silicon by TDR – Metalurgija. The results of the study revealed that the introduction of technologically advanced and investment intensive programme would be justified.

### Impact Study of the National Allocation Plan of CO<sub>2</sub> Emission Allowances on the HSE Group

This study investigated the potential effects of CO<sub>2</sub> emission parameters in relation to the projected output of TEB and TEŠ. It encompassed all production-related aspects, including:

- CO<sub>2</sub> emission measurement methodology;
- assessment of previous CO<sub>2</sub> emissions to date;
- creation of an overview based on the requirements of both European and Slovenian legislation in the field of greenhouse gas emissions;
- estimation as to how the allocation plan will impact production by HSE facilities;
- calculations as to the price of electricity production, taking into consideration emissions allowance allocations as well as the purchase of additional allowances;
- analyses of critical points in Slovenia's electricity generation and transmission system, as well as network interconnections.

### TEŠ CO<sub>2</sub> Emissions 1986-2003

The congruence of the CO<sub>2</sub> emission records in the Statistical Yearbook of the Power Sector of Slovenia and the TEŠ's own records was verified. The reasons for the discrepancies were established and, in turn, suggestions as to how the record should be amended were proposed. Based on the corrected quantities of lignite fuel used, as well as the results of several comparative analyses of coal, another assessment as to TEŠ's CO<sub>2</sub> emissions between 1986 and 2003 was made. This reanalysis resulted in a revision of national CO<sub>2</sub> emissions records for 1986.

### Parameter Setting for the Automatic Reclosure of Power Lines in the Proximity of Large Thermal Plants operated by the HSE Group

In conjunction with the UCTE, HSE has undertaken research into phase differences across critical points of Slovenia's power transmission system. The study provided data as to the ranges and magnitudes of possible angular phase difference of 440-kV and 220-kV transmission lines at the Podlog distribution-transformer station, as well as 110-kV lines at the TEŠ switching station. Data analysis has ascertained the optimum size of the angular phase difference for every single transmission line in

order to facilitate automatic reclosure in most operational conditions without any significant impact on system devices.

### HSE Group Facilities – Maintenance Procedures, Part 1: Hydropower Plants

This study dealt with the organisation of maintenance, as well as other significant issues pertaining to the upkeep of hydropower plants, as well as the safety and reliability of equipment and infrastructure together with other issues that affect availability. It also encompassed an overview of the current state of HSE's hydro facilities together with an inventory and classification of plant and machinery, in addition to which analyses of personnel structures, skill bases, maintenance costs, implicit maintenance methodology and information systems were also carried out. The study also encompassed an overview of contemporary maintenance methods used worldwide in this sector, and further to this elaborated a procedure for the selection of the most appropriate one for HSE.

### Feasibility study on the construction of PPE Kidričevo – gas-fired CCGT power plant

In consideration of the guidelines set out by Slovenia's National Energy Programme, HSE is also appraising a variety of schemes for the construction of new coal and natural gas plants primarily in the locales where such plants already exist or in the locations of major industrial consumers.

The PPE Kidričevo study has introduced options for the construction of one or two 400 MW gas-fired CCGT power generation units in the vicinity of the Talum aluminium smelter at Kidričevo in north-eastern Slovenia. Analysis of the proposed plant has considered such elements as environmental impacts, connection into the transmission grid system, gas supply and related gas infrastructure, cooling supply water, as well as the overall suitability of the locale. The study also encompassed an estimation as to the construction and operating costs, as well as realisation of the project in the context of a joint venture project involving several partners.

## 2.16 Future Plans

### Maintaining a Leading Role

In 2005 *HSE* shall strive to maintain its role as the leading provider of power to the Slovenian market. In order to meet this objective it shall continue to provide a safe and reliable supply of electricity to its customers as thus contribute to the creation of a stable business environment. Supply contracts for the coming year, and many for 2006, have already been concluded. The *HSE*'s largest domestic customers encompass Slovenia's regional distribution companies, industrial consumers on the high-voltage network as well as other large customers.

### Provision of Power System Ancillary Services

*HSE* continues to play active part in ensuring the uninterrupted operation of the entire grid network through the provision of ancillary services to *ELES*, the operator of the national transmission system, while the Group's hydropower plants provide voltage control services. Further to this, *HSE* manages the largest balance group in Slovenia which, through the ongoing adjustment of production by *HSE* Group generating facilities, allows its members to minimise costs arising as a result of deviations.

### Increase in Trading Volume

In 2005 *HSE* anticipates to market approximately double the volume of the projected electrical energy production of *HSE* Group. Such increased trading volumes shall be achieved through the already established channels in Slovenia and abroad.

### Continental Europe

In addition to maintaining its pre-eminent position on Slovenia's wholesale electricity market, in 2004 *HSE* established itself as an equal player in the markets of the continental Europe. As a result, *HSE* actively and independently traded power as well as futures contracts on the Leipzig-based *EEX*, Europe's most important electricity exchange. *HSE* is also active on the Slovenian as well as Austrian exchanges, while Italy remains the most significant foreign market due to the fact that it commands the highest prices for electrical energy.

### Southeastern Europe

In October 2004 the Continental and Southeastern European transmission systems – which had been interrupted in the 1990s as a result of the hostilities in the former Yugoslavia – were re-synchronised. This reunification provides a great many opportunities for the expansion of *HSE*'s trading activities and expansion of the Group's penetration of markets in the Balkans. *HSE* established contacts with potential business partners in Southeastern Europe soon after the resynchronisation, and has since begun to trade in electricity from Serbia, Montenegro and Bulgaria. A rapid growth in operations on these markets is anticipated over the next few years.

### Carbon Emission Rights

On 1<sup>st</sup> January 2005 the European Union's trading scheme in CO<sub>2</sub> emission rights – which is aimed at attaining a cost-effective implementation of the objectives of the *Kyoto Protocol* – began operations. *HSE* intends to actively participate in the trade in carbon emission allowances.

## 2.17 Significant Events in Early 2005

### 2.17.1 The Parent Company – HSE d.o.o.

#### The Kyoto Protocol

On 16<sup>th</sup> February the Kyoto Protocol – a small yet extremely significant step in the eventual solution of the problem of global warming – came into force.

The countries of the developed world are now obliged to curtail their emissions of greenhouse gases which are considered to be the main cause of climate change. By way of the protocol, Slovenia is now committed to reducing its greenhouse gas emissions by 8 % between 2008 and 2012.

After signing the Kyoto Protocol in October 1996, Slovenia ratified it in July 2002. In 1986 – the reference year – emissions of greenhouse gases in Slovenia amounted to 20.6 million tonnes of CO<sub>2</sub> equivalent, which means that in the initial period the country cannot, on average, exceed an annual discharge of 18.95 million tonnes of CO<sub>2</sub> equivalent.

It has been estimated that the total cost of implementing the Protocol in Slovenia would, given the best case scenario, amount to 5.5 billion Slovene tolar per year, and, in the worst case scenario, it might cost as much as 10 billion Slovene tolar per year.

Measures being implemented for the accomplishment of the objectives of the Kyoto Protocol include the following:

- taxation on CO<sub>2</sub> emissions;
- promotion of the use of renewable energy sources;
- energy labelling of household appliances;
- improvement of existing construction and insulation techniques in order to reduce energy consumption in buildings by 30 %, and consequently reduce CO<sub>2</sub> emissions by 60,000 tonnes per year;
- regulation of the trade in electricity and natural gas;
- provision of consumer information on carbon emissions on motor vehicles;
- promotion of the use of bio-fuels;
- introduction of excise taxes on fossil fuels and electrical energy.

The trade in emissions allowances indirectly makes the polluters either invest in the reduction of greenhouse gas emissions or buy the emissions allowances. The TEB and TEŠ subsidiaries, both of which operate thermal power stations that use fossil fuels, also participate in the trade in emissions allowances.

### 2.17.2 Subsidiary Enterprises

#### SEL

In January 2005 SEL concluded a contract transferring its concession for the exploitation of Slovenia's Lower Sava River hydro-potentials to HSE, by way of which SEL settled all its erstwhile obligations arising from its 2002 concession.

#### TEŠ

In February 2005, the European Commission established that state aid granted to TEŠ, as well as the Trbovlje thermal power plant and the Krško nuclear facility as a consequence of stranded investments in the power generation sector are in full compliance with EU regulations governing state aid.

In addition, the Commission established that the aid granted to TEŠ is in compliance with the rules

governing recompense for services of common interest due to the fact that it refers to the provision of a safe supply.

#### HSE – IIP (ceasing operations in 2004)

At the beginning of April 2005, due to cessation of its operations, Krško District Court issued under summary procedure a decree by way of which HSE – IIP was stricken from the companies register.

#### TDR

On 14<sup>th</sup> February Franjo Vališer was appointed director of TDR.

# Natural Connections.

WE NEED ELECTRICITY IN OUR HOUSE AND IN OUR SCHOOL, AND WHERE DADDY WORKS THEY NEED LOTS OF IT! EVERYWHERE IS CONNECTED TO THE ELECTRICITY BY BIG WIRES AND LITTLE WIRES. THE BIG WIRES GO TO THE POWER STATION WHERE THE WIRES ARE CONNECTED TO BIG WHEELS THAT ARE PUSHED AROUND REALLY FAST BY THE WATER. BECAUSE THE WATER IS STRONG IT CAN GIVE US THE POWER TO MAKE ALL THE THINGS WE NEED WORK. BUT EVERYTHING MUST BE CONNECTED IN THE RIGHT WAY, AND ONLY BIG FAST RIVERS CAN MAKE THE ELECTRICITY WORK PROPERLY.







FINANCIAL  
REPORT

*of HSE d.o.o.*

2004

## 3.1 General Notes

### Basis for the Preparation of Financial Statements

The financial statements and the notes to the financial statements in this Report have been prepared and presented in a manner concordant with the provisions of *Companies Act* as well as in accordance with the pertinent *Slovenian Accounting Standards (SAS)*.

The financial statements have been prepared using the Slovene tolar (SIT) as the unit of currency. All figures herein have been rounded to the nearest 1,000 tolar.

### Principle Accounting Policies

In the preparation of the financial statements the following principles deriving from accounting policies have been met in their entirety:

- consideration of the occurrence of an event
- going concern, and a
- fair and truthful presentation of accounts under the circumstances of changes in the value of the euro against the tolar and Slovenia's cost of living index.

The following general rules in the valuation of items in the financial statements have been given the highest possible degree of consideration:

- consistency
- prudence
- assessment on the basis of accrual
- individual valuation of assets and liabilities
- assessment of the enterprise as a going concern, i.e. as continuing its operations into the foreseeable future.

### Foreign Exchange and the Method of Translation into the Slovene Tolar

Accounting items in the individual balance sheets and income statements that were originally presented in a foreign currency have been translated into the domestic currency – the Slovene tolar – at the middle exchange (spot market) rate published by the Bank of Slovenia as of date of their incurrence.

The balance of assets and liabilities expressed in a foreign currency have been translated into Slovene

tolars at the middle exchange (spot market) rate published by the Bank of Slovenia on 31<sup>st</sup> December 2004:

- middle exchange rate as of 31<sup>st</sup> December 2003:  
1 euro = 236.6903 Slovene tolar
- middle exchange rate as of 31<sup>st</sup> December 2004:  
1 euro = 239.743 Slovene tolar.

### Conformity of Evaluation and Accounting

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 various options re valuation methods. In such cases, the Company applies valuation methods that comply with its own *Accounting Rules* or resolutions adopted by the Management Board.

### Intangible Fixed Assets

Upon initial recognition, **intangible fixed assets** are valued at their historical cost, which is inclusive of import and other non-refundable duties and costs, but include neither debit interest nor currency translation differences after the date of delivery.

### Tangible Fixed Assets

**Tangible fixed assets** are valued at their historical cost upon initial recognition. This cost is inclusive of the purchase price, as well as import and other non-refundable duties and costs that can be directly attributed to readying the asset for its intended purpose or use, and in particular transport and installation costs. The historical cost does not include debit interest nor currency translation differences after the date of delivery. Expenses incurred subsequently in relation to a tangible fixed asset may increase its historical cost if its future benefit is deemed to be increased above the initial (historical) assessment of such.

### Long-term Investments

Upon initial recognition, **long-term investments** in the equity of other companies are recorded at their historical cost which is equal either to the amount of cash or cash equivalents paid, or to the fair value of other assets used for the acquisition on the day of exchange, increased by any costs directly attributable to the investment.

In the financial statements of the parent company, long-term investments in the equity of subsidiary enterprises, which are included in the consolidated financial statements, are valued by using the equity method. This means that they are annually increased by that portion of the subsidiary's net profit which is attributable to the parent company. Such profits increase the equity revaluation adjustments related to long-term investments. Shares in profits and dividends, which are received later, reduce the original increase in the value of the equity investment. At the same time, the specific equity revaluation adjustment is reduced and the parent company records the financial revenue.

The equity method applies to the valuation of long-term investments in subsidiary enterprises as well as associated companies.

Long-term investments in the equity of other companies are valued by using the cost method. This means that the value of the investment does not simultaneously change upon the establishment of a net profit by the company in which the investor has an interest. However, in itself, the cost method is based on cash flows, and as a result the investment's value usually does not reconcile with the investor's actual holding in the equity of the company. For this reason the accuracy of the recorded value of any such investment is examined at the close of the financial year.

Long-term investments expressed in a foreign currency are, at year's end, translated into Slovene tolar at the middle exchange (spot) rate thence published by the Bank of Slovenia.

### Operating Receivables

Under the assumption that economic benefit shall derive from them, **receivables** are recognised as assets if it is possible to assess with certainty their original value. Upon initial recognition, receivables of all kinds are shown in the amounts recorded in the relevant accounting documents under the assumption that these amounts will be collected.

In the Balance Sheet, advances given for tangible fixed assets and inventories are not disclosed under

receivables, but, respectively, under tangible fixed assets and inventories.

### Short-term Investments

Upon initial recognition, **short-term investments** are valued at their historical cost corresponding to the amount invested. Short-term investments are not revaluated upwards due to their appreciation; they are, however, revaluated downwards due to impairment or depreciation if their fair value is revealed to be less than their book value.

### Capital

**Total capital** consists of the value of the owners' investments, together with amounts accumulated through corporate operations, which are thus ascribed to the owners.

### Long-term Liabilities

**Long-term liabilities** encompass long-term loans received on the basis of loan agreements with a maturity date of more than a year. Upon initial recognition, they are accounted in the amounts stated in the relevant documents that confirm the receipt of the loan.

**Long-term operating liabilities** derive from obligations that arise from the company's trading relations with its business partners. These liabilities are comprised of trade payables and as such form part of the operating working capital.

### Short-term Operating Liabilities

**Short-term operating liabilities** are recorded as a liability in the accounting records and Balance Sheet when the consideration of the invoice date and/or receipts and pertinent accounts indicate a contractual or other mandatory obligation. Upon initial recognition, liabilities of all kinds are recorded in the amounts indicated in the relevant accounting documents under the assumption that the creditor shall expect payment.

Until their revaluation is required, the book value of short-term liabilities is equal to their historical value, adjusted accordingly upward or downward as may be agreed with the individual creditors.

## Revenues

**Revenues from the sale of products, merchandise and materials** are valued on the basis of sales prices as recorded in invoices and other documents, reduced by any discount approved upon sale or later for such reasons as prompt or early payment.

**Revenues from services rendered** are valued according to the sales prices upon their completion, or at the sales price of a non-fully-rendered service in accordance with the level of completion.

**Financial revenues** are recognised on an accrual basis unless there is a reasonable doubt as to their amount, maturity or recoverability.

**Extraordinary revenues** are comprised of unusual items and are recognised when they meet specific requisite conditions regarding expectation of resultant income.

## Expenses

**Operating expenses** are recognised upon the sale of merchandise. Operating expenses encompass the historical cost of the goods and material sold.

**Financial expenses** are recognised on an accrual basis.

## Reporting by Territory and Sector

Territories encompass domestic (Slovenia) and foreign markets. The Company did not establish any relevant aberrations re yield and risk regarding any of its foreign markets, thus a detailed breakdown is unnecessary. Due to the fact that the business conditions and exposure to risk are identical for all individual product groups, the Company does not itemise operations by sector.

## Taxation

The Company is liable for sales tax in accordance with Slovenia's *Value Added Tax Act*, as well as corporation tax in accordance with *Corporate Profit Tax Act*. In 2004, the Company was also eligible for tax in Germany.

### 3.2 Statement by the Management Board

The Management Board of *Holding Slovenske Elektrarne d.o.o. (HSE)* endorses the Company's Financial Statements for fiscal 2004, as well as the accounting policies applied therein which are described in the Notes to the Financial Statements.


The Management Board states that appropriate accounting policies were consistently applied in the preparation of the Financial Statements, while the assessments were made on the basis of prudent consideration and best business practise, as well as going concern and, with that, the assumption that the Company's operations shall continue into the foreseeable future. The Annual Report thus gives a true and fair view of the state of the Company's assets and operations in 2004.

The Management Board affirms that the Financial Statements were compiled in accordance with the provisions of *Companies Act, Slovenian Accounting Standards*, as well as other pertinent provisions that regulate the field of accountancy in Slovenia.

Ljubljana 31<sup>st</sup> March 2005



Milan Medved, Ph.D.  
BUSINESS MANAGER



Drago Fabijan, M.Sc.  
GENERAL MANAGER



Ladislav Tomšič  
TECHNICAL MANAGER



03  
*Holding Slovenske elektrarne d.o.o.*

### 3.3 Auditor's Report



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

We have audited the accompanying financial statements of Holding Slovenske elektrarne d.o.o. Ljubljana consisting of the balance sheet as of 31 December 2004, 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 2004, 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.

Ljubljana, 10<sup>th</sup> May 2005

KPMG SLOVENIJA,  
podjetje za revidiranje, d.o.o.

Marjan Mahnič, BSc. Ec.

MANAGING DIRECTOR AND CERTIFIED AUDITOR

**KPMG Slovenija, d.o.o.**

## 3.4 Balance Sheet

(in SIT thousands)		Notes	31 <sup>st</sup> Dec. 2004	31 <sup>st</sup> Dec. 2003
<b>ASSETS</b>			<b>238,348,554</b>	<b>222,675,069</b>
<b>A. FIXED ASSETS</b>			<b>208,179,025</b>	<b>197,333,444</b>
I. Intangible fixed assets	1		2,862,433	1,821,557
1. Long-term deferred operating costs			2,642,595	1,600,340
3. Long-term property rights			219,838	221,217
II. Tangible fixed assets	2		6,889,929	3,776,380
1. Land and buildings			450,885	460,840
b) Buildings			450,885	460,840
3. Other plant and equipment			392,236	350,876
4. Tangible fixed assets under acquisition			6,046,808	2,964,664
a) Advances for acquisition of tangible fixed assets			639,169	556,979
b) Tangible fixed assets under construction or in manufacture			5,407,639	2,407,685
III. Long-term investments	3		198,426,663	191,735,507
1. Participation in the equity of Group enterprises			198,398,718	191,729,807
3. Participation in associated companies			945	0
5. Other long-term equity participation			27,000	5,700
<b>B. CURRENT ASSETS</b>			<b>30,143,825</b>	<b>25,322,852</b>
I. Inventories			243	1,362,637
1. Materials			192	1,362,637
4. Advances for the inventories			51	0
II. Operating receivables	4		15,586,863	17,459,483
a) Long-term operating receivables			30,000	111,658
4. Long-term operating receivables from others			30,000	111,658
b) Short-term operating receivables			15,556,863	17,347,825
1. Short-term trade receivables			11,769,040	10,097,249
2. Short-term receivables from Group enterprises (excluding associated companies)			879,967	4,577,143
4. Other short-term receivables			2,907,856	2,673,433
III. Short-term investments	5		13,796,393	6,406,426
1. Participation in the equity of Group enterprises (excluding associated companies)			207,333	24,260
4. Other short-term investments			13,589,060	6,382,166
IV. Cash and liquid assets			760,326	94,306
<b>C. DEFERRED COSTS (EXPENSES) AND ACCRUED REVENUES</b>			<b>25,704</b>	<b>18,773</b>
<b>OFF-BALANCE-SHEET ITEMS</b>		6	<b>8,735,420</b>	<b>8,177,040</b>

(in SIT thousands)		Notes	31 <sup>st</sup> Dec. 2004	31 <sup>st</sup> Dec. 2003
<b>CAPITAL AND LIABILITIES</b>			<b>238,348,554</b>	<b>222,675,069</b>
<b>A. CAPITAL</b>	<b>7</b>		<b>204,620,006</b>	<b>188,082,513</b>
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. Retained earnings			21,190,570	14,272,080
4. Other retained earnings			21,190,570	14,272,080
V. Net profit for the financial year			4,931,414	1,987,077
VI. Equity revaluation adjustment			11,271,331	4,596,665
1. General equity revaluation adjustment			27	27
2. Specific equity revaluation adjustment			11,271,304	4,596,638
<b>B. LONG-TERM PROVISIONS</b>			<b>4,290,932</b>	<b>2,201,353</b>
3. Other provisions			4,290,932	2,201,353
<b>C. FINANCIAL AND OPERATING LIABILITIES</b>			<b>29,068,212</b>	<b>32,027,119</b>
a) Long-term financial and operating liabilities	<b>8</b>		<b>7,769,920</b>	<b>15,246,414</b>
2. Long-term liabilities to banks			7,600,000	15,200,000
4. Long-term trade payables			169,920	46,414
b) Short-term financial and operating liabilities	<b>9</b>		<b>21,298,292</b>	<b>16,780,705</b>
4. Short-term trade payables			5,215,402	4,035,695
6. Short-term financial and operating liabilities to Group enterprises (excluding associated companies)			15,436,104	11,841,762
7. Short-term financial and operating liabilities to associated companies			900	0
8. Other short-term financial and operating liabilities			645,886	903,248
<b>Č. ACCRUED EXPENSES (COSTS) AND DEFERRED REVENUES</b>			<b>369,404</b>	<b>364,084</b>
<b>OFF-BALANCE-SHEET ITEMS</b>	<b>6</b>		<b>8,735,420</b>	<b>8,177,040</b>

## 3.5 Income Statement

(in SIT thousands)	Notes	2004	2003
<b>1. Net sales revenues</b>	<b>10</b>	<b>116,294,167</b>	<b>90,231,706</b>
a) Domestic market		90,627,446	67,779,563
- from Group enterprises		5,803,018	5,103,971
- from others		84,824,428	62,675,592
b) Foreign markets		25,666,721	22,452,143
<b>3. Capitalised own products and services</b>	<b>10</b>	<b>32,864</b>	<b>0</b>
<b>4. Other operating revenues (including revaluation adjustment)</b>	<b>10</b>	<b>5,640</b>	<b>417</b>
<b>5. Costs of goods, materials and services</b>	<b>11</b>	<b>104,414,153</b>	<b>85,840,047</b>
a) Historical cost of goods and materials sold as well as costs of materials used		103,618,088	85,134,908
b) Costs of services		796,065	705,139
<b>6. Labour costs</b>	<b>11</b>	<b>1,029,533</b>	<b>800,020</b>
a) Costs of salaries and other remunerations		700,229	552,712
b) Social insurance costs		144,901	113,126
- of which pension contributions		90,726	70,558
c) Other labour costs		184,403	134,182
<b>7. Assets depreciation and write-downs</b>	<b>11</b>	<b>201,047</b>	<b>117,856</b>
a) Depreciation and revaluated operating expenses pertaining to intangible and tangible fixed assets		185,582	98,028
b) Revaluated operating expenses pertaining to current assets		15,465	19,828
<b>8. Other operating expenses</b>	<b>11</b>	<b>434,642</b>	<b>49,502</b>
<b>OPERATING INCOME</b>		<b>10,253,296</b>	<b>3,424,698</b>
<b>9. Revenues from equity participation</b>	<b>10</b>	<b>58,532</b>	<b>19,351</b>
a) Revenues from participation in Group enterprises (but excluding participations in associated companies)		30	60
c) Other revenues from equity participation (including revaluated financial revenues)		58,502	19,291
<b>10. Financial revenues from long-term receivables</b>	<b>10</b>	<b>1,315</b>	<b>1,822</b>
c) Other revenues from long-term receivables (including revaluation adjustment)		1,315	1,822
<b>11. Financial revenues from short-term receivables</b>	<b>10</b>	<b>374,434</b>	<b>691,361</b>
a) Interest revenues and short-term receivables from Group enterprises (but excluding associated companies)		14,881	11,695
c) Other interest revenues and short-term receivables (including revaluation adjustment)		359,553	679,666
<b>12. Expenses for long-term and short-term investment write-downs</b>	<b>11</b>	<b>8,968</b>	<b>8,689</b>
a) Revaluated expenses from investments in Group enterprises (but excluding investments in associated companies)		0	8,689
c) Other revaluated expenses		8,968	0
<b>13. Interest and other expenses from liabilities</b>	<b>11</b>	<b>820,409</b>	<b>203,346</b>
a) Interest and other expenses from liabilities to Group enterprises (but excluding associated companies)		135	0
c) Other interest expenses and expenses from other liabilities		820,274	203,346
<b>OPERATING INCOME FROM ORDINARY ACTIVITIES</b>		<b>9,858,200</b>	<b>3,925,197</b>
<b>15. NET OPERATING INCOME FROM ORDINARY ACTIVITIES</b>		<b>9,858,200</b>	<b>3,925,197</b>
<b>16. Extraordinary revenues</b>	<b>10</b>	<b>4,627</b>	<b>48,956</b>
<b>18. OPERATING INCOME FROM EXTRAORDINARY ACTIVITIES</b>		<b>4,627</b>	<b>48,956</b>
<b>PRE-TAX INCOME</b>		<b>9,862,827</b>	<b>3,974,153</b>
<b>21. NET PROFIT FOR THE FINANCIAL YEAR</b>	<b>12</b>	<b>9,862,827</b>	<b>3,974,153</b>

## 3.6 Cash Flow Statement

(in SIT thousands)	2004	2003
<b>A. CASH FLOW FROM OPERATING ACTIVITIES</b>		
+ a) Inflows from operating activities	115,968,770	86,703,406
Operating revenues	116,299,807	90,353,086
Extraordinary operating revenues	4,627	48,956
Changes in operating receivables	(328,733)	(3,680,665)
Changes in short-term deferred expenses (costs) and accrued revenues	(6,931)	(17,971)
- b) Outflows from operating activities	99,775,698	81,751,755
Operating expenses exclusive of depreciation and long-term provisions	105,893,793	86,737,399
Changes in inventory	(1,362,394)	1,035,135
Changes in operating liabilities	(4,750,381)	(6,001,028)
Changes in short-term accrued expenses (costs) and deferred revenues	(5,320)	(19,751)
= c) Net inflows (outflows) from operating activities	16,193,072	4,951,651
<b>B. CASH FLOW FROM INVESTMENT ACTIVITIES</b>		
+ a) Inflows from investment activities	434,251	3,367,737
Revenues from investment activities (excluding revaluation adjustment)	434,251	590,390
Offset decrease in short-term investments (excluding revaluation adjustment)	0	2,777,347
- b) Outflows from investment activities	11,786,349	23,398,689
Expenses from investment activities (excluding revaluation adjustment)	8,968	41
Offset increase in intangible fixed assets (excluding revaluation adjustment)	1,233,844	1,389,366
Offset increase in tangible fixed assets (excluding revaluation and increase in equity)	3,137,110	2,608,814
Offset increase in long-term investments (excluding revaluation adjustment)	22,245	19,400,468
Offset increase in short-term investments (excluding revaluation adjustment)	7,384,182	0
= c) Net inflows (outflows) from investment activities	(11,352,098)	(20,030,952)
= Net inflows (outflows) from operating and investment activities A.c) + B.c)	4,840,974	(15,079,301)
<b>C. CASH FLOW FROM FINANCING ACTIVITIES</b>		
+ a) Inflows from financing activities	4,290,932	15,200,000
Offset increase in long-term provisions (excluding revaluation adjustment)	4,290,932	0
Offset increase in long-term financial liabilities (excluding revaluation adjustment)	0	15,200,000
- b) Outflows from financing activities	8,465,886	93,221
Expenses from financing activities (excluding revaluation adjustment)	865,886	93,221
Offset decrease in long-term investments (excluding revaluation adjustment)	7,600,000	0
= c) Net inflows (outflows) from financing activities	(4,174,954)	15,106,779
= Net inflows (outflows) from financing activities for the financial year	666,020	27,478
<b>Č. CLOSING BALANCE OF CASH AND CASH EQUIVALENTS</b>	760,326	94,306
+ x) Net cash inflow for the financial year: A.c) + B.c) + C.c)	666,020	27,478
+ y) Opening balance of cash and cash equivalents	94,306	66,828

### 3.7 Statement of Changes in Equity

(in SIT thousands)	SHARE CAPITAL	CAPITAL RESERVES	RETAINED EARNINGS	RETAINED NET PROFIT	NET PROFIT FOR THE FINANCIAL YEAR	EQUITY REVALUATION ADJUSTMENT		TOTAL
						General equity revaluation adjustment	Specific equity revaluation adjustment	
<b>A.</b> Opening balance	1,156,217	166,070,474	14,272,080	1,987,077	0	27	4,596,638	188,082,513
<b>B.</b> Transfer to equity	0	0	0	0	9,862,827	0	6,732,441	16,595,268
d) Net profit for the financial year	0	0	0	0	9,862,827	0	0	9,862,827
f) Specific equity revaluation adjustment	0	0	0	0	0	0	6,732,441	6,732,441
<b>C.</b> Transfer within equity	0	0	6,918,490	(1,987,077)	(4,931,413)	0	0	0
a) Appropriation of net profit (as a portion of equity) upon a resolution adopted by the Management Board and Supervisory Board	0	0	4,931,413	0	(4,931,413)	0	0	0
b) Appropriation of net profit for the formation of additional reserves upon the resolution of General Assembly	0	0	1,987,077	(1,987,077)	0	0	0	0
<b>Č.</b> Transfer from equity	0	0	0	0	0	0	57,775	57,775
d) Other write-offs of portions of equity	0	0	0	0	0	0	57,775	57,775
<b>D.</b> Closing balance	1,156,217	166,070,474	21,190,570	0	4,931,414	27	11,271,304	204,620,006
<b>DISTRIBUTABLE NET PROFIT</b>	0	0	0	0	4,931,414	0	0	4,931,414

## 3.8 Notes to the Financial Statements

### 3.8.1 Balance Sheet

#### General Notes

Information as to the basis for the preparation of the Balance Sheet, together with the specific accounting policies selected and applied in pertinent operations and transactions of the Company, HSE d.o.o., are introduced in the disclosure of individual assets and liabilities.

HSE d.o.o. does not have in its possession any information further to that which is required by the balance sheet form that may be relevant in a fair presentation of the Company.

Assets and liabilities are disclosed herein at their fair value.

#### NOTE 1 Intangible Fixed Assets

→ SIT 2,862,433,000

Intangible fixed assets			
(in SIT thousands)	Long-term deferred operating costs	Long-term property rights	Total
Historical cost (31 <sup>st</sup> Dec. 2004)	2,642,595	298,774	2,941,369
Valuation adjustment (31 <sup>st</sup> Dec. 2004)	0	78,936	78,936
Book value (1 <sup>st</sup> Jan. 2004)	1,600,340	221,217	1,821,557
Acquisitions	1,043,076	45,031	1,088,107
Decreases	(821)	0	(821)
Transfers	0	7,417	7,417
Depreciation	0	(53,827)	(53,827)
Book value (31 <sup>st</sup> Dec. 2004)	2,642,595	219,838	2,862,433

#### NOTE 2 Tangible Fixed Assets

→ SIT 6,889,929,000

Tangible fixed assets					
(in SIT thousands)	Buildings	Other plant and equipment	Advances for tangible fixed assets	Tan. fixed assets under construction or in manufacture	Total
Historical cost (31 <sup>st</sup> Dec. 2004)	461,385	603,679	639,169	5,407,639	7,111,872
Valuation adjustment (31 <sup>st</sup> Dec. 2004)	10,500	211,443	0	0	221,943
Book value (1 <sup>st</sup> Jan. 2004)	460,840	350,876	556,979	2,407,685	3,776,380
Acquisitions	0	171,455	191,509	3,178,826	3,541,790
Decreases (disposals)	0	(8,295)	(109,319)	(171,455)	(289,069)
Transfers	0	0	0	(7,417)	(7,417)
Depreciation	(9,955)	(121,800)	0	0	(131,755)
Book value (31 <sup>st</sup> Dec. 2004)	450,885	392,236	639,169	5,407,639	6,889,929
Tangible fixed asset category		Depreciation rate		Useful life	
Buildings		2 – 3 %		33 – 50 years	
Furniture		10 – 25 %		4 – 10 years	
Hardware		33.33 %		3 years	
Small inventory		25 – 33.33 %		3 – 4 years	
Passenger vehicles		12.5 – 20 %		5 – 8 years	
Other equipment		20 – 25 %		4 – 5 years	

NOTE 3 Long-term Investments

→ SIT 198,426,663,000

Long-term investments				
(in SIT thousands)	Investments in shares and other equity in Group enterprises (but excluding associated companies)	Investments in shares and other equity in associated companies	Other investments in shares and equity	Total
Historical cost (31 <sup>st</sup> Dec. 2004)	229,870,747	945	27,000	229,898,692
Valuation adjustment (31 <sup>st</sup> Dec. 2004)	31,472,029	0	0	31,472,029
Book value (1 <sup>st</sup> Jan. 2004)	191,729,807	0	5,700	191,735,507
Acquisitions	0	945	21,300	22,245
Appreciation write-off	(34,684)	0	0	(34,684)
Appreciation	6,703,561	0	0	6,703,561
Currency translation differences – investments abroad	34	0	0	34
Book value (31 <sup>st</sup> Dec. 2004)	198,398,718	945	27,000	198,426,663
Effect of the revaluation of long-term investments on the Company's net profit for 2004		Investments in shares and other equity in Group enterprises (but excluding associated companies)		Total
Revaluated revenues			30	30
Revaluated expenses			0	0

HSE assesses that these investments are subject to a minimal degree of risk.

Upward (downward) revaluations of long-term investments		
(in SIT thousands)	2004	2003
Dravske Elektrarne Maribor d.o.o.	4,667,420	1,646,176
Savske Elektrarne Ljubljana d.o.o.	398,626	21,520
Soške Elektrarne Nova Gorica d.o.o.	970,047	26,949
Termoelektrarna Brestanica d.o.o.	495,680	473,009
Termoelektrarna Šoštanj d.o.o.	58,069	0
Premogovnik Velenje d.d.	26,410	0
HSE Invest d.o.o.	(6,991)	1,685
HSE – IIP d.o.o. (ceasing operations)	(1,298)	3,801
TDR – Metalurgija d.d.	60,024	0
HSE Italia S.r.l.	924	291

Long-term investments in Group enterprises		
(in SIT thousands)	2004	2003
Dravske Elektrarne Maribor d.o.o.	100,841,880	96,174,460
Savske Elektrarne Ljubljana d.o.o.	28,262,731	27,864,105
Soške Elektrarne Nova Gorica d.o.o.	27,485,974	26,515,927
Termoelektrarna Brestanica d.o.o.	3,376,143	2,880,463
Termoelektrarna Šoštanj d.o.o.	15,698,496	15,640,427
Premogovnik Velenje d.d.	21,506,657	21,480,247
HSE Invest d.o.o.	5,012	12,003
HSE – IIP d.o.o. (ceasing operations)	5,002	6,300
TDR – Metalurgija d.d.	1,213,241	1,153,217
HSE Italia S.r.l.	3,582	2,658

The nominal capital of *HSE Invest* was increased in 2004 due to its re-capitalization by *DEM*, *SEL* and *SENG*.

2004 saw an agreement as to the establishment of *Plinsko Parna Elektrarna*, (CCGT power plant) a limited-liability enterprise based in Kidričevo in north-eastern Slovenia. This new investment is recorded under investments in shares and other equity of associated companies.

Investments in the equity of other companies also encompasses a 19 % interest in *Elektro.TK*, which was also additionally capitalized in 2004.

In 2004, *HSE* co-founded the *Technological Centre for Research and Experimental Development in Energy*, a Maribor-based institute in which the Company enjoys a 9.1 % stake.

Long-term investments in subsidiaries and associated companies			
(in SIT thousands)	HSE d.o.o. shareholding 31 <sup>st</sup> Dec. 2004	Equity capital 31 <sup>st</sup> Dec. 2004	Net profit 2004
<b>LONG-TERM INVESTMENTS IN SUBSIDIARIES</b>			
Dravske Elektrarne Maribor d.o.o. Obrežna 170, SI-2000 Maribor	99.9 %	100,985,417	4,673,948
Savske Elektrarne Ljubljana d.o.o. Gorenjska cesta 46, SI-1215 Medvode	79.5 %	35,553,117	501,415
Soške Elektrarne Nova Gorica d.o.o. Erjavčeva 20, SI-5000 Nova Gorica	79.5 %	34,576,064	1,253,215
Termoelektrarna Brestanica d.o.o. Cesta prvih borcev 18, SI-8280 Brestanica	79.5 %	9,655,565	623,497
Termoelektrarna Šoštanj d.o.o. Cesta Lole Ribarja 18, SI-3325 Šoštanj	79.5 %	47,427,839	73,043
Premogovnik Velenje d.d. Partizanska cesta 78, SI-3320 Velenje	77.7 %	32,497,807	33,977
TDR – Metalurgija d.d. Tovarniška cesta 51, SI-2342 Ruše	74.4 %	3,625,169	80,636
HSE Invest d.o.o. Obrežna 170a, SI-2000 Maribor	direct 25.0 % indirect 89.7 %	20,049	546
HSE – IIP d.o.o. (ceasing operations) Trg svobode 9, SI-8290 Sevnica	100.0 %	5,002	(1,298)
HSE Italia S.r.l. Via Roma 20, Gorizia, Italia	100.0 %	3,582	890
<b>LONG-TERM INVESTMENTS IN ASSOCIATED COMPANIES</b>			
Plinsko Parna Elektrarna d.o.o., Kidričevo Tovarniška cesta 10, SI-2325 Kidričevo	45.0 %	The company was undergoing establishment during 2004	

NOTE 4 Operating Receivables

→ SIT 15,586,863,000

Short-term operating receivables		
(in SIT thousands)	2004	2003
Short-term trade receivables in Slovenia	10,158,977	12,835,743
Short-term trade receivables from abroad	2,489,039	1,812,436
Short-term advances for services yet to be provided – in Slovenia	1,968	773
Short-term advances for services yet to be provided – from abroad	825	812
Short-term operating receivables on the account of others	39,034	105,634
Short-term receivables from financing	23,801	21,966
Short-term receivables from the state	2,452,121	2,552,231
Other short-term receivables	391,098	18,230

Trade receivables are for most part secured by a blank bill of exchange, whereas some foreign clients were obliged to submit bank guarantees. Due to their specific nature, other receivables are not secured by means of any guarantee.

Receivables from abroad are translated into the domestic currency – the Slovene tolar – at the middle exchange (spot market) rate published by the Bank of Slovenia on the day of their origin. Such receivables are revaluated on the balance sheet date in order to assess the magnitude of exchange rate differences which are thence recorded as upward (or downward) revaluations of, respectively, revenues or expenses from ordinary activities.

Maturity – due date		
(in SIT thousands)	2004	2003
Receivables not yet due	14,995,157	17,169,627
Receivables overdue for less than 90 days	591,690	157,688
Receivables overdue for three to six months	0	72,378
Receivables overdue for more than six months	16	59,790

The major portion of overdue receivables was settled by the date of the Annual Report compilation.

Trade receivables are for most part settled on time or slightly overdue. In the event of overdue payment, customers in Slovenia and abroad are charged late-payment interest as agreed per contract. At the end of the year, 96 % of outstanding receivables were not yet due, and most of the overdue receivables were settled by the date of the Annual Report compilation.

Receivables which are not settled within 180 days of their due date are considered doubtful. At the end of 2004, the Company had doubtful receivables in the amount of 16,000 Slovene tolar.

## NOTE 5 Short-term Investments

→ SIT 13,796,393,000

Interests receivable on short-term investments are recorded as of the balance sheet date under operating receivables.

The Company's short-term investments encompass the following:

- short-term loans to Group enterprises which are secured by blank bills of exchange;
- short-term tolar deposits with larger Slovenian banks which are not secured;
- short-term foreign currency deposits with larger Slovenian banks which are not secured;
- short-term investments in the shares of a Slovenian bank.

Short-term investments in a foreign currency are translated into Slovene tolar at the middle exchange (spot market) rate published by the Bank of Slovenia on the day of their origin. Short-term investments in a foreign currency are revaluated later or on the day of the balance sheet date; accordingly, any exchange rate differences in relation to the Slovene tolar respectively increase financial revenues or expenses from ordinary activities. HSE assesses that these investments are subject to a minimal degree of risk.

## NOTE 6 Off-balance Sheet Items

→ SIT 8,735,420,000

Off-balance-sheet items encompass derivatives and financial instruments received from others or provided to others for securing receivables, covering

liabilities as well as ensuring and remunerating the performance of contracted labour.

## NOTE 7 Capital

→ SIT 204,620,006,000

The Company's share capital remained unchanged during the year. Likewise, capital reserves also remained the same throughout 2004.

Retained earnings increased by 6,918,490,000 Slovene tolar in 2004.

Due to the fact that during 2003 the euro-tolar exchange rate did not fluctuate by more than 5.5 %, the scope and degree of the general equity revaluation adjustment remained unchanged. Specific equity revaluation adjustments engendered an increase in the amount of 6,674,666,000 Slovene tolar.

Net profits for 2004 upon the restatement of capital			
(in SIT thousands)			2004
Net profits			9,862,827
Net profits upon a restatement using tolar- euro exchange rate (1.3 % growth)			7,437,043
Net profits upon the restatement using cost of living index (3.2 % growth)			3,844,187
Specific equity revaluation adjustment	Long-term investments	Other financial instruments	Total
Opening balance (1 <sup>st</sup> Jan. 2004)	4,596,638	0	4,596,638
Increase	6,703,565	28,876	6,732,441
Decrease	(34,684)	(23,091)	(57,775)
Closing balance (31 <sup>st</sup> Dec. 2004)	11,265,519	5,785	11,271,304

## NOTE 8 Long-term Liabilities

→ SIT 7,769,920,000

The Company's long-term liabilities encompass a long-term loan and withheld accounts payable.

In October 2003 HSE took out a 12-year loan with a syndicate of Slovenian banks, the first portion of which, in the amount of 7,600,000,000 Slovene tolars, was repaid prior to due terms during 2004.

The first regular principal falls due in October 2006, while the interest is serviced on a regular basis.

Those portions of interest payment not yet due are recorded under short-term liabilities for interest.

The loan shall be repaid in full by October 2015.

The rate of interest is pegged to the realised average net yield of Republic of Slovenia ten-year bonds that are issued subsequent to the date of this credit. The loan itself is secured by ten blank bills of exchange.

## NOTE 9 Short-term Liabilities

→ SIT 21,298,292,000

Short-term operating liabilities		
(in SIT thousands)	2004	2003
Short-term trade payables in Slovenia	18,150,113	14,219,273
Short-term trade payables abroad	2,493,649	1,658,184
Other short-term liabilities from operations on the account of others	8,644	0
Short-term payables to employees	69,976	57,661
Short-term payables to state	537,723	762,685
Short-term interest liabilities	36,499	81,976
Other short-term liabilities	1,688	926

Short-term operating liabilities denominated in foreign currencies are translated into Slovene tolars at the middle exchange (spot market) rate published by the Bank of Slovenia on the day of their origin. Such short-term operating liabilities are revaluated later or on the balance sheet date; accordingly, any

exchange rate differences in relation to the Slovene tolar respectively increase financial revenues or expenses from ordinary activities.

The Company settles its liabilities in accordance with the agreed and contracted terms.

Short-term operating liabilities to HSE Group enterprises			
(in SIT thousands)	Country	2004	2003
Dravske Elektrarne Maribor d.o.o.	Slovenia	4,104,815	1,483,812
Savske Elektrarne Ljubljana d.o.o.	Slovenia	1,087,292	361,046
Soške Elektrarne Nova Gorica d.o.o.	Slovenia	1,231,351	25,731
Termoelektrarna Brestanica d.o.o.	Slovenia	590,756	433,199
Termoelektrarna Šoštanj d.o.o.	Slovenia	5,932,751	5,418,356
Premogovnik Velenje d.d.	Slovenia	2,442,752	4,104,200
Other Group enterprises		46,387	15,418

## 3.8.2 Income Statement

### General Notes

Information as to the basis for the preparation of the Income Statement and the specific accounting policies selected and applied in the Company's various operations and transactions are introduced in the disclosure of individual assets and liabilities.

The Income Statement has been compiled in accordance with SAS No. 25.5. – format I.

### NOTE 10 Revenues

→ SIT 116,771,579,000

Revenue category		
(in SIT thousands)	2004	2003
Operating revenues	116,332,671	90,232,123
Financial revenues	434,281	712,534
Extraordinary revenues	4,627	48,956

Net sales revenues by territory		
(in SIT thousands)	2004	2003
Domestic market	90,627,446	67,779,563
Foreign markets	25,666,721	22,452,143

Revenues from the sale of goods, materials and services encompass revenues deriving from the sale of electrical energy in Slovenia and abroad, as well as revenues from the sale of heat from combined heat and power facilities.

### NOTE 11 Expenses

→ SIT 106,908,752,000

Category of expense		
(in SIT thousands)	2004	2003
Operating expenses	106,079,375	86,807,425
Financial expenses	829,377	212,035

Cost category		
(in SIT thousands)	2004	2003
Historical cost of goods sold	103,807,289	85,296,852
Sales costs	357,207	250,898
General and administrative costs	1,882,015	1,259,675

In 2004, 97.6 % of operating expenses pertained to the purchase of electrical energy, heat, coal, as well as related dependent costs.

The Company did not receive any claims for compensation or damages from its employees based on breaches of statutory law, the collective bargain or the Company's Articles.

NOTE 12 **Net Profit**

→ SIT 9,862,827,000

Classification of earnings		
(in SIT thousands)	2004	2003
Gross operating yield	116,332,671	90,232,123
Operating income	10,253,296	3,424,698
Operating income from ordinary activities	9,858,200	3,925,197
Operating income from extraordinary activities	4,627	48,956
Pre-tax profit	9,862,827	3,974,153
Net profit for the financial year	9,862,827	3,974,153

The Company generated a net profit in the amount of 9,862,827,000 Slovene tolar for fiscal 2004.

The Company was not liable for the payment of tax on its 2004 profits.

### 3.8.3 Cash Flow Statement

#### General Notes

The Cash Flow Statement reveals the changes in the balance of cash and cash equivalents during the financial year. The Company's cash assets include funds on transaction accounts and call deposits. The Company had no cash equivalents during 2004.

#### Indirect Method

The Company prepares its Cash Flow Statement using the indirect method that reconciles net income with cash from operations. Cash Flow Statement data is obtained from the balance sheets for the 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 eliminations were made in the Cash Flow Statement.

Cash flows		
(in SIT thousands)	2004	2003
Net inflows (outflows) from operating activities	16,193,072	4,951,651
Net inflows (outflows) from investment activities	(11,352,098)	(20,030,952)
Net inflows (outflows) from financing activities	(4,174,954)	15,106,779

In 2004 the Company generated a cash surplus in the amount of 666,020,000 Slovene tolar.

### 3.8.4 Statement of Changes in Equity

#### General Notes

The Company prepares the Statement of Changes in Equity so that all portions of capital are presented in the form of a spreadsheet.

#### Transfers to Equity

In the current year, the Company's equity increased by 16,595,268,000 Slovene tolar as follows:

- net profit for the financial year in the amount of 9,862,827,000 Slovene tolar;
- specific upward equity revaluation adjustments to long-term investments in the amount of 6,703,565,000 Slovene tolar; and
- specific upward equity revaluation adjustments to other financial instruments in the amount of 28,876,000 Slovene tolar.

#### Transfers within Equity

In 2004, the total distributable net profits for 2003 in the amount of 1,987,077,000 Slovene tolar were, upon a resolution by the General Assembly, retained; hence their allocation to other retained earnings.

With the consent of the Supervisory Board, Company Management allocated one half of the 2004 net profits, namely the amount of 4,931,413,000 Slovene tolar, to be retained, hence they are now recorded under other retained earnings.

#### Transfers from Equity

In 2004, the value of the Company's equity capital decreased by 57,775,000 Slovene tolar, this reduction was engendered by specific equity revaluation adjustments to:

- long-term investments in the amount of 34,684,000 Slovene tolar; and
- other financial instruments in the amount of 23,091,000 Slovene tolar.

#### Distributable Net Profit

Distributable net profit for the financial year		
(in SIT thousands)	2004	2003
Net profit for the financial year	9,862,827	3,974,153
+ Retained net profit (or retained loss)	0	0
+ Decrease in retained earnings	0	0
- Increase in retained earnings upon the resolution of the Supervisory and Management Boards (legal reserves, reserves for treasury stock and statutory reserves)	0	0
- Increase in retained earnings upon the resolution of the Management and Supervisory Boards (other retained earnings)	(4,931,413)	(1,987,076)
= Distributable net profit for the financial year	4,931,414	1,987,077

Distributable net profit for 2004, in the amount of 4,931,414,000 Slovene tolar, represents exactly one-half of the Company's total net profits for the financial year.

### 3.8.5 Other Disclosures

Regular remuneration of Company employees with individual contracts of employment		
(in SIT thousands)	2004	2003
Management Board members	95,808	86,826
Other employees on individual contracts	271,578	235,299
Supervisory Board members	3,820	5,003

#### Remuneration of Management and Other Employees with Individual Contracts of Employment

The regular remuneration of Management Board as well as other employees on individual contracts of employment, encompasses:

- regular (gross) remuneration, which is contained in the notice for income tax returns
- other fees paid to employees on the basis of contract
- premiums paid by the company as voluntary additional pension contributions for employees on individual contracts of employment.

Reimbursement of expenses to employees with individual contracts of employment		
(in SIT thousands)	2004	2003
Management Board members	189	111
Other employees on individual contracts	728	1,006
Supervisory Board members	0	0

Other remuneration of Company employees with individual contracts of employment encompasses reimbursements of expenses such as (vehicle) fuel and motorway tolls.

#### Remuneration of Supervisory Board Members

The remuneration of Supervisory Board members encompasses gross payments made by the Company for the work of Supervisory Board members, their attendance of Board meetings and pertaining travel expenses.

In 2004, the Company did not approve any advances, loans, or guarantees to Board members and other employees with individual contracts of employment.



# Self-Sustaining Cycles.

MY MUM ALWAYS SAYS THAT WHEN YOU START SOMETHING YOU SHOULD FINISH IT. AND WHEN YOU FINISH, YOU CAN START OVER AGAIN AND THIS IS HOW THE WORLD TURNS AROUND. IN THE OLD DAYS THERE WERE WATERMILLS ON THE RIVERS, AND TODAY IT IS THE RIVERS WHERE THE CIRCLE OF ENERGY STARTS, AND IT'S A LOT BIGGER THAN IT USED TO BE. AND THE CIRCLE THAT STARTS ON A BIG RIVER ALSO HAS TO END THERE SO THAT IT CAN START ALL OVER AGAIN. THE RIVER GIVES US MANY THINGS AND WE SHOULD GIVE IT SOMETHING BACK. AND WE SHOULD KEEP IT CLEAN SO THAT THE FISH CAN LIVE IN IT AND THE BIRDS CAN MAKE NESTS ON ITS BANKS.







FINANCIAL  
REPORT

*of HSE Group*

2004

## 4.1 General Notes

### Principle Accounting Policies

The consolidated financial statements in this Report have been prepared in a manner concordant with the provisions of *Companies Act* as well as in accordance with the pertinent *Slovenian Accounting Standards (SAS)*.

The consolidated financial statements have been prepared using the Slovene tolar (SIT) as the unit of currency. All figures herein have been rounded to the nearest 1,000 tolar.

### Enterprises Included in the Consolidated Financial Statements

Prior to the consolidation of the *HSE Group* of enterprises, the process of consolidation was implemented for the *PV Group* and the *TDR – Metalurgija Group*. In accordance with consecutive methodology, consolidated financial statements are initially prepared by the subsidiaries, and thence such statements are subsequently included in the consolidated financial statements of the *HSE Group*.

#### Enterprises 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.
Premogovnik Velenje Group
TDR – Metalurgija Group
HSE Invest d.o.o.
HSE – IIP d.o.o. (ceasing operations during 2004)
HSE Italia S.r.l.

Hereinafter the term “Group” refers to the enterprises of the *HSE Group* which are listed above and encompassed by the consolidated financial statements.

The *Sava* and *Elprom* companies are not included in the consolidated financial statements, although the *HSE Group* subsidiaries, *Savske Elektrarne Ljubljana* and *Soške Elektrarne Nova Gorica*, respectively hold majority interests in the aforementioned enterprises. Due

to the fact they are dormant, these two companies are deemed irrelevant to any true and fair presentation of *Group's* operations.

### Complete Consolidation

The financial statements of the individual *Group* enterprises have been incorporated into the consolidated financial statements on the basis of complete consolidation, which means that amounts are aggregated item by item, with related items of assets, liabilities, capital revenues, and expenses each represented as a cumulative sum. The following have been eliminated in order that the *Group* is presented as if it were a single enterprise:

- parent company investments in the capital of subsidiaries; parent company participation in the capital of subsidiaries; debts of subsidiaries to the parent company;
- intra-Group holdings in the intangible fixed assets of subsidiaries and the long-term provisions of the parent company;
- mutual receivables and liabilities; and
- mutual revenues and expenses.

The Consolidated Income Statement encompasses net profit from minority interests, while both the Consolidated Balance Sheet as well as the Consolidated Statement of Changes in Equity, equally present minority interests in the capital of the *HSE Group*.

### Audits

All companies included in the consolidated financial statements have been audited, and the opinions of the auditors have no provisos as to the accounts of these subsidiaries.

### Foreign Exchange and the Method of Translation into the Slovene Tolar

Accounting items in the individual balance sheets and income statements of individual *Group* enterprises that were originally presented in a foreign currency have been translated into the domestic currency – the Slovene tolar – at the middle exchange (spot market) rate published by the Bank of Slovenia as of date of their incurrence, except as regards individual transactions where a different rate of exchange was specifically prescribed and applied.

The balance of assets and liabilities of Group enterprises expressed in a foreign currency have been translated into Slovene tolar at the middle exchange (spot market) rate published by the Bank of Slovenia on 31<sup>st</sup> December 2004. When, however, a different rate was specifically contracted the value of said rate as of the close of 2004 is used instead.

The following policies are used in translating the financial statements of an enterprise headquartered abroad for inclusion in the consolidated financial statements:

- assets and liabilities are translated at the middle exchange (spot) rate published by the Bank of Slovenia on 31<sup>st</sup> December 2004;
- revenues and expenses are translated at the average middle exchange (spot) rate published by Bank of Slovenia in 2004; and
- exchange translation differences are recognised as a separate portion of equity.

### Conformity of Evaluation and Accounting

In the compilation of the consolidated financial statements, all the accounting policies and concepts as to the valuation of the most significant items of subsidiaries have been harmonised with those of the parent company.

### Intangible Fixed Assets

Upon initial recognition, **intangible fixed assets** are valued at their historical cost and later reduced by the depreciation that is disclosed separately in the evaluation adjustment. Thus in the Balance Sheet intangible fixed assets are presented at their book value as the difference between their historical cost and the evaluation adjustment.

### Tangible Fixed Assets

**Tangible fixed assets** are valued at their historical cost upon initial recognition. This cost is inclusive of the purchase price, as well as import and other non-refundable duties and costs that can be directly attributed to readying the asset for its intended purpose or use, and in particular transport and installation costs.

Grants and state aid provided in the acquisition of tangible fixed assets are not deducted from assessments and calculations of historical cost, but

are instead included in the long-term provisions and utilised in accordance with the computed depreciation.

Expenses incurred subsequently in relation to a tangible fixed asset may increase its historical cost if its future benefit is deemed to have been increased above or beyond the initial (historical) assessment of such. In any such instance, expenses that prolong the useful life of a tangible fixed asset initially reduce the valuation adjustment computed thus far.

Repairs or maintenance of tangible fixed assets that are intended to restore or maintain benefits deriving from said asset are anticipated on the basis of the original estimated rate of performance of the asset. When incurred, repairs and maintenance costs are recognised as expenses.

### Long-term Investments

Upon initial recognition, **long-term investments** are valued at their historical cost; said valuation may be subsequently appreciated or depreciated if cogent reasons for such exist.

### Operating Receivables

**Receivables** are recognised as assets if it is likely that economic benefit shall derive from them and if it is possible to assess with certainty their original value. Upon initial recognition receivables of all kinds are shown in the amounts recorded in the relevant accounting documents under the assumption that these amounts will be collected.

In the Consolidated Balance Sheet advances received are disclosed under the relevant assets.

Valuation adjustments are made in the event of doubtful or questionable short-term receivables.

### Short-term Investments

**Short-term investments** encompass those assets which, in a period of less than one year, generate yields that increase the Group's financial revenues.

Upon initial recognition, investments in bank deposits are equal to the actual outlaid amounts.

Short-term investments in shares, bonds or other securities issued by companies are valued at their historical cost which is equal to the amount of cash or cash equivalents outlaid in their acquisition, increased by other costs directly attributable to the investment.

Short-term investment in a contracted short-term loan is initially accounted as the amount received, namely the principal of the loan.

Short-term investments also include that portion of long-term investments, which fall due for payment within a year of the balance sheet date.

## Capital

**Total capital** consists of the value of the owners' investments, together with amounts accumulated through corporate operations that are thus ascribed to the owners.

## Long-term Provisions

The formation of **long-term provisions** is aimed at meeting exactly predetermined liabilities arising as a result of outstanding obligations that are anticipated to be due more than a year hence.

## Long-term Liabilities

**Long-term liabilities** encompass bank loans for investments into Group enterprises which have maturities in excess of one year. Upon initial recognition such loans are shown in the amounts actually obtained and are later increased by the amounts of written-up interest as well as reduced by the amounts repaid.

Long-term liabilities, which fall due in less than a year from the balance sheet date, are recorded under short-term liabilities.

## Short-term Liabilities

Upon initial recognition **short-term liabilities** are shown in the amounts actually obtained, and are later increased by the amounts of written-up interest as well as reduced by the amounts paid.

Upon initial recognition, **short-term operating liabilities** are shown in the amounts recorded in the relevant book-keeping documents, which are in turn accounted on the basis of receipts and invoices for goods or services. Short-term operating liabilities also encompass that portion of long-term liabilities that fall due within less than twelve months of the balance sheet date.

## Revenues

**Operating revenues** comprise net sales revenues and other revenues deriving from regular operations that result in income. Revenues are recognised when they can be justifiably expected to result in income, if income was not realised immediately upon their incurrence.

**Financial revenues** are revenues from investment activities. They consist of written-up interest, profit participation in the equity of other companies, and the revaluation of financial revenues. They are recorded as earned, on an accrual basis.

**Extraordinary revenues** are comprised of unusual items and are recognised when they meet specific requisite conditions regarding expectation of resultant income.

## Expenses

**Operating expenses** are equal to a calculation of costs in the accounting period, increased by costs of product inventories and work-in-process which are retained in the opening balance, and reduced by the costs of product inventories and work-in-process which are retained in the closing balance. Operating expenses also encompass the historical cost of goods sold. These expenses are recognised when the costs are no longer retained in the value of product inventories and work-in-process or when the merchandise is sold.

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

**Financial expenses** are expenses deriving from financing and investment activities. They are comprised of written-up interest and the revaluation of financial expenses. They are recorded as earned, on an accrual basis.

**Extraordinary expenses** encompass unusual items, which are recorded in the amounts actually incurred.

## 4.2 Auditor'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 2004, 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 2004, 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.

Ljubljana, 10<sup>th</sup> May 2005

KPMG SLOVENIJA,  
podjetje za revidiranje, d.o.o.

Marjan Mahnič, BSc. Ec.

MANAGING DIRECTOR AND CERTIFIED AUDITOR

**KPMG Slovenija, d.o.o.**

## 4.3 Consolidated Balance Sheet

(in SIT thousands)		Notes	31 <sup>st</sup> Dec. 2004	31 <sup>st</sup> Dec. 2003
<b>ASSETS</b>			<b>342,271,621</b>	<b>337,940,995</b>
<b>A. FIXED ASSETS</b>			<b>285,656,396</b>	<b>292,309,972</b>
I. Intangible fixed assets	13		5,076,640	3,877,246
1. Long-term deferred operating costs			3,377,713	1,606,084
2. Long-term deferred development costs			1,191,194	1,899,708
3. Long-term property rights			507,733	371,454
II. Tangible fixed assets	14		279,230,452	282,644,116
1. Land and buildings			143,244,820	146,398,842
a) Land			11,464,518	11,539,129
b) Buildings			131,780,302	134,859,713
2. Production plant			120,523,185	124,525,724
3. Other plant and equipment			1,865,617	1,581,138
4. Tangible fixed assets under acquisition			13,596,830	10,138,412
a) Advances for acquisition of tangible fixed assets			1,171,955	905,625
b) Tangible fixed assets under construction or in manufacture			12,424,875	9,232,787
III. Long-term investments	15		1,349,304	5,788,610
1. Participation in the equity of Group enterprises			6,038	6,038
3. Participation in the equity of associated companies			20,066	9,518
5. Other long-term investments			1,100,578	928,552
6. Other long-term financial receivables			222,622	4,844,502
<b>B. CURRENT ASSETS</b>			<b>56,498,814</b>	<b>45,499,967</b>
I. Inventories			6,881,909	7,163,537
1. Materials			4,423,731	5,967,009
2. Work in process			268,250	344,035
3. Products and merchandise			2,124,961	814,536
4. Advances for inventories			64,967	37,957
II. Operating receivables	16		18,930,601	17,374,576
a) Long-term operating receivables			1,044,204	353,854
1. Long-term trade receivables			774,921	0
4. Long-term receivables from others			269,283	353,854
b) Short-term operating receivables			17,886,397	17,020,722
1. Short-term trade receivables			14,137,821	12,535,509
3. Short-term receivables from associated companies			5,296	6,326
4. Other short-term operating receivables			3,743,280	4,478,887
III. Short-term investments	17		29,297,874	17,067,474
2. Participation in the equity of associated companies			92,583	59,850
4. Other short-term investments			29,205,291	17,007,624
IV. Cash and liquid assets			1,388,430	3,894,380
<b>C. DEFERRED COSTS (EXPENSES) AND ACCRUED REVENUES</b>			<b>116,411</b>	<b>131,056</b>
<b>OFF-BALANCE-SHEET ITEMS</b>		18	<b>17,360,937</b>	<b>18,552,651</b>

(in SIT thousands)	Notes	31 <sup>st</sup> Dec. 2004	31 <sup>st</sup> Dec. 2003
<b>CAPITAL AND LIABILITIES</b>		<b>342,271,621</b>	<b>337,940,995</b>
<b>A. CAPITAL</b>	<b>19</b>	<b>240,753,971</b>	<b>222,794,507</b>
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. Retained earnings		21,190,570	14,272,080
4. Other retained earnings		21,190,570	14,272,080
IV. Retained net profit		5,429,408	2,423,207
V. Net profit for the financial year		12,512,386	5,020,514
VI. Equity revaluation adjustment		5,812	27
1. General equity revaluation adjustment		27	27
2. Specific equity revaluation adjustment		5,785	0
VII. Consolidation equity adjustment		288	0
VIII. Minority equity interest		34,388,816	33,851,988
<b>B. LONG-TERM PROVISIONS</b>	<b>20</b>	<b>36,066,749</b>	<b>37,299,564</b>
3. Other provisions		36,066,749	37,299,564
<b>C. FINANCIAL AND OPERATING LIABILITIES</b>		<b>64,720,767</b>	<b>77,298,949</b>
a) Long-term financial and operating liabilities	<b>21</b>	<b>39,045,152</b>	<b>52,216,475</b>
2. Long-term liabilities to banks		38,774,920	52,072,448
4. Long-term trade payables		169,920	46,414
8. Long-term financial and operating liabilities to others		100,312	97,613
b) Short-term financial and operating liabilities	<b>22</b>	<b>25,675,615</b>	<b>25,082,474</b>
2. Short-term liabilities to banks		8,064,538	7,721,659
3. Short-term advances-related operating liabilities		14,528	37,682
4. Short-term trade payables		11,944,009	11,419,766
7. Short-term financial and operating liabilities to associated companies		109,195	37,094
8. Short-term financial and operating liabilities to others		5,543,345	5,866,273
<b>Č. ACCRUED EXPENSES (COSTS) AND DEFERRED REVENUES</b>		<b>730,134</b>	<b>547,975</b>
<b>OFF-BALANCE-SHEET ITEMS</b>	<b>18</b>	<b>17,360,937</b>	<b>18,552,651</b>

## 4.4 Consolidated Income Statement

p. 1/2				
(in SIT thousands)		Notes	2004	2003
1.	Net sales revenues	23	124,855,234	97,488,187
a)	Domestic market		91,870,594	68,803,111
	- from associated companies		65,059	17,710
	- from others		91,805,535	68,785,401
b)	Foreign markets		32,984,640	28,685,076
2.	Change in the value of product inventories and work in process	23	(128,740)	926,624
3.	Capitalised own products and services	23	1,406,702	1,590,232
4.	Other operating revenues (including revaluation adjustment)	23	2,861,490	3,527,815
5.	Costs of goods, materials and services	24	55,700,137	44,847,949
a)	Historical cost of goods and materials sold as well as costs of materials used		43,442,850	32,149,119
b)	Costs of services		12,257,287	12,698,830
6.	Labour costs	24	29,685,116	27,741,573
a)	Costs of wages and other remunerations		20,362,834	18,861,005
b)	Social insurance costs		5,677,280	5,281,120
	- of which pension contributions		3,614,429	3,387,076
c)	Other labour costs		3,645,002	3,599,448
7.	Assets depreciation and write-downs	24	18,147,115	17,838,911
a)	Depreciation and revaluated operating expenses pertaining to intangible and tangible fixed assets		18,077,718	17,643,518
b)	Revaluated operating expenses pertaining to current assets		69,397	195,393
8.	Other operating expenses	24	5,952,324	5,883,782
<b>OPERATING INCOME</b>			<b>19,509,994</b>	<b>7,220,643</b>
9.	Revenues from equity participation	23	156,138	143,814
a)	Revenues from participation in the equity of Group enterprises (excluding equity participations in associated companies)		30	45
c)	Other revenues from equity participation (including revaluated financial revenues)		156,108	143,769
10.	Revenues from long-term receivables	23	224,667	732,524
c)	Other revenues from long-term receivables (including revaluated financial revenues)		224,667	732,524
11.	Revenues from short-term receivables	23	1,179,695	2,003,741
b)	Interest revenues and short-term receivables from associated companies		6,364	6,465
c)	Other interest revenues and short-term receivables (including revaluated financial revenues)		1,173,331	1,997,276
12.	Expenses for long-term and short-term investment write-offs	24	9,108	12,207
a)	Revaluated expenses from investments in Group enterprises (but excluding investments in associated companies)		0	8,689
b)	Revaluated expenses from investments in associated companies		0	1,855
c)	Other revaluated expenses		9,108	1,663
13.	Interest expenses and expenses from other liabilities	24	3,039,560	3,427,186
b)	Interest expenses and expenses from other liabilities to associated companies		195	0
c)	Other interest expenses and expenses arising from other liabilities		3,039,365	3,427,186



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(in SIT thousands)

	Notes	2004	2003
<b>OPERATING INCOME FROM ORDINARY ACTIVITIES</b>		<b>18,021,826</b>	<b>6,661,329</b>
15. NET OPERATING INCOME FROM ORDINARY ACTIVITIES		18,021,826	6,661,329
16. Extraordinary revenues	23	643,675	657,891
17. Extraordinary expenses	24	316,536	501,463
a) Extraordinary expenses exclusive of any equity revaluation adjustment		316,536	501,463
18. OPERATING INCOME FROM EXTRAORDINARY ACTIVITIES		327,139	156,428
<b>PRE-TAX INCOME</b>		<b>18,348,965</b>	<b>6,817,757</b>
19. Corporation tax	25	362,543	115,489
21. NET PROFIT FOR THE FINANCIAL YEAR	26	17,986,422	6,702,268
Net profit pertaining to the majority equity interest		17,443,799	7,007,590
Net profit pertaining to the minority equity interest		542,623	(305,322)

## 4.5 Consolidated Cash Flow Statement

(in SIT thousands)	2004	2003
<b>A. CASH FLOW FROM OPERATING ACTIVITIES</b>		
+ a) Inflows from operating activities	127,365,715	97,731,294
Operating revenues	128,263,420	100,220,765
Extraordinary operating revenues	643,675	657,891
Changes in operating receivables	(1,556,025)	(3,109,803)
Changes in deferred expenses (costs) and accrued revenues	14,645	(37,559)
- b) Outflows from operating activities	91,260,409	75,347,058
Operating expenses exclusive of depreciation and long-term provisions	91,535,714	77,535,406
Extraordinary operating expenses	316,536	501,463
Corporation and other tax not included in operating expenses	362,543	115,489
Changes in inventories	(281,628)	833,056
Changes in operating liabilities	(490,597)	(3,687,835)
Changes in short-term accrued expenses (costs) and deferred revenues	(182,159)	49,479
= c) Net inflows (outflows) from operating activities	36,105,306	22,384,236
<b>B. CASH FLOW FROM INVESTMENT ACTIVITIES</b>		
+ a) Inflows from investment activities	5,999,806	8,408,531
Revenues from investment activities (excluding revaluation adjustment)	1,560,470	2,880,034
Offset decrease in long-term investments (excluding revaluation adjustment)	4,439,336	2,137,944
Offset decrease in short-term investments (excluding revaluation adjustment)	0	3,390,553
- b) Outflows from investment activities	28,102,956	16,123,263
Expenses from investment activities (excluding revaluation adjustment)	9,108	12,207
Offset increase in intangible fixed assets (excluding revaluation adjustment)	1,397,775	1,027,417
Offset increase in tangible fixed assets (excluding revaluation adjustment and increase in equity)	14,465,673	15,083,639
Offset increase in short-term investments (excluding revaluation adjustment)	12,230,400	0
= c) Net inflows (outflows) from investment activities	(22,103,150)	(7,714,732)
= Net inflows (outflows) from operating and investment activities A.c) + B.c)	14,002,156	14,669,504
<b>C. CASH FLOW FROM FINANCING ACTIVITIES</b>		
+ a) Inflows from financing activities	237,930	11,556,316
Offset increase in long-term financial liabilities (excluding revaluation adjustment)	0	11,556,316
Offset increase in short-term financial liabilities (excluding revaluation adjustment)	237,930	0
- b) Outflows from financing activities	16,746,036	24,627,328
Expenses from financing activities (excluding revaluation adjustment)	3,039,560	3,427,186
Extraordinary expenses from financing activities	0	0
Decrease in capital (exclusive of net profit)	26,958	19,383,245
Offset decrease in long-term provisions (excluding revaluation adjustment)	372,809	0
Offset decrease in long-term financial liabilities (excluding revaluation adjustment)	13,306,709	0
Offset decrease in short-term financial liabilities (excluding revaluation adjustment)	0	1,816,897
= c) Net inflows (outflows) from financing activities	(16,508,106)	(13,071,012)
= Net inflows (outflows) from financing activities for the financial year	(2,505,950)	1,598,492
<b>Č. CLOSING BALANCE OF CASH AND CASH EQUIVALENTS</b>	<b>1,388,430</b>	<b>3,894,380</b>
+ x) Net cash inflow for the financial year: A.c) + B.c) + C.c)	(2,505,950)	1,598,492
+ y) Opening balance of cash and cash equivalents	3,894,380	2,295,888

## 4.6 Consolidated Statement of Changes in Equity

(in SIT thousands)	SHARE CAPITAL	CAPITAL RESERVES	RETAINED EARNINGS	RETAINED NET PROFIT	NET PROFIT FOR THE FINANCIAL YEAR	EQUITY REVALUATION ADJUSTMENT		CONSOLIDATION EQUITY ADJUSTMENT	MINORITY EQUITY INTEREST	TOTAL
						General equity revaluation adjustment	Specific equity revaluation adjustment			
<b>A.</b> Opening balance	1,156,217	166,070,474	14,272,080	7,443,721	0	27	0	0	33,851,988	222,794,507
<b>B.</b> Transfer to equity	0	0	0	0	17,443,799	0	28,876	288	542,623	18,015,586
d) Net profit for the financial year					17,443,799				542,623	17,986,422
f) Specific equity revaluation adjustment							28,876			28,876
h) Increase in currency translation differences								288		288
<b>C.</b> Transfer within equity	0	0	6,918,490	(1,988,054)	(4,931,413)	0	0	0	977	0
a) Appropriation of net profit (as a portion of equity) upon a resolution adopted by the Management Board and Supervisory Board			4,931,413		(4,931,413)					0
b) Appropriation of net profit for the formation of additional reserves upon the resolution of General Assembly			1,987,077	(1,987,077)						0
f) Other appropriations of portions of equity				(977)					977	0
<b>C.</b> Transfer from equity	0	0	0	26,259	0	0	23,091	0	6,772	56,122
d) Other write-offs of portions of equity				26,259			23,091		6,772	56,122
<b>D.</b> Closing balance	1,156,217	166,070,474	21,190,570	5,429,408	12,512,386	27	5,785	288	34,388,816	240,753,971

## 4.7 Notes to the Consolidated Financial Statements

### 4.7.1 Consolidated Balance Sheet

#### General Notes

Information as to the basis for the preparation of the Consolidated Balance Sheet, together with the specific accounting policies selected and applied to pertinent operations and other transactions of the HSE Group, are introduced in the disclosure of individual assets and liabilities.

HSE Group does not have in its possession any additional information that may be relevant to the provision of a true and fair presentation of the financial operations of the Group but is not required by the balance sheet form.

Assets and liabilities are disclosed at their fair value.

#### NOTE 13 Intangible Fixed Assets

→ SIT 5,076,640,000

Intangible fixed assets				
(in SIT thousands)	Long-term deferred operating costs	Long-term deferred development costs	Long-term property rights	Total
Historical cost (31 <sup>st</sup> Dec. 2004)	3,587,500	4,113,470	778,178	8,479,148
Valuation adjustment (31 <sup>st</sup> Dec. 2004)	209,787	2,922,276	270,445	3,402,508
Book value (1 <sup>st</sup> Jan. 2004)	1,606,084	1,899,708	371,454	3,877,246
Acquisitions	1,847,590	92,432	277,091	2,217,113
Transfers (disposals)	(74,039)	(600,546)	(23,539)	(698,124)
Revaluations	0	(121,214)	0	(121,214)
Depreciation	(1,922)	(79,186)	(117,273)	(198,381)
Book value (31 <sup>st</sup> Dec. 2004)	3,377,713	1,191,194	507,733	5,076,640

The itemisation of intangible fixed assets in the 2004 Consolidated Balance Sheet differs from that provided in the 2003 one. Namely, other intangible fixed assets and intangible fixed assets under construction or in manufacture are herein not presented as separate items. In order to afford comparabil-

ity, such is also applied to the balance of intangible fixed assets as of 1st January 2004.

In the process of consolidation, 4,290,932,000 Slovene tolar were eliminated from intangible fixed assets.

#### NOTE 14 Tangible Fixed Assets

→ SIT 279,230,452,000

In 2004 the book value of one the subsidiaries' investments was written down by 3,911,000 Slovene tolar, this same enterprise also revaluated its tangible fixed assets which were in turn written down by 5,711,000 tolar.

545,643,000 Slovene tolar of investment in tangible fixed assets were financed through a loan. Tangible fixed assets in the total value of 1,952,000,000 Slovene tolar were pledged as collateral for long-term and short-term financial liabilities during 2004. Tangible fixed assets with a value of 36,090,000 Slovene tolar were acquired through a finance lease.

Tangible fixed assets							
(in SIT thousands)	Land	Buildings	Production plant	Other plant and equipment	Advances for tangible fixed assets	Tangible fixed assets under construction or in manufacture	Total
Historical cost (31 <sup>st</sup> Dec. 2004)	11,464,518	292,546,899	431,955,796	9,593,695	1,171,955	12,424,875	759,157,738
Upward valuation adjust. (31 <sup>st</sup> Dec. 2004)	0	160,766,597	311,432,611	7,728,078	0	0	479,927,286
Book value (1 <sup>st</sup> Jan. 2004)	11,539,129	134,859,713	124,525,724	1,581,138	905,625	9,232,787	282,644,116
Acquisitions	106,995	1,859,728	8,385,894	511,199	1,662,717	13,670,843	26,197,376
Transfers (disposals)	(181,606)	(68,795)	(282,434)	232,831	(1,396,764)	(10,474,844)	(12,171,612)
Revaluations	0	0	0	0	377	(3,911)	(3,534)
Depreciation	0	(4,870,344)	(12,105,999)	(459,551)	0	0	(17,435,894)
Book value (31 <sup>st</sup> Dec. 2004)	11,464,518	131,780,302	120,523,185	1,865,617	1,171,955	12,424,875	279,230,452

#### NOTE 15 Long-term Investments

→ SIT 1,349,304,000

Long-term investments					
(in SIT thousands)	Investments in shares and other equity of Group enterprises	Investments in shares and other equity of associated companies	Other investments in shares and equity	Other long-term financial receivables	Total
Historical cost (31 <sup>st</sup> Dec. 2004)	6,217	24,506	1,108,354	254,541	1,393,618
Upward valuation adjustment (31 <sup>st</sup> Dec. 2004)	179	4,440	7,776	31,919	44,314
Book value (1 <sup>st</sup> Jan. 2004)	6,038	9,518	928,552	4,844,502	5,788,610
Acquisitions	0	9,974	176,516	1,002,236	1,188,726
Transfers (disposals)	0	574	(4,490)	(5,625,371)	(5,629,287)
Revaluations	0	0	0	1,255	1,255
Book value (31 <sup>st</sup> Dec. 2004)	6,038	20,066	1,100,578	222,622	1,349,304

In the process of consolidation of accounts, 198,413,754,000 Slovene tolar of intra-Group long-term investments in Group enterprises were eliminated.

NOTE 16 **Operating Receivables**

→ SIT 18,930,601,000

Long-term trade receivables are generally not secured, only 20 % of all long-term receivables are secured. Unlike other short-term receivables, which are not secured, approximately 80 % of short-term trade receivables are secured.

The breakdown of operating receivables on the basis of maturity (due date) is displayed in a separate table. Intra-Group short-term operating receivables in the amount of 16,359,486,000 Slovene tolar were eliminated in the process of consolidation.

Long-term operating receivables by maturity due date				
(in SIT thousands)	MATURITY DUE DATE			Total
	Within 3 years	From 3 to 5 years	Over 5 years	
Trade receivables	154,984	154,984	464,953	774,921
Other receivables	161,954	4,465	102,864	269,283
<b>Total</b>	<b>316,938</b>	<b>159,449</b>	<b>567,817</b>	<b>1,044,204</b>

Short-term operating receivables by maturity due date							
(in SIT thousands)	BREAKDOWN BY DUE DATE						Total
	Not yet due	Overdue for less than three months	Overdue for three to six months	Overdue for six to nine months	Overdue for nine to twelve months	Overdue for more than one year	
Trade receivables	13,291,523	830,178	10,758	2,134	10	3,218	14,137,821
Receivables from associated companies	5,296	0	0	0	0	0	5,296
Other receivables	3,621,160	36,492	8,326	7,955	7,674	61,673	3,743,280
<b>Total</b>	<b>16,917,979</b>	<b>866,670</b>	<b>19,084</b>	<b>10,089</b>	<b>7,684</b>	<b>64,891</b>	<b>17,886,397</b>

Changes in adjustments to receivables					
(in SIT thousands)	1 <sup>st</sup> Jan. 2004	Exchange rate differences	Decrease (retraction)	Increase (establishment)	31 <sup>st</sup> Dec. 2004
Short-term trade receivables	232,479	267	9,692	10,164	233,218
Other short-term operating receivables	114,983	0	0	32,567	147,550
<b>Total</b>	<b>347,462</b>	<b>267</b>	<b>9,692</b>	<b>42,731</b>	<b>380,768</b>

NOTE 17 **Short-term Investments**

→ SIT 29,297,874,000

The Group's short-term investments encompass investments in bank deposits, equity securities, short-term loans to associated companies and short-term loans to others. The bulk of the Group's short-term investments are comprised of deposits

in major Slovenian banks, hence their exposure to risk is minimal. 856,767,000 Slovene tolar of short-term intra-Group investments were eliminated in the process of consolidation.

**NOTE 18 Off-Balance-Sheet Items****→ SIT 17,360,937,000**

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

**NOTE 19 Capital****→ SIT 240,753,971,000**

The Group's share capital encompasses the share capital of the parent company, which remained unchanged in 2004; likewise the capital reserves and the general equity revaluation adjustment also remained unchanged during the year.

Other retained earnings witnessed an increase in the amount of 6,918,490,000 Slovene tolar in 2004. Retained net profit from previous years in the amount of 5,429,408,000 Slovene tolar is the parent company's participation in the profit of its subsidiaries from previous years. The Group's net profit for the financial year, which amounts to 12,512,386,000 Slovene tolar, consists of the parent company's distributable profit (4,931,414,000 Slovene tolar), participation in the profits of subsidiaries (6,720,966,000 Slovene tolar), as well as the utilisation of provisions from negative goodwill

ascertained in the consolidation of subsidiary capital and long-term investment by the parent company.

Due to the appreciation of other financial instruments, the parent company made a specific upward equity revaluation adjustment in the amount of 5,785,000 Slovene tolar. The consolidation equity adjustment, in the amount of 288,000 Slovene tolar, also encompasses currency translation differences from HSE's Italian subsidiary.

Minority equity interests increased by 536,828,000 Slovene tolar in 2004, and thus amount to 34,388,816,000 Slovene tolar. In the consolidation process, the capital of subsidiaries – in the amount of 228,236,795,000 Slovene tolar – was excluded in its entirety.

**Group net profit for 2004 (excluding minority interest) upon the restatement of capital***(in SIT thousands)*

Net profit	17,443,799
Net profit upon a restatement using the tolar-euro exchange rate (1.3 % growth)	15,006,925
Net profit upon a restatement using Slovenia's cost of living index (3.2 % growth)	11,397,638

**Total capital***(in SIT thousands)*

	2004	2003
Share capital	1,156,217	1,156,217
Capital reserves	166,070,474	166,070,474
Retained earnings (other retained earnings)	21,190,570	14,272,080
Retained net profit	5,429,408	2,423,207
Net profit for the financial year	12,512,386	5,020,514
General equity revaluation adjustment	27	27
Specific equity revaluation adjustment	5,785	0
Consolidation equity adjustment	288	0
Minority equity interest	34,388,816	33,851,988

## NOTE 20 Long-term Provisions

→ SIT 36,066,749,000

All long-term provisions are disclosed under other provisions, of which negative goodwill in the amount of 29,173,884,000 Slovene tolar was generated in the process of consolidation. Negative goodwill appears in the consolidation when the parent company's investment in the equity of subsidiary is lower than the value of recognised assets and liabilities, and the subsidiary continues its operations as an independent legal entity.

In 2004 a portion of the negative goodwill was transferred to other operating revenues which resulted in an increase in the Group's net profits.

The negative goodwill ascertained in the consolidation of parent company's investments and aggregate capital of subsidiaries was not drawn upon in 2004 due to the fact that these enterprises continued to

generate profits. This said, however, estimations as to their future operations reveal that these same companies may well make losses in the ensuing years, in which case the negative goodwill shall be drawn upon in order to cover such losses.

Other long-term provisions were established in previous years for long-term accrued costs and long-term deferred revenues. In 2004 these provisions were drawn upon in order to cover depreciation of tangible fixed assets purchased using a government grant, as well as the restructuring of special companies for disabled workers in accordance with the *Act on Training and Employing the Disabled*.

Long-term provisions in the amount of 4,290,932,000 Slovene tolar were eliminated in the process of consolidation.

Movements in negative goodwill		
(in SIT thousands)	2004	2003
Balance (1 <sup>st</sup> Jan. 2004)	30,033,890	32,544,406
Increase	0	2,258
Decrease	860,006	2,512,774
Balance (31 <sup>st</sup> Dec. 2004)	29,173,884	30,033,890

Changes to long-term provisions						
(in SIT thousands)	Balance 1 <sup>st</sup> Jan. 2004	Increase – formation of additional provisions	Decrease – use of provisions	Balance 31 <sup>st</sup> Dec. 2004	Projected formation	Projected use
Long-term accrued costs	3,916,580	1,197,920	1,324,047	3,790,453	1,190,000	1,058,000
Long-term provisions for major repairs	1,385,000	0	765,000	620,000	0	620,000
Other long-term provisions	2,531,580	1,197,920	559,047	3,170,453	1,190,000	438,000
Long-term deferred revenues	33,382,984	46,487	1,153,175	32,276,296	30,000	282,996
Long-term provisions in the form of grants made for the operation of fixed assets	3,334,806	0	278,881	3,055,925	0	282,996
Other long-term provisions	14,288	46,487	14,288	46,487	30,000	0
Negative goodwill from consolidation	30,033,890	0	860,006	29,173,884	0	0
Total	37,299,564	1,244,407	2,477,222	36,066,749	1,220,000	1,340,996

NOTE 21 **Long-term Liabilities**

→ SIT 39,045,152,000

Almost all the Group's long-term liabilities consist of long-term bank loans secured by bills, acceptance orders, guarantees, mortgages on real estate and other property, warranties issued by the Republic of Slovenia, or pledged receivables.

Loans were taken from Slovenian and foreign banks, and interest rates vary depending on the

type of loan, maturity period and occasion of borrowing. These also include loans that shall fall due for payment in more than five years and not later than the year 2015. Long-term liabilities are introduced in greater detail in the annual reports of the individual subsidiary enterprises of the HSE Group. All long-term liabilities are settled in accordance with contractual obligations.

Long-term liabilities by maturity due date				
(in SIT thousands)	BREAKDOWN BY DUE DATE			Total
	From 1 to 3 years	From 3 to 5 years	More than 5 years	
Long-term liabilities to banks	16,113,147	13,454,705	9,207,068	38,774,920
Long-term liabilities to others	17,970	0	0	17,970
Long-term trade payables	169,920	0	0	169,920
Long-term operating liabilities to others	50,754	16,784	14,804	82,342
Total	16,351,791	13,471,489	9,221,872	39,045,152

NOTE 22 **Short-term Liabilities**

→ SIT 25.675.615,000

All short-term financial liabilities are secured by bills, acceptance orders, guarantees, mortgages on real estate and other property, warranties issued by the Republic of Slovenia, or pledged receivables; all are settled within the due terms. Short-term financial liabilities are introduced in greater detail in the annual reports of the individual subsidiary enterprises.

In the process of consolidation, intra-Group short-term operating and financial liabilities in the amount of 16,567,096,000 Slovene tolar were eliminated.

Long-term operating liabilities by maturity due date							
(in SIT thousands)	BREAKDOWN BY DUE DATE						Total
	Not yet due	Overdue for less than three months	Overdue for three to six months	Overdue for six to nine months	Overdue for nine to twelve months	Overdue for more than one year	
Short-term liabilities to associated companies	53,405	0	0	0	0	0	53,405
Short-term liabilities from advances	14,528	0	0	0	0	0	14,528
Short-term trade payables	11,876,915	40,289	2,339	19	23,088	1,359	11,944,009
Other short-term liabilities	5,528,255	0	0	0	0	0	5,528,255
Total	17,473,103	40,289	2,339	19	23,088	1,359	17,540,197

## 4.7.2 Consolidated Income Statement

### General Notes

Information as to the basis for the preparation of the Consolidated Income Statement, and the specific accounting policies selected and applied in relevant operations and other transactions of the Group are introduced in the disclosure of individual assets and liabilities.

The Consolidated Income Statement has been compiled in accordance with SAS No. 25. – format I. In

accordance with explanation 2 to SAS No. 25, issued by the Slovenian Institute of Auditors, which states that in accordance with regulations, the expense or liability for tax on the income of legal entities is ascertained on a common basis (from ordinary and extraordinary operating activities), tax on income from ordinary and extraordinary operating activities is not disclosed separately in the Income Statement, but is disclosed as a total amount under item 19 of the Income Statement.

### NOTE 23 Revenues

→ SIT 131,198,861,000

Revenue category		
(in SIT thousands)	2004	2003
Operating revenues	128,994,686	103,532,858
Financial revenues	1,560,500	2,880,079
Extraordinary revenues	643,675	657,891

The sale of electrical power accounts for more than 86 % of the Group's total operating revenues. Almost 70 % of the remaining operating revenues derive from the employment of long-term provisions, namely the utilisation of government grants which were received by Group enterprises in order to cover depreciation; the remaining 30 % of non-energy-sale

operating revenues emanate from the systematic recognition of negative goodwill.

In the consolidation process, intra-Group operating revenues in the amount of 79,770,157,000 Slovene tolar were eliminated, and operating revenues in the amount of 860,006,000 Slovene tolar were created on the basis of the systematic recognition of negative goodwill. Intra-Group financial revenues in the amount of 47,676,000 Slovene tolar were eliminated in the consolidation process, while extraordinary revenues generated between Group enterprises, in the amount of 8,000 Slovene tolar, were also eliminated in the consolidation process.

Net sales revenues by territory		
(in SIT thousands)	2004	2003
Domestic market	91,870,594	68,803,111
Foreign markets	32,984,640	28,685,076

Net sales revenues by sector		
(in SIT thousands)	2004	2003
Electrical energy	112,067,556	86,401,209
Other	12,787,678	11,086,978

NOTE 24 Expenses

→ SIT 112,849,896,000

Expense category		
(in SIT thousands)	2004	2003
Operating expenses	109,484,692	96,312,215
Financial expenses	3,048,668	3,439,393
Extraordinary expenses	316,536	501,463

The costs of goods, materials and services account for nearly half of all operating expenses, of which the most significant are:

- the purchase costs of electrical energy;
- the costs of materials, replacement parts and services for the maintenance of tangible fixed assets;
- the costs of fuel and lubricants.

Labour costs account for 25 % of operating expenses and encompass salaries and other remunerations, as well as social insurance, additional pension contributions together with other labour costs. In 2004, the Group established short-term provisions through a revaluation of labour costs pertaining to Management Board premiums. A number of employees and former employees have filed complaints against two subsidiaries based on alleged breaches of employment contract provisions.

Value write-downs account for less than 20 % of total operating expenses. The majority of value write-downs – in the amount of 17,634,275,000 Slovene tolar – is encompassed by the depreciation of intangible fixed assets and tangible fixed assets; a very small portion consists of revaluated operating expenses pertaining to intangible fixed assets, tangible fixed assets and current assets.

The depreciation of tangible fixed assets acquired through government grants is calculated separately; the systematic portion of negative goodwill that pertains to these investments is recorded under revenues, while pertaining depreciation is covered by long-term provisions.

Depreciation rates of intangible and tangible fixed assets belonging to Group subsidiaries

Depreciation rates of intangible and tangible fixed assets belonging to Group subsidiaries	
(%)	
Buildings	1 – 13 %
Production plant	1 – 19 %
Other plant	5 – 33.33 %
Computer hardware	20 – 50 %
Intangible fixed assets	5 – 33.33 %

Other operating expenses encompass, for the most part, rates for the use of the land and water, environmental levies and licenses payable to the state.

In the process of consolidation, intra-Group enterprise operating expenses in the amount of 79,770,165,000 Slovene tolar were eliminated. Intra-Group financial expenses in the amount of 47,676,000 Slovene tolar were also eliminated in the consolidation process.

Breakdown of costs by category

(in SIT thousands)	2004	2003
Historical cost of goods sold and/or production costs of quantities sold	92,070,794	76,555,084
Sales costs	1,070,866	6,189,355
General and administrative costs	15,065,070	11,050,920

**NOTE 25 Corporation Tax****→ SIT 362,543,000**

Corporation tax is calculated according to the prescribed tax regimes and rates of the countries in which the actual individual Group enterprise is based. In 2004, five enterprises and one subsidiary group within the HSE Group were liable for the payment of corporation tax in Slovenia, whereas the remaining subsidiaries did not establish relevant grounds as to the payment of any such tax.

**NOTE 26 Net Profits****→ SIT 17,986,422,000**

Net profits for the Group encompasses the net profit of the parent company, HSE d.o.o., in the amount of 9,862,827,000 Slovene tolars, as well as attributable net profits of Group enterprises and minority interests in others; namely, the parent company's participation in the net profits of its subsidiaries

(totalling 6,720,966,000 Slovene tolars) and associated companies (542,623,000 Slovene tolars). A portion of negative goodwill in the amount of 860,006,000 Slovene tolars also contributed to Group net profits in 2004.

<b>Classification of earnings</b>		
<i>(in SIT thousands)</i>	<b>2004</b>	<b>2003</b>
Gross operating yield	128,994,686	103,532,858
Operating income	19,509,994	7,220,643
Operating income from ordinary activities	18,021,826	6,661,329
Operating income from extraordinary activities	327,139	156,428
Pre-tax profit	18,348,965	6,817,757
Net profit for the financial year	17,986,422	6,702,268
- of which majority interest	17,443,799	7,007,590
- of which minority interest	542,623	(305,322)

### 4.7.3 Consolidated Cash Flow Statement

#### General Notes

The Consolidated Cash Flow Statement reveals changes in the balance of cash and cash equivalents over the financial year. The Group's cash assets include money in transaction accounts and deposits on call. In 2004, the Group did not disclose any cash equivalents.

#### Indirect Method

The Group prepares its cash flow statement using the indirect method that reconciles net income with cash from operations. Cash flow statement data is obtained from the Consolidated Balance Sheet for the current and previous years as well as the Consolidated 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 eliminations were made in the Consolidated Cash Flow Statement.

Cash flows		
(in SIT thousands)	2004	2003
Cash flows from operating activities	36,105,306	22,384,236
Cash flows from investment activities	(22,103,150)	(7,714,732)
Cash flows from financing activities	(16,508,106)	(13,071,012)

In 2004, the Group's cash assets decreased by 2,505,950,000 Slovene tolar.

## 4.7.4 Consolidated Statement of Changes in Equity

### General Notes

The Consolidated Statement of Changes in Equity shows changes in the portions of equity over the financial (calendar) year. The Group prepares the Consolidated Statement of Changes in Equity so that all portions of capital are presented in the form of a spreadsheet. Distributable net profit is not ascertained at the Group level.

### Transfers to Equity

In 2004, transfers to Group equity amounted to 18,015,586,000 Slovene tolar. Group equity, excluding the minority interest, was increased by:

- net profits in the amount of 17,443,799,000 Slovene tolar;
- a specific upward equity revaluation adjustment – in the amount of 28,876,000 Slovene tolar – made by the parent company in relation to other financial instruments;
- an upward consolidated equity adjustment in the amount of 288,000 Slovene tolar which arose as a result of the currency translation difference accounted by HSE Italia.

As a direct result of net profits for 2004, the equity of minority interests in Group enterprises increased by 542,623,000 Slovene tolar.

### Transfers within Equity

Transfers within equity in the amount of 6.919.467 Slovene tolar derive from:

- the allocation of the parent company's distributable net profit from 2003 (1,987,077,000 Slovene tolar) to other retained earnings upon a resolution by the General Assembly;
- the allocation of one half of the parent company's net profit for 2004 (4,931,413,000 Slovene tolar) upon the resolution of the Management Board and with consent of the Supervisory Board; and
- the transfer of a 977,000 Slovene-tolar participation in a subsidiary's net profits for 2002 and 2003 to a minority interest in return for controlling equity.

### Transfers from Equity

Transfers from equity in the amount of 56,122,000 Slovene tolar are related to:

- a specific downward equity revaluation adjustment – in the amount of 23,091,000 Slovene tolar, made by the parent company in relation to other financial instruments;
- a fiscal reassessment that resulted in the payment of 33,031 Slovene tolar of corporation tax for 2002, which effected majority and minority interests in the equity of this subsidiary.

#### 4.7.5 Other Disclosures

##### Remuneration of Management and Other Employees on Individual Contracts of Employment

The regular remuneration of members of Management Boards and Boards of Directors as well as other employees on individual contracts of employment, encompasses:

- regular (gross) remuneration, which is identified in the notice for income tax returns
- other fees paid to employees on the basis of contract
- premiums paid by the company as voluntary additional pension contributions for employees on individual contracts of employment.

##### Remuneration of Supervisory Board Members

The remuneration of Supervisory Board members encompasses gross payments made by the Company for the work of Supervisory Board members, their attendance of Board meetings and pertaining travel expenses.

Upon the resolution of General Assembly in 2004, the members of Management Boards, Boards of Directors and other employees on individual contracts of employment, as well as members of the Supervisory Boards of HSE Group enterprises, did not participate in net profits nor were they approved any advances, loans, or guarantees by the respective subsidiaries. For these same groups of individuals, remunerations and payables pertaining to housing loans approved prior to 2002, as well as reimbursements of expenses such as (vehicle) fuel and motorway tolls, are shown in the tables below.

In 2004, payables from granted housing loans amounted to 1,889,000 Slovene tolar. Rates of interest on granted loans are governed by the following parameters:

- basic interest rate (TOM) plus 3 %;
- foreign currency clause;
- point value for ascertaining the value of housing, which is stipulated in accordance with the movement of the euro against the tolar as defined by the middle exchange (spot market) rate of the Bank of Slovenia.

Regular remuneration of employees with individual contracts of employment		
(in SIT thousands)	2004	2003
Members of Management Boards and Boards of Directors	304,737	285,133
Other employees on individual contracts	864,791	818,098
Members of Supervisory Boards	15,519	14,375

Payables on loans granted to employees with individual contracts of employment		
(in SIT thousands)	2004	2003
Members of Management Boards and Boards of Directors	0	0
Other employees on individual contracts	12,359	13,938
Members of Supervisory Boards	1,083	1,215

Reimbursement of expenses to employees with individual contracts of employment		
(in SIT thousands)	2004	2003
Members of Management Boards and Boards of Directors	189	133
Other employees on individual contracts	962	1,115
Members of Supervisory Boards	0	0





## 5 Contacts

### Holding Slovenske Elektrarne d.o.o.

CEO: Drago Fabijan, M.Sc.  
ADDRESS: Koprška ulica 92,  
SI-1000 Ljubljana, Slovenia  
TELEPHONE: +386 (0)1 470 41 00  
FAX: +386 (0)1 47 04 101  
E-MAIL: [info@hse.si](mailto:info@hse.si) / [hse@hse.si](mailto:hse@hse.si)  
URL: [www.hse.si](http://www.hse.si)

### Termoelektrarna Brestanica d.o.o.

CEO: Bogdan Barbič  
ADDRESS: Cesta prvih borcev 18,  
SI-8280 Brestanica, Slovenia  
TELEPHONE: +386 (0)7 481 61 12  
FAX: +386 (0)7 492 22 62  
E-MAIL: [info@teb.si](mailto:info@teb.si)  
URL: [www.teb.si](http://www.teb.si)

### Dravske Elektrarne Maribor d.o.o.

CEO: Danilo Šef  
ADDRESS: Obrežna ulica 170,  
SI-2000 Maribor, Slovenia  
TELEPHONE: +386 (0)2 300 50 00  
FAX: +386 (0)2 300 56 55  
E-MAIL: [dem@dem.si](mailto:dem@dem.si)  
URL: [www.dem.si](http://www.dem.si)

### Termoelektrarna Šoštanj d.o.o.

CEO: Uroš Rotnik, M.Sc.  
ADDRESS: Cesta Lole Ribarja 18,  
SI-3325 Šoštanj, Slovenia  
TELEPHONE: +386 (0)3 899 31 00  
FAX: +386 (0)3 588 21 62  
E-MAIL: [info@te-sostanj.si](mailto:info@te-sostanj.si)  
URL: [www.te-sostanj.si](http://www.te-sostanj.si)

### Savske Elektrarne Ljubljana d.o.o.

CEO: Drago Polak  
ADDRESS: Gorenjska cesta 46,  
SI-1215 Medvode, Slovenia  
TELEPHONE: +386 (0)1 474 92 01  
FAX: +386 (0)1 474 92 02  
E-MAIL: [webinfo@savske-el.si](mailto:webinfo@savske-el.si)  
URL: [www.savske-el.si](http://www.savske-el.si)

### Premogovnik Velenje d.d.

CEO: Evgen Dervarič, Ph.D.  
ADDRESS: Partizanska cesta 78,  
SI-3320 Velenje, Slovenia  
TELEPHONE: +386 (0)3 899 61 00  
FAX: +386 (0)3 587 50 07  
E-MAIL: [info@rlv.si](mailto:info@rlv.si)  
URL: [www.rlv.si](http://www.rlv.si)

### Soške Elektrarne Nova Gorica d.o.o.

CEO: Vladimir Gabrijelčič  
ADDRESS: Erjavčeva ulica 20,  
SI-5000 Nova Gorica, Slovenia  
TELEPHONE: +386 (0)5 339 63 10  
FAX: +386 (0)5 339 63 15  
E-MAIL: [seng@seng.si](mailto:seng@seng.si)  
URL: [www.seng.si](http://www.seng.si)

### HSE Invest d.o.o.

CEO: Vili Vindiš  
ADDRESS: Obrežna ulica 170a,  
SI-2000 Maribor, Slovenia  
TELEPHONE: +386 (0)2 300 58 92  
FAX: +386 (0)2 300 58 99  
E-MAIL: [vili.vindis@hse-invest.si](mailto:vili.vindis@hse-invest.si)

#### **TDR – Metalurgija d.d.**

CEO: Franjo Vališer

ADDRESS: Tovarniška cesta 51,  
SI-2342 Ruše, Slovenia

TELEPHONE: +386 (0)2 661 10 81

FAX: +386 (0)2 662 89 01

E-MAIL: [info@tdr-metalurgija.si](mailto:info@tdr-metalurgija.si)

URL: [www.tdr-metalurgija.si](http://www.tdr-metalurgija.si)

### **International Network**

#### **HSE – Belgrade Office**

OFFICE DIRECTOR: Boris Mezgec, M.Sc.

ADDRESS: Makenzijeve 57, 11000 Belgrade,  
Serbia and Montenegro

TELEPHONE: +381 11 344 53 84

FAX: +381 11 344 53 98

E-MAIL: [boris.mezgec@hse.si](mailto:boris.mezgec@hse.si)

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

CHAIRMAN OF THE ADMINISTRATIVE BOARD: Igor Orel

ADDRESS: Via Roma 20, I-34170 Gorizia, Italy

TELEPHONE: +39 0481 537386

FAX: +39 0481 536667

## 6 Glossary of Acronyms

CCGT	combined cycle gas turbine
d.d.	a joint-stock company
d.o.o.	a limited-liability company
DEM	<i>Dravske Elektrarne Maribor d.o.o.</i> – an HSE subsidiary enterprise operating hydropower plants on the Drava river
EECS	<i>Energy Certification System</i> , a EU format of the <i>Renewable Energy Certificate System</i> (RECS).
EEX	European Energy Exchange, Leipzig
ELES	<i>Elektro-Slovenija d.o.o.</i> , Slovenia's electric power transmission network (grid) operator
HPP	hydroelectric power plant
HSE	<i>Holding Slovenske Elektrarne d.o.o.</i> – the parent company of the HSE Group
Modra Energija	Green energy from renewable sources
OHSAS	Occupational Health and Safety Management Systems
PPE	<i>plinsko parna elektrarna</i> – combined cycle gas turbine power plant
PV	<i>Premogovnik Velenje d.d.</i> – the Velenje lignite mine, an HSE subsidiary enterprise
RECS	<i>Renewable Energy Certificate System</i>
RES-E	electricity generated from renewable sources
RE-GO	Renewable Energy Guarantees of Origin
SEL	<i>Savske Elektrarne Ljubljana d.o.o.</i> – an HSE subsidiary enterprise operating hydropower plants on the Sava river
SENG	<i>Soške Elektrarne Nova Gorica d.o.o.</i> – an HSE subsidiary enterprise operating hydropower plants on Slovenia's Soča (Isonzo) river
SIT	Slovene tolar
UCTE	Union for the Co-ordination of Transmission of Electricity
TDR – Metalurgija	<i>Tovarna Dušika Ruše – Metalurgija d.d.</i> , a subsidiary of the HSE Group
TEB	<i>Termoelektrarna Brestanica d.o.o.</i> – the Brestanica thermal power plant, an HSE subsidiary enterprise
TEŠ	<i>Termoelektrarna Šoštanj d.o.o.</i> – Šoštanj thermal power plant, an HSE subsidiary enterprise

# Energy is the Key

*Modri Jan* HAS AROUSED CHILDREN'S CURIOSITY, AND THIS INQUISITIVENESS SHALL GROW INTO THEIR FUTURE WISDOM. HE HAS ENCOURAGED KIDS FROM ALL OVER SLOVENIA TO SHARE THEIR VIEWS ON THE RELATIONSHIP BETWEEN ELECTRICITY AND WATER. THE SELECTION OF CONTRIBUTIONS PUBLISHED IN THIS ANNUAL REPORT ARE FROM A MARCH 2005 COMPETITION ORGANISED IN CONJUNCTION WITH THE *Ciciban* AND *Cicido* MAGAZINES FOR CHILDREN.

(The full gallery of all their works: [www.modri-jan.si](http://www.modri-jan.si))

THIS ANNUAL REPORT HAS BEEN INSPIRED BY THE IMAGINATION OF CHILDREN.

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