ANNUAL REPORT 2007

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I AM GIVING AWAY a ladybird.

I've heard it brings luck in business. It's just that in our company all our business moves are well-considered, thus our results are good. I don't really need the ladybird, so I want to give it to someone else who does.

Place a Classified Ad: "Employed at HSE".

01

INTRODUCTION

1. INTRODUCTION

The HSE Group is the largest Slovene organisation operating in the field of electricity, and the largest electricity producer and trader in Slovenia's wholesale market.

United under a single brand – the HSE Group – hydropower plants, thermal power plants and a coal mine together produce a large part of electricity in Slovenia. Through distribution, which consists of a combination of various resources, HSE plays a key role in ensuring secure, reliable and high-quality supply to domestic customers.

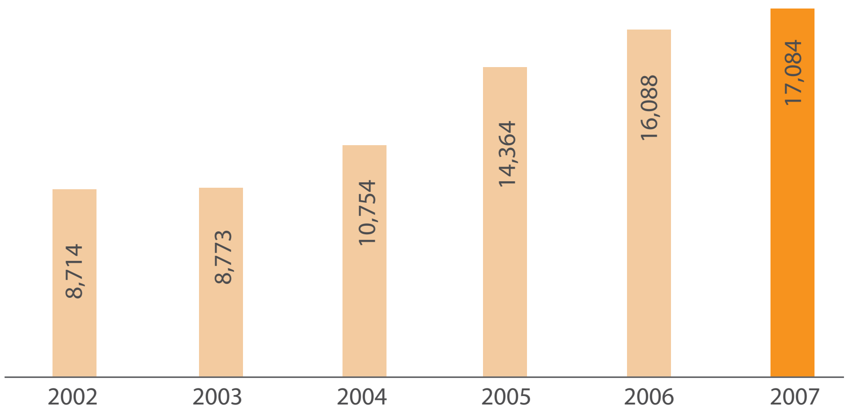
HSE's vision is to ensure optimum utilisation of Slovene energy sources and personnel, and to establish a competitive company in the global energy market, while also expanding its business operations so as to reduce business risks arising from market fluctuations in relation to individual products.

HSE's companies/branch offices/representative offices are located in Slovenia, Croatia, Serbia, Italy, Hungary, Bulgaria, the Czech Republic and Romania, while another subsidiary is currently being established in Slovakia.

HSE is a member of a Germany-based European energy exchange EEX, Austrian energy exchange EXAA, French power exchange POWERNEXT, and Italian power exchange IPEX.

The HSE Group's other trading markets include:
- Albania,
- Bosnia and Herzegovina,
- Montenegro,
- Switzerland.

HSE Group's volume of trading in the period 2002–2007 in GWh



Electricity production and trading in the HSE Group

SALES IN FOREIGN MARKETS
4,282 GWh | 25 % OF SALES

SALES IN DOMESTIC MARKET
12,612 GWh | 75 % OF SALES

Company HSE
104 AVG. NO. OF EMP. | 16,894 GWh | 100 % OWNED BY RS

OTHER PURCHASES IN THE MARKET
9,877 GWh | 58 % OF SOURCES

OWN PRODUCTION SOURCES
2,820 AVG. NO. OF EMP. | 7,017 GWh 1,605 MW | 42 % OF SOURCES

HYDRO
409 employees (average)
production of 2,631 GWh
power of 765 MW
65 turbines

THERMAL
753 employees (average)
production of 4,386 GWh
power of 840 MW
8 units

COAL MINE
1,658 employees (average)
production of 45,842 TJ

DEM
283 AVG. NO. OF EMP. | 2,151 GWh 576 MW 24 turbines | 100 % HSE

TEŠ
523 AVG. NO. OF EMP. | 3,756 GWh 672 MW 5 units | 100 % HSE

PV
1,658 AVG. NO. OF EMP. | 45,842 TJ | 77.7 % HSE

SENG
126 AVG. NO. OF EMP. | 380 GWh 155 MW 38 turbines | 100 % HSE

TET
230 AVG. NO. OF EMP. | 630 GWh 168 MW 3 units | 81.3 % HSE

HPP Boštanj
0 AVG. NO. OF EMP. | 100 GWh 34 MW 3 turbines | 51 % HSE

1.1 Key information

In 2007 the HSE Group continued its development as a major player in the domestic as well as wider regional energy market. Significant efforts were made to increase trading quantities, expand purchase and sales channels, and boost the Group's presence in foreign markets. Its market position was strengthened through the construction of additional electricity production capacities, taking into account energy goals adopted by the European Commission.

In 2007 HSE finalised the project to acquire a Bulgarian thermal power plant Toplofikatsia-Ruse, which represents one of HSE's major steps towards expanding its operations in the markets of SE Europe. From the aspect of geographical position and links with Slovenia, the power plant is important as far as expansion of activities and electricity supply to Slovenia are concerned. Despite the involvement of an external strategic partner in the project (as a result of which potential risks were substantially reduced), HSE has the right to trade in electricity produced at this power plant for the period of ten years, an important fact in terms of reducing Slovenia's dependence on exports. Moreover, HSE generated profit in 2007, having sold a 49 % stake in this company.

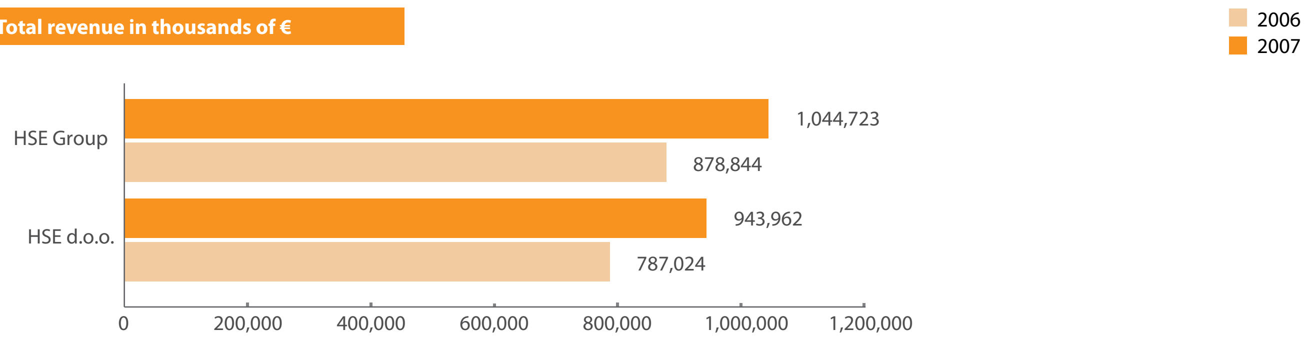
Thanks also to the HSE Group, electricity supply in Slovenia was reliable and secure in 2007, and despite difficult operating conditions in the energy market and the spin off of the companies Savske elektrarne Ljubljana and Termoelektrarna Brestanica, the Group ended the year 2007 with better operating results than in the previous year.

HSE Group	2007	2006	IND 07 / 06
Net sales revenue in €	982,333,321	842,064,050	117
Revenue in €	1,044,723,446	878,843,577	119
EBIT in €	66,499,803	93,414,500	71
EBITDA in €	138,540,433	170,267,617	81
Net profit in €	84,071,741	77,648,113	108
Assets in €	1,628,551,663	1,567,954,113	104
Equity in €	1,037,374,202	1,141,729,352	91
Cash flow from operations in €	118,254,485	156,400,388	76
Added value in €	286,961,958	303,474,749	95
Electricity production in GWh	7,019	6,961	101
Electricity sales in GWh	17,084	16,088	106
Number of employees as at 31 Dec	4,025	4,316	93
Number of Group companies as at 31 Dec	24	27	89

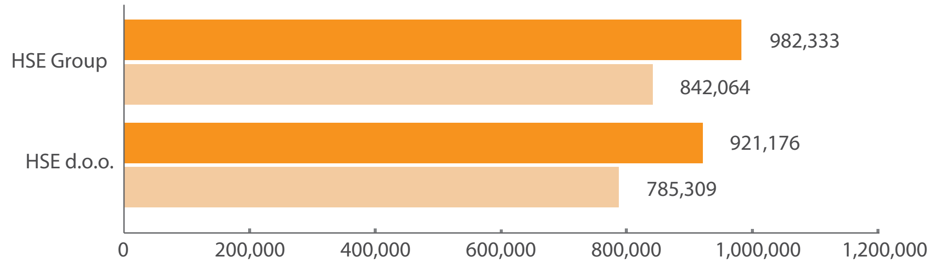
Company HSE d.o.o.	2007	2006	IND 07 / 06
Net sales revenue in €	921,176,077	785,308,693	117
Revenue in €	943,961,613	787,023,684	120
EBIT in €	2,482,997	50,251,516	5
EBITDA in €	4,719,460	51,729,027	9
Net profit in €	12,411,197	36,100,302	34
Assets in €	1,141,859,460	1,087,310,395	105
Equity in €	757,166,486	846,797,822	89
Cash flow from operations in €	30,695,629	68,314,259	45
Added value in €	25,418,714	56,771,376	45
Electricity sales in GWh	16,894	16,318	104
Number of employees as at 31 Dec	109	97	112

1.2 Financial and other highlights

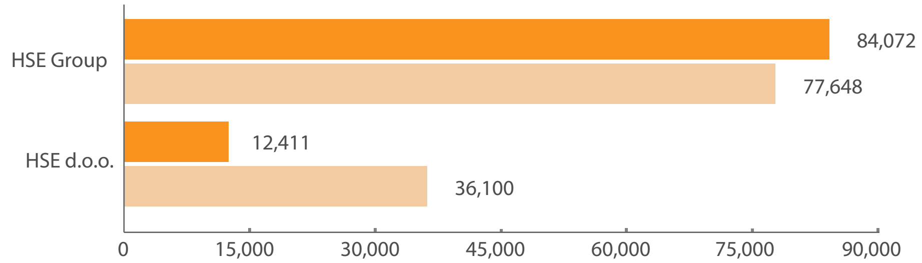
Total revenue in thousands of €



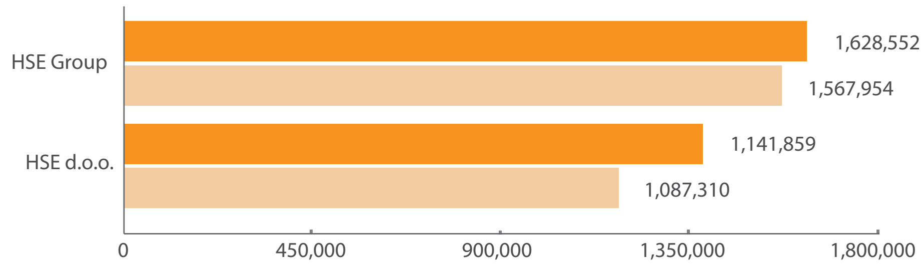
Net sales revenue in thousands of €



Net profit in thousands of €

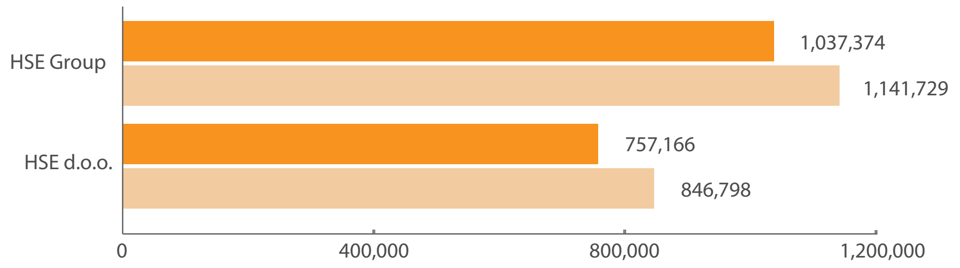


Total assets in thousands of €

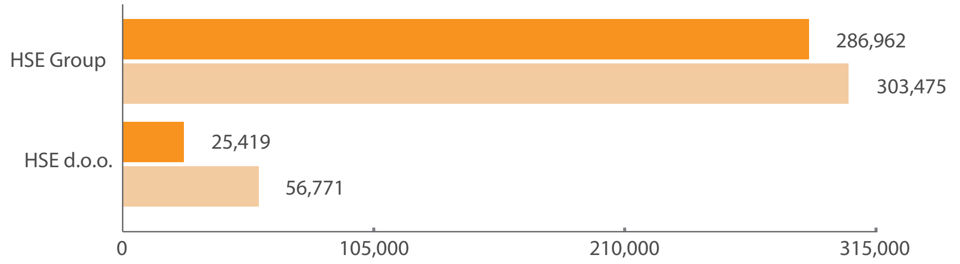


2006
2007

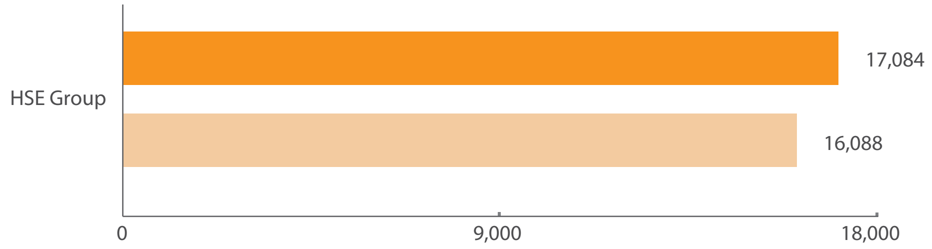
Equity in thousands of €



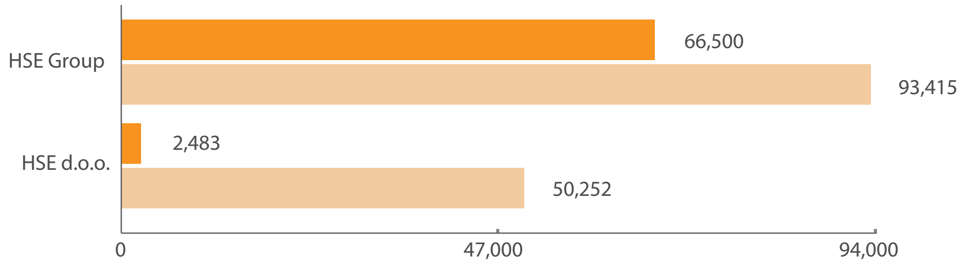
Added value in thousands of €



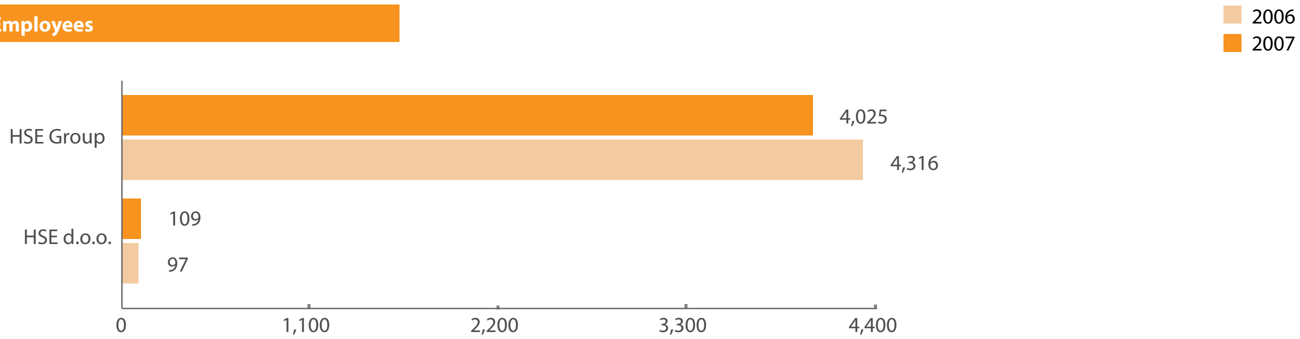
Electricity sales in GWh



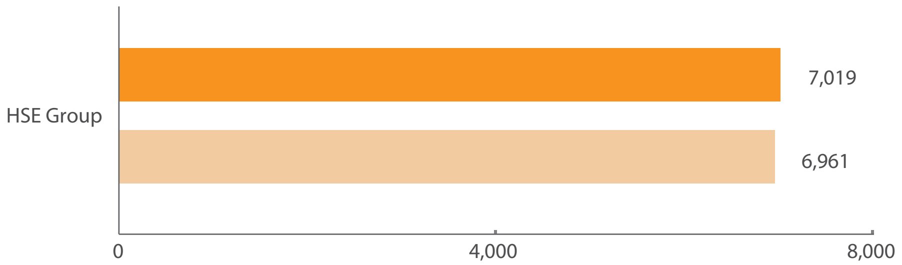
EBIT in thousands of €



Employees



Electricity production in GWh



1.3 Management's letter

The number seven

The number seven stands for many things. Nature gave us seven continents, seven seas, seven spots on a ladybird, and seven heavenly bodies that can be seen with the naked eye. There are seven days in a week, and the number seven is also the magic number. Ultimately, with the year 2007 behind it, HSE entered its seventh year of existence and operation. Indeed, the number seven appears to be ubiquitous.

Needless to say, the past year had been marked by more than seven turning points, challenges and opportunities. Summing them up in a letter accompanying the annual report, which gives an overall account of the HSE Group's performance, is quite a task. Each turning point, challenge and opportunity seized deserves to be presented in a report of its own. The judgement of what is important and interesting is left to readers. However, from the viewpoint of HSE, the largest Slovene electricity producer and trader, we wish to point out in particular the following events and turning points that have affected our operations.

In 2007 the growth of the HSE Group continued. Although the companies Savske elektrarne Ljubljana and Termoelektrarna Brestanica left the group, Termoelektrarna Brestanica and a Bulgarian thermal power plant and heating plant Ruse joined it. From the aspect of electricity production and trading, this is an important investment for HSE because it continues to ensure secure and reliable electricity supply. What is more, we established our presence in Bulgaria, where a subsidiary had been founded, and in Bucharest, where HSE's representative office had been opened. The HSE Group is thus consolidating its position as an international player in the energy market and expands over national borders - an important fact as far as boosting visibility, recognition and reputation are concerned.

Considering international community commitments, the above fact also takes on other important dimensions, one of which comprises goals adopted by the European Commission in the area of energy in March 2007. The goals, which are aimed at achieving economical and environment friendly consumption of electricity, require careful consideration and concrete measures in all EU member states. In addition to increasing the share of renewable energy sources and efforts to lower greenhouse gas emissions, our priorities include energy efficiency improvement projects such as the construction of Unit 6 at Termoelektrarna Šoštanj.

In the light of European commitments made by Slovenia in connection with the lowering of greenhouse gas emissions and increasing of the share of renewable sources, the Group either devoted a lot of attention to the development of projects which contribute to meeting such goals or outlined how these should be achieved. The construction of a hydropower plant on the lower Sava River is but one piece in the mosaic. The construction, which had already begun, continued successfully in 2007. It seems as though it was only yesterday when HPP Boštanj was put into operation. Now the opening of HPP Blanca and HPP Krško is just around the corner. There are also plans for hydropower plants on the central Sava River and Mura River as well as other projects in the area of biogas, solar and wind energy, which will contribute to a higher share of renewable energy sources over the long term. The construction of PSP Avče and the planning of PSP Kozjak will soon be completed to provide power the moment it is used. These projects will not only meet current needs but also the needs of tomorrow and beyond. They are carried out for posterity, for those who – like us – will not be indifferent to what kind of electricity they use. Because change in attitude begins in the mind, the HSE Group's efforts in the area of economical and environment friendly electricity consumption consist not only of products but also of information and education activities. In 2007, through the campaign *Energija si - be efficient*, we continued informing the general Slovene public of the importance of the economical use of electricity. The campaign, which already has more than twenty supporters, including major Slovene companies, became a trademark of HSE's efforts in the area of environment friendly operations and sustainable development. At the same time, we realise there is still much potential in this area, which we will unlocked in stages.

Because the Slovene electricity market was affected by fundamentally changed circumstances that were subject to conditions in the markets of the neighbouring countries, electricity prices were a recurrent topic in the past year. In the markets of SE Europe, electricity prices increased, which is why the prices in Slovenia climbed to match those in western markets. In the area of trading, it is therefore no longer possible to generate returns comparable to previous years. In addition to that, electricity market has been liberalised after 1 July 2007. This means that all companies, including electricity distribution companies, can in practice (rather than only in theory) buy electricity from any supplier at home or abroad and also sell it to any customer. Finally, with the emergence of another electricity supplier – the so-called second pillar – internal competition was established in the Slovene market. A challenge which arose in 2007 and remains to be addressed by electricity market operators is household electricity supply. Adjusting prices in respect of those customers requires special attention and coordinated action by all energy market entities. This is something to which HSE paid particular attention and will continue to do so in future.

In conclusion, a couple of thoughts on the number seven and lottery luck. The latter is kindly disposed only to the chosen few and is the result of a random mix of circumstances. But HSE leaves nothing to coincidence and does not rely on fickle luck. On the contrary, our operating results are always the result of carefully considered business decisions and plans that are based on the vision of becoming the biggest, the best and the most advanced. For HSE, the main prize is always the sum of "payments" contributed by those who do their best to make HSE the company it has become: a first-class European energy company with a clear mission and vision, good operating results and well-conceived plan for the future.

We sincerely thank all of you – our owners, employees and business partners who pay the winning combination on a daily basis – for excellent cooperation. We have won the jackpot.

Jože Zagožen, Ph. D.
Director of HSE

Damijan Koletnik
Director of HSE

Ljubljana, 31 March 2008

1.4 Report of the Supervisory Board

Pursuant to provisions of Article 282 of the Companies Act (ZGD-1), the Supervisory Board of Holding Slovenske elektrarne d.o.o. hereby informs the General Meeting of the following:

- the method and scope of reviewing of the management of HSE in the financial year 2007,
- verification and approval of the annual report of HSE d.o.o. and the HSE Group,
- verification of the proposal for the allocation of accumulated profit,
- the Supervisory Board's position regarding the audit report.

Until 19 March 2007, the Supervisory Board of Holding Slovenske elektrarne d.o.o. comprised the following owner's representatives: Andrej Vizjak, M.Sc. (President), Andrej Aplenc, M.Sc. (Vice-President), Franc Križanič, Ph.D., Franc Bogovič, Franc Ervin Janežič, Janez Požar. The following members were the representatives of employees: Boštjan Jančar, Branko Sevčnikar and Miran Božič.
On 19 March 2007, Andrej Vizjak resigned as member and president of HSE's Supervisory Board. Until the appointment of a new member, the Supervisory Board had eight members led by Vice-President Andrej Aplenc. On 13 September 2007, the Government of the Republic of Slovenia appointed Alojz Stana, M.Sc., new member of the Supervisory Board. On the 2nd extraordinary session of the Supervisory Board held on 19 September 2007, Mr Stana was elected new president of the HSE's Supervisory Board. Until the end of 2007, the Supervisory Board had the following members:

- owner's representatives: Alojz Stana, M.Sc. (President), Andrej Aplenc, M.Sc. (Vice-President), Franc Križanič, Ph.D., Franc Bogovič, Franc Ervin Janežič, Janez Požar,
- employee representatives: Boštjan Jančar, Branko Sevčnikar and Miran Božič.

1.4.1 Monitoring in supervision of company operations

In addition to changes in the company's management and representation which led to the introduction of a two-member management, amendments to the Articles of Incorporation of the limited liability company Holding Slovenske elektrarne of 16 March 2007 also expanded the competence of the Supervisory Board in the area of giving preliminary approvals for certain legal transactions.

The Supervisory Board thus held twenty-three meetings in 2007, of which thirteen were regular, three were extraordinary, and seven were correspondence. In addition to obtaining information regarding the company's operations and deliberating legal transactions requiring its preliminary approval, the Supervisory Board was also brought up to date in all areas which significantly affect the company's long-term interests, the implementation of the company's development strategy, and socially responsible augmentation of the company's economic efficiency.

Before the appointment of the second management member, Supervisory Board meetings were attended by the Managing Director and his assistant, whereas following the above amendments to the Articles of Incorporation both management members attended the meetings. Below we provide important matters and issues discussed in 2007:

- the Supervisory Board was informed about the interim unaudited financial report of the company HSE d.o.o. for the year 2006, and supported the Managing Director's proposal that half of net profit for 2006 should be allocated to other revenue reserves;
- the Supervisory Board approved the annual report of HSE d.o.o. and the HSE Group for 2006 together with auditor's reports;
- on the basis of the amended Articles of Incorporation of the limited liability company Holding Slovenske elektrarne, the Supervisory Board adopted the Rules governing the work of HSE d.o.o.'s management, pursuant to which it

adopted the division of responsibilities for individual business fields between management members, management's activities, and work and decision-making methods; it also adopted changes to and the consolidated version of the Rules governing the work of HSE d.o.o.'s Supervisory Board;

- the Supervisory Board discussed periodic reports on the operations of HSE d.o.o. and the HSE Group, and was acquainted with the concept of the functioning of HSE's international network, the way individual companies, branch offices and representative offices operate, and with integration in trading activities of the parent company;
- the Supervisory Board was regularly informed of the progress on the project TE-TO Rousse, Bulgaria, approving the signing of contracts for the purchase and sale of TE-TO Rousse shares, and giving a preliminary approval for the signing of contracts for the sale or intermediary services in the sale of electricity produced at Toplofikatsia Ruse EAD;
- the Supervisory Board was notified of all technical and financial information regarding production facilities construction and renovation projects of the HSE Group, and approved the selection of equipment suppliers and construction contractors;
- pursuant to the Articles of Incorporation of the limited liability company Holding Slovenske elektrarne, the Supervisory Board gave preliminary approvals for trading and other legal transactions, and for establishment of new companies and branch offices;
- the Supervisory Board approved the acquisition of interests held by minority company members in SENG d.o.o. and TET d.o.o.;
- the Supervisory Board discussed the materials for HSE d.o.o.'s General Meeting, and approved the management's resolutions prepared for the founder;
- the Supervisory Board approved the division and take over contract signed by HSE d.o.o. and GEN energija d.o.o., and gave a preliminary approval for the signing of a letter of intent to establish a limited liability company Hidroelektrarne na spodnji Savi d.o.o., and a preliminary approval for the signing of a contract of members establishing a limited liability company Hidroelektrarne na spodnji Savi d.o.o.;
- at the initiative of the Supervisory Board, the management and the marketing division presented options and methods for risk management in the area of electricity trading, which resulted in a thorough consideration of the actual impact of preceding electricity sales on operations in 2008 and after;
- the Supervisory Board was acquainted with the management letter received from KPMG Slovenija d.o.o. concerning the audit of financial statements for 2006, noting that all recommendations were taken into account;
- the Supervisory Board was informed of the proposed reorganisation of the HSE Group and time schedule prepared on the basis of guidelines for HSE's strategic development and a comparative analysis of the organisation of European energy companies; in connection with this, a team of experts was established on the Supervisory Board's proposal, which is to provide concrete answers on economic, social, legal, financial and ownership aspects of the reorganisation;
- the Supervisory Board was informed of the basic elements of HSE d.o.o.'s business plan and of procedures for the preparation of the 2008 business plans of HSE Group companies;
- the Supervisory Board enlarged HSE's audit committee from four to five members, appointing Alojz Stana as the fifth member.

In 2007 the audit committee of HSE's Supervisory Board held twelve meetings at which it discussed legally defined matters as well as the following issues and matters for which it is responsible under special resolutions of the Supervisory Board: return on equity analysis, project TE-TO Rousse, Bulgaria, professional and financial information regarding projects for the construction and renovation of production facilities of the HSE Group, Rules governing the work of HSE's management, Rules governing the work of HSE's Supervisory Board, spin-off of equity investments of HSE d.o.o. in Savske elektrarne Ljubljana d.o.o. and Termoelektrarna Brestanica d.o.o. to GEN energija d.o.o., and controlling of risks existing in the electricity market.

The work of the Supervisory Board and the audit committee was quite extensive in 2007 as a result of amendments to the Articles of Incorporation as well as of the strategy of intensified market presence and changed operating conditions. The Supervisory Board estimates that reports, information and analyses prepared by management were appropriate and accurate, and were also further explained by management, or occasionally by preparers, at meetings. The Supervisory Board thus obtained good insight into all important areas of operation, enabling it to perform, without interruptions, its functions of monitoring and controlling of transactions and operations of the company HSE within the scope of its powers and competences laid down by the Articles of Incorporation.

1.4.2 Verification of the annual report and view on the audit report

Taking into account the review of audit reports, assessment of the Supervisory Board's audit committee, and explanations given at Supervisory Board meetings, the Supervisory Board of HSE d.o.o. raised no objections to the audit reports. On the basis of the regular monitoring of operations of HSE d.o.o., unqualified audit opinions, good operating result of HSE d.o.o. and the HSE Group, the achieved objectives set in the business plan for the year 2007, and in line with its competences, the Supervisory Board of HSE d.o.o., after the final review, raises no objections to and approves the Annual Report of HSE d.o.o. and the HSE Group for the year 2007.

1.4.3 Determination and proposed allocation of accumulated profit

The company Holding Slovenske elektrarne d.o.o. ended the financial year 2007 with net profit € 12,411,197.28.

At its 25th regular meeting held on 5 March 2008, the Supervisory Board agreed with the management's proposal that half of net profit in the amount of € 6,205,598.64 should be used for the creation of other revenue reserves already during the preparation of financial statements for the year 2007.

The remaining net profit represents the accumulated profit of the year 2007 amounting to € 6,205,598.64.

Based on strategic objectives and investment policy, the Supervisory Board of HSE d.o.o. agrees with the management's proposal to the owner that the accumulated profit of € 6,205,598.64 should be used in its total amount for the creation of other revenue reserves. Further on, the Supervisory Board proposes to the General Meeting that a discharge from liability be granted to management board for operations in the year 2007.

The Supervisory Board of HSE d.o.o. prepared the report in accordance with Article 282 of the Companies Act. The report is intended for the company's General Meeting.

Alojz Stana, M.Sc.
President of the Supervisory Board
Holding Slovenske elektrarne d.o.o.

Ljubljana, 14 May 2008

1.5 Significant events in the HSE Group in 2007

January

- The euro, the single currency of the EU, becomes legal tender in the Republic of Slovenia on 1 January 2007.
- DEM becomes the best company in the city of Maribor for the second time.
- TEŠ begins to introduce information management system in conformity with the ISO 27001:2005 standard.
- PV gets new corporate image.

February

- According to a decision of the Government of the Republic of Slovenia, TET is entitled to a premium equalling € 37.0555 per MWh of electricity which is produced from a compulsory quantity of coal extracted from Trbovlje-Hrastnik Mine. Using the above quantity of lignite, TET produces 467 GWh of electricity which is dispatched on a priority basis.
- SENG drains the reservoir of HPP Plave (the Ajba reservoir) due to the construction of a temporary separation barrier intended to protect the construction pit of PSP Avče intake/outlet tunnel.

March

- HSE increases the capital of the subsidiary HSE Adria.
- Djordje Žebeljan becomes new member of TEŠ's Supervisory Board and is later elected president of the Supervisory Board.
- HSE Adria obtains a licence for trading, distribution and representation at the electricity market.
- On 16 March, HSE's capital is increased by way of contributions in kind consisting of the Republic of Slovenia's 80.34 % stake in TET and the Republic of Slovenia's 0.14 % stake in DEM.
- DEM is transformed from a multi-member company into a single-member company.

April

- New control centres of HSE and DEM are officially opened in Maribor. The opening of the two centres represents one of the most important events of the Slovene energy industry.
- Pursuant to strategic orientations pertaining to the privatisation of the Slovene electricity industry, which had been adopted by the Government of the Republic of Slovenia at its 84th regular session on 27 July 2006 and which impose on HSE the purchase of remaining stakes in the HSE Group companies, contracts for the purchase of minority interests in the company SENG were signed in April. At the beginning of 2007, with the approval of the Ministry of the Economy and the Ministry of Finance of the Republic of Slovenia, HSE took out a long-term loan of € 29 million to partly finance the purchase. The remaining share of this strategically important purchase was financed from own funds in the form of proceeds from the sale of shares of Nova Ljubljanska Banka d.d. The Supervisory Board of HSE d.o.o. approved the purchase. Consequently, HSE purchased a 16.5 % stake from SENG's minority company members, thus becoming a 98 % owner of the company (the remaining 2 % were acquired in August). The purchase represents an important step towards capital consolidation of the HSE Group and a uniform image of the HSE Group companies.
- DEM successfully closes negotiations over the selection of the best bidder to widen HPP Zlatoličje tailrace channel.
- After four years of operation, a large-scale overhaul of Unit 5 begins at TEŠ.

May

- At its 14th session, the Supervisory Board of HSE approves the 2006 annual report of HSE d.o.o. and the HSE Group.
- The Ministry of the Economy of the Republic of Slovenia supports the project to acquire the Bulgarian company Toplofikatsia-Ruse, thus making significant progress towards the acquisition of the energy company. HSE has been developing this project since September 2006.
- A change in HSE's nominal capital is entered into the Court Register.

June

- HSE increases the capital of the subsidiaries HSE Hungary and HSE Italia.
- The Ministry of the Environment and Spatial Planning organises a public presentation of the final design of PSP Kozjak and transmision line between the pumped storage plant and DTS Maribor for representatives of the municipalities Selnica ob Dravi, Maribor and Pesnica.
- At TEŠ, where as much as half of Slovenia's electricity output is produced in the dry season, the overhaul of Unit 5 is successfully completed. In 2006 the unit produced half of TEŠ's total electricity output which amounts to 3,750 GWh. During a nine-week shutdown period, all works that are necessary for a safe and reliable future operation were performed, improving energy efficiency and reducing nitrogen oxide emissions at the same time. Furthermore, particular attention was given to setting up connection points for the fitting of additional gas turbines to the unit. This was one of the most difficult overhauls to date, which is why preparations had begun as early as 2005. The fact that at a certain point as much as 900 workers had been working at the site proves how extensive the works really were. The length of this overhaul was subject to turbine and unit overhaul. Because during the overhaul HSE received 25 percent less electricity, the time of the overhaul had been carefully planned – in May and June when electricity is no longer needed for heating, while cooling which is typical of summer months is not yet required.
- The transitional period ends at the end of June, with the possibility of cross-border transfer capacities being allocated on EU internal borders on a pro rata basis.

July

- On 1 July 2007 household customers become active electricity market participants and can choose their suppliers.
- HSE purchases KAD's 0.99 % stake in TET, thus becoming an 81.33 % owner of the Trbovlje-based thermal power plant.
- TEŠ selects a supplier of main technological equipment for Unit 6.
- The General Meeting of TET amends the contract of members and appoints a new three-member Supervisory Board. Uroš Rotnik, Ph.D., becomes chairman.
- The Velenje Coal Mine celebrates the 47th "Jump over the skin". In addition to Milan Medved, Ph.D., the honorary jumper, 66 novices jump over the skin. Jože Zagožen, Ph.D., is the keynote speaker.
- On 12 July, general managers of HSE and GEN energija conclude a contract to divide and take over HSE.

August

- HSE and the Republic of Bulgaria sign a contract regarding the purchase a 100 % stake in Toplofikatsia-Ruse. The purchase is line with HSE's strategic orientation of becoming a leading electricity trader in SE Europe. This area represents an important area for the expansion of business activities in terms of position and connections with Slovenia. Moreover, such orientation ensures stable and affordable electricity supply to Slovenia. By signing the above contract, HSE secured the right to trade in electricity from the power plant. The purchase of Toplofikatsie-Ruse is a project that kept a number of experts busy for months. By signing the contract, a long-lasting negotiation procedure, which started back in August 2006 when HSE applied for the second and re-issued tender invitation of the Bulgarian Privatisation Agency and then competed for the purchase of Toplofikatsia-Ruse with the companies Dalkia International and E.ON Energie AG, was brought to an end. On 17 November 2006 HSE submitted a proposal and on 6 December 2006 the Bulgarian Privatisation Agency announced, in a special decision, that HSE's bid had been the chosen as the best. In January 2007 the Agency started negotiations with HSE to close an agreement for the purchase of a 100 % stake in Toplofikatsie-Ruse.

- SENG is transformed from a multi-member company into a single-member company.
- A contract to construct a reservoir of HPP Blanca, which is the second in the chain of five newly constructed hydropower plants on the lower Sava River, is signed. This falls under the so-called first tender segment. At the same time, a contract is signed for the construction of a bridge over HPP Blanca's dam.
- At the founding session of DEM's Supervisory Board, Boris Novak is elected president.
- After the resignation of Evgen Dervarič, Ph.D., PV's Supervisory Board appoints Milan Medved, Ph.D., the company's new general manager.

September

- Alojz Stana becomes new president of HSE's Supervisory Board.
- The Government of the Republic of Slovenia gives discharge to HSE's general manager and Supervisory Board for the business year 2006.
- SENG concludes another loan agreement with EIB on 27 September 2007. The purpose of the loan in the amount of € 13 million is to finance the construction of PSP Avče. This is the second loan taken out with EIB to finance this project. EIB had already granted a loan of € 43 million in 2006.
- The National Assembly of the Republic of Slovenia passes the Act Amending the Act Governing the Conditions of the Concession for the Exploitation of Energy Potential of the Lower Sava River, which provides for the transfer of the concession to the new company.
- At TEŠ, a supplier of main technological equipment for Unit 6 is selected and a retainer contract signed.
- Company members of HSE Invest increase the company's capital.
- The consortium of construction companies working on the first Slovene pumped storage plant, Avče, break through the inlet tunnel at Kanalski Vrh.
- HSE and Slovene electricity distribution companies – Elektro Celje, Elektro Gorenjska, Elektro Ljubljana, Elektro Maribor and Elektro Primorska – launch the "Energy saving light bulb in every home" campaign.
- Company members of HSE Invest increase the company's capital.

October

- TEŠ signs a € 350 million loan agreement with EIB for the construction of a 600 MW steam turbine unit No. 6.
- In Bulgaria, HSE establishes the subsidiary company HSE Bulgaria.
- In Lipica, the 5th strategic conference of the HSE Group is held. Alongside leading experts from the Group's companies, the conference was also attended by Andrej Vizjak, Slovene Minister of the Economy, and Igor Šalamun, Ph.D., Director of the Energy Directorate.

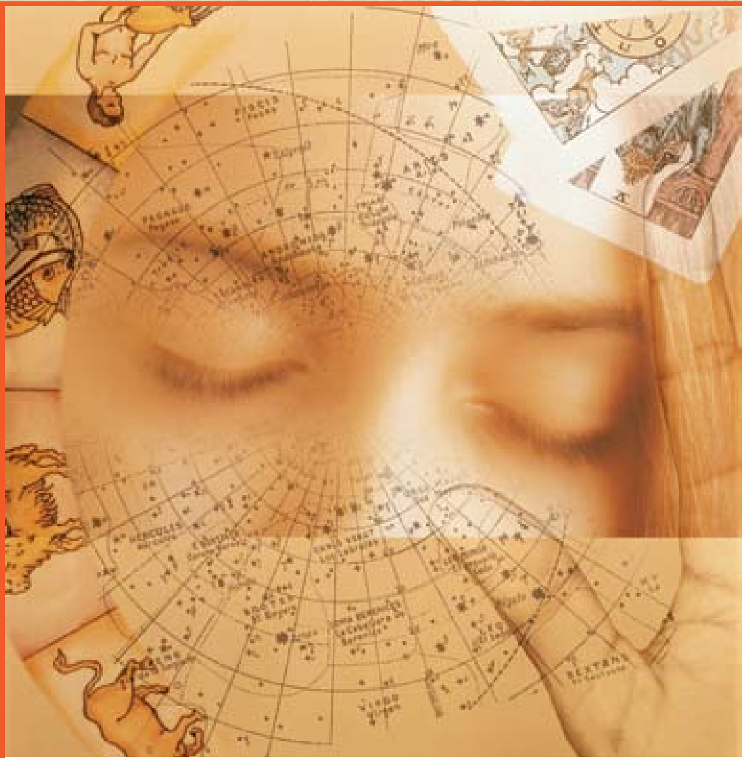
November

- On 8 November the spin-off of SEL and TEB is entered into the Court Register. The spin-off was accounted for on 31 December 2006.
- HSE establishes a representative office in Romania.

- SENG celebrates 60 years of operation.
- A partial building permit is obtained for PSP Avče's connecting transmission line.
- At the conference "Educational Management 2007", PV receives the TOP 10 award for the tenth consecutive year. PV is thus ranked among 10 Slovene companies which systematically make the highest investments in knowledge, education and training of employees.
- Simon Tot becomes president of PV's Supervisory Board.

December

- HSE increases the capital of the subsidiary TEŠ by € 21 million.
- PV marks 100 years of cave rescue service.
- As part of overhaul at HPP Zlatoličje, a 90-tonne driver is installed.
- A contract concerning PSP Avče connecting transmission line is signed.
- With a prior approval of the Bulgarian Post-privatisation Agency and a positive decision of the Bulgarian Competition Protection Office, HSE sells a 49 % stake in the company Toplofikatsia-Ruse to the company Mechel. The participation of a strategic partner is the best solution as far as project management is concerned because it embodies optimum cooperation between a coal producer on the one hand and an electricity trader on the other. The decision to approach the project with the help of a strategic partner seems to be a logical result of conditions under which the power plant operates, and leads to a reduction or near elimination of risks associated with the investment.
- The companies HSE, DEM, SEL, SENG, TEB and GEN energija sign a Letter of Intent to establish the company Hidroelektrarne na spodnji Savi d.o.o.



I AM GIVING AWAY a business astrology chart for a company established in 2001.

It hasn't been used, and it looks brand new. Everything goes smoothly according to the plans in our company, so we don't consult it. If you need celestial advice, send your address to info@hse.si and our secretary will send you the chart, together with astrologer's explanation and advice, by post.

02

BUSINESS REPORT

2.1 Controlling company HSE

2.1.1 Profile of the controlling company

Company profile of Holding Slovenske elektrarne d.o.o.		
Full company name		Holding Slovenske elektrarne d.o.o.
Abbreviated name		HSE d.o.o.
Legal form		limited liability company
Address		Koprska ulica 92,1000 Ljubljana, Slovenia
Telephone		+386 (0)1 470 41 00
Fax		+386 (0) 1 470 41 01
Entry No.		1/35036/00, with the District Court in Ljubljana
Nominal capital		€ 29,558,789.00
Size		large company
Ownership structure		100 % by the Republic of Slovenia
Year of establishment		2001
Transaction accounts	NKBM:	SI56 0430 2000 0317 271
	UNICREDIT BANKA:	SI56 2900 0005 5093 917
	HYPO ALPE ADRIA:	SI56 3300 0000 2191 609
	NLB:	SI56 0292 4025 4805 996
	SKB:	SI56 0316 0100 0590 766
Joint venture transaction account		04302 - 0001020424
Tax number		99666189
VAT ID number		SI99666189
Registration number		1662970
Website		www.hse.si
E-mail		hse@hse.si; info@hse.si
Company management		Jože Zagožen, Ph.D., Damijan Koletnik
Management assistants		Metod Podkrižnik, M.Sc., Viljem Pozeb, M.Sc.
President the Supervisory Board		Alojz Stana, M.Sc.

Articles of Incorporation

The Government of the Republic of Slovenia adopted the Articles of Incorporation of the limited liability company Holding Slovenske elektrarne d.o.o. in its 38th session held on 26 July 2001.

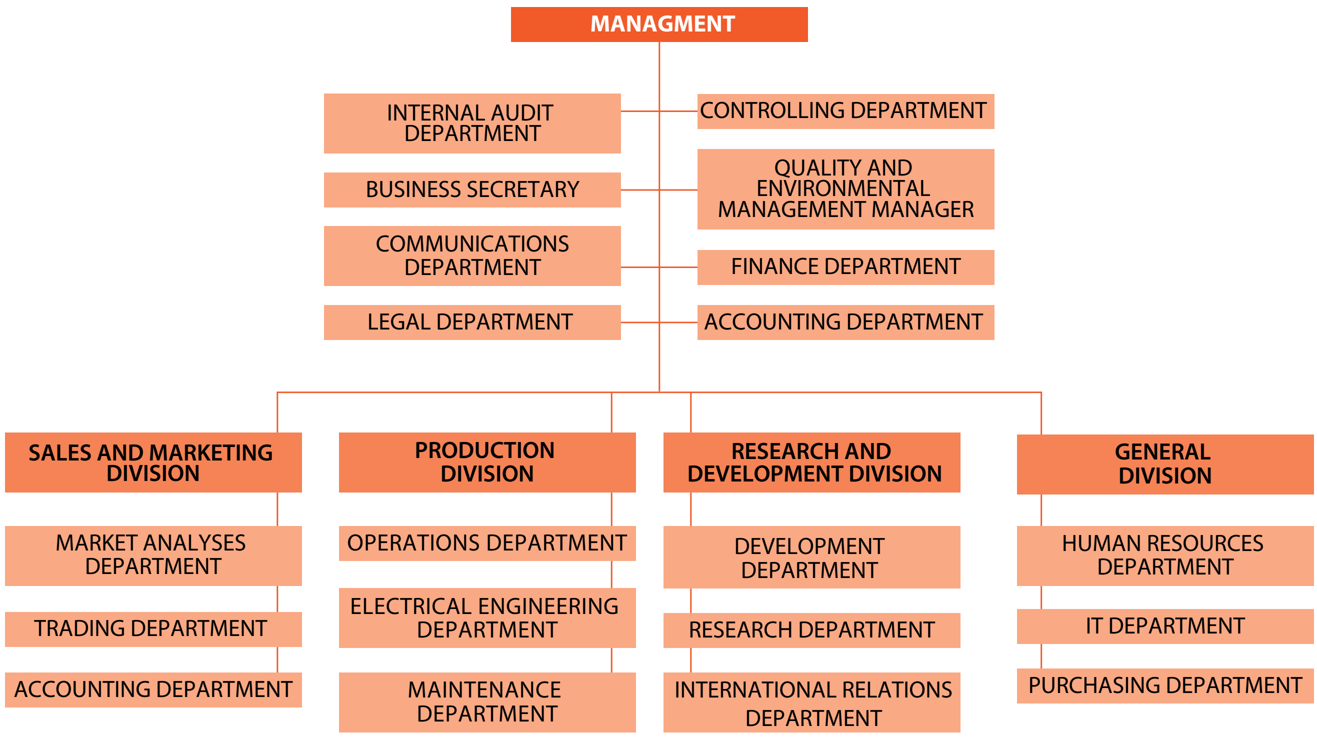
HSE was established with a view to:
- provide for uniform market appearance of the companies integrated in the holding company as regards the sale of electricity,
- improve the competitiveness of Slovene power generation companies,
- implement the construction of hydropower plants on the lower Sava River.

Ownership structure

In HSE, the Republic of Slovenia agglomerated its shares in individual companies integrated in the holding. The currently applicable version of HSE's Articles of Incorporation is dated 27 September 2007.

The company's nominal capital consists of the contribution of a sole company member. On this basis, the Republic of Slovenia owns one stake in the company. HSE is fully owned by the Republic of Slovenia.

2.1.2 Organisational structure of the controlling company



HSE d.o.o. is the controlling company of the HSE Group. It is based in Ljubljana and has business establishments in Maribor, Velenje, Nova Gorica and Sevnica. Business functions are divided by places where various advantages can be gained. Management, sales and marketing division, research and development division, general division, the departments of internal audit, public relations, legal affairs, controlling, finance and accounting are located in Ljubljana. The production control centre, investment sector and telecommunications are in Maribor. The business establishment in Velenje is in charge of the domestic market, trade relations among the group companies, monitoring and calculation of deviations, long-term planning and electricity invoicing. The establishment in Nova Gorica is responsible for foreign markets, and the establishment in Sevnica for the activities related to the construction of hydropower plants on the lower Sava River.

2.1.3 Management of the controlling company

As the only owner, the Republic of Slovenia manages the controlling company directly and through the Supervisory Board and management.

Bodies of the controlling company as at 31/12/2007

GENERAL MEETING	SUPERVISORY BOARD	MANAGEMENT
Company members	Owner representatives	Jože Zagožen, Ph.D.
Republic of Slovenia	Alojz Stana, M.Sc. (president)	Damijan Koletnik
(100 % stake)	Andrej Aplenc, M.Sc. (vice-president)	
	Franci Bogovič	
	Franc Ervin Janežič	
	Janez Požar	
	Franci Križanič, Ph.D.	
	Employee representatives	
	Branko Sevčnikar	
	Miran Božič	
	Boštjan Jančar	

In order to assure complete transparency of the operation of HSE d.o.o. and the HSE Group, the Supervisory Board of HSE appointed an audit committee at its 5th regular session held on 9 June 2006.

In 2007 the audit committee's composition was as follows:
- Franci Križanič, Ph.D., Chairman,
- Andrej Aplenc, M.Sc.
- Branko Sevčnikar,
- Alenka Podbevšek, independent expert in accounting.

Alojz Stana, M.Sc., joined the audit committee in December 2007.

The main tasks of the audit committee are:
- to review interim reports and prepare opinions,
- to review annual reports of HSE d.o.o. and the HSE Group, and prepare opinions,
- to cooperate with auditors when financial statements and annual reports of HSE d.o.o. and the HSE Group are audited,
- to perform other tasks proposed by the Supervisory Board.

2.1.4 Statement on the management of HSE d.o.o.

Pursuant to the provisions of Article 70(5) of the Companies Act (ZGD-1), we declare that the company has been managed in accordance with applicable legal standards and Articles of Incorporation of the limited liability company Holding Slovenske elektrarne d.o.o. that the Republic of Slovenia as the founder and sole member of Holding Slovenske elektrarne d.o.o. adopted on 27 September 2007, and in conformity with good business practice.

Under the Articles of Incorporation, the management of the company is conducted directly through the founder and company bodies, i.e. the Supervisory Board and management.

The founder independently decides on the following issues:
- changes and amendments to the Articles of Incorporation,
- adoption of business policy bases and development plan of the company,
- adoption of the annual report, when the Supervisory Board has not approved it and when the management and the Supervisory Board leave the decision on the adoption of the annual report to the founder,
- allocation of accumulated profit,
- giving discharge to management and the Supervisory Board,
- division and elimination of ownership interests,
- changes in the nominal capital of the company,
- status changes and dissolution of the company,
- election and discharge of members of the company's Supervisory Board,
- appointment of an auditor,
- appointment of the procurator and other authorised persons,
- other issues in accordance with regulations and the Articles of Incorporation.

Pursuant to Article 526 of the Companies Act, the founder enters its decisions in the register of decisions.

The Supervisory Board consists of 9 members: 6 members who represent the interests of the owner and are appointed and discharged by the owner, and 3 members who represent the interests of employees and are appointed under the Worker Participation in Management Act. Members of the Supervisory Board are appointed for a term of four years and can be re-appointed when their term of office expires. Pursuant to the Articles of Incorporation, the Supervisory Board is competent for the following matters:
- supervision over the management of the company,
- review of the structure of the annual report and proposal for distribution of the accumulated profit,
- drawing-up a report on the results of the review of the annual report to be submitted to the founder,
- approval of the annual report or making comments thereto,
- expression of opinion on the business policy bases and the company's development plan,
- agreement with the business plan of the company,
- proposal of resolutions falling within the founder's area of competence for the founder's approval, or expression of opinions on the proposals made by management and accepted by the founder,
- appointment or removal of management,
- conclusion of employment contracts with management,
- agreement with management about decision-making at general meetings of subsidiaries in the case of changes in the status or equity,
- adoption of the rules of procedure relating to the work of the Supervisory Board,
- possibility to request reports on other issues, and
- approval of any legal transactions exceeding 10 % of the company's nominal capital other than electricity trading transactions executed through trading portals and commodity exchanges.

The Supervisory Board can also perform other tasks stipulated in regulations, the company's documents and the founder's decisions.

The Supervisory Board appointed an audit committee to ensure even greater transparency of the company's and the Group's operations.

The company is run by management, which comprises two members – general managers. They are appointed by the Supervisory Board. After the expiry of the term, general managers can be re-appointed. In accordance with provisions of the Articles of Incorporation, management represents and runs the company in accordance with goals, strategy and guidelines, and on its own responsibility. The division of responsibilities for individual business fields between management members, management's activities, competences, and work and decision-making methods are determined in accordance with rules governing the work of management as adopted by the Supervisory Board.

Holding Slovenske elektrarne d.o.o. follows no particular code in its operation.

Jože Zagožen, Ph.D.
Director of HSE

Damijan Koletnik
Director of HSE

Ljubljana, 31 March 2008

2.2 Profile of the HSE Group

Integrated diversity

HSE is the largest Slovene organisation operating in the field of electricity, and the largest electricity producer and trader in Slovenia's wholesale market. United under a single brand – the HSE Group – hydropower plants, thermal power plants and a coal mine together produce a large part of electricity in Slovenia. Through distribution, which consists of a combination of various resources, HSE plays a key role in ensuring secure, reliable and high-quality supply to domestic customers.

A uniform market appearance of HSE Group companies ensures that the HSE Group benefits from improved market competitiveness, optimum use of production capacities given the existing market conditions, mitigation of negative financial effects related to production shortfalls, comprehensive supply of electricity products, reduced risks on entering into long-term contracts, and better chances to penetrate foreign markets.

Since its establishment, HSE has become a driving force in the development of the Slovene electricity industry and through its constant growth and expansion to European markets on a par with the largest and the best competitors in its sector.

The HSE Group is primarily engaged in the management of energy and the environment, and in the controlling of related processes and risks. This broad range of activities can be grouped into the following main categories:

- production of electrical and thermal energy,
- mining of lignite,
- sales and trading in electrical and thermal energy, electricity futures, CO_2 emission coupons, RECs and gas,
- optimisation of production of the HSE Group,
- provision of system services needed for the operation of the electrical energy system,
- management and implementation of energy and environmental projects.

Primary activities of the Group

The core business of the Group pertains to the production of and trade in electricity, which is why, with the objective of maximising performance, the HSE Group endeavours to take advantage of synergies associated with a wide spectrum of production capacities. Because operating and cost-related characteristics of individual generation plants differ, the cost-effective production of electricity supply can be achieved through their appropriate combination. And since electricity market prices fluctuate over time, the planning and optimisation of production units, while observing technical criteria and conditions in the electricity market, is all the more important.

HSE Group

In 2007 the HSE Group was comprised of the following companies:

- Holding Slovenske elektrarne d.o.o. as the controlling company,
- Dravske elektrarne Maribor d.o.o. with a subsidiary,
- Soške elektrarne Nova Gorica d.o.o. with a subsidiary,
- Termoelektrarna Šoštanj d.o.o. with an associated company,
- Termoelektrarna Trbovlje d.o.o.,
- Premogovnik Velenje d.d. with six subsidiaries and six associated companies,
- PPE Kidričevo as an associated company,
- HSE Invest d.o.o.,
- HSE Italia S.r.l.,
- HSE Balkan Energy d.o.o.,
- HSE Hungary Kft,
- HSE Adria d.o.o.,
- HSE Bulgaria EOOD,
- Toplofikatsia-Ruse EAD.

Investment in Toplofikatsio-Ruse

The company Toplofikatsia-Ruse is not consolidated. In 2007 the company HSE purchased a 100 % stake in the company Toplofikatsia-Ruse, selling 49 % of it in the same year. The company still holds 51 % of voting rights for the remaining 51 % stake, but due to higher majority that is required in order to adopt a decision, it cannot make strategic decisions without the approval of the other owner. Such decision-making conditions also apply to the co-owner. In 2007 HSE launched activities to sell the 51 % interest, meaning it no longer has profit participation rights.

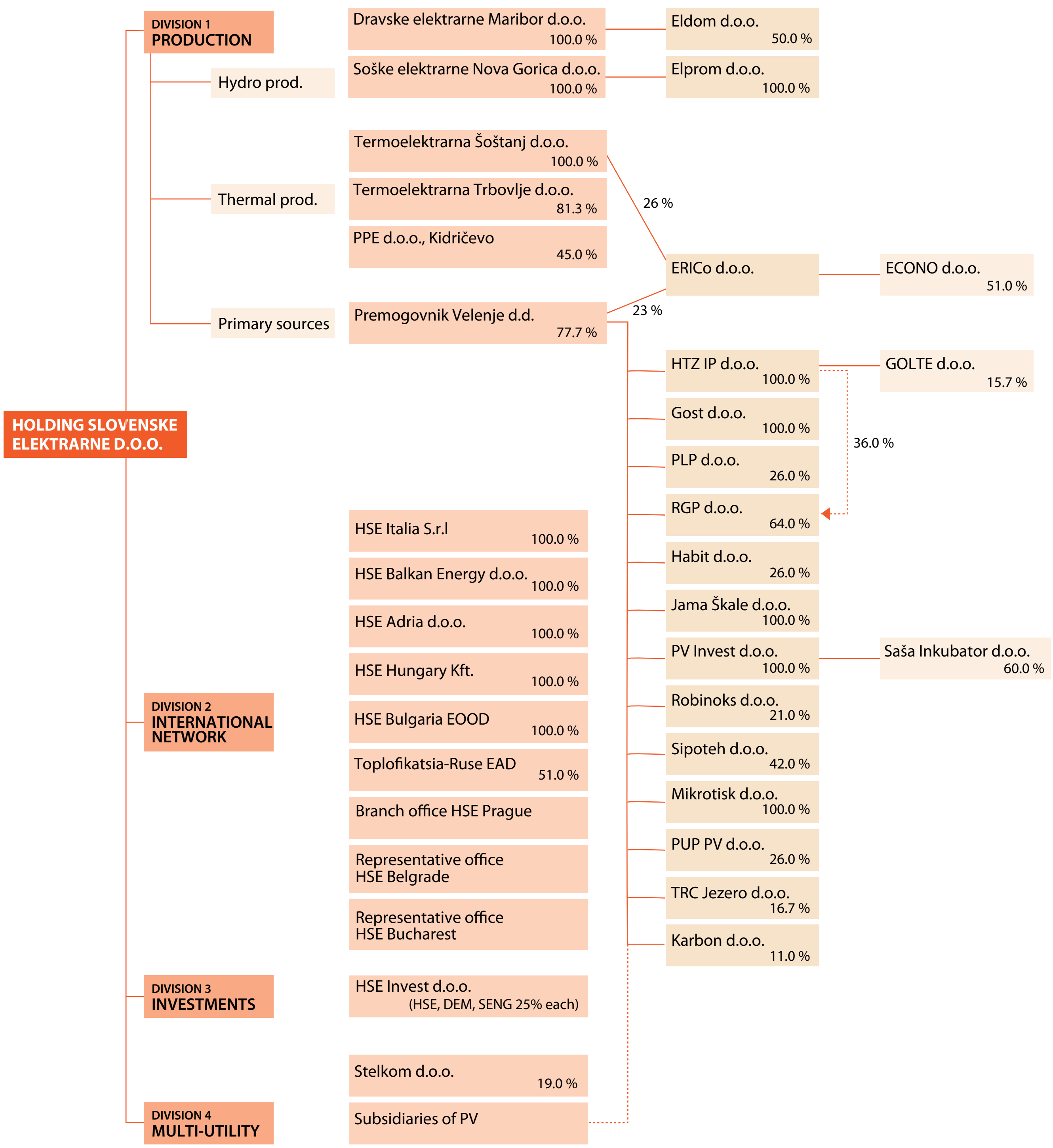
Spin-off of SEL and TEB

At its 99th regular session, the Government of the Republic of Slovenia adopted a decision according to which management of HSE and GEN energija were instructed to carry out the procedure for transferring equity investments in HSE to SEL and TEB under the spin-off procedure consisting of a spin-off and acquisition. HSE was the transferring company and GEN energija the acquiring company. 31 December 2006 was set as the spin-off and acquisition date. The spin-off was carried out due to the owner's desire to increase competition in the Slovene electricity market, in accordance with the European directive concerning common rules for the internal market in electricity.

On 12 July 2007, general managers of HSE and GEN energija concluded a contract to divide and take over HSE, and appendices thereto. Pursuant to provisions of the Government's decision on the spin-off procedure, both companies sent their reports on activities undertaken as part of the spin-off procedure to the Government on 16 July 2007.

In conformity with provisions of the Companies Act (ZGD-1), the Supervisory Board of HSE prepared on 30 August 2008 a progress report on the spin-off of equity investments in SEL and TEB. During the review, the Supervisory Board found no irregularities, shortcomings or inaccuracies in the spin-off procedure or in the Spin-off and acquisition contract, making no remarks on them and agreeing with them. The spin-off was entered into the Court Register on 8 November 2007.

HSE Group as at 31 December 2007



DIVISION 1
PRODUCTION

Hydro prod.

Dravske elektrarne Maribor d.o.o. 100.0 % — Eldom d.o.o. 50.0 %

Soške elektrarne Nova Gorica d.o.o. 100.0 % — Elprom d.o.o. 100.0 %

Dravske elektrarne Maribor d.o.o. (DEM)

DEM is the largest Slovene producer of electricity from renewable sources, and a centre for operational control of the HSE Group's overall electricity production. All power plants account for 25 % of total demand for electricity in Slovenia, and the threshold power amounts to 576 MW (run of river).

With eight hydropower plants on the Drava River and two small hydropower plants, the company produces as much as 80 % of the Slovene electricity which satisfies the criteria of renewable energy sources and the standards of the internationally recognised RECS certificate. High-quality hydrology is ensured in an environmentally friendly way and in line with the principles of sustainable development.

Eldom d.o.o.

A subsidiary of DEM. The company's activities include property management, organisation of meals in restaurants and management of holiday facilities of the electricity industry in Slovenia.

Soške elektrarne Nova Gorica d.o.o. (SENG)

With its total threshold power of 155 MW, SENG is in charge of optimal exploitation of water potential of the Soča River, its tributaries and other renewable sources, in consideration of environmental conditions and demands of space users. At the level of the HSE Group, the control centre in Nova Gorica is responsible for the provision of optimal and high-quality production of all power plants on the Soča River.

In addition to energy exploitation planning, the company combines interests of the area – it seeks opportunities to exploit the area for multiple purposes relating to water management, water supply, fish breeding, fishing, tourism and recreational activities. By combining and harmonising all interests, not only the wider area is improved, but above all the opportunities for a comprehensive demographic and environmental development are created. Local communities thus enjoy more opportunities to undertake additional activities, improved public infrastructure, better landscaping and stable slopes.

The construction of PSP Avče at Banjšice Plateau is the first project of its kind in Slovenia. The power plant will contribute to the production of peak energy required by the Slovene electricity system, and to the existing production capacity of SENG and HSE. In addition to the above advantages, PSP Avče plays an important role in the regional and urban development of the area, and in ensuring higher employment rates in the local economic sector, promoting economic development of the area, and developing Banjšice Plateau through the promotion of tourism at Kanalski Vrh.

Elprom d.o.o.

A subsidiary of SENG, established with the purpose of trading in electricity. The company is dormant.

Thermal prod.

Termoelektrarna Šoštanj d.o.o. 100.0 %

Termoelektrarna Trbovlje d.o.o. 81.3 %

PPE d.o.o., Kidričevo 45.0 %

26 % — ERICo d.o.o. — ECONO d.o.o. 51.0 %

Termoelektrarna Šoštanj d.o.o. (TEŠ)

With the capacity of 870 MW on the unit and threshold power of 672 MW, TEŠ is the largest production facility among the HSE Group companies. It produces approximately a third of energy in the country, in critical periods it can meet more than half of the national demand. Besides electrical energy, it produces thermal energy which is then supplied to the major part of the Šalek Valley. The power plant, which utilises lignite from the nearby Velenje Coal Mine as the basic fuel, consists of five production units and two thermal stations. In terms of its output, the operation of TEŠ is comparable to equivalent European thermal power plants, but exceeds their operating unit availability.

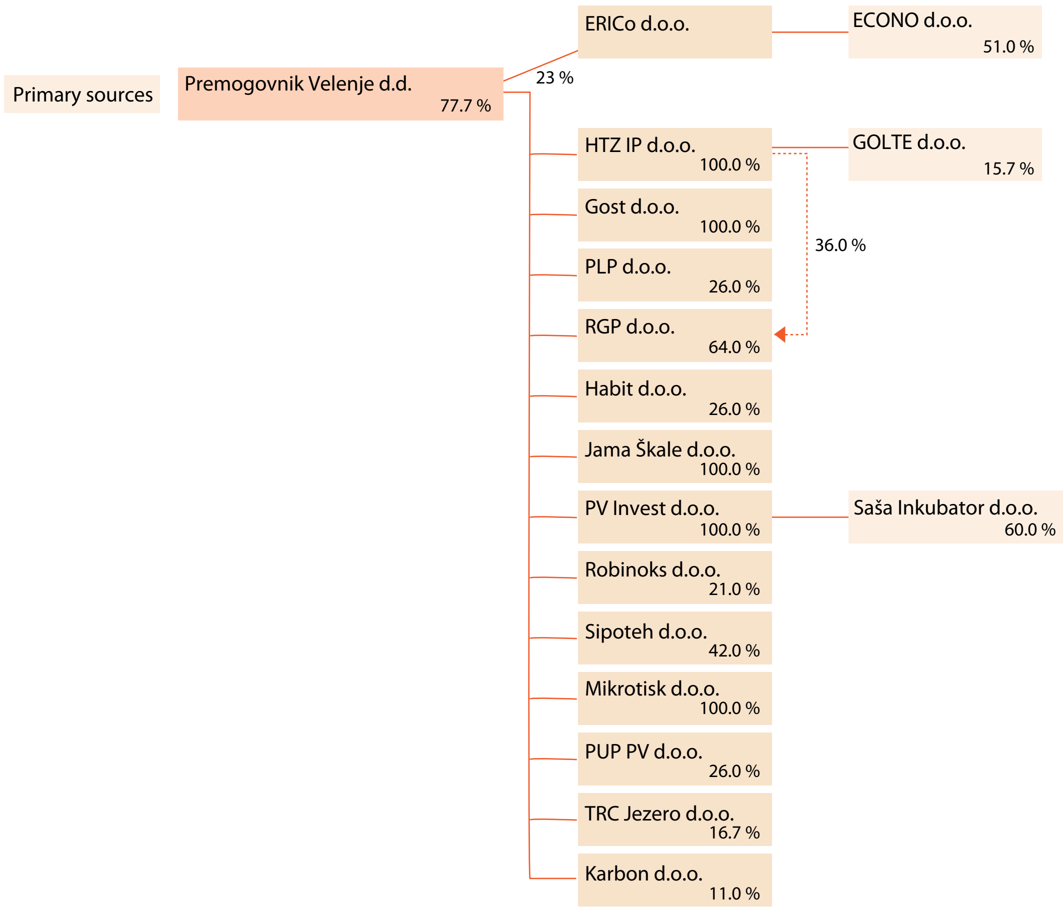
Termoelektrarna Trbovlje d.o.o. (TET)

TET is one of the two power plants in Slovenia that produce electricity from domestic coal. It has a long tradition and experience, with the first kilowatt hours of electricity produced there dating back to 1906. TET is the largest energy production plant in the Zasavje region. In the past, TET and Zasavje coal mines have provided significant support for the development of industry, crafts and transportation in Zasavje and Slovenia as a whole.

The thermal power plant has two production units: a steam turbine unit with a rated capacity of 156 MWh, which uses lignite from Zasavje coal mines as fuel, and two gas turbine units with the total rated capacity of 2 x 34 MWh, which are extra-light-heating-oil-fired and act as a backup for the Slovene energy system. The plant's annual electricity output is close to 600 GWh, with total threshold power amounting to 168 MW.

Plinsko parna elektrarna d.o.o. (PPE)

The 800 MW gas and steam power plant in Kidričevo, a joint venture of the companies HSE, Verbund and Talum, is currently in an pre-investment phase, and a basis for a decision regarding the continuation of the project is being prepared. The power plant is to be fitted with the latest technology that would ensure low NO_x emissions. Because natural gas is used as fuel, the plant would also emit low CO_2 emissions, which is in conformity with international criteria for environmentally friendly operation, imposed on Slovenia by the Kyoto protocol.



Premogovnik Velenje d.d. (PV)

The Velenje Coal Mine is a technologically advanced mine that can be ranked among the most modern and safe mines in Europe. Its particularity – the "Velenje long wall method" – is known all over the world. Owing to its productivity, this method is the most efficient for the extraction of thick coal layers, but it also enables filling and consolidation of the extraction area.

The quantity of the coal mined in the Velenje Coal Mine is subject to the plans of the Slovene electricity sector; annually, it amounts to approximately 4 million tons of lignite on average, and the entire quantity is intended for the needs of TEŠ. In addition to coal extraction, PV pursues numerous other activities, such as underground and aboveground extraction planning from the aspect of mining, machinery and eletricity, designing all types of underground constructions, drilling, geomechanical research, cave surveying, hydrogeological and technological services. Modern technical equipment and high professional level of staff ensure safety of employees and high productivity that is a basis for a competitive price of coal and, consequently, for competitively priced TEŠ's and the HSE Group's electricity.

HTZ I.P. d.o.o.
HTZ I.P. d.o.o. is the largest disability company in Slovenia. It is involved in the production, servicing and maintenance of products, equipment and installations. It is particularly distinguished by its rich experience and expertise in the maintenance and servicing of various mining devices. The company plays an important role in the training and employment of disabled persons.

Habit d.o.o.
Habit d.o.o. is a real estate company which is specialised in property management. In addition to this, it handles organisation and management of specialist construction and installation works for residential and other civil engineering projects.

PLP d.o.o.
PLP d.o.o. provides timber products for the needs of the mine. In order to ensure maximum safety, the products supplied have to meet the highest quality standards.

PUP PV d.o.o.
PUP PV d.o.o. is a company involved in cleaning and landscaping.

Mikrotisk d.o.o.
Mikrotisk d.o.o. is a company performing services in the field of micro printing.

Karbon d.o.o.
Karbon, čiste tehnologije d.o.o., was founded in 2002 and is engaged in the carbonisation of lignite, production of coal briquettes and active charcoal. The company has also been establishing itself as a centre for clean coal technologies.

PV Invest d.o.o.
The company is engaged in two major lines of business: investment and real estate business, and construction engineering business.
Investment and real estate business comprises renting and selling of apartments, business premises and garages, and the promotion and co-funding of implementation of business ideas and enterprise development, which is financed with surplus cash flow from property sales and renting.
Construction engineering business consists of extraction area development, investment engineering, cave surveying and geodesy.

RGP d.o.o.
RGP d.o.o. is involved in the construction of headrace tunnels, shafts, subterranean garages, underground excavation, etc. The company is also engaged in the structural and static reinforcement of high-rise buildings, specialist mining-related construction, project engineering and rendering of geometric and geomechanical services.

Gost d.o.o.
Gost d.o.o. was initially engaged only in the restaurant business and catering. Gradually, it has expanded to the area of tourism.

Sipoteh d.o.o.
Sipoteh d.o.o. is engaged in the machine and production equipment business, and in the production of metal structures and their components.

Jama Škale d.o.o.
The company was established for the needs of closing the Škale pit.

Robinoks d.o.o.
Robinoks d.o.o. is engaged in the manufacture of stainless steel products.

TRC Jezero d.o.o.
In the area of a recreational centre that is being established on the degraded land of the Šalek Valley, TRC Jezero d.o.o. wishes to establish visible tourist and recreational facilities as part of a thermal water park.

ERICo d.o.o.
The company's main line of business is the performance of services related to environmental areas regulated by the Environment Protection Act, National Environmental Action Programme, legislation concerning water, air, soil, waste, etc. Its services also relate to laboratory analysis and services, monitoring, various types of environmental research, environment protection programmes, restoration programmes, environmental and occupational training, environmental issues, sustainable development, and other.

HSE Italia S.r.l.

Established in 2003, the subsidiary company HSE Italia is involved in supporting electricity trading activities in the Italian market. The company acts as a link between HSE and its partners to facilitate potential investments in the territory of Italy. Prior to Slovenia's entry into the EU, the company represented a basis for the establishment of balancing groups in the territory of the EU.

HSE Balkan Energy d.o.o.

The company HSE Balkan Energy, which is based in Belgrade, was established as result of HSE's expansion to SE Europe. Serbia plays an important geographical and energy role in its region. It also has a developed electricity system and important resources such as water, coal and geothermal energy. The company trades in electricity and assists the HSE Group in its expansion to SE Europe.

HSE Hungary Kft.

HSE Hungary is important for establishing links with the markets of central and eastern Europe, mostly with Poland, the Czech Republic and Slovakia, where HSE wishes to establish itself as an important energy provider. The company is engaged in electricity trading.

HSE Adria d.o.o.

HSE Adria, which is based in Zagreb, is engaged in cross-border electricity trade, execution of electricity sales and purchase contracts, and technical consulting.

HSE Bulgaria EOOD

Because Bulgaria plays an important role in the electricity market of SE Europe, the Bulgarian market is also important for HSE. In the process of harmonising the Bulgarian electricity market with EU directives, the Bulgarian transmission network operator, ESO, launched organised auctions for the allocation of cross-border transfer capacities, which enabled all companies with a Bulgarian electricity trading licence to export electricity produced in Bulgaria. HSE decided to take advantage of this business opportunity, based on which it will be able to increase its electricity trading volumes and reach new energy markets (Greece, etc.). In October 2007 HSE Bulgaria was entered in the Court Register of Sofia as an electricity trading company.

Toplofikatsia-Ruse EAD

Having purchased Toplofikatsia-Ruse, HSE increased the selection of its production sources by 400 MW. Its own production source in Bulgaria facilitates a quicker expansion of electricity trading volume in this part of the region and also the transmission of electricity to Slovenia. Toplofikatsia-Ruse produces electricity, industrial steam and heat. The power plant was constructed in the period 1964–1966, during which three units had been installed. Owing to increasing electricity requirements, the upgrade of the plant continued until 1985. In this period, three additional, larger units had been installed in stages.

Toplofikatsia-Ruse is located in the Bulgarian town Ruse between the Danube River and the Bulgarian and Romanian border.

Branch office HSE Prague

In accordance with the electricity trading licence obtained in 2007, the Prague branch office is engaged in the purchase of electricity from qualified producers, sale of electricity to authorised consumers and other electricity traders in an organised Czech market, of which it is a member. Through the branch office it is also possible to participate in auctions for allocation of cross-border transfer capacities.

Representative office HSE Bucharest

After Bulgaria joined the EU and two reactors at NPP Kozloduy were closed, Romania became the main electricity exporter in the region. Romania also has the largest power exchange in SE Europe and a liberalised market. For these reasons, HSE decided to open a representative office in Bucharest and obtain an electricity trading licence. The first activities were launched at the beginning of 2007, leading to the establishment of the representative office in the second half of the year.

DIVISION 3 **INVESTMENTS**	HSE Invest d.o.o. (HSE, DEM, SENG 25 % each)

HSE Invest d.o.o.

HSE Invest makes investments in the energy sector. Its most important activity is the management of development projects in pre-investment stages, construction of new and renovation of existing power plants. The company played a particularly important role in the construction of the chain of hydropower plants on the lower Sava River, the construction of PSP Avče, renovation of HPP Zlatoličje, and in other major projects of the HSE Group.

DIVISION 4 **MULTI-UTILITY**	Stelkom d.o.o. 19.0 %

Stelkom d.o.o.

Stelkom is a provider of telecommunications services and connections which provides services using the telecommunication infrastructure of companies from the electric power industry. The infrastructure is based on a widely distributed optical network of 2,500 km in total length.

2.2.1 Management of the HSE Group

Management bodies

The majority of subsidiary companies (except HSE Italia, HSE Hungary, HSE Adria, HSE Bulgaria and Toplofikatsia-Ruse) is run by single-member management or a management board. The majority of companies are supervised by a three-member Supervisory Board.

Trade union activities

Trade union activities at DEM, SENG, TET and TEŠ are co-ordinated by Sindikat delavcev dejavnosti energetike Slovenije (SDE-Slovene Power Sector Union), one of the strongest within Zveza svobodnih sindikatov Slovenije (ZSSS – Association of Free Trade Unions of Slovenia). HSE d.o.o. and HSE Invest are in the process of establishing union representation.

Two other trade unions operate within the HSE Group: Neodvisnost (representing some 10 % of SENG employees) and Sindikat pridobivanja energetskih surovin Slovenije (SPESS – Union of Coalminers) which is active in the PV Group.

The SDE's Electrical Energy Sector Conference encompasses the Coordination of union activities of the HSE Group, which is comprised of trade union representatives of DEM, SENG, TET and TEŠ. The Coordination communicates directly with the HSE management as well as managers of individual companies, thus ensuring that problems are addressed in due time. Such cooperation also extends to the Joint Workers' Council of the HSE Group.

Workers' councils

Actions of the SDE Coordination and other trade unions operating in the HSE Group are cohesive because there is an awareness in the HSE Group that there is more strength in concerted action and that only through good organisation we shall be able to face challenges brought about by the announced privatisation and full liberalisation of the electricity market.

HSE Joint workers' council

HSE Group employees exercise their statutory right to participate in management through the workers' councils. Each workers' council elects staff representatives to the Supervisory Board of the company in which they operate.

Pursuant to the Workers' Participation in Management Act, there is also a Joint Worker's Council in the HSE Group, which brings together workers from related companies and addresses issues relevant to them.

Dravske elektrarne Maribor d.o.o.	
Managing Director	Damijan Koletnik
Supervisory Board composition as at 31/12/2007	Boris Novak Žan Jan Oplotnik, Ph.D. Bojan Majhenič
Main line of business	Electricity production at HPP

Soške elektrarne Nova Gorica d.o.o.	
Managing Director	Vladimir Gabrijelčič
Supervisory Board composition as at 31/12/2007	Milan Medved, Ph.D. Niko Jurca Silvester Medveščček
Main line of business	Electricity production at HPP

Termoelektrarna Šoštanj d.o.o.	
Managing Director	Uroš Rotnik, Ph.D.
Supervisory Board composition as at 31/12/2007	Djordje Žebeljan, M.Sc. Franc Sever Franc Rosec
Main line of business	Electricity production at TPP

Termoelektrarna Trbovlje d.o.o.	
Managing Director	Marko Agrež, M.Sc.
Supervisory Board composition as at 31/12/2007	Uroš Rotnik, Ph.D. Borut Dolanc, M.Sc. Janez Balog
Main line of business	Electricity production at TPP

Plinsko parna elektrarna d.o.o., Kidričevo	
Managing Director	Branko Kožuh
Supervisory Board composition as at 31/12/2007	Metod Podkrižnik, M.Sc. Anton Smolak Zlatko Čuš
Main line of business	Other electricity production (in pre-investment stage)

Premogovnik Velenje d.d.	
Managing Director	Milan Medved , Ph.D.
Supervisory Board composition as at 31/12/2007	Simon Tot Vida Lorber Branko Mlinšek
Main line of business	Lignite extraction

HSE Italia S.r.l.	
Management Board as at 31/12/2007	Tomaž Štokelj, Ph.D. Viljem Pozeb, M.Sc. Damjan Lipušček
Main line of business	Electricity trading

HSE Balkan Energy d.o.o.	
Managing Director as at 31/12/2007	Boris Mezgec, M.Sc.
Main line of business	Electricity trading

HSE Hungary Kft.	
Managing Directors as at 31/12/2007	Tomaž Štokelj, Ph.D. Metod Podkrižnik, M.Sc.
Main line of business	Electricity trading

HSE Adria d.o.o.	
Managing Directors as at 31/12/2007	Tomaž Štokelj, Ph.D. Boštjan Bandelj, M.Sc.
Main line of business	Electricity trading

HSE Bulgaria EOOD	
Managing Directors as at 31/12/2007	Metod Podkrižnik, M.Sc. Drago Skornšek
Main line of business	Electricity trading

Toplofikatsia-Ruse EAD	
Management Board as at 31/12/2007	Georgy Kutovoy (chairman) Andrey Nikolaev (CEO) Boris Mezgec, M.Sc. Irena Stare Tomaž Štokelj, Ph.D. Alexey Ivanushkin Valeriy Ovseychuk Victor Tolokolnikov Tonyo Tomov
Main line of business	Production and cogeneration of electricity and heat, and heat transmission

Branch office HSE Prague	
Head of Branch office as at 31/12/2007	Tomaž Štokelj, Ph.D.
Main line of business	Electricity trading

Representative office HSE Belgrade	
Head of Representative office as at 31/12/2007	Boris Mezgec, M.Sc.
Main line of business	Internationalisation of HSE's operations (expansion to SE Europe)

Representative office HSE Bucharest	
Head of Representative office as at 31/12/2007	Drago Skornšek
Main line of business	Electricity trading

HSE Invest d.o.o.	
Managing Director	Miran Žgajner
Supervisory Board composition as at 31/12/2007	Irena Šlemic Alida Rejec, M.Sc. Jožef Hebar Drago Polak
Main line of business	Other project engineering and technical consulting

2.3 Business policy of the HSE Group

There are two things the HSE Group always believes in: more and better, at all times. Full of creative working energy, it re-embarks each and every day on its mission to create additional, surplus value for the widest range of users, acting energetically in its operation and planning.

Mission

The HSE Group's mission is to maintain its position of market leader in the domestic market an take a leading role in the markets of SE Europe, and to develop the Slovene energy sector and science, establishing them in an international context.

Vision

The vision of the HSE Group is to ensure optimum utilisation of Slovene energy sources and professional potential, while establishing partnerships abroad – especially in SE Europe – and thus assure long-term competitive advantage of the Group in the global energy market, and expanding its business operations so as to benefit from additional synergy effects for the Group and Slovenia.

Values

The values of the HSE Group are reflected in the Group's attitude towards customers, the society, employees, business partners and company owners. The focus is on:

- customer satisfaction,
- building responsible, long-term partnerships with business partners,
- the protection of the environment and utilisation of renewable sources of energy,
- striving towards professional competence,
- continuous training and establishment of a motivating work environment for employees,
- providing secure and stable jobs and creative work environment,
- efficient operation and creation of profit for company owners,
- on-going improvement of the management system.

Due to increasing consumption of electricity at home and worldwide, the HSE Group has been since its establishment searching for new, additional projects and investments in order to ensure provision of secure, reliable, competitive and environmentally friendly supply of electricity to domestic consumers also on a long-term basis.

HSE Group development plan

Strategic orientations of the HSE Group are defined in the HSE Group development plan. Due to numerous changes in the field of electrical energy sector, the management of the HSE revised the Group's development plan at the beginning of 2006 in response to numerous challenges and opportunities. As a result, certain strategic orientations were amended and supplemented, which will enable further growth and development of the HSE Group and, consequently, long-term effectiveness that will be reflected in secure, reliable, competitive and environmentally friendly electricity supply to Slovenia.

The Development plan of the HSE Group for the period 2006–2015 was adopted by the Government of the Republic of Slovenia at its 100th regular session on 7 December 2006. Because many important changes took place after the adoption of the development plan, activities have already been launched to revise it once more.

Taking a leading role in SE Europe

In addition to secure, reliable, competitive and environmentally friendly electricity, the main objectives of the Development plan of the HSE Group for the period 2006–2015 are the development and growth of the HSE Group towards becoming a market leader in SE Europe.

2.3.1 Projects of the HSE Group in Slovenia

Project of the Ist and IInd priority

The projects involving the renovation of existing and construction of new power facilities are – with regard to commercial, environmental, spatial and operational criteria – divided into two orders of priority. Comparative economic calculations justify the implementation of projects falling within the first order of priority, whereas those listed under the second order of priority need to be additionally developed and researched. The project of the first priority include HPPs on the lower Sava River, construction of PSP Avče, construction of Unit 6 at TEŠ, installation of additional gas turbines to Units 4 and 5 at TEŠ, renovation of HPP Zlatoličje, construction of PSP Kozjak, and other renewable energy sources and heat and electricity cogeneration projects.

When all investments in Slovenia have been completed, all sub-systems of the HSE Group will become competitive, which is an urgent precondition for long-term existence in the global energy market. Investments made in the markets of SE Europe will enable HSE to become a market leader there. The investments have been planned without endangering any investments necessary in Slovenia which remain the priority of the HSE Group.

2.3.2 Projects of the HSE Group in SE Europe

The region of SE Europe is of essential importance for HSE because of its need to grow and due to the fact that HSE is the main provider of electricity in Slovenia. Stable supply of Slovenia depends also on the fact whether HSE succeeds in becoming an important regional trader and producer of electricity. Without its own production capacities in this region, HSE will not be able to accomplish its mission and ensure its sustainable development. Limitations in provision and transfer of electricity, which HSE already faces in the region, can seriously influence the stability of trading and supply of customers. Stability can be significantly increased through:

- increase in own production capacities,
- dispersion of locations, and
- selection of appropriate combinations of different types of power plants.

From the aspect of the management of risks related to trading, balance between own and foreign sources is extremely important, as is the diversification of own facilities over the entire trading area. In this area, HSE has already made important steps needed for successful penetration. Over 100 potential investments were carefully studied, and 20 projects were focused on since their technical and economic feasibility has been demonstrated and return on invested assets adequately ensured.

Simultaneously, we should be well aware that the interest of large companies in this area has grown and the countries of SE Europe have imposed increasingly demanding conditions.

2.4 Quality management system policy

Quality management system policy encompasses quality, environmental management and occupational health and safety. The management system manual has been brought into line with the ISO 9001:2000, ISO 14001:2004 and OHSAS 18001:1999 standards, and information security management measures are being introduced in conformity with the ISO 27001 standard. Information security management has also been integrated in certain organisational system regulations, which had been changed to reflect changes in the organisational structure.

The overall system is based on the following principles:
- responsibility for the implementation of specific tasks arising from certain direct and unequivocal mandates,
- responsibility for the achievement of objectives in relation to quality, environmental management and occupational safety represents an integral part of the core requirements for the implementation of individual tasks,
- each individual, irrespective of their position, is responsible for the implementation of objectives concerning quality, environmental management, occupational safety and information security, subject to their responsibilities and mandate.

2.4.1 Achieving objectives regarding quality

Our permanent objectives regarding quality are as follows:
- meet customer requests,
- achieve set strategic and tactical business objectives,
- establish optimum organisation and transparency of business operation,
- operate in accordance with relevant regulations, and
- exercise continuous vigilance over economic aspects of the business in order to ensure successful performance.

The objectives set for 2007 were achieved. System procedures were amended and supplemented, mostly due to changes in the organisational structure of the HSE Group. Management system documents were introduced in the ODOS computerised document system. Training of employees in the field of quality and organisation of work continued.

In 2007 internal and external control assessments were carried out and successfully completed. In November, HSE's renewable energy production at DEM's and SENG's hydropower plant chain was externally assessed against EE TÜV 08/02 and RECS criteria.

2.4.2 Achieving environment management objectives

The HSE Group is an environmentally aware group which ensures pleasant and healthy working environment and good relations with its neighbours. Intensive efforts towards sustainable development are being made on the local as well as state level. We aim for continuous improvement of working and living conditions of HSE employees and population residing in the vicinity of HSE companies. For this reason, our environmental policy was harmonised with requirements of the ISO 14001:2004 standard. Also in 2007, internal and external control assessments were carried out and successfully completed.

The year 2007 was the last in the preparatory period for greenhouse gas emission trading in the EU, and emission coupons for the second Kyoto period, i.e. trading period 2008–2012, were also distributed. HSE continued to finance the study "Land use, changes in land use and forestry – selection and preparation of the methodology and calculation of CO_2 sinks in Slovenia". Partly as a result of that, the allocation for Slovenia for the period 2008–2012 increased by 1.3 million tons of CO_2 per year. The study "Possibilities of capturing and storing CO_2 in thermal energy facilities" was completed. The study "Floating debris treatment possibilities" was also completed.

The key objective of HSE's environmental policy is to establish a permanent balance, which HSE achieves by implementing preventive measures, preventing any environmental contamination, sharing responsibility, as well as by making environmental management a part of individual business processes.

2.4.3 Achieving occupational health and safety objectives

Concern for the improvement of occupational health and safety conditions in the working environment while taking into account the specifics of processes of the HSE Group companies, is an integral part of the Group's culture and reflects our care for our employees and the Group's attitude towards the social environment where we live and operate. For the HSE Group, compliance with relevant legislation represents merely the minimum level which is observed and supplemented with the requirements of the OHSAS 18001 standard.

In 2007 internal and external control assessments were carried out and successfully completed.

2.4.4 Achieving information security objectives

In 2007 progressive implementation of information security management measures continued in accordance with the ISO 27001 standard.

A basic questionnaire was drawn up for the purpose of gas analysis, which was carried out in TEŠ acting as a model company. Because of shared IT, this also largely concerned HSE. Core methodology for assessing risk in the area of information security was also prepared. A pilot inventory count of information resources was performed within individual systems at TEŠ and HSE, and is currently being verified.

In February, an information security committee has been set up which is in charge of coordinating activities in the area of information security in all HSE Group companies. The committee also acts as a subgroup in a project to unify information platform of the HSE Group and is in charge of introducing measures to ensure appropriate information security.

The information security committee also performs activities aimed at reviewing potential computer tools to be used in the preparation of risk assessment in connection with the deployment of ISO 27001.

At the end of 2007, draft system procedure was drawn up for the purpose of preparing risk assessment in the area of information security and completing a threat and vulnerability assessment scale.

2.4.5 Certificates obtained by HSE Group production companies

Free competition in the Slovene electricity market and in particular in foreign markets necessitates certified quality in terms of system and environmental management, as well as a responsible approach to the production of electricity and other energy products. Appropriately certified products result in an improved sales performance, and sometimes certain markets can only penetrated with such certification.

COMPANY	ISO 9001	ISO 14001	OHSAS 18001	EE TÜV	RECS	HACCP	USP S10
HSE	✓	✓	✓	✓	✓		
DEM	✓	✓	✓	✓	✓		
SENG	✓	✓	✓	✓	✓		
TEŠ	✓	✓	✓			✓	
TET	✓	✓				✓	
PV	✓	✓	✓				✓

HACCP ***Hazard Analysis Critical Control Point***
Measurement laboratory standards
USP S10 Learning enterprise standard awarded by the USP Institute

2.5 Market position

2.5.1 General economic situation in Slovenia[1]

The figures for 2007 differ considerably from their long-term averages. Slovenia recorded the highest economic growth and the best labour market indicators since its independence, and high growth in exports. An exception to the otherwise favourable macroeconomic picture of Slovenia was inflation which was higher than in other euro area countries.

6.1 % economic growth

According to first estimates, gross domestic product (GDP) increased 6.1 % in 2007, the highest growth since 1991. In current prices, GDP totalled € 33,542 million in 2007 (10.2 % more than in 2006) or € 16,616 per capita (9.6 % more than in 2006). In the last quarter of 2007, real GDP growth stood at 4.7 %. Compared with growth in the first three quarters, economic growth decreased considerably at the end of the year and returned to pre-2006 levels.

Exports drive economic growth

For the fourth consecutive, exports of goods and services have remained the most important driver of economic growth. In real terms, exports grew 13.0 % in 2007, contributing 8.8 percentage points to economic growth. Real growth in imports was slightly above exports (14.1 % growth relative to 2006). As a result, the balance of foreign trade had a negative impact on economic growth (-0.9 percentage points).

High increase in investments

As for expenditure, investments in fixed assets increased the most in real terms and were 17.2 % higher than in 2006.

A particularly strong growth was recorded in respect of investments in buildings (20.8 %) and transport equipment (24.7 %). The increase in investments in other equipment was more moderate and on a par with growth in 2006.

Moderate increase in final consumption

In 2007 final consumption expenditure increased 2.7 % in real terms, which is less than in 2006 (4.1 % growth). A drop in government expenditure on final consumption, which rose 1.4 % in 2007 whereas it increased by 4.4 % in 2006, was particularly noticeable.

Household expenditure on final consumption increased 3.1 % relative to 2006, with growth in domestic purchases remaining practically the same as in 2006 (3.6 %), purchases by residents abroad increasing moderately (2,5 %), and purchases by non-residents in Slovenia rising more robustly (9.4 %). Similar to previous years, expenditure on consumer durables was considerable (11.8 % growth) whereas expenditure on other products rose 2.6 %.

Added value increased the most in construction

For the second consecutive year, added value increased the most in construction; relative to 2006, it was 18.7 % higher in 2007. Added value growth in manufacturing was 8.3 % in 2007, similar to 2006. In 2007 high growth rates were also recorded in financial intermediation (12.1 %), trade (7.6 %) and transport (6.2 %).

2.7 % increase in employment

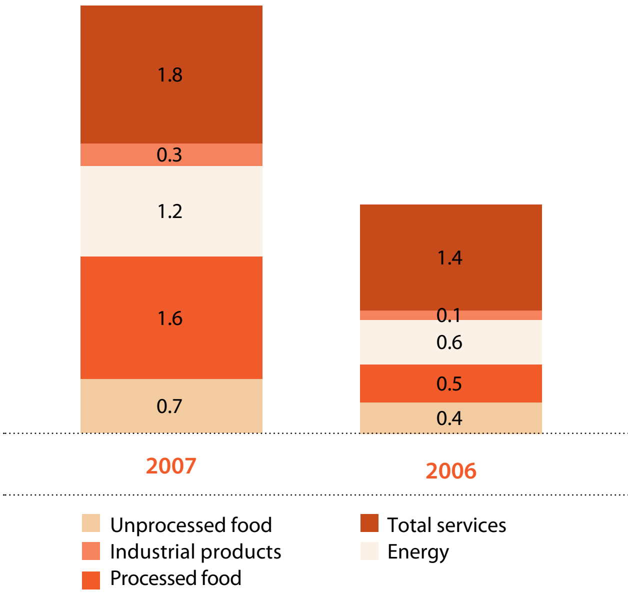
Favourable economic situation was reflected in a higher employment rate throughout the year. According to national accounts estimates, overall employment stood at 960 thousand in 2007, up 2.7 % on 2006. The moderation in economic growth at the end of the year was not reflected in lower employment, with the latter increasing the most in the last quarter (3.0 %). Growth and total number of employees followed the same trend as GDP: in 2007 the number of the employed was the highest since 1991, as was the increase in their number. Broken down by sector, the employment rate increased the most in construction (10.8 %), transport (6.4 %) and business services (6.3 %). For the first time since 2001, employment also increased in manufacturing – by 0.7 %.

[1] Source: SORS, IMAD, MF.

5.6 % increase in consumer prices

In 2007 consumer prices increased 5.6 %, which is twice the previous year's level. In 2007 inflation in Slovenia accelerated relative to 2006 (5.6 % and 2.8 %, respectively) mostly due to higher increase in the prices of food and liquid fuel for transport and heating. To a smaller extent, higher inflation was also due to the rounding up of prices when the euro was introduced at the beginning of the previous year. In the past year, slightly smaller increase in inflation was observed in the EMU, where inflation was also stimulated by increasing prices of oil, other primary raw materials and food in world markets. In 2007 the appreciation of the euro against the dollar mitigated the effect of rising oil prices on inflation in Slovenia and other EMU countries. In the case of oil, the external price shock was passed on to domestic inflation to a larger extent than in the EMU because of the share of liquid fuel for transport and heating in the domestic consumer price index. As for other raw materials and food, inefficiency of domestic food processing industry which stems from the lack of competition in the food trade sector could be the cause.

The difference between inflation in 2007 and 2006 can be almost entirely accounted for by changes in the prices of food and oil[2]



2.5.2 Market environment for the electricity industry

In 2007 there were no significant changes to the regulatory framework that would affect the company's operations. The amendment to the Energy Act which had been adopted in 2006 and under which it is no longer required to establish a company in Slovenia for the purpose of wholesale electricity trading resulted in a somewhat intensified activity by foreign traders in the Slovene wholesale market in 2007. Under the European directive concerning the allocation of cross-border transfer capacities, the Slovene transfer network operator allocated the cross-border transfer capacities on Slovene borders on the market basis. A transitional period with the possibility of allocation of cross-border transfer capacities on internal EU borders under the pro rata system ended on 1 July 2007.

The Slovene electricity market is open in line with the European guidelines. Only households were classified as tariff customers in the first half of 2007, and their electricity supply price was determined by the Decision laying down prices for the electricity supply to household consumers and prices for covering the supplier's costs associated with the electricity supply. For others (eligible consumers) and since 1 July 2007 also for household consumers, electricity prices are set according to market supply and demand.

[2] Source: SURS, MF calculations.

In 2007 the prices of primary energy products soared again. The prices of crude oil, natural gas and coal all increased. The cost of CO_2 emissions, which has in the first two years of the trading scheme existence in many ways changed the way fossil-fuel-fired plants market their output, became negligible from the aspect of supply in 2007. Due to excess demand, the price of CO_2 emission coupons for the first trading period (2005–2007) kept falling throughout the year, amounting to only a few cents at the end of the year. The second CO_2 emission coupon trading period began in 2008, which encompasses a five-year period from 2008 to 2012. The third trading period is already in sight, for which preparations have already begun.

After the establishment of the so-called second energy pillar, the number of local electricity suppliers increased in Slovenia's electricity market. This, however, did not affect the quantity of electricity produced and the wholesale price in Slovenia.

2.5.3 Situation in electricity markets in 2007[3]

Electricity markets were indirectly affected by developments in the CO_2 emission coupon market and the primary energy product market.

Slovenia

For the wholesale market, the year 2007 was in stark contrast to 2006. In SE Europe, the supply of cheap energy dried up, and the flows of energy from SE Europe to Continental Europe and Italy stopped. Although these developments were expected, the rate at which energy surplus was reduced took practically all market participants by surprise. In 2007 it happened for the first time that off-peak energy from Italy had remained cheaper than in SE Europe for a longer period. In the past year the Hungarian market was the main regional energy source to meet demand in Slovenia and SE Europe. The prices of cross-border transfer capacities on the Slovene southern border thus stood at no more than a few cents in 2007.

The market of Continental Europe was Slovenia’s most important import market in the past year, both thanks to reasonable prices and its liquidity. However, cross-border transfer capacities offered by the transfer system operator on a market basis were relatively expensive.

In October nuclear power plant Krško was shut down for maintenance, which lasted for a month. Due to insufficient energy supply in SE Europe, the overhaul was also reflected in the region’s wholesale prices.

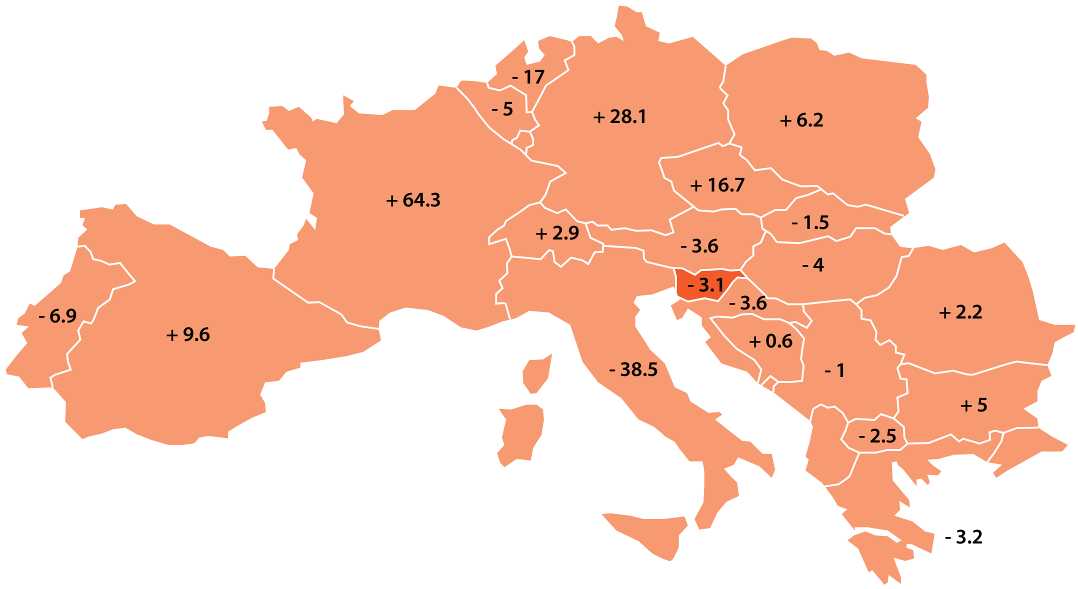
High electricity prices in SE Europe and lack of low-cost supply enabled additional quantities of electricity produced at TEŠ to be placed on the market at prices that were considerably higher than expected at the end of 2006. The sale of electricity produced at TEŠ was also affected by developments in the CO_2 emission coupon market where the price of the coupons dropped to a few of cents, thus considerably reducing variable costs of extra production.

In 2007 the output of hydropower plants was also lower than planned, which meant additional decrease in electricity supply in Slovenia.

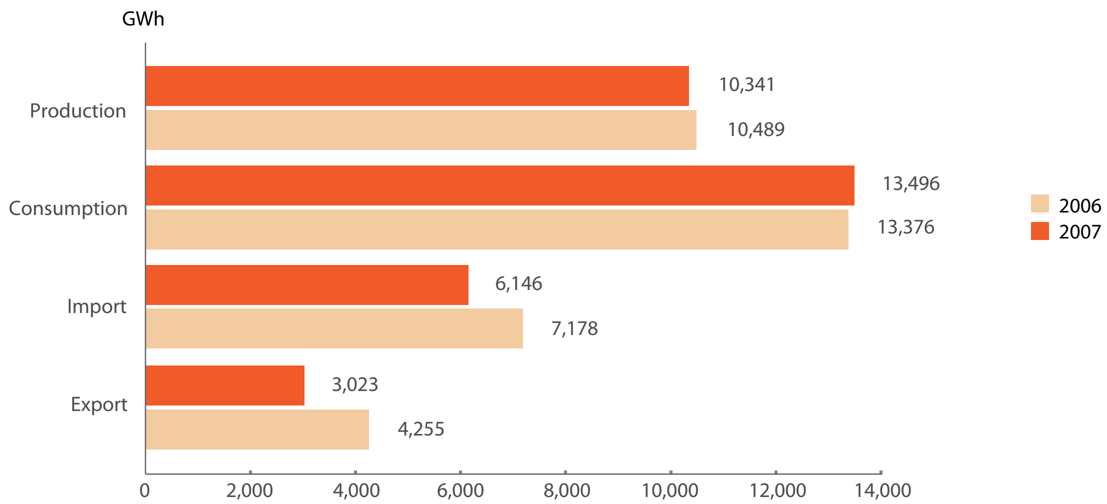
In 2007 consumption in the Slovene transfer network increased moderately, which can be mostly attributed to mild temperatures. Compared to the previous year, the consumption of electricity increased by 0.9 % in 2007 (including losses in the network).

[3] All information about electricity production in Slovenia includes the half of NPP Krško’s output which belongs to Slovenia.

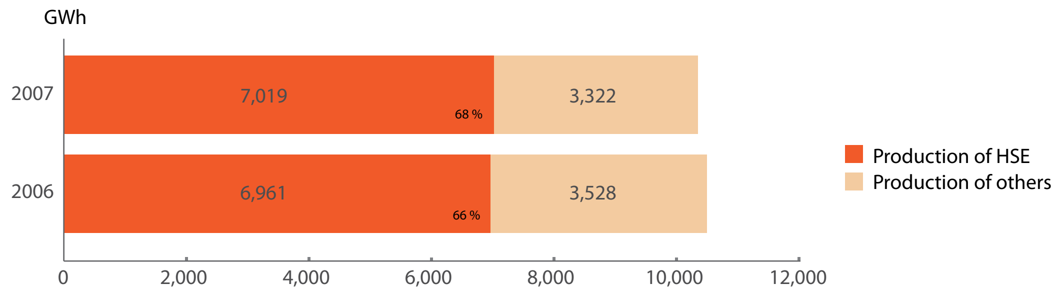
Balance of European electricity markets in 2007 (in TWh)



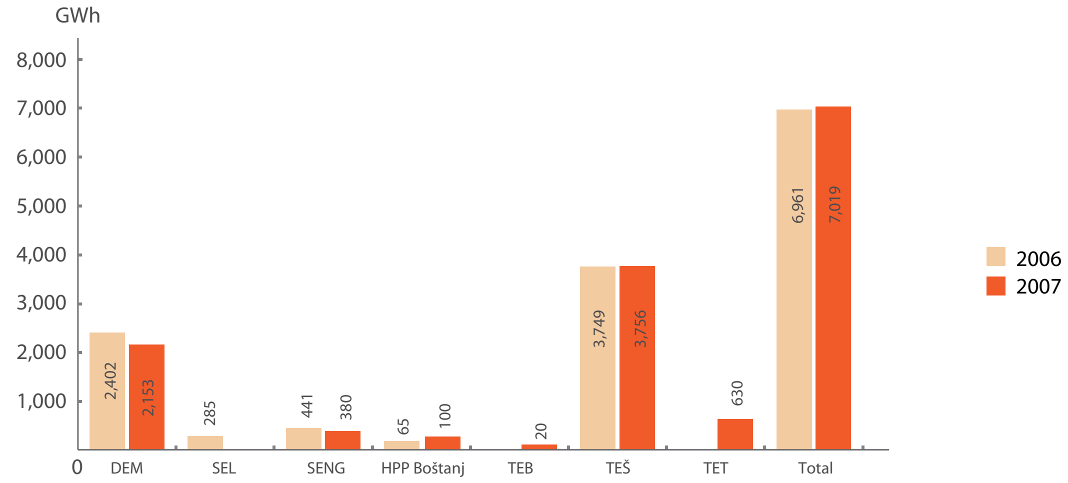
Slovene electricity market in 2007 and 2006



Share of the HSE Group's production in total electricity production in Slovenia in 2007 and 2006



Production of threshold electricity in the HSE Group in 2007 and 2006[4]



Continental Europe

In 2007 electricity market in Continental Europe was strongly influenced by the end of the first period of the European emission coupon trading scheme. Due to clearly overabundant CO_2 emission coupons, their value dropped to practically zero at the beginning of 2007, which was heavily reflected also in electricity prices. The average price of base load electricity in the day-ahead market at the Leipzig power exchange thus dropped more than 33 % relative to 2006. In contrast to the first trading period, for which too many emission coupons had been distributed by the European Commission, it is clear that would not be the case in the next Kyoto period (2008–2012). The Commission has radically cut down national allocation plans and significantly reduced the planned quantity of allocated emission coupons for most countries. This is also reflected in the prices of forward contracts on the supply of CO_2 emission coupons for the second trading period, which exceed € 20 / per ton. Of course, the price of coupons is also reflected in the price of forward contracts on electricity supply in the future which are substantially higher than in 2007.

The energy product market also saw high increases in prices. By the end of 2007, the price of a barrel of oil climbed to as much as USD 100 per barrel, thus providing strong support for long-term electricity supply prices in the euro area despite the weak dollar. Because natural gas prices follow oil prices with a few months delay, variable costs of gas-fired power plants are expected to increase also in 2008. Strong demand for primary raw materials and energy products in emerging economies such as China and India is strongly reflected in the coal market. Because coal reserves are plentiful in nature, increasing prices are the consequence of imbalance between supply and demand, and logistical bottlenecks. Owing to its high economic growth and increasing demand for electricity, China is transforming from a net exporter of coal to a net importer, and is thus largely responsible for higher coal prices in the past year.

In summer months there were no noticeable price spikes in the day-ahead market, which is a result of moderate summer temperatures. However, price spikes did occur in October and November when workers in French electricity utilities went on strike. In addition to the above factors, accelerated growth in the prices of long-term electricity supply are partly the result of purchases made by certain financial institutions, mostly investments banks and funds, which speculate on energy prices. They are particularly eager to make purchase at the time of absence of end-consumers, who are more active in concluding annual contracts towards the end of the year.

[4] Figures for 2007 do not include the output of SEL and TEB, because these two companies were spun off from the HSE Group. TET was not part of the HSE Group in 2006.

In 2007 the HSE Group pursued an active production optimisation, both at long-term and short-term bases, also with regard to prices in Continental Europe, which is currently HSE's most liquid market. Considering various price ratios, the HSE Group used marketing activities to maximise its sales revenue.

SE Europe

In 2007 electricity prices in SE Europe increased both in the case of short-term and long-term supplies. Coinciding with the closure of two reactors at a Bulgarian nuclear plant in 2006, Bulgaria prohibited electricity exports to the region despite sufficient surplus production capacities in order to maintain low prices in the domestic market. As a result, supply prices increased in other countries in the region.

In 2007 the HSE Group began to participate in auctions for the allocation of cross-border transfer capacities in most countries of SE Europe, which contributed to higher volume of trading in those markets. It should be emphasised that trading in the Hungarian market has become more transparent and the liquidity of this market has improved, thanks also to portal trading providers. The Hungarian market was therefore essential for trading in this area over the past year.

Nevertheless, any increase in the volume of trading in this area is still hindered by various costs and restraints pertaining to the transit of electricity, which are – contrary to European practice – imposed on electricity traders by transfer system operators. In the middle of 2007, the majority of SE Europe countries signed an ITC mechanism, thus eliminating most transit duties. Certain countries have maintained some of the duties, but have done so under different names and to a smaller extent.

Owing to high economic growth in the region which is considerably higher than in Western Europe, consumption is also higher in this area. Relatively old and poorly maintained production facilities, in which hydro production accounts for a large share, increases the volatility of supply prices in this area. Accompanied by poor hydrology, the prices of long-term contracts in SE markets substantially exceeded those in Continental Europe and in the Italian market in spite of the fact that some producers in this part of Europe are not involved in the CO_2 trading scheme (only producers with own production units in EU member states participate in the scheme).

2.6 Sales and customers

2.6.1 Electricity

Price of electricity

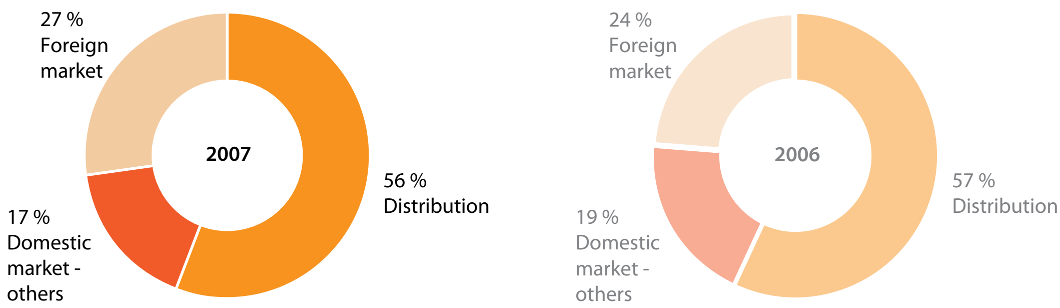
In 2007 electricity was again priced in the market by determining the margin price on the basis of the most expensive unit at a specific moment. The factors affecting pricing were: the price of CO_2 emission coupons, available cross-border transfer capacities, growth in energy consumption both globally and at home, and weather conditions, in particular temperature, wind and hydrology.

To maximise operating results at acceptable risk exposure, the HSE Group co-ordinated activities in connection with the sale of electricity generated by HSE Group companies, trading in electricity from other sources, and management of production plants of HSE Group companies.

Sales volume and structure

In 2007 the total sales volume of the HSE Group in both domestic and foreign markets amounted to 17,084 GWh of electricity. The most important was the domestic market, which accounted for 73.5 % of the total sales, of which 56.4 % to five distribution companies and 14.2 % to other direct consumers, while 2.9 % of sales in the domestic market represents sales to other customers and sales of tertiary and secondary control energy and deviations to ELES. 26.5 % of sales volume was realised in foreign markets. The HSE Group successfully participated in auctions for the allocation of cross-border transfer capacities, including for electricity exports to Italy which is, owing to high electricity prices, the HSE Group's most lucrative market.

Structure of electricity sales in 2007 and 2006



Long-term contracts and day-ahead market

The bulk of the HSE Group's sales were generated through long-term contracts. Trading in day-ahead markets was carried out for the purpose of matching contractual obligations with production capacities of HSE Group companies, as well as optimising the Group's portfolio and taking advantage of market opportunities. Electricity surpluses generated at the time of high water levels and availability of additional electricity produced when market price exceeded the cost of extra production were sold in day-ahead markets.

System services

In addition to electricity, the following contractually required system services were provided in 2007:

- secondary frequency control in the range of ± 77 MW,
- tertiary frequency control with the inclusion of non-spinning and spinning reserves of 192 MW,
- black start capability,
- reactive power support,
- secondary control services.

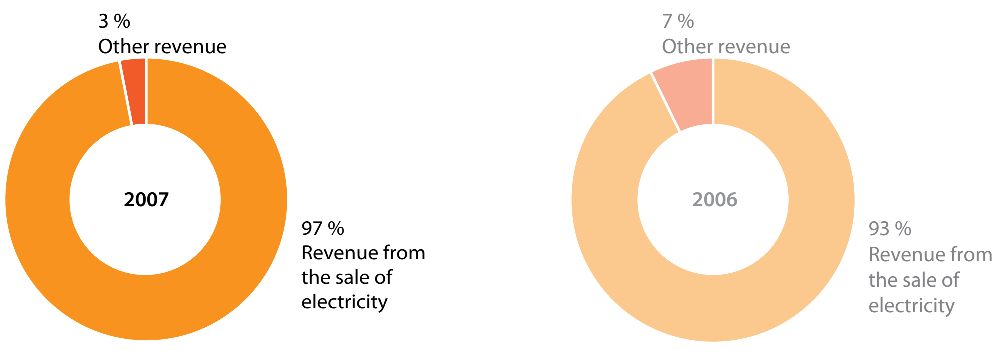
Due to a dispute with the Energy Agency of the Republic of Slovenia, ELES failed to pay for system services supplied since June 2007. In March 2008, HSE launched legal proceedings to collect the payment.

2.6.2 Other activities

Structure of total sales revenue

The HSE Group generated more than € 982 million in net sales revenue in 2007. Accounting for 97.1 %, electricity was by far the most important in the structure of the HSE Group's net sales revenue, with sales of other products and services amounting to 2.9 %.

Structure of sales revenue in 2007 and 2006



Other products and services

Other revenue from sales of products and services includes revenue from the sale of apartments and rents, revenue from construction and hospitality services, revenue from repair and maintenance services, revenue from heat sales, and revenue from services of disposing of powdered animal by-products through incineration. The bulk of revenue from sales of other products and services was generated by the PV Group.

Heat

In 2007 the sales of heat totalled 399.3 GWh, down 6.3 % compared to the plan.

The lowering of other sales revenue by 4 percentage points is mostly the result of the fact that the company TDR-Metalurgija was no longer part of the HSE Group in 2007.

2.7 Purchasing and suppliers

2.7.1 Electricity

Synergy

With the objective of maximising performance, the HSE Group endeavours to take advantage of synergies associated with a wide spectrum of production capacities. Because the operating and cost-related characteristics of individual production plants differ, the cost-effective production of electricity can be achieved through appropriate production scheduling. And since the price of electricity fluctuates in the market, the economical dispatching of production units while observing technical criteria is all the more important. All of the above could practically always be achieved had we had sufficient production units.

Power plants in the HSE Group in 2007

DEM		Dravograd	Vuzenica	Vuhred	Ožbalt	Fala	MB otok	Zlatoličje	Formin	Mini HPPs	Total
	No. of turbines	3	3	3	3	1+2	3	2+1	2	1	
Net capacity	MW	26	56	72	73	58	60	114	116	0.7	576
Rated generation capacity	MVA	36	78	90	90	74	78	148	148	1.2	743
Gross head Hbr.	m	8.9	13.7	17.4	17.4	14.6	14.2	33	29		148
Rated flow Qi	m³/s	405	550	550	550	505	550	463	500		

HPP Boštanj		Boštanj	Total
	No. of turbines	3	
Net capacity	MW	34	34
Rated generation capacity	MVA	43.5	44
Gross head Hbr.	m	7.6	8
Rated flow Qi	m³/s	500	

SENG		Doblar I.	Doblar II.	Plave I.	Plave II.	Solkan	Zadlaščica	Mini HPPs	Total
	No. of turbines	3	1	2	1	3	2	26	
Net capacity	MW	30	40	15	19	32	8	11	155
Rated generation capacity	MVA	48	50	22	23	39	10	12	204
Gross head Hbr.	m	47.2	48.5	27.5	27.5	23			174
Rated flow Qi	m³/s	90	105	75	105	180	2.2		

TEŠ		Unit 1	Unit 2	Unit 3	Unit 4	Unit 5	Total
Net capacity	MW	25	25	69	248	305	672
Rated generation capacity	MVA	37.5	37,5	94	324	377	870

TEŠ's Units 1 and 2: Available capacity reduced to 25 MW due to wear of units.

TEŠ's Unit 5: Unit power is 377 MVA (at 3 bars of hydrogen pressure).

TET		PB I.	PB II.	Unit 4	Total
Net capacity	MW	29	29	110	168
Rated generation capacity	MVA	34	34	156	224

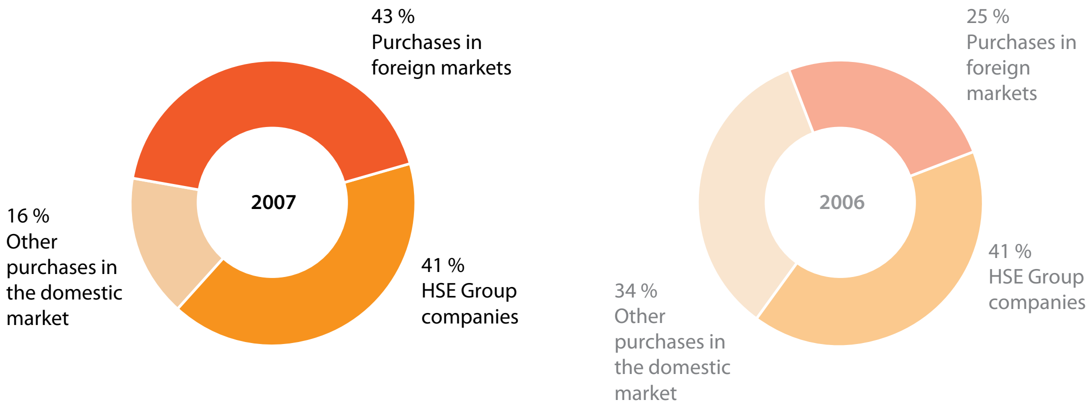
Structure of sources

Electricity supplied by the HSE Group to its consumers in 2007 was mainly purchased in foreign markets (43.5 %) and from HSE's subsidiaries (40.7 %). The remaining energy (15.8 %) was purchased from GEN energija in the Slovene organised market.

Purchases of electricity in 2007 and 2006

Source	2007		2006	
	GWh	Share	GWh	Share
HSE Group companies	6,957	40.7 %	6,647	41.3 %
Other purchases in the domestic market	2,707	15.8 %	5,455	33.9 %
Import	7,420	43.5 %	3,986	24.8 %
TOTAL	17,084	100.0 %	16,088	100.0 %

Structure of electricity purchases in 2007 and 2006

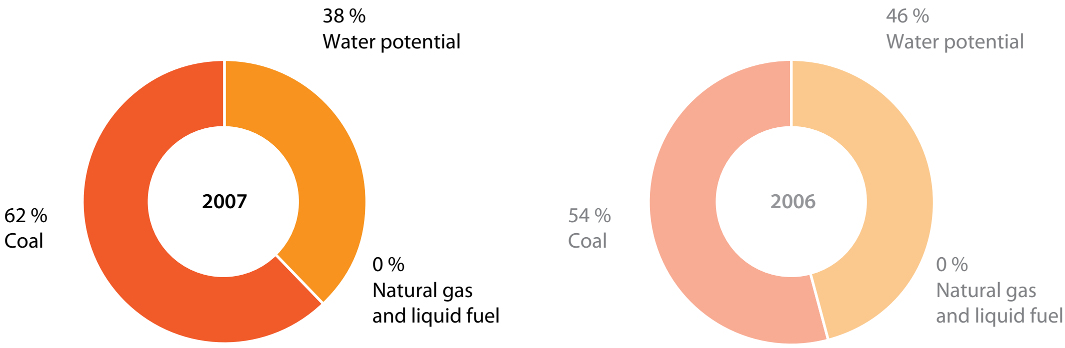


To offset shortfalls arising from supply failures or poor hydrology, HSE purchased electricity in the day-ahead electricity market.

Primary raw materials

In 2007 primary raw materials for electricity production included water potential (37.5 %) and coal (62.5 %). Rather than the entire structure of electricity sold, the above structure only represents HSE's balancing group[5] without NPP Krško.

Primary raw materials used in electricity production in 2007 and 2006



[5] Figures for SEL and TEB for 2007 are not included.

Purchase price

In 2007 the purchase price of electricity was mostly the result of the following factors:

- poor hydrology resulting in a production of cheaper hydropower by HSE Group companies that was 17.7 % lower than planned,
- energy production at TEŠ was 8.9 % higher than planned,
- energy production at TET was 34.8 % higher than planned,
- conditions in the electricity market.

Coal

At TEŠ, 45,855 TJ of coal was used in the production of electricity and heat, while at TET, 7,265 TJ of coal was used in the production of electricity.

Coal stock

As at 31 Dec 2007, coal stock at PV totalled 4,105 TJ while at TET it stood at 966 TJ.

2.8 Investments[6]

In line with its investment plans and projects, the HSE Group undertakes to ensure reliable supply of electricity in Slovenia as well as its gradual expansion to foreign markets.

The HSE Group is aware of the following key facts:
- the HSE Group's customers are dependent on the quality of electricity,
- electricity must primarily be generated at home and an adequate capacity provided,
- greater efficiency can only be achieved through efficient utilisation of primary sources,
- a high degree of supply reliability can only be achieved through appropriate diversification of sources,
- new sources and know-how should be developed.

The investments of the HSE Group are aimed at modernising the existing thermal power plants and hydro-electrical power plants, and constructing new power facilities in order to upgrade the existing good structure of power generating sources and improve the long-term competitiveness of all subsystems of the HSE Group.

The HSE Group's commitment to streamline the production process is not only demonstrated by cost reductions, but also by the implementation of an optimal policy of new investments in line with the strategic objectives of the HSE Group.

In 2007 the construction of new production facilities and the professional maintenance of existing facilities progressed according to plan.

With the HSE Group's investments in 2007, the period of intensive investments continued.

2.8.1 Top priority investments

1. HPPs on the lower Sava River

In 2003 a joint venture agreement was signed by the companies HSE, DEM, SEL, SENG, and TEB to construct hydropower plants on the lower Sava River. Under this agreement, the contracting parties undertook to contribute funds in the following shares:
- HSE 51.00 %,
- DEM 30.80 %,
- SEL 12.60 %,
- SENG 2.80 %, and
- TEB 2.80 %.

On the basis of the above agreement, the controlling company established long-term operating liabilities in its financial statements to account for DEM's, SEL's, SENG's and TEB's investments made in the period 2004 to 2007.

On 25 September 2007, the National Assembly of the Republic of Slovenia adopted the Act Amending the Act Governing the Conditions of the Concession for the Exploitation of Energy Potential of the Lower Sava River (Official Gazette of the Republic of Slovenia, No. 91/2007) which provides for a transfer of concession to a new company owned by HSE and GEN energija and their associated companies, which are fully owned by the two companies. The Letter of Intent to establish the company Hidroelektrarne na spodnji Savi d.o.o. was signed on 17 December 2007.

[6] This chapter discusses major investments of HSE Group companies in intangible assets and property, plant and equipment.

HPP Boštanj

At HPP Boštanj, the following important events took place in 2007:
- due to malfunctioning of Unit 2, trial run was extended by one year, until 18 May 2008,
- an annex was concluded to the Unit Supply Contract (TG lot) which provided for the repair of the malfunctioning turbines,
- Unit 2 was repaired at the factory,
- the manufacturing of a stator for Unit 3 began,
- index tests were performed on turbines 1 and 3,
- regular annual inspections of turbines 1, 2 and 3 were performed,
- operating parameters were monitored and analysed, complaints were filed with suppliers, and defects and shortcomings were remedied (incorrect driver position, stator winding temperature),
- predictive and preventive maintenance programme was carried out,
- output totalled 100 GWh, which amounts to 112 % of planned annual output,
- in September the plant operated for the first time under high water level conditions (peak value of approximately 2600 m^3/s).

HPP Blanca

At HPP Blanca, the following important events took place in 2007:
- installation and concreting of inlet pipe cones was completed,
- bridge crane began operating along the entire crane track,
- installation of radial locks with valves on all 5 spillway is nearing completion,
- a bridge is being constructed over HPP Blanca,
- an environmental permit was obtained in connection with the reservoir of HPP Blanca; with the building permit issued, the construction of the reservoir began.

HPP Krško

At HPP Krško, the following important events took place in 2007:
- a building permit was issued for the construction of a bridge under HPP Krško, and the construction of road infrastructure began (bridge, bypass, roundabout),
- a building permit was issued for the construction HPP Krško's dam,
- work began in order to protect the 1st construction pit,
- most construction and equipment supply contracts were signed.

HPP Brežice & HPP Mokrice

At HPP Brežice and HPP Mokrice, the following important events took place in 2007:
- pre-investment technical documentation was prepared,
- research was conducted and studies prepared,
- the NSP procedure was initiated (a combined procedure for HPP Brežice and HPP Mokrice).

2. PSP Avče

In periods of low electricity prices (at night and on weekends), a PSP uses electricity to pump water to the reservoir, whereas in periods of high electricity prices (work-day peaks), the accumulated water is used for electricity production.

The investment in this plant has been under way since 2003, when project and spatial documents serving as a basis for the adoption of the investment decision were elaborated. In 2004 the investment programme was approved and the project was included in the Amended proposal for long-term and medium-term development plan of the Municipality Kanal ob Soči. In 2004 an environmental permit and building permit for the construction of all PSP buildings were obtained, except for the connecting transmission line, for which a building permit was obtained in November 2007.

In 2004 tender procedures were carried out to select contractors for preparatory works. In 2005 these procedures were carried out in connection with main construction works, turbine, unit, pipeline, hydromechanical equipment and cranes, and in 2006 in connection with other electrical equipment, monitoring and supercontrol. In 2007 connecting transmission line was put out to tender.

By December 2007, as part of main construction works at the upper reservoir, the banks of the reservoir were fully excavated and the embankments of both earth barriers built from the flysch material obtained in the excavation. In February 2007, earthmoving works began at the upper intake. The portal excavation of the intake began in June 2007, and the primary substructure was completed in August 2007.

In August 2006 portal excavation began on the intake tunnel and surge chamber. 42 m of the tunnel and 10 m of the lower surge chamber were constructed by the end of 2006. By the end of 2007, reinforced concreting was fully completed at the upper surge chamber, the elbow and vertical shaft were fully concreted, and work began on the concrete lining of the lower surge chamber. The floor of the tunnel was tamponed and concrete lining laid; five floor arch segments were concreted (ca. 30 m).

The machine and electrical part of the project implementation documentation is in the process of approval. In December 2007 wicket gate, spiral case, primary elements, rotor elements and secondary device elements used in rotor assembly were delivered to the site.

Pipeline assembly began in May 2007, and 520 metres of the pipeline were assembled by the end of 2007.

The investment is expected to be completed in 2009.

The project investor is the company SENG.

3. Renovation of HPP Zlatoličje

HPP Zlatoličje, the largest channel power plant in Slovenia, has been operating reliably since 1969. Its renovation is urgent due to the deterioration of unit and turbine equipment. The objectives of the renovation plan also include increased electricity production and increased safety for people and the environment.

In 2005 and 2006 most of the contracts with suppliers of equipment and contractors were concluded. The bulk of the equipment for secondary systems has already been supplied. In 2006 construction work began on the Melje Dam, Melje Mini Hydropower Plant, intake channel, and the engine room.

At the beginning of 2007, work began on the shared facilities of the power plant (own consumption of 0.4 kV and 220 DC). The new mechanical workshop was expanded and equipped with toilets for staff.

In July 2007, turbine 2 was shut down so that old equipment could be removed and renovation continued. Because a driver of a greater diameter was to be installed, the existing driver lining had to be removed and concrete dug out with a robot. Also, the equipment of the discharger that was embedded in concrete had to be removed. The installation of new equipment and renovation of the existing equipment continued.

By the end of the year, turbine cover was installed in its position, and unit rotor assembly completed.

The investment is expected to be completed in 2009.

The project investor is the company DEM.

4. TEŠ's Unit 6, 600 MW

A pre-investment plan for Unit 6 was presented at the HSE strategic conference in September 2005, where the construction of Unit 6 at TEŠ was ranked among the priority projects of the HSE Group.

On the above basis, an investment programme was compiled for the new power plant – Unit 6 at TEŠ. The investment programme was originally compiled for a 520 MW power plant, but was subsequently amended and now comprises and concerns a 600 MW power plant.

Parallel to the preparation and processing of investment documents, other procedures and activities are underway for incorporating the planned investment in the energy system and the environment. In November 2005, the Ministry of the Economy issued an energy permit for a 520 MW energy plant, which was subsequently changed in May 2006 to apply to a 600 MW energy plant.

The placing of the above-mentioned power plant in the environment calls for the adoption of relevant spatial documents. Procedures for the issue of two site plans is progressing in line with the time schedule. Procedures for the supply of equipment and services have also been started.

In September, a contract to take out a long-term loan of € 350 million was concluded with the EIB.

Due to modifications to the works schedule, the investment programme was amended in September to reflect an increase in the plant's estimated value and changes to the financing structure and conditions.

The importance of this project not only for the company but also for Slovenia is demonstrated by the fact that the project has been included in the National Development Project Resolution 2007–2023. Using 4 million tons of coal, TEŠ's annual electricity output , which not amounts to 3,600 GWh, would increase to 4,700 GWh, if the project is implemented. The fact that the impact on the environment is reduced thanks to improved efficiency of modern plants is also important.

Important milestones in the construction of Unit 6:
- April 2007: a call for tenders to supply a main technological equipment supplier is issued
- September 2007: the main technological equipment supplier is selected
- June 2008: environmental permit
- October 2008: a contract is signed with the main technological equipment supplier
- July 2010: building permit
- November 2014: trial run ended
- September 2015: operating permit

The project investor is TEŠ.

5. Upgrade of TEŠ's Units 4 and 5

The installation of two gas turbines at Unit 5 will increase the installed capacity of the unit by 84 MW and improve its efficiency.

The objective of the investment is to increase electricity production while consuming the entire planned quantity of coal in accordance with the long-term coal supply contract, lower the CO_2 emission factor per kWh, reduce the price of electricity, and fulfil the obligations under the Kyoto Protocol.

Work on the project to upgrade Units 4 and 5 through the installation of gas turbines is progressing as planned. In February, a permit for the construction of gas turbines was obtained and a call for tenders to supply construction work and to construct a gas turbine drive facility was issued. Two contractors were selected and contracts signed. A call for tenders to supply the first main transformer was also issued, and in April a contract was signed with the chosen supplier.

A foundation for turbines and a ground slab for the first gas turbine were constructed by the end of June. In July the construction of steal structure for the drive facility began. In July the assembly of the first gas turbine began, which lasted by the end of 2007. After a successful completion of start-up tests, the first gas turbine is expected to begin trial run in May 2008 and the second in September 2008.

The construction of a gas pipeline from Šentrupert to Šoštanj is also progressing as planned.

The project investor is TEŠ.

6. PSP Kozjak

PSP Kozjak will increase the competitive strength of DEM and HSE in terms of production and economy. It will enable the pumping of water to the reservoir during periods of low electricity prices, and the generation of electricity during periods of higher electricity prices. The higher reliability of power will result in favourable economic effects for HSE and DEM.

In 2007 various scientific bases, which are required to amend the NSP programme, prepare technical documentation, and facilitate decisions by project engineers, planners and the investor, were ordered and prepared. Scientific bases required in connection with NSP-related documents have been finalised. The preparation of groundwork required by the investor for the purpose of public presentation is still underway, as is research regarding the impact on underground water, impact on the accumulation, and a programme of necessary model research. The project design submission procedure (BPP, IP and service engineering) has been completed.

The investment is expected to be completed in 2012.

The project investor is the company DEM.

2.8.2 Other major investments of the controlling company

Balancing group control centre

To maximise performance, the HSE Group endeavours to take advantage of synergies associated with a wide spectrum of production units in the HSE balancing group. Because technological, operating and cost-related characteristics of individual production units differ, a cost-effective production of electricity can be achieved through appropriate production scheduling. And since the price of electricity fluctuates in the market, the economical dispatching of production units while observing technical criteria is all the more important.

The new control centres of HSE and DEM play a crucial role in this area. The opening of the new centres in April represents one of the most important events of the Slovene electricity industry. The main tasks of this collective acquisition, which is based in DEM's office building, include modern, optimal, and high-quality management of electricity production from one place, and the management of operations of all HSE Group power plants to ensure reliable and optimal operation.

The new control centres (HSE CC and DEM CC) consist of a parent centre which belongs to HSE (HSE CC) and controls the entire HSE balancing group, and DEM's centre (DEM CC) which ensures optimal exploitation of the Drava River water potential in Slovenia, plans potential output, and adjusts activities to changing energy and water conditions. The centres coordinate their activities and work together with control centres of Austrian and Croatian power plants on the Drava River.

Important functions include output planning, operation implementation, balancing of deviations from planned output, and analysis of the overall output of the HSE balancing group. Thanks to their modern concept, the centres will enable the entire Group to be more competitive and will further streamline its operation because a unified system will facilitate system maintenance and administration while enabling better adaptation both to the requirements of the electricity system and to the market in electricity and electricity products.

The concept of the new centre has been developing since 2002 when the management of the HSE balancing group began. Owing to obsolete hardware, it was not possible to upgrade the existing DEM control centre, which is why a decision to build new and joint control centres of HSE and DEM was adopted. This was followed by demanding project implementation and numerous factory tests at home and abroad. New equipment was first tested in Maribor in 2006. After a trial run at the beginning of 2007, both control centres were officially opened in April. Trial run was completed in May, with the final handover taking place in June.

In the second half of 2007, software was updated to enable a more comprehensive integration of TET in the HSE balancing group. In addition, a HSE control centre workstation was established in Velenje for statistical and calculation purposes.

With regard to SEL it was agreed that they would make a transition to a separate control centre belonging to the company GEN energija. The transition was completed in December. Due to significant changes in the balancing group (SEL, TEB), additional changes to the HSE control centre software will be required in 2008.

2.8.3 Other major investments of subsidiaries

TPP Trbovlje

The company executed a good half of the planned investments. Lower-than-planned investments are the result of decisions regarding the construction of a new energy facility and of both streamlining of investments in the development of a disposal site and modifications made to the time schedule for the construction of a waste disposal site. In 2007, falling within the category of investments in the reliability of operations, most investments were made in the reconstruction of air heaters.

Velenje coalmine

The bulk of funds was used for excavation equipment, which included frontal and directional chain conveyor with accompanying equipment, excavation machinery equipment, electric motors, and compact stations.

2.9 Informatics

At the beginning of 2007, all information systems of the HSE Group were successfully adapted to the transition from SIT to €.

Standardisation of IS at HSE

Based on external workshops, the HSE Group was advised to adopt a streamline consolidation approach whereby the physical number of IT resources is decreased and systems, services, solutions and processes unified. In some companies, a need arose to integrate the existing systems. To this end, all companies agreed on a project task, and a supplier was chosen to prepare a comparative analysis of the consolidation and integration of the information platform in the HSE Group, but eventually the contract was not signed.

ODOS document system

The implementation of individual processes, optimisation and improvement of the existing processes, and general improvements to the system's functionality continued. The latter included the opening of a document system to the external Internet environment based on embedded restrictions.

UPIS Management Information System

UPIS has been updated with information on TET's production and modified to automatically capture additional information from the trading information system, and numerous reports have been adjusted.

An environment for the management of a subsidiary in Hungary and link with the ODOS document system have been established. Individual modules have been upgraded in various ways.

Business information system

System capacities have been upgraded, facilitating the installation of new servers, the capacity of which can be increased on-line, if need be. Among other things, domain servers have been upgraded and secure Internet e-mail access provided.

System software

IT infrastructure management application has been upgraded with the possibility of monitoring and reporting daily, monthly and yearly availability of Internet access, functioning of e-mail, access to databases and wireless network connections.

2.10 Financial operations

Main activities

In 2007 the financial operations of the HSE Group were primarily aimed at:

- ensuring solvency and optimising liquidity of the HSE Group,
- implementing financial policy with respect to banks and other financial institutions,
- ensuring capital adequacy,
- managing indebtedness,
- managing related risks.

Ensuring solvency

The basic function of financial operations is to ensure the solvency of the HSE Group and, consequently, the undisturbed performance of other business activities. In 2007 short-term solvency of the HSE Group was ensured by monitoring and optimising short-term cash surpluses and deficits in HSE Group companies. In addition, cash flows were managed through liquidity reserves in the form credit lines granted by domestic and foreign banks, diversification of investments and liabilities, maturity adjustment of receivables and liabilities, and consistent collection of receivables.

Ensuring necessary financial sources

In 2007 both the controlling company and the HSE Group as a whole were very active in the field of financing, particularly in ensuring the necessary financial sources under favourable terms for the implementation of technically, organisationally and financially demanding investments. HSE Group companies borrow funds independently in accordance with the conditions and procedures laid down in the Decree on the terms and conditions and methods of borrowing under Article 87 of the Public Finance Act. The HSE Group carefully examines various financing options and by choosing the most favourable financial sources lowers the value of necessary project investments and costs of financing. Within the HSE Group, two loan agreements have been signed with the EIB in 2007. TEŠ and the EIB signed a loan agreement in the amount of € 350 million in connection with the investment in Unit 6, while SENG signed a loan agreement in the amount of € 13 million in connection with the investment in PSP Avče.

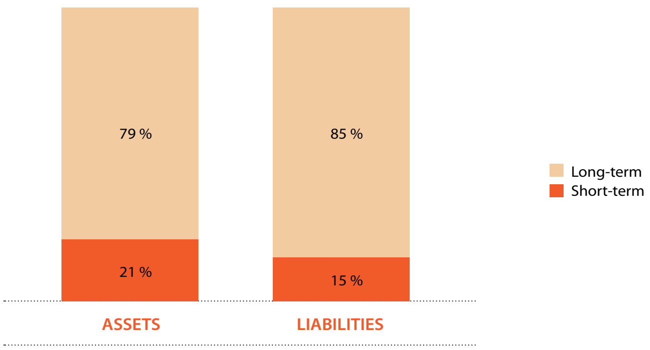
At the end of the financial year 2007, the Group's financial liabilities totalled € 307.2 million, of which long-term financial liabilities accounted for 73 % and short-term financial liabilities for 27 %. The long-term financing to assets ratio of the HSE Group was 107 %. The majority of loans have been taken out in the domestic currency and were thus not exposed to the currency risk. Most loans have been taken out at a variable interest rate, which requires the use of hedging instruments.

Management of financial risks

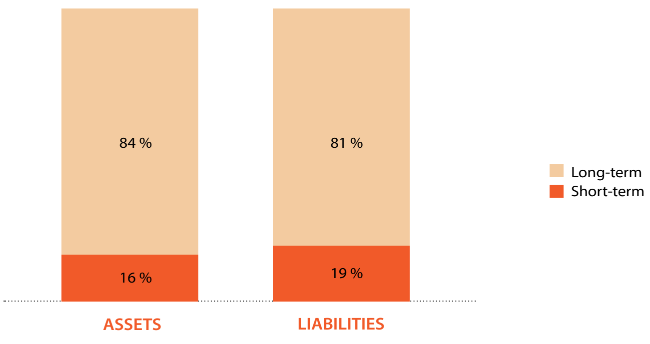
In the risk management process, special attention was paid to interest rate risk, credit risk, currency risk, and liquidity risk. Liquidity risk was effectively managed by monitoring and optimising short-term cash surpluses and deficits in HSE Group companies. Within the scope of interest rate risk management, derivative financial instruments provided by banks were used to change a portion of variable interest rates into fixed interest rates. Within the scope of currency risk management, derivative futures were used for the purpose of foreign exchange rate hedging, especially in the case of companies abroad that are exposed to currency risk through long-term contracts. The appropriateness and correctness of contracts aimed at the hedging of interest rate and currency risks is managed through the monitoring of developments in the European and global money market.

Balance sheet structure of the HSE Group and the controlling company as at 31 December 2007

HSE Group



Controling company



Capital adequacy

Ensuring capital adequacy is one the most important responsibilities of people in charge in companies of the HSE Group. Information from financial reports of the company HSE and the HSE group (presented below) proves that HSE Group companies complied with the capital adequacy requirements since the amount of their capital was adequate considering the volume and type of transactions and risks to which they are exposed in executing those transactions.

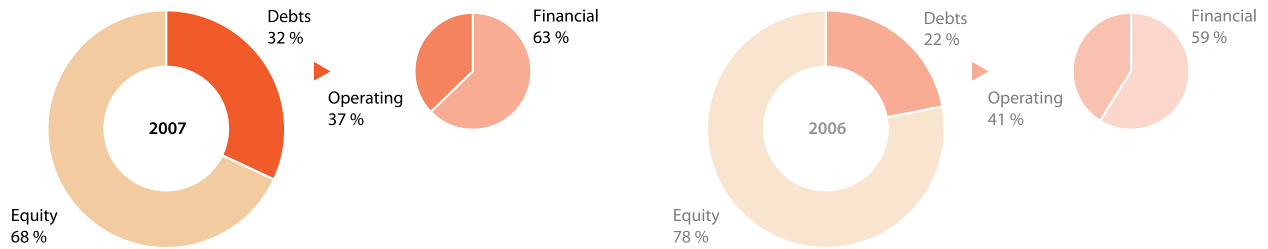
However, the HSE Group is aware of the fact that non-financial elements are increasingly being included in the capital of companies. These are the so-called soft factors, such as staff, information etc., which in addition to financially responsible management requires from managers of HSE Group companies to pursue socially responsible management from the aspect of capital adequacy.

Indebtedness ratio

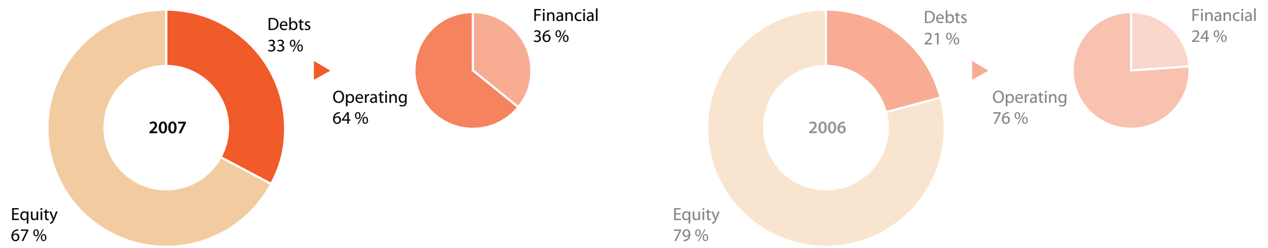
Indebtedness ratio is an important indicator of the business and financial situation. The analysis of the financial position of HSE Group companies reveals that from the aspect of indebtedness the business and financial position of HSE Group companies is under control, with indebtedness ratios not exceeding thresholds delimiting safe operation.

The share of debt (as per long-term and short-term liabilities presented in the balance sheet) in the parent company's financing amounts to 33 %, whereas in the case of the Group it equals 32 %. In the debt structure of the parent company and the Group, financial debts account for 36 % and 63 %, respectively. A more detailed debt structure is presented in the financial reports of the controlling company and the Group.

Equity-to-debt ratio for the HSE Group



Equity-to-debt ratio for the controlling company



Goals achived

The analysis of financial operations of HSE Group companies in 2007 reveals that all goals have been achieved: all companies complied with capital adequacy requirements, there were no problems with liquidity, there were sufficient financial assets to carry out investments, and indebtedness was under control. Moreover, observing the diversification principle, available cash provided adequate return.

2.11 Risk management

The HSE Group knows that risk management is crucial to achieving the goals set. To this end, we continued, in 2007, the comprehensive risk management process by:
- appropriately managing all key risks identified,
- identifying all new risks.

The HSE Group is exposed to risks in all areas of its operation, particularly in electricity production and marketing, and consequently in the area of finance.

Market risk

In 2007 the controlling company continued to develop its price and market risk management model. All year optimisation of the Group's production units was carried out on a weekly basis, while the Group's open position, the company's trading activities, price fluctuations in wholesale electricity markets, CO_2 emission coupons, other energy products, and the exposure of the company's trading portfolio to market risks were monitored in terms of value and quantity. To measure the exposure of the company's trading portfolio to market risks, standard risk assessments methods, such as the Monte Carlo VaR method, were used with a 95 % confidence level, based on which the risk value of the portfolio and year-to-year changes in probability distribution of the portfolio value were observed. The results of the risk management analysis were summed up in weekly reports called "Analysis of Trading Portfolio and Risks", based on which decision regarding trading in the electricity and CO_2 emission coupons market were adopted.

In 2007 a model for monitoring exposure of the CO_2 emission coupon trading portfolio was developed which included both volume and price risks. For trading and hedging purposes (to offset CO_2 coupon shortfall associated with TEŠ's operations), the portfolio included transactions involving CO_2 coupons that were carried out in 2007. The trading portfolio exposure was assessed weekly using the mark-to-market method, meaning that the value of a transaction was measured as a difference between the cost and market price of a CO_2 emission coupon. If transactions were executed at the EEX power exchange, a fee was included in the assessment of value. In assessing an open position for a CO_2 emission coupon trading portfolio, the following was considered: the quantity of CO_2 emission coupons awarded to TEŠ free of charge for the period of 2005–2007, actual and planned production at TEŠ in 2007, shortfall of emission coupons from 2005 and 2006, and an average factor of specific CO_2 emission per 1 MWh of electricity produced at TEŠ. The model-based results were summed up in weekly reports called "Analysis of Trading Portfolio and Risks".

In addition to developing a model describing the exposure of the CO_2 emission coupon trading portfolio, stress testing was performed in 2007. Stress testing is a risk management tool which is used in particular to analyse a potential negative impact of an extreme change in the value of a variable or a group of variables on the company's operations. The stress testing method is used primarily for the following purposes:
- analysis of an impact of extreme changes in the value of one or more variables on the value of the company's trading portfolio (analysis of an impact of abnormal market conditions on the company's performance),
- in-depth insight into the company's exposure to risks,
- accuracy testing of the VaR risk exposure measurement method,
- identification of high-risk portfolios and trading quantity limitations across portfolios in view of limitations regarding the company's exposure to risks.

Stress testing is extremely important from the risk management perspective because standard risk measurement methods, such as VaR, which are based on normal changes in the value of variables, fail to capture extreme situations and their potential impact on the company's performance. Stress testing complements standard risk measurement methods.

Volume risk

Volume risk consists of risks arising from production uncertainty, consumption uncertainty, and energy supply uncertainty.

Production uncertainty is mainly associated with the question whether electricity will be available on the market. It is also linked to operational risk, which tries to assess the probability and effect of a turbine or any other production unit breaking down. Particularly important is the impact of uncertain hydrology, because a large share of electricity is provided by hydropower plants.

Consumption uncertainty is due to the impact of weather and temperature, load flexibility, seasonal cycles, and stochastic consumption growth.

Energy supply uncertainty is due to random failure of power lines and other equipment, or to interventions by an operator of the power transmission network as the result of transmission path overload.

Electricity production is exposed to the following risks of deviation from planned distribution:
- the risk of non-supply of electricity from hydropower plants due to hydrological and meteorological conditions,
- the risk of non-supply of electricity from thermal plants due to outages or technological and ecological limitations to production,
- the risk of non-supply of coal from the Velenje Coal Mine due to production hold-ups caused by outages, breakdowns of technological systems, accidents, or other geological disturbances,
- in periods of increased production at thermal plants, economic limitations should be considered, i.e. any changes in the overall method of CO_2 tax payment, and trading in CO_2 emission coupons.

In 2007 the production of hydropower plants of the HSE Group was 564 GWh lower than planned, whereas at TEŠ the plan was exceeded by 306 GWh and at TET by 163 GWh. The deviations of actual daily water inflows from the daily forecasts were also a problem. These deviations were expressed as deviations of hydropower plant production from the forecasted schedules. To the extent possible, the deviations were balanced by adjusting the production of thermal power plants, and by increasing sales and purchases.

In the case of thermal power plants, a 2 to 4 % unexpected production outage has to be considered in addition to planned shutdowns during overhauls. This percentage equals ten to twelve daily production outages which can be offset by starting up gas-fired power plants, but only for short periods. Alternatively, to the extent possible, outages can be offset by rebalancing HPP accumulation and purchasing electricity on the market. TEŠ's unexpected production outage was 7.6 %. This unfavourable outcome is primarily the result of Unit 3 breaking down.

Due to a less complex production process, HPPs are more reliable. The unexpected production outage per turbine ranges between 0 to 1.5 %. However, in the case of HPP Boštanj, which is in the trial run phase, the unexpected production outage amounted to 35.4 % due to Unit 2 failure.

Coal supply could be interrupted due to breakdowns of technological systems, accidents or other geological disturbances affecting the excavation of coal. According to the assessment of the coal mine's technical management, most potential outages can be remedied without significant production interruptions. Rarely would such breakdowns result in 14 to 20 days of interrupted supply. There is relatively low probability of a major breakdown that would require a six-month shutdown. Based on the above assessment, minimum joint coal stocks of the HSE Group have been determined. They stand at 3,000 TJ (February–October) and 4,000 TJ (November–January).

The HSE Group's electricity production is managed from the Control Centre in Maribor. The main objectives of production management include:
- to ensure minimum deviations of production and the balancing group from schedules,
- to ensure optimal distribution of power between available turbines,
- to promptly activate reserve capacities in emergency situations.

The quality of management of the HSE balancing group is reflected in the minimisation of deviation costs, as the deviations of balancing group members are reduced through the adjustment of their production. In 2007 the HSE balancing group was comprised of the production units of the HSE Group, NPP Krško, TEB, SEL, end consumers to which HSE supplies electricity, and balance subgroups of four distribution companies, Elektroprodaja and Enel. The balancing group's deviations include all deviations in generated production and consumption from forecasted schedules. The HSE Group believes that the management of the HSE balancing group was successful in 2007.

Financial risks

At the HSE Group, special attention is given to the financial risks to which the Group is exposed in its operations, and to adopting measures for managing such risks.

The Group is not exposed to any significant currency risks in its foreign currency operations. The company's largest net currency exposure is exposure to the euro which arises both from domestic and foreign receivables. The volume of operations in other currencies is negligible and so the risk in relation to these currencies is low.

Liquidity risk is the risk associated with insufficient financial sources and the resulting inability of a company to meet its commitments in due time. Short-term liquidity is provided by matching and planning of cash flows. At the HSE Group, short-term surpluses and deficits of cash between companies are monitored and optimised. The above system, liquidity reserve in the form of credit lines granted by domestic and foreign banks, diversification of investments and liabilities, maturity adjustment of receivables and liabilities, and consistent collection of receivables facilitate the management of cash flow, which ensures the company's and the Group's payment capacity and low level of short-term liquidity risk. Moreover, good access to financial sources and markets, a high credit rating of the company which is the result of successful operations, and a possibility of ongoing generation of cash flows from operations ensure that the liquidity risk is estimated as moderate.

Interest rate risk exposure includes the possibility of increased costs of financing at the source because of a variable interest rate, which stems from changing interest rates in the market. Most interest rates charged on long-term loans are hedged using appropriate derivative instruments, through which a portion of variable interest rates has been changed to fixed rates. The appropriateness and correctness of contracts aimed at the hedging of interest rate risks is managed through the monitoring of developments in the European and global money market. The HSE

Group estimates that thanks to the above measures regarding interest rate risk hedging, large share of equity and low level of indebtedness interest rate risk is low.

The HSE Group manages the credit risk of individual partners by thorough verification of their credit ratings, setting of limits, and monitoring and managing of credit exposure of individual partners with regard to their limits. In 2007 strategies and rules for the measurement and control of the company's exposure to credit risks were adopted. As of September 2007, it is possible for the parent company HSE to issue guarantees to its foreign subsidiaries. In 2007 electricity transactions that were based on annual contracts were mostly secured through bills of exchange or bank guarantees. This was the case for transactions which exceeded the limits of a particular partner. Transactions with some partners are regulated in detail using EFET Agreements, whereas in other cases collateralisation was not required due to partner's strategic position and/or financial stability. For individual partners, the need for collateral is determined based on rules which, among other things, lay down the setting of limits and monitoring of their utilisation. In 2007 short-term electricity trading was carried out on power exchanges (these transactions were thus secured through the obligatory membership system), through trading portals, and bilateral agreements. In the latter case, EFET Agreements have been concluded with most of such customers, except for transactions for which collateralisation is not required due to a partner's specific position, as in the case of trading under annual contracts.

Human resources risk

The Group's activities, intensive growth and the implementation of strategic plans require that its employees steadily upgrade their existing knowledge, acquire new skills and competences, and demonstrate a dynamic, multidisciplinary approach, self-initiative, and ability to work in a team.

The loss of key employees is considered the main human resources risk. This can only be prevented through good management and communications with/among employees, continuous professional growth and bonuses or stimulating working conditions and environment. The exposure to human resources risk is estimated as low.

Information system risk

The management of IT risks is aimed at enabling the HSE Group achieve its plans on the basis of better security of IT systems which store, process and transmit the Group's data.

IT risk management is integrated into all levels of software and hardware use.
The following IT risks have been recognised as having an impact on operations:
- Internet access failure,
- e-mail failure,
- open link (on-line marketing support) failure,
- network connections failure,
- data security.

The HSE Group estimates that IT risks were successfully managed in 2007.

2.12 External communication

It could be said that in terms of content and communications, the year 2007 was focused on sustainable development which has been at the heart of HSE's activities since its establishment. The HSE Group is aware that it is part of the environment in which it operates, so it is only right that some of the Group's assets should be invested back into it.

Communication activities in the area of environmental responsibility culminated in the "Energy saving light bulb in every home" campaign, during which the HSE Group, in cooperation with Slovene electricity distribution companies, distributed 21W energy saving light bulbs to Slovene household consumers. The campaign was part of a broader campaign called Energija si, which was well accepted by the public; communication-wise, it was supported with a press conference and a press release. This was also the case with the promotion of HSE's flagship product in the area of renewable energy sources – Modra energija – which was promoted using various communication tools in 2007, including advertising, website, and promotional articles in the Slovene media.

HSE's activities concerning the construction of buildings used in the production of electricity from renewable sources are also indirectly related to care for the environment. In 2007 the construction of HPPs on the lower Sava River continued and was focused on HPP Blanca and HPP Krško. Communication support was focused both on the energy and infrastructure side of the two future hydropower plants. In the light of a dispersed portfolio of electricity sources, new production facilities of HSE also include thermal energy. We could say that the purchase of the Bulgarian thermal power plant and heating plant Ruse, through which HSE obtained an important electricity production source, was the theme of the year. The acquisition of Toplofikatsie-Ruse EAD was communicated to the public as an important part of HSE's strategic orientations which include becoming a leading electricity trader in SE Europe. From the aspect of geographical position and links with Slovenia, the acquisition represents an important area for the expansion of business activities, which is why HSE is establishing new companies, representative offices and subsidiaries in this part of Europe.

The end of 2007 was marked by the announced increases in electricity prices. As the largest Slovene producer of electricity, HSE found itself in the midst of numerous questions, concerns and anger. HSE is aware of considerable increases in electricity prices over the past years, yet this is something households will not be able to avoid over the long term despite of a large share of power plants being public-owned. Moreover, the price of electricity increased much more in the market than for households. HSE therefore estimates that the profit it is currently generating also from international trading will be used in the next year largely to offset big differences in electricity prices. These are the facts that HSE tries to present to the public through interviews and answers to the press.

In its communication activities, HSE considers all publics, but above all its employees who are its most important spokesperson. The magazine Energija, which has been published for the sixth year, presents events taking place within and outside the Group to employees of the HSE Group (more than 4,000 people) in a concise way. It also includes opinions, comments and views of the widest range of experts in the Slovene electricity market.

The above is a summary of communication activities in 2007 which will serve as a basis for communication activities in 2008. These will continue to be focused on achieving two key goals: informing the public and ensuring HSE's visibility and reputation.

2.13 Research and development

In the time of worsening energy situation in Europe and around the world, transformation of energy markets and introduction of common European legislation, Slovenia needs to take decisive steps to protect its national interests: to ensure reliable energy supply to consumers, lower greenhouse gas emissions, increase energy dependence on imports, and ensure the competitiveness of its industry.

HSE's long-term development policy includes and supports activities related to ensuring uninterrupted and safe operation, the development and construction of new production capacities, and intensive exploitation of renewable energy sources, increased energy efficiency and development of new technologies.

The main goal of electricity systems is to ensure secure and reliable electricity supply to customers, in which the production side of the system plays an important role.

Because the construction of new production capacities represents a long-term, multi-annual project, an ongoing analysis of the adequacy of production capacities is required over the medium and long term. The goal of the analysis is to draw attention to the supply situation, to guide the preparation of relevant investment plans and timely construction of facilities. To this end, in accordance with its long-term strategy, the HSE Group performs numerous activities to support new investment projects in the area of production sources.

In relation to the above, it pursues four important goals, as provided in the European energy policy:
- to increase the share of renewable energy sources,
- to use new technologies in the exploitation of fossil fuels,
- to decrease greenhouse gas emissions,
- to increase energy efficiency.

Renewable energy sources

Hydropower has the most potential in the area of RES, where for years HSE has been carrying out numerous projects to modernise existing HPPs, as well as activities for a faster construction of new production facilities.

While the construction of the chain of HPPs on the lower Sava River went on without interruptions in 2007, activities concerning documentation for the construction of a chain of HPPs on the middle Sava River continued at an intense pace.

Important yet less used opportunities to improve the security of energy supply, protection of the environment and economic development include cost efficient measures for efficient energy consumption and exploitation of renewable energy sources. These measures are aimed at ensuring secure energy supply, environment protection, increase in employment, and better competitiveness of the economy. Their purpose is to stimulate investments in plants and systems that are used to increase consumption efficiency or for energy cogeneration.

For domestic industry, such measures represent a potential investment impetus also in the area of research and development.

The use of wood biomass is the second most important source of RES in Slovenia and has an important place in HSE's strategic plans. In this area, HSE obtained relevant technical and investment documentation for a cogeneration plant in Gornji grad in the past year.

In the area of cogeneration, HSE also took part in the preparation of a project for using biogas produced on the basis of processed animal by-products and biodegradable waste at Neverke next to Pivka.

To expand the exploitation of renewable energy sources in the production of electricity in Slovenia, studies were prepared to assess the available potential of geothermal energy, hydropower (for the purpose of mini HPPs), solar energy and biogas consumption.

The assessment of the available RES potential in Slovenia represents a solid basis for further decisions and for determining priority projects. In 2008 activities will continue to obtain investment documentation and construct production facilities that are used to exploit RES.

Key role of energy technology

In achieving strategic goals and increasing operating performance, active monitoring and use of new technologies is also important. Technological progress can create new opportunities for exploiting large, but mostly untapped RES potential, and also for reducing greenhouse gas emissions from thermal energy facilities. For this reason, development is very important for cooperation in the area of new technologies applicable to renewable sources and capturing and sequestration of CO_2. Production companies of the HSE Group continually carry out their own projects to revitalise and technologically renew their production plants for the purpose of increasing the efficiency of systems and decreasing impact on the environment.

When TET was included in the HSE Group in 2007, the possibilities for setting up new production capacities at the existing location were analysed for the purpose of continuing electricity production in Zasavje after the existing production has been discontinued. To this end, TET's investment programme has been revised.

In future, the HSE Group wishes to actively monitor and take part in the development of thermal production technologies that are based on the so-called zero greenhouse gas emissions and technologies for the capturing and sequestration of carbon, and in the development of new technologies for the exploitation of renewable energy sources.

Energy policy

In the area of European energy policy, the year 2007 was marked by harmonisation between member states regarding the planned measures for achieving goals in the area of renewable sources, lowering of greenhouse gas emissions, implementation of efficient energy consumption, and biofuel use until 2020. In cooperation with relevant government bodies as well as by participating in various working bodies and associations at the EU level, HSE actively participated in the preparation of proposals and comments regarding the announced EU directives. In future, all directives will have to be appropriately transposed to the national legislation, and the burden regarding the achievement of national goals distributed among energy market participants. At the national level, HSE actively participates in the preparation of legislation amendments, among which draft Energy Act amendment was the most important.

Slovene energy companies need to define their starting points and tools through which they will be able to adequately support the Government's efforts to establish good conditions for their future development. A strategic review of expected changes needs to be prepared and a vision regarding energy supply and consequently the development of energy and electricity system needs to be drawn up.

It is important to constantly check priorities against the energy supply situation, and to select strategic goals.

Cooperation with professional associations and EU consultative bodies

Through active participation in professional associations of electricity producers and consultative bodies of the EU, and cooperation with the Government of the Republic of Slovenia and competent ministries, HSE takes part in the preparation of energy policy and, by presenting its proposals and views, participates in the drawing up of energy legislation, which has an important effect on operations of the entire HSE Group.

Future development activities

With its development-oriented strategy, HSE also actively participates in numerous professional organisations, including EURELECTRIC, EFET, CIGRE and WEC.

The implementation of development projects and active participation in the preparation of energy policy will ensure more efficient and successful operations of the HSE Group, strengthen its competitiveness and market position in the broader area of Central Europe, and expand its activities to the area of SE Europe.

2.14 Plans for the future

Like other companies operating in the European market, HSE also faces quick and radical changes that affect its operations every day. For this reason, prompt identification of challenges and risks as well as the preparation of additional strategies aimed at maintaining the Group's leading position in the country and strengthening its role in SE Europe, where it has been establishing itself as a strategically important player, are indispensable for efficient operations. In this respect, the Group's position is subject to numerous factors. These include in particular a changed trend of electricity demand and supply and the resulting changes in prices. Balkan countries, once known as a relatively cheap source of electricity, now face great demand which exceeds supply and leads to increasing prices and reversed purchasing and sales flows. Should such trends continue over the long-term, this would considerably increase the region's and Slovenia's import dependence, which is why we need to begin thinking about tomorrow today.

Investments in new production capacities are a necessity and a market and business imperative which is included in HSE's strategic guidelines as a priority. The construction of HPPs on the lower Sava River, Unit 6 at TEŠ, two PSPs, plans for power plants on the middle Sava River – these are the projects that will reduce Slovenia's import dependence over the long term, and are already successfully underway as provided in their time and financing plans. However, we will not be able to fully balance out or overcome import dependence only through investments in new production capacities; rather, soft approaches are becoming increasingly important. They focus on each individual and appeal to their conscience and awareness about responsible consumption of electricity and positive attitude towards natural environment.

The HSE Group is the promoter of the Blue Energy product and a pioneer in raising the awareness of the Slovene public about energy economy. It has been conducting such activities in Slovenia for more than two years, allocating to them the necessary sources because it is aware of the responsibility to the environment and future generations. After all, in the light of European regulations and legislation, this is also its job.

In March 2007 the European Commission adopted goals which require electricity companies to adjust their strategies and adopt concrete measures in this area. In January 2008 Slovenia took over the six-month EU presidency. Undeniably, energy has been a key area over the recent years, and as such, it will be one of the main topics of the Slovene presidency. This is a big challenge also for HSE and represents a reflection on new, alternative energy sources and their efficient combination.

There are many factors that will affect future operations of the HSE Group, and only motivated and satisfied employees will be willing to successfully integrate them in their work. Caring for employees as the main promoters of the HSE Group thus remains the guiding principle of the human resources policy, and all organisational and structural changes that the Group faces, including internal reorganisation and progressive privatisation through capital increase, will adhere to this principle.

Like the entire Slovene (and European) electricity sector, the HSE Group also faces great challenges and opportunities that will affect its operations. Its conduct of business will have to be adapted to the changed legislative framework, structural challenges and market conditions. The latter is mostly subject to changes in the markets of SE Europe, Slovenia's increasing import dependence, and requirements of the European Commission to increase environmental responsibility through saving measures, use of renewable energy sources, and lower greenhouse gas emissions. In future, producers, wholesale traders and electricity traders that will comply with regulations addressing this area and thus demonstrate their respect for the environment in which they operate will have an advantage.

The construction of new electricity production sources, which is being carried out in line with financial and time schedules, will at least partly reflect these requirements. Future organisational and ownership structure of the HSE Group will be adjusted to changed market conditions, with due consideration being given to the guidelines of the Republic of Slovenia pertaining to the privatisation of the Slovene energy industry. The HSE Group wishes that a new owner would continue to strive for maintaining the leading position of HSE, a company responsible for secure and reliable electricity supply in Slovenia, in the Slovene energy system, continue the path of the company and the Group to the extent and the speed at which growth and development have been pursued until now, and achieve operating results that would be to the benefit of all our key stakeholders: the owner, employees, business partners, and the community into which the HSE Group is integrated.

2.15 Important events after the end of the period

HSE's business plan for 2008 is adopted

- At the end of January 2008, at its 24th regular session, the Supervisory Board of HSE adopted the business plan of HSE d.o.o. for 2008. In February the business plans of DEM, SENG, TET, PV and HSE Invest for 2008 were adopted by their respective supervisory boards or general assemblies.

GEN energija joins the joint venture

- After concluding the contract to sell and purchase SEL's interest, GEN energija joined the joint venture for HPP construction on the lower Sava River on 1 January 2008.

The company Hidroelektrarne na spodnji Savi is established

- On 12 February 2008, a contract of members was signed and the company Hidroelektrarne na spodnji Savi d.o.o. (HESS) established. The members of the company, which was established from the coordinator of the construction of HPPs on the lower Sava River, a joint venture, include HSE, DEM, SENG, TEB and GEN energija. The joint venture operated successfully within the HSE Group. The first hydropower plant, HPP Boštanj, was constructed in accordance with the deadline, and the construction of HPP Blanca and HPP Krško began as planned. To ensure the transparency of investments as well as compliance with the concession contract and the Concessions Act, the venturers decided to transform the joint venture into a separate legal entity, the priority of which would remain the construction of other HPPs on the lower Sava River, although there are also possibilities to continue the construction of a chain of HPPs on the middle Sava River. GEN energija joined the members of the newly established company HESS, thus increasing the reliability of the financing of the chain's construction and, consequently, shortening of construction time. The project to construct the HPP chain on the Sava River remains an all-Slovene project, which will ensure a sufficient share of renewable electricity sources in Slovenia's energy balance. Thus, it will be easier for Slovenia to satisfy all measures envisaged in the most recent EU proposals regarding environmental impacts, according to which Slovenia has to ensure at least 25 % of renewable sources until 2020. Most certainly, the Sava River has all the required characteristics that would contribute towards achieving this goal.

Collection of receivables due from the provision of system services through court

- In March 2008, court proceedings were initiated for the purpose of collecting HSE's receivables due from the provision of system services.

I DO palm-reading.

To be honest, I don't do it much lately. My colleagues aren't interested in my predictions. They know already: "Sorry, buddy, but it's perfectly clear that this line of action will bring such and such results. So I really don't need to know what the lines on my palm are saying."

For those who have no idea what will happen at work - let me know, and I'll read their palm.

Contact: info@hse.si

03

CORPORATE SOCIAL RESPONSIBILITY REPORT

3.1 Responsibility to employees

Operating results show that in 2007 the HSE Group successfully linked together policies and resources from various fields, thus ensuring and continuing a string of success it has been enjoying since the beginning of coordinated operation of HSE Group companies. This confirmed yet again that the Group keeps track of the present and plays an active role in creating the future. It established a partnership which brings together all major stakeholders of the Group. This is its source of power and a catalyst for change which brings new opportunities and possibilities to progress.

The HSE Group responded to global changes by increasingly focusing on employees and constantly raising awareness not only about its own but also broader social responsibility. The HSE Group is distinguished by employees with a broad range of interests, skills, good manners and acceptance who are important "architects" of the Group's organisational culture and its spokespersons both inwards and outwards.

Human resources policy

The motto "always more and better" is also reflected in the human resources policy, at the heart of which is systematic management of employees. The policy aims to create and provide conditions for the realisation of personal ambitions on the one hand and strategic goals of the HSE Group on the other. At the same time, of course, we try to meet the needs of the wider environment. All human resources management processes conform to the above policy, because this is the only way to ensure the satisfaction of employees, their confidence and commitment, and their loyalty to the Group, which in turn ensures future development and success of the HSE Group. The Group needs individuals who are willing to strive for noticeable and measurable operating results and who realise business visions and strategies. The Group endeavours to clearly define its expectations and objectives, to sincerely and authentically care for its employees, and to stimulate achievements. At the HSE Group, we are aware that strategies alone do not lead to success. Success is achieved by people and the values guiding them.

Key elements of our human resources management strategy remain as follows:
- to support business and strategic goals of the Group,
- to employ highly qualified staff and improve the educational structure,
- to maintain an optimal number of employees,
- to invest in the development of knowledge and competences of employees, focusing on the development of own knowledge and training of team leaders,
- to set up a flexible remuneration and promotion system,
- to invest in high-quality and healthy working environment, and continue a programme for the protection and strengthening of health in the working and living environments.

Regular and close cooperation with trade unions and workers' councils of the HSE Group is a practice that was introduced together with the establishment of the HSE Group. Such method of cooperation ensures a balance between various interests and, consequently, a broad consensus regarding the Group's development plans and provision of social security.

3.1.1 Employees in the controlling company

Being the promoter of secure and reliable electricity supply in Slovenia, the HSE Group is also attractive as an employer: job applications are received from applicants with developed careers as well as those at the beginning of their careers. The

recruitment policy is based on a combination of:
- internal recruitment within the HSE Group, which offers highly qualified experts of various profiles and with a wide range of general and specific competences,
- external recruitment, by way of which an inflow of fresh ideas, different views and experience is ensured.

As regards executives and experts, a policy of training own staff has been established.

Intensive growth, implementation of development plans, and complex structural and market challenges that the HSE Group faces require stronger workforce. On 31 December 2007, the controlling company had 109 employees, which is 12 employees or 12 % more than at the end of 2006. Pursuant to the business plan for 2007, the number of employees increased in the following areas: management consulting department (1), legal department (2), controlling department (1), finance department (1), accounting department (1), marketing division (4), general affairs division (1) research and development division (2). The number of employees in the internal audit department decreased by one.

The employment of four co-workers was terminated: in two cases on the basis of mutual agreement, in one on the basis of a trainee agreement termination, and in one because of death.

Pursuant to the amendment to the Articles of Incorporation of the limited liability company HSE, a two-member management was introduced. For this reason, the company concluded a management contract with a general manager, which does not entail an employment relationship.

The actual number of employees is lower by 9 % or 11 employees in comparison with the number projected in the 2007 business plan, in particular due to the following reasons:
- two co-workers left the company and one died,
- notice terms of two new employees who will commence employment in the first and second quarter of 2007 on the basis of calls for applications issued in the third quarter of 2008,
- termination of employment by a scholarship recipient,
- internal transfer of a worker from the internal audit department to the controlling department without filling the vacant position,
- due to changed circumstances, some calls for applications to fill positions in the administration support, communications department, finance department, accounting department, IT department, and credit risk management department were not carried out.

Employment was the most intensive in the first half of the year when the controlling company hired 7 people or 70 % of all new recruitments.

Number of employees of HSE d.o.o.	
01/01/2007	99
31/12/2007	109

Voluntary pension insurance

HSE has had its pension plan or a voluntary supplementary pension insurance programme since 2002 when the first workers were transferred to HSE from its subsidiaries. The programme was taken out with Kapitalska družba d.d. and the majority of employees contribute to it. Through a long-term form of saving in a personal account of each individual, the company thus wishes to provide its employees with a supplementary pension and higher quality of life when they end their careers.

Employees and social community

Employees have obligations not only to their employer and themselves, but also to the wider community. For this reason, they actively participate in numerous economic, professional, and sports associations.

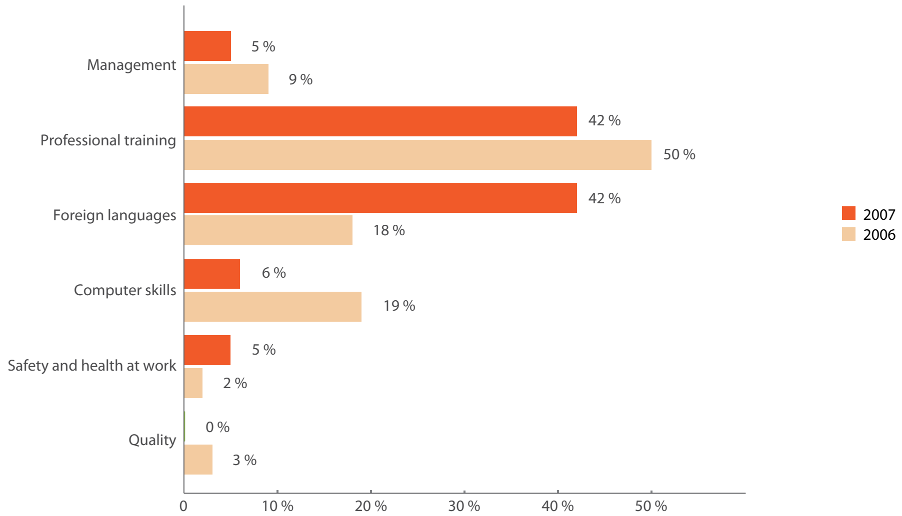
Training

Developments in the business environment and ambitions to create new, surplus value for the widest range of users require HSE to pursue systematic training activities and employees to continually participate in education and training, and demonstrate new ways of thinking and innovativeness. Knowledge has become a key asset. This is also evident from records on investments in knowledge, since a significant part of investments by companies in the developed world is comprised of investments in the upgrading of knowledge, which is the basic source of economic success.

Considering that training favourably affects performance, the company does not perceive it merely as cost or an expenditure item; rather training represents a long-term investment or capital. In 2007, € 122 thousand was allocated to the education and training.

The breakdown of training by the number of hours reveals that the most time (1,855 hours) was allocated to professional training, which was followed by language training (1,844 hours).

Structure of training in 2007 and 2006



In total, training was attended by 97 % employees and 4,409 hours were used for this purpose. On average, 42 hours of training were carried out per employee (part-time studies are not included in this figure), which is 5 hours per employee more than in 2006.

In addition to the upgrading of knowledge and employee training, HSE's education activities also comprised part-time studies and scholarships.

Part-time studies

In the period from 2002 to the end of 2007, 17 employees completed their part-time studies, of which 7 obtained a master's degree, 5 a university degree, 4 completed a 3-year undergraduate programme, and 1 completed a 2-year undergraduate programme. As for course type, electrical engineering and economics courses were the most common.

Under education agreements, HSE currently co-finances the studies of 10 employees or 43 % of all part-time students in the company. HSE also keeps track of employees who are involved in education at their own initiative and grants them 7 days of study leave per calendar year, as provided in the collective labour agreement. HSE's employees are only entitled to receive financial assistance once they have completed their first year of studies.

At the moment, 23 employees or a good fifth of all employees are involved in part-time studies. This number includes employees who have an education agreement with HSE and those who are engaged in studies at their own initiative. The structure of part-time studies shows that two employees are involved in postgraduate doctorate studies, eleven are involved in postgraduate masters studies, five are engaged in masters studies under the Bologna system, four are engaged in undergraduate studies to obtain a degree in economics, and one takes part in undergraduate studies to become a business administrator.

Scholarships

In 2007 the company signed education agreements with two employees who are involved in masters studies under the Bologna system.

Students involved in research activities contribute new ideas and views on solving work-related problems. HSE provides support to students of technical, social and natural sciences both in the form of financing as well as practical training and gradual integration into the organisational environment.

In 2007 the company renewed scholarship contracts with two students. One is engaged in university electric engineering studies, the other in university studies of economics. The total number of scholarship-receiving students was 2 as at 31 December 2007.

3.1.2 Employees in the HSE Group

At the end of 2007, the HSE Group had 4,025 employees, down 7 % compared to the number on 31 December 2006.

Number of employees in the HSE Group[7]

COMPANY	31/12/2007	%	31/12/2006	%	IND 07 / 06
HSE	109	2.7	97	2.2	112
DEM	277	6.9	288	6.7	96
SEL	0	0.0	124	2.9	0
SENG	125	3.1	126	2.9	99
TEB	0	0.0	121	2.8	0
TEŠ	508	12.6	537	12.4	95
TET	225	5.6	0	0.0	0
PV Group	2,736	68.0	2,984	69.1	92
HSE Invest	42	1.0	36	0.8	117
HSE Italia	0	0.0	0	0.0	0
HSE Balkan Energy	2	0.0	2	0.0	100
HSE Hungary	0	0.0	0	0.0	0
HSE Adria	1	0.0	1	0.0	100
HSE Bulgaria EOOD	0	0.0	0	0.0	0
TOTAL	4,025	100.0	4,316	100.0	93

Education structure

The employee education structure of the HSE Group improves every year.

[7] Owing to the spin-off in 2007, employees of SEL and TEB are no longer presented.

Number of employees as at 31/12/2007 and average number of employees in 2007 by education level

Education level	Employees as at 31/12/2007		Average number of employees in 2007	
	Controlling company	HSE Group	Controlling company	HSE Group
I.	0	322	0	334
II.	0	218	0	233
III.	0	15	0	16
IV.	1	1,686	1	1,752
V.	11	1,060	11	1,080
VI.	15	304	14	299
VII.	62	386	59	378
VIII. and IX.	20	34	20	33
TOTAL	109	4,025	104	4,124

Thematic workshops

Of course, investments in education alone do not guarantee success of a company or a group. That is why since 2004 the HSE Group has been organising thematic workshops at multiple levels for the entire Group. The workshops have become and efficient part of the HSE Group's education system.

In 2007 training on how to lead and manage the HSE Group was organised for the HSE Group, as was the management personnel training in the area of health and safety at work, and fire safety.

3.2 Responsibility towards the natural environment

Environment-friendly

Slovenia entered the European Union with a comparatively well preserved natural environment, as well as with the awareness that the environment is one of the pillars of sustainable development in the future.

At the very beginning of its operation, the HSE Group designed an environmental policy whose basic components can be summarised as follows:

- to produce electricity with minimum impact on the environment,
- to observe all legal standards and recommendations,
- to introduce the best technologies available in order to minimise the impact on the environment,
- to encourage the development of renewable electricity sources,
- to achieve a partner relation with local communities to jointly solve environmental issues and plan for the sustainable development of electricity production,
- to achieve sustainable operation and development of energy capacities.

All electricity-producing companies in the HSE Group as well as the controlling company have been awarded the ISO 9001 international quality certificate and the ISO 14001 international environmental certificate. Through consistent observance of these standards, the companies ensure safe and environment-friendly production of electricity at all hydropower plants. Through environmental rehabilitation and modernisation, the two thermal power plants have also achieved a more environment-friendly technological level. The Velenje Coal Mine was among the first coalmines in the world to achieve integral and responsible environmental management in compliance with the requirements of the respective standard.

Renewable energy sources

The area of RES is a comparatively new area in Slovenia. However, following the example of European countries, it is developing quickly. Under the Slovene Energy Act, renewable energy sources are sources that are entirely or predominantly renewable in the natural environment. These primarily include hydropower, wind, biomass, geothermal and unaccumulated solar energy. The Act is based on guidelines from EU directives, because under the Directive 2001/77/EC, Slovenia as an EU member state is obliged to increase the use of RES from 29.9 % in 1999 to 33.6 % by 2010. Moreover, an EU directive or a "green package" is currently being adopted, which includes a RES directive concerned with electricity. The latter prescribes a general goal regarding the share of RES in the ultimate energy consumption for 2020 (determined on the basis of equal increases for all member states and on the basis of GDP of individual countries), which amounts to 25 % for Slovenia.

Energy from hydropower plants is, in terms of volume, the most important source of electricity from renewable sources in Slovenia, and the HSE Group is the largest producer of hydropower in Slovenia. The area of renewable energy sources is therefore highly important, for both the operation and the future image of the Group. With respect to energy supply from renewable sources, activities were started in 2004 in connection with the establishment of a domestic market for energy supply from renewable sources (Modra Energija), participation in the drawing up of implementing regulations covering this area, and international activities relating to the sale of renewable certificates abroad.

Modra energija

In cooperation with distribution companies, HSE set up the Modra energija project in 2004. The project is aimed at encouraging the development of energy production from renewable sources, establishment of the market in such energy, and its sales in Slovenia. The sales of Modra energija began in January 2005. In 2007 the number of customers and the volume of Modra energija sold increased significantly to 1,600 and 32 GWh, respectively. Since 1 July 2007, i.e. from the liberalisation of electricity market onwards, Modra energija has become available to business as well household customers.

All hydropower plants of the HSE Group holding the international RECS certificate take part in the Modra energija project. In Slovenia, HSE and distribution companies sell energy produced from renewable sources under the Modra energija brand. HSE ensures the renewability of energy to its project partners by realising an appropriate number of RECS certificates on their behalf. Modra energija is thus uniformly priced at 0.00417 €/kWh. The brand is owned by HSE which coordinates the project and takes care of communication with the public and the promotion of Modra energija. The brand and the logo that were designed as part of the project are protected.

3.3 Responsibility to the broader social community

HSE's operations and activities comply with quality standards which require a responsible attitude towards the community in which HSE operates and which it affects through the conduct of its business. Our performance is thus measured not only with tangible indicators but also with "softer" ones that are achieved to the satisfaction of our stakeholders and with their consent in order to ensure the broadest possible acceptance of our business moves.

In 2007 the *Energija si – be efficient* campaign developed beyond its scope that had been determined at the campaign's start two years ago. With the launching of the "Energy saving light bulb in every home" campaign in September 2007, the campaign's second phase began, in which HSE, as the promoter, all Slovene electricity distributors, and the company ZEOS, a company engaged in separate collection and recycling of electronic equipment, were involved. In all, almost 600,000 energy saving light bulbs were distributed to Slovene households. Thus, we intended to show that through simple actions each individual could contribute to lower electricity consumption. If all energy saving light bulbs that were given away had replaced the ordinary light bulbs, as much as half of HPP Solkan's annual output would have been saved. As part of the campaign, various electricity consumer awareness campaigns took place, which culminated in the book Energija Si or Štromberk Takes the Initiative, which uses humour to bring the methods and advantages of economical electricity consumption closer to the reader.

The aim of entire campaign was to change gradually wasteful consumer habits, which will require a lot of time, several years even. This is also how the Energija si – be efficient campaign was designed. To be able to ensure an ongoing conduct of various activities which promote energy efficient products, technologies, and other possibilities of energy efficiency, the designer of the campaign invited a host of Slovene organisations and companies to take part in it in its first year. Experience shows that in addressing the society's needs and environmental problems, cooperation of partners from various levels and parts of the society is very important. So far, 23 organisations and companies – campaign supporters – took part in the campaign through various activities. Thus a social utility network, Sinergija, was established, which represents an organised and non-institutionalised form of co-operation between legal entities wishing to contribute to the society's sustainable development by way of their socially responsible actions. Such network provides numerous new ways of cooperation.

In 2007 three years have passed since the launching of Modra energija, HSE's flagship product in the area of renewable energy sources. Already, Modra energija has more than 1,600 users – Slovene companies – that were joined by household electricity consumers when the electricity market became liberalised in 2007. The goal of HSE and Slovene electricity distribution companies is to make Modra energija part of the mainstream as soon as possible so that consumers would adopt it because renewable energy resources represent a trend that makes one a respected community member and the following of which demonstrates one's commitment to the protection of the environment and the future in which not only we but also future generations will live.

HSE demonstrates its social responsibility also in relation to those who need financial assistance for their existence or operation. Sponsorship and donations are therefore not only one of the promotional tools but also a way of expressing solidarity. In 2007 a lot of funds were allocated to charities, health, arts, training, and to groups and individuals for which we believe can contribute, through their activities and actions, to the visibility and reputation of HSE over the long term.

I AM GIVING AWAY a horseshoe.

It was a gift from my aunt upon my first employment to bring me luck. But since I've worked at HSE, I no longer need it. All the company's decisions are carefully planned and considered. We leave nothing to chance or sheer luck.

For someone who needs the lucky horseshoe - make a call to HSE.

04

FINANCIAL REPORT OF HSE D.O.O.

4.1 General notes

Basis of preparation

Financial statements and the notes thereto have been prepared in accordance with provisions of the Companies Act (ZGD-1) and the Slovene Accounting Standards 2006 (SAS 2006) for the financial year 2007, which corresponds to the calendar year.

Significant accounting assumptions and qualitative characteristics of financial statements

Financial statements are presented in euros. Owing to the replacement of the national currency on 1 January 2007, opening items of balance sheet and statement of changes in equity were converted at the conversion rate prescribed by the Council Regulation (EC) No. 1086/2006 of 11 July 2006, i.e. € 1 = SIT 239.64.

In the preparation of financial statements, the following significant accounting assumptions have been considered:
- *accrual basis,*
- *going concern,*

as well as qualitative characteristics:
- *going concern,*
- *consistency,*
- *prudence,*
- *recording of revenue and expenses irrespective of their payment,*
- *individual valuation of assets and liabilities.*

Foreign exchange rate and method of converting to the domestic currency

In the income statement, items in financial statements that are denominated in foreign currencies are translated into local currency on the day of accrual, using the middle exchange rate of the Bank of Slovenia.

The balance of assets and liabilities expressed in a foreign currency has been translated into the Slovene tolar at the middle exchange rate of the Bank of Slovenia as at 31/12/2007. The resulting exchange gains and losses are carried as financial revenue or financial expenses, respectively.

For the conversion of assets and liabilities expressed in a foreign currency, the following exchange rates were used:
- as at 31 Dec 2007 = USD 1.4721 (USA),
- as at 31 Dec 2007 = CZK 26.628 (the Czech Republic),
- as at 31 Dec 2007 = HRK 7.3308 (Croatia),
- as at 31 Dec 2007 = HUF 253.73 (Hungary),
- as at 31 Dec 2007 = CHF 1.6547 (Switzerland),
- as at 31 Dec 2007 = BGN 1.9558 (Bulgaria),
- as in December 2007 = RSD 82.874 (Serbia).

Accounting policies

In the recording and valuation of items in the financial statements, SAS (2006) stipulations have been followed directly, except in the valuation of items for which SAS (2006) allow various methods. In such cases, the company applies valuation methods that comply with its own Accounting Rules or resolutions adopted by management.

Energy Act provisions

Pursuant to the Energy Act, legal entities carrying out more than one business activity within the industry of electricity supply are obliged to ensure separate accounting monitoring of every of their registered activities in compliance with SAS 2006.

Intangible assets

Intangible assets are long-term assets enabling the performance of the company's registered activities, whereas physically they do not exist. Intangible assets include property rights with finite useful lives.

An item of intangible fixed assets is initially carried at cost. The cost also includes import and non-refundable duties. The cost is exclusive of interest incurred prior to the origination of an intangible asset.

After recognition, intangible assets are measured at cost.

The amount is subsequently lowered by the amount of amortisation, recorded under accumulated amortisation. In the balance sheet, intangible assets are recorded at the carrying amount, i.e. as the difference between the cost and accumulated amortisation.

An item of intangible fixed assets is amortised individually using the straight-line amortisation method. Amortisation shall begin when the intangible asset is available for use.

Amortisation rates applied to the individual types of intangible assets are based on their envisaged useful lives.

Property, plant and equipment

Property, plant and equipment are long-term assets owned by the company and used for the performance of its registered activities.

An item of property, plant and equipment is initially recognised at cost comprising its purchase price, import duties and non-refundable purchase taxes, as well as directly attributable costs of bringing the asset to working condition for its intended use. The cost does not include the borrowing costs related to the acquisition of the item of property, plant and equipment to bring the asset to its working condition.

The cost of items of property, plant and equipment of greater value is divided to individual items with different useful lives.

The cost does not include the costs incurred upon the dismantling or removing the items of property, plant and equipment.

Spare parts of higher value are accounted for under property, plant and equipment and depreciated over the useful life of the related asset.

The cost model is used for measurement of items of property, plant and equipment after initial recognition.

In the bookkeeping records the cost as well as the accumulated depreciation is recorded separately for items of property, plant and equipment, whereas in the balance sheet they are recorded at carrying amount i.e. as a difference between the cost and accumulated depreciation.

Subsequent expenditure on an item of property, plant and equipment increases its cost when it increases its future economic benefits in excess of the originally assessed future economic benefits.

The subsequent expenditure enabling extension of the useful life of the asset initially reduces the accumulated depreciation.

Recognition of an item of property, plant and equipment in the bookkeeping records and the balance sheet is reversed when an asset has been disposed of. Gains on disposal of an asset are recorded under operating revenues from revaluation; the carrying amount of the asset is recorded under revaluation operating expenses.

The depreciation of an item of property, plant and equipment begins on the first day of the following month after it has been available for use.

Depreciation is accounted for individually on a straight-line basis.

Depreciation rates applied to the individual types of property, plant and equipment are based on their envisaged useful lives.

Investments

Investments are considered as company assets. The proceeds from investments are to increase the company revenue. Upon initial recognition, investments are recorded at their historical cost, increased by the costs attributable directly to the investment (except for investments carried at fair value through profit and loss).

Upon their recognition in the books of account, the investments are stated at their settlement date (payment date).

After the initial recognition, investments are carried at cost in the company's financial statements (which also includes investments in subsidiaries and associates) and are recorded under available-for-sale financial assets. Because their fair value cannot be determined (this is not the case with derivatives), they are not strengthened and as a result do not affect profit or loss or revaluation surplus.

Any indications of investment impairment are determined on an annual basis.

Depending on the envisaged settlement or the reason for the investment being held, the investments are carried in the balance sheet under long- or short-term assets.

Inventories

As part of the short-term assets of the Company, inventories are initially recognised at cost, comprising their purchase price, import duties and non-refundable purchase taxes, as well as direct costs of purchasing. The purchase price is decreased by discounts obtained.

If the prices of items purchased anew in the accounting period differ from the prices of items of inventory of the same class, the first-in first-out (FIFO) method is applied to recognise declining quantities of inventories.

Receivables

The company's assets include receivables as the rights arising from property and other legal relationships to claim the settlement of a debt, delivery or services from a specific person or entity.

Receivables of all categories are initially recognised at amounts recorded in relevant documents under the assumption that they will be recovered.

In the balance sheet, receivables are disclosed in their net amounts, meaning minus any value adjustments for disputed and doubtful receivables. The value of receivables is adjusted on an individual basis. If receivables are not collected in a certain period, they are considered doubtful. It legal proceedings have been initiated in relation to them, they are considered disputed.

Receivables of smaller values are written off on the basis of management's resolution if it is determined that collection costs of such outstanding receivables would exceed their amount, meaning that further collection is economically unviable.

Advances paid for property, plant and equipment and inventories are not recorded in the balance sheet among receivables but among the items of property, plant and equipment or inventories.

In terms of their maturity, receivables can be classified as long-term and short-term assets.

Cash

Cash includes deposit money, i.e. cash deposited in accounts with a bank or another financial institution that can be used for payment. It comprises cash in accounts and cash available at notice.

The carrying amount of an item of cash equals its initial nominal value which can change in the case of cash denominated in foreign currencies owing to changes in foreign exchange rates.

Short-term deferred costs and accrued revenue

Short-term deferred costs and accrued revenue include short-term deferred costs and short-term accrued revenue.

Short-term deferred costs include amounts incurred but not yet charged against profit or loss.

Short-term accrued revenue is amounts that have been considered in the profit or loss but not yet charged to third parties.

Equity

Total equity is defined by the amounts invested by owners and the amounts generated during operation that belong to the owners.

Nominal capital is carried in the national currency. Nominal capital and capital surplus represent owner's cash contributions and contributions in kind.

Other revenue reserves are set aside on the basis of resolutions adopted by the Supervisory Board and the General Meeting.

Net profit represents the undistributed part of the company's net operating profit for the financial year.

Revaluation surplus includes the values of hedging derivatives.

Provisions

Provisions are formed for obligations that are expected to arise from obligating past events in the coming periods, and their value is based on the assessment of the present value of expenses that are expected to be required to settle such obligations.
The assessment of provisions for jubilee benefits and termination benefits was performed on the basis of an actuarial calculation.

The company did not create long-term accrued costs and deferred revenue.

Long-term debts

Long-term debts are recognised obligations associated with the financing of own assets, the settlement of which is expected, usually by payment of cash, in a period of more than one year. They are carried at cost.

The part of long-term debts due to be settled within twelve months of the balance sheet date is recorded in the balance sheet under short-term debts.

Long-term financial debts are long-term loans received on the basis of loan contracts, repayable in a period longer than one year. They are initially carried at the amounts of cash received. Subsequently, they are decreased by principal repayments. Accounted for but not yet due interest on long-term financial debts are recorded among other short-term operating liabilities.

Long-term operating debts result from transactions between the company and business partners based on contracts concluded.

Short-term debts

Short-term debts are recognised obligations associated with the financing of own assets the settlement of which is expected, usually by payment of cash, in a period of no more than one year. They are carried at cost.

Short-term financial debts (other than a portion of long-term financial debts) include loans received on the basis of loan contracts falling due within twelve months of the balance sheet date. When recognised, they are carried at the amounts of cash received.
Accounted for but not yet due interest on short-term financial debts are recorded among other short-term operating liabilities.

The carrying amounts of short-term operating liabilities are equal to the amounts arising from the relevant documents containing information about their inception, which can be later adjusted for their increases or decreases as agreed by creditors.

Short-term accrued costs and deferred revenue

Short-term accrued cost and deferred revenue comprise short-term accrued costs, short-term deferred revenue and value added tax on advance payments.

To evenly charge them against profit or loss, the costs and expenses that did not occur but are expected are recorded among accrued costs.

Derivatives

Derivative financial instruments are financial instruments the value of which changes in response to the change in a specified interest rate or commodity price and which require no initial net investments.

The derivatives used by the company are derivatives held for trading purposes (standard futures) and risk hedging derivatives (interest rate swaps and standard futures).

The gains and losses associated with financial instruments held for trading are recognised directly in the income statement.
Derivative financial instruments are used for cash flow hedging, hence the portion of the gain or loss considered as successful hedging shall be recognised directly in equity, and the difference shall be recognised in profit or loss.

The profit or loss recognised directly in equity shall be transferred to the profit or loss in the period in which the profit or loss is affected by the hedged item.

The futures are recorded at the 'net' principle which means that the value of futures is recorded off the balance sheet.

Off-balance sheet records

Off-balance sheet items include business events that have no direct impact on items in the financial statements but are significant in view of informing the users of the financial report.

Revenue

Revenue is recognised if an increase in economic benefits during the accounting period is related to an increase in assets or a decrease in debt, and the increase can be reliably measured.

Revenue is recognised when it is probable that cash receipts will flow from them, unless they were achieved on origin.

Revenue from the sale of services and merchandise is recognised at selling prices stated in invoices or other documents, less discounts and rebates approved either when the sale is made or subsequently, including those granted for early payment.

Capitalised own services are services provided by the company itself that are accounted for under property, plant and equipment.

Revaluation operating revenue is revenue originating on the disposal of property, plant and equipment, revenue on utilisation and elimination of provisions, and revenue from the reversal of investment impairment.

Financial revenue is the revenue arising in association with investments, as well as in association with receivables and liabilities. Financial revenue is recognised upon the settlement of accounts irrespective of receipts, unless there is reasonable doubt as to its amount, maturity and recoverability. Interest is accounted for in proportion to the previous year, outstanding amount of the principal and the agreed-upon interest rate.

Other revenue comprises extraordinary items. It is disclosed in actual amounts.

Expenses

Expenses are recognised if decreases in economic benefits during the accounting period are associated with decreases in assets or increases in liabilities, and such decreases can be reliably measured.

Operating expenses are recognised upon the purchase of merchandise or upon the rendering of services.

Revaluation operating expenses comprise the surplus of the carrying amount over the selling price of property, plant and equipment, write-off of property, plant and equipment, and bonus to management.

Financial expenses are incurred in association with debts, short-term investments and short-term receivables. They are recognised when statements of account are prepared, regardless of cash payments associated with them. Interest is recognised in proportion to the previous year, outstanding amount of the principal and the agreed-upon interest rate.

Other revenue comprises extraordinary items. It is disclosed in actual amounts.

Segment reporting

The company divides sales revenue by two geographical segments, i.e. the domestic market and foreign markets. Foreign markets and profit or loss for those markets have not been presented in more detail because the company estimates that the disclosure of such information might have a detrimental effect upon the company. From the aspect of reporting by geographical segments, the company's assets and liabilities represent an indivisible unit.

Because of similar operating conditions and risk impacts for individual groups of products, the company does not itemise operations by segment.

Taxation

The company is subject to the Value Added Tax Act, the Excise Duty Act, and the Corporate Income Tax Act.

Deferred taxes

Deferred taxes are earmarked for covering temporary differences between carrying amount and tax values of assets and liabilities. Deferred tax assets represent the currently recorded corporate income tax and deductible temporary differences, which will result in lower tax payable in future periods.

4.2 Management's statement

As Managing Directors of Holding Slovenske elektrarne d.o.o. we hereby confirm the financial statements of HSE for the financial year ended 2007, the notes thereto, and the accounting policies applied.

We confirm that the accounting policies have consistently been applied during the preparation of the financial statements, that accounting estimates were prepared on the principal of prudence and best business practice and that the Annual Report gives a true and fair view of the financial position of the company and the results of its operations for the year 2007.

We confirm that the financial statements have been prepared in accordance with provisions of the Companies Act, Slovene Accounting Standards and other regulations governing the area of accounting. The financial statements were prepared on a going concern basis.

Jože Zagožen, Ph.D.
Director of HSE

Damijan Koletnik
Director of HSE

Ljubljana, 31 March 2008

4.3 Auditor's report

Deloitte.

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INDEPENDENT AUDITORS' REPORT
to the owners of Holding Slovenske elektrarne d.o.o.

We have audited the accompanying financial statements of the company Holding Slovenske elektrarne d.o.o., which comprise the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Slovenian Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company Holding Slovenske elektrarne d.o.o. as of 31 December 2007, and its financial performance and its cash flows for the year then ended in accordance with Slovenian Accounting Standards.

Report on Other Legal and Regulatory Requirements

Pursuant to Article 57(1) of the Companies Act (ZGD-1), we have reviewed the Company's business report. In our opinion, the business report is consistent with the audited financial statements.

DELOITTE REVIZIJA d.o.o.

Dušan Hartman
Certified Auditor
Member of the Board

Ljubljana, 31 March 2008

Deloitte.

DELOITTE REVIZIJA D.O.O.
Ljubljana, Slovenija 1

TRANSLATION ONLY – SLOVENIAN ORIGINAL PREVAILS

4.4 Balance sheet

BALANCE SHEET

in €

ITEM		NOTE	31/12/2007	31/12/2006
ASSETS			1,141,859,460	1,087,310,395
A.	LONG-TERM ASSETS		959,861,366	933,987,756
I.	Intangible assets and long-term deferred costs and accrued revenue	1	8,430,458	5,659,464
1.	Long-term property rights		8,430,458	5,659,464
II.	Property, plant and equipment	2	127,881,827	100,315,425
1.	Land and buildings		34,366,074	32,598,083
b)	Buildings		34,366,074	32,598,083
2.	Manufacturing plant and equipment		32,135,455	33,397,900
3.	Other plant and equipment		2,978,545	3,038,883
4.	Property, plant and equipment being acquired		58,401,753	31,280,559
a)	Property, plant and equipment in the course of construction		50,225,843	24,934,211
b)	Advances for acquisition of property, plant and equipment		8,175,910	6,346,348
IV.	Long-term investments	3	819,063,439	825,967,419
1.	Long-term investments, excluding loans		819,063,439	825,967,419
a)	Shares and interests in group companies		774,510,519	825,310,900
b)	Shares and interests in associated companies		543,850	543,850
c)	Other shares and interests		43,536,871	111,000
d)	Other long-term investments		472,199	1,669
V.	Long-term operating receivables	4	125,188	125,188
3.	Long-term operating receivables due from others		125,188	125,188
VI.	Deferred tax assets	5	4,360,454	1,920,260
B.	CURRENT ASSETS		175,916,067	152,159,889
II.	Inventories		82,581	3,275
1.	Material		1,897	1,927
4.	Advances for inventories		80,684	1,348
III.	Short-term investments	6	16,909,850	33,288,713
1.	Short-term investments, excluding loans		0	5,206,552
b)	Other shares and interests		0	5,167,848
c)	Other short-term investments		0	38,704
2.	Short-term loans		16,909,850	28,082,161
a)	Short-term loans to group companies		3,246,850	3,065,470
b)	Short-term loans to others		13,663,000	25,016,691
IV.	Short-term operating receivables	4	155,083,914	114,687,475
1.	Short-term operating receivables due from group companies		2,934,124	2,301,359
2.	Short-term operating trade receivables		120,300,699	93,183,350
3.	Short-term operating receivables due from others		31,849,091	19,202,766
V.	Cash	7	3,839,722	4,180,426
C.	SHORT-TERM DEFERRED COSTS AND ACCRUED REVENUE	8	6,082,027	1,162,750
	OFF-BALANCE SHEET RECORDS	9	225,623,904	220,297,177

* The accompanying notes are an integral part of financial statements and should be read in conjunction with them.

BALANCE SHEET (continued)

in €

ITEM		NOTE	31/12/2007	31/12/2006
EQUITY AND LIABILITIES			1,141,859,460	1,087,310,395
A.	EQUITY	10	757,166,486	846,797,822
I.	Called-up capital		29,558,789	4,824,807
1.	Nominal capital		29,558,789	4,824,807
II.	Capital surplus		561,243,185	692,999,922
III.	Revenue reserves		138,319,123	123,162,670
5.	Other revenue reserves		138,319,123	123,162,670
IV.	Revaluation surplus		21,839,790	7,908,714
VI.	Net profit or loss for the period		6,205,599	17,901,709
B.	PROVISIONS AND LONG-TERM ACCRUED COSTS AND DEFERRED REVENUE	11	7,943,631	6,998,707
1.	Provisions for pensions and similar liabilities		410,915	398,707
2.	Other provisions		7,532,716	6,600,000
C.	LONG-TERM LIABILITIES	12	156,475,386	96,288,020
I.	Long-term financial liabilities		96,929,963	50,997,715
2.	Long-term financial liabilities to banks		96,929,963	50,997,715
II.	Long-term operating liabilities		59,545,423	45,290,305
1.	Long-term operating liabilities to group companies		39,960,823	44,944,550
2.	Long-term operating trade liabilities		1,269,223	345,755
5.	Other long-term operating liabilities		18,315,377	0
D.	SHORT-TERM LIABILITIES	13	214,764,190	134,758,881
II.	Short-term financial liabilities		35,374,714	4,901,640
2.	Short-term financial liabilities to banks		35,374,714	4,901,640
III.	Short-term operating liabilities		179,389,476	129,857,241
1.	Short-term operating liabilities to group companies		103,187,424	53,702,476
2.	Short-term operating trade liabilities		66,676,371	64,901,375
4.	Short-term operating liabilities from advances		38,939	150
5.	Other short-term operating liabilities		9,486,742	11,253,240
E.	SHORT-TERM ACCRUED COSTS AND DEFERRED REVENUE	14	5,509,767	2,466,965
	OFF-BALANCE SHEET RECORDS	9	225,623,904	220,297,177

* The accompanying notes are an integral part of financial statements and should be read in conjunction with them.

4.5 Income statement

Income statement

in €

ITEM		2007	2006
1.	Net sales revenue	921,176,077	785,308,693
a)	Domestic market	677,506,544	557,481,881
b)	Foreign market	243,669,533	227,826,812
3.	Capitalised own products and own services	151,341	157,725
4.	Other operating revenue (including revaluation operating revenue)	1,974,761	14,155
5.	Costs of goods, materials and services	895,889,987	718,718,080
a)	Cost of goods and materials sold and costs of material used	888,484,123	714,018,987
b)	Costs of services	7,405,864	4,699,093
6.	Labour costs	5,950,139	5,025,536
a)	Payroll costs	4,332,453	3,470,174
b)	Social security costs	870,592	729,178
	- of which pension insurance costs	534,097	461,432
c)	Other labour costs	747,094	826,184
7.	Write-downs in value	16,985,578	1,494,324
a)	Depreciation or amortisation	2,236,463	1,477,511
b)	Revaluation operating expenses associated with IFA and PPE	37,792	15,397
c)	Revaluation operating expenses for operating current assets	14,711,323	1,416
8.	Other operating expenses	1,993,478	9,991,117
	OPERATING PROFIT OR LOSS	2,482,997	50,251,516
9.	Financial revenue from interests	17,852,896	149,127
a)	Financial revenue from interests in group companies	8,502,104	0
c)	Financial revenue from interests in other companies	6,129,694	149,127
d)	Financial revenue from other investments	3,221,098	0
10.	Financial revenue from loans granted	1,673,799	1,000,034
a)	Financial revenue from loans to group companies	278,603	8,555
b)	Financial revenue from loans to others	1,395,196	991,479
11.	Financial revenue from operating receivables	1,050,952	390,323
a)	Financial revenue from operating receivables due from group companies	3,797	7
b)	Financial revenue from operating receivables due from others	1,047,155	390,316
12.	Financial expenses for impairment and write-downs of investments	0	4,686,608
13.	Financial expenses for financial liabilities	5,885,832	2,804,570
a)	Financial expenses for loans received from group companies	0	477
b)	Financial expenses for loans received from banks	5,880,334	2,804,093
d)	Financial expenses for other financial liabilities	5,498	0
14.	Financial expenses for operating liabilities	426,706	176,165
a)	Financial expenses for operating liabilities to group companies	0	164
b)	Financial expenses for trade liabilities and bills payable	6,732	16,735
c)	Financial expenses for other operating liabilities	419,974	159,266
	PROFIT OR LOSS FROM ORDINARY ACTIVITIES	16,748,106	44,123,657
15.	Other revenue	81,787	3,627
16.	Other expenses	234	24
	TOTAL PROFIT OR LOSS	16,829,659	44,127,260
17.	Corporate income tax	6,858,656	9,872,550
18.	Deferred taxes	(2,440,194)	(1,845,592)
19.	NET PROFIT OR LOSS FOR THE PERIOD	12,411,197	36,100,302

* The accompanying notes are an integral part of financial statements and should be read in conjunction with them.

4.6 Cash flow statement

Cash flow statement

in €

ITEMS		2007	2006
A.	CASH FLOWS FROM OPERATING ACTIVITIES		
a)	Income statement items	24,112,591	65,583,926
	Operating revenue (except from revaluation) and financial revenue from operating receivables	922,010,409	785,697,054
	Operating expenses excluding depreciation or amortisation (except from revaluation) and financial expenses from operating liabilities	(888,847,981)	(720,113,128)
	Income taxes and other taxes not included in operating expenses	(9,049,837)	0
b)	Changes in net current operating assets in the operating balance sheet items (including accruals and deferrals, provisions and deferred tax assets and liabilities)	6,583,038	2,730,333
	Opening less closing operating receivables	(50,367,368)	(33,002,162)
	Opening less closing deferred costs and accrued revenue	(4,919,277)	(922,150)
	Opening less closing deferred tax assets	(2,440,194)	(1,845,593)
	Opening less closing inventories	(79,306)	(217)
	Closing less opening operating liabilities	61,359,423	37,578,021
	Closing less opening accrued costs and deferred revenue, and provisions	3,029,760	922,434
c)	Net cash flows from operating activities (a+b)	30,695,629	68,314,259
B.	CASH FLOWS FROM INVESTING ACTIVITIES		
a)	Cash receipts from investing activities	1,622,429,706	871,144,296
	Interest and dividends received from investing activities	19,486,880	1,161,217
	Cash receipts from disposal of intangible assets	192,631	1,666,137
	Cash receipts from disposal of property, plant and equipment	27,107	39,159
	Cash receipts from disposal of long-term investmentsn	0	188,203
	Cash receipts from disposal of short-term investments	1,602,723,088	868,089,580
b)	Cash disbursements from investing activities	(1,728,586,504)	(927,414,513)
	Cash disbursements to acquire intangible assets	(644,989)	(6,090,995)
	Cash disbursements to acquire property, plant and equipment	(29,389,211)	(25,150,083)
	Cash disbursements to acquire long-term investments	(112,169,375)	(25,423,873)
	Cash disbursements to acquire short-term investments	(1,586,382,929)	(870,749,562)
c)	Net cash from investing activities (a + b)	(106,156,798)	(56,270,217)
C.	CASH FLOWS FROM FINANCING ACTIVITIES		
a)	Cash receipts from financing activities	227,191,555	41,580,086
	Cash proceeds from increase in long-term financial liabilities	64,091,555	4,172,429
	Cash proceeds from increase in short-term financial liabilities	163,100,000	37,407,657
b)	Cash disbursements from financing activities	(152,071,090)	(53,634,623)
	Interest paid on financing activities	(4,855,133)	(2,828,714)
	Cash repayments of short-term financial liabilities	(138,265,103)	(38,287,131)
	Dividends and other profit shares paid	(8,950,854)	(12,518,778)
c)	Net cash from financing activities (a + b)	75,120,465	(12,054,537)
D.	CLOSING BALANCE OF CASH	3,839,722	4,180,426
x)	Net cash flow for the period	(340,704)	(10,495)
y)	Opening balance of cash	4,180,426	4,190,921

* The accompanying notes are an integral part of financial statements and should be read in conjunction with them.

4.7 Statement of changes in equity

For the year 2007

in €

ITEMS		CALLED-UP CAPITAL	CAPITAL SURPLUS	REVENUE RESERVES	REVALUATION SURPLUS	RETAINED EARNINGS	NET PROFIT OR LOSS FOR THE PERIOD	TOTAL
		NOMINAL CAPITAL		OTHER REVENUE RESERVES		RETAINED EARNINGS	NET PROFIT FOR THE PERIOD	
	Balance as at 01/01/2007	4,824,807	692,999,922	123,162,670	7,908,714	17,901,709	0	846,797,822
	Spin-off on 01/01/2007	0	(131,756,737)	0	(19,352)	0	0	(131,776,089)
A.	Balance on 01/01/2007 after the spin-off	4,824,807	561,243,185	123,162,670	7,889,362	17,901,709	0	715,021,733
B.	Movements to equity	24,733,982	0	0	26,836,141	0	12,411,197	63,981,320
a)	Subscription of called-up nominal capital	24,733,982						24,733,982
e)	Net profit or loss for the period						12,411,197	12,411,197
f)	Other increases in components of equity				26,836,141			26,836,141
C.	Movements within equity	0	0	15,156,453	0	(8,950,855)	(6,205,598)	0
a)	Allocation of net profit as a component of equity in accordance with management and supervisory board resolution			6,205,598			(6,205,598)	0
b)	Allocation of net profit to additional reserves in accordance with general meeting resolution			8,950,855		(8,950,855)		0
D.	Movements from equity	0	0	0	(12,885,713)	(8,950,854)	0	(21,836,567)
a)	Payment of dividends					(8,950,854)		(8,950,854)
d)	Transfer of revaluation surplus (to operating or financial revenue)				13,278,034			13,278,034
e)	Other decreases in components of equity				(26,163,747)			(26,163,747)
E.	Closing balance for the period	29,558,789	561,243,185	138,319,123	21,839,790	0	6,205,599	757,166,486
	ACCUMULATED PROFIT	0	0	0	0	0	6,205,599	6,205,599

* The accompanying notes are an integral part of financial statements and should be read in conjunction with them,

For the year 2006

in €

ITEMS		CALLED-UP CAPITAL	CAPITAL SURPLUS	REVENUE RESERVES	REVALUATION SURPLUS	RETAINED NET PROFIT OR LOSS		NET PROFIT FOR THE PERIOD	TOTAL
		NOMINAL CAPITAL		OTHER REVENUE RESERVES		RETAINED EARNINGS	RETAINED NET LOSS		
	Balance as at 31/12/2005	4,824,807	692,999,922	103,103,210	75,136,253	14,676,528	0	0	890,740,720
	Change arising from transition to SAS 2006	0	0	0	(73,043,267)	0	(296,883)		(73,340,150)
A.	Balance at year start	4,824,807	692,999,922	103,103,210	2,092,986	14,676,528	(296,883)	0	817,400,570
B.	Movements to equity	0	0	0	17,652,514	0	0	36,100,302	53,752,816
d)	Net profit or loss for the period						0	36,100,302	36,100,302
f)	Other increases in components of equity				17,652,514				17,652,514
C.	Movements within equity	0	0	20,059,460	0	(2,157,750)	296,883	(18,198,593)	0
a)	Allocation of net profit as a component of equity in accordance with management and supervisory board resolution			17,901,710		0		(17,901,710)	0
b)	Allocation of net profit to additional reserves in accordance with general meeting resolution			2,157,750		(2,157,750)			0
c)	Settlement of loss as a deduction component of equity						296,883	(296,883)	0
D.	Movements from equity	0	0	0	(11,836,786)	(12,518,778)	0	0	(24,355,564)
a)	Payment of dividends				0	(12,518,778)			(12,518,778)
d)	Transfer of revaluation surplus (to operating or financial revenue)				146,394				146,394
e)	Other decreases in components of equity				(11,983,180)				(11,983,180)
E.	Closing balance for the period	4,824,807	692,999,922	123,162,670	7,908,714	0	0	17,901,709	846,797,822
	ACCUMULATED PROFIT	0	0	0	0	0	0	17,901,709	17,901,709

* The accompanying notes are an integral part of financial statements and should be read in conjunction with them,

4.8 Notes to the financial statements

4.8.1 Balance sheet

General

Information regarding the basis of preparation of the balance sheet and regarding specific accounting policies and methods selected and applied to significant transactions and other business transactions of the company are presented in disclosures of individual assets and liabilities.

The company has no additional information whose disclosure in the balance sheet is not obligatory but is deemed significant for a true and fair presentation of the company's operations.

In 2007 the company effected a spin-off and acquisition pursuant to a decision of the sole founder, the Republic of Slovenia, adopted at the end of 2006 according to which HSE d.o.o. as the transferring company transferred to GEN energija d.o.o., the acquiring company, its long-term investments in the companies Savske elektrarne Ljubljana d.o.o. and Termoelektrarna Brestanica d.o.o. The spin-off was accounted for on 31 December 2006.

The value of the spun off assets and liabilities is shown in the table below. The spin-off had no effect on the income statement.

The exposure to risks associated with individual types of assets and liabilities and their management has been disclosed in the business report.

Assets and liabilities are recorded at fair value unless the fair value of individual types of assets or liabilities cannot be determined. In this case, they are carried at historical cost.

Spin-off with acquisition

in €

ITEM		01/01/2007	SPIN-OFF ON 01/01/2007	31/12/2006
ASSETS		681,052,385	144,297,219	825,349,604
A.	LONG-TERM ASSETS	681,033,033	144,277,867	825,310,900
IV.	Long-term investments	681,033,033	144,277,867	825,310,900
1.	Long-term investments, excluding loans	681,033,033	144,277,867	825,310,900
a)	Shares and interests in group companies	681,033,033	144,277,867	825,310,900
B.	CURRENT ASSETS	19,352	19,352	38,704
III.	Operating receivables	19,352	19,352	38,704
1.	Short-term investments, excluding loans	19,352	19,352	38,704
c)	Other short-term investments	19,352	19,352	38,704
	EQUITY AND LIABILITIES	612,510,772	144,297,219	756,807,991
A.	EQUITY	569,132,547	131,776,089	700,908,636
II.	Capital surplus	561,243,185	131,756,737	692,999,922
IV.	Revaluation surplus	7,889,362	19,352	7,908,714
C.	LONG-TERM LIABILITIES	39,213,122	11,784,593	50,997,715
I.	Long-term financial liabilities	39,213,122	11,784,593	50,997,715
2.	Long-term financial liabilities to banks	39,213,122	11,784,593	50,997,715
D.	SHORT-TERM LIABILITIES	4,165,103	736,537	4,901,640
II.	Short-term financial liabilities	4,165,103	736,537	4,901,640
2.	Short-term financial liabilities to banks	4,165,103	736,537	4,901,640

(1)
Intangible assets
€ 8,430,458

Long-term property rights include the following intangible assets:
- transfer of the concession right for HPP Boštanj and HPP Blanca,
- software under development and software in use, and
- CO_2 emission coupons (for trading).

Software in use includes various computer applications (ENDUR – for electricity trading, UPIS – management information system, etc.). Software under development includes an investment in operational maintenance of secondary systems.

In 2007 the company purchased 481,600 and sold 72,597 emission coupons. On the balance sheet date, the company's inventory of emission coupons (valid for the period 2005–2007) included 729,560 coupons. During the year, the moving average price method was used to reduce the value of inventories. On the basis of a contract to sell all coupons in February 2008, the value of inventories increased by € 1,613,422 at the end of 2007 (of which € 1,357,389 is the result of the reversal of impairment in 2006).

The amortisation rate applicable to the transfer of the concession right against payment is determined on the basis of the length of the concession right period and equals 2 %. For software, amortisation rates between 4.56 % and 33.33 % are used, depending on the expected useful life.

In 2007 the useful life of important software items was reviewed and the expected useful life reassessed, which resulted in changes to the amortisation rates of these assets. Owing to the above change, the amortisation calculated for these assets amounted to € 78,160, which is € 64,160 less than in the case the useful life remained unchanged.

Cost and accumulated amortisation of intangible assets

in €

AS AT 31/12/2007	PROPERTY RIGHTS	CO_2 EMISSION COUPONS	TOTAL
Cost	6,179,572	3,538,366	9,717,938
Value adjustment	1,287,480	0	1,287,480
Carrying amount	4,892,092	3,538,366	8,430,458

Changes in intangible assets

in €

INTANGIBLE ASSETS	LONG-TERM PROPERTY RIGHTS (excluding emission coupons)	CO_2 EMISSION COUPONS	TOTAL
Carrying amount as at 31/12/2006	3,559,816	2,099,648	5,659,464
Acquisitions	130,259	321,232	451,491
* Transfers	1,753,284	0	1,753,284
Decreases	(78,872)	(495,936)	(574,808)
Amortisation	(472,395)	0	(472,395)
Revaluation	0	1,613,422	1,613,422
Carrying amount as at 31/12/2007	4,892,092	3,538,366	8,430,458

* Note to property, plant and equipment

(2)
Property, plant and equipment
€ 127,881,827

Buildings comprise:
- production facilities of HPP Boštanj,
- business premises in Ljubljana and Sevnica.

Production plant and equipment comprise production equipment of HPP Boštanj.

Under other plant and equipment, the company records equipment for collecting data about energy production at the Group level, telecommunication network equipment, hardware, furniture in vehicles.

Advances for property, plant and equipment refer to the supply of equipment for HPPs on the lower Sava River in its gross amount. Advances will be offset against invoices received for the equipment to be supplied in the period 2008–2012.

Property, plant and equipment in the course of construction mostly refer to investments in production facilities and equipment of HPPs on the lower Sava River and initial investments in HPPs on the middle Sava River.

In 2007 the software of the control centre was transferred from property, plant and equipment to intangible assets in the amount of € 1,753,284.

Pursuant to the joint venture contract, the venturers have the economic right to the participation in the management of the joint venture's property, i.e. the completed HPPs and the HPPs under construction and other assets, in the portion corresponding to their respective shares in the investment.

In 2007 the company sold or written off a portion of property, plant and equipment, and recorded the resulting revaluation operating expenses of € 37,792 and revaluation operating revenue of € 1,597.

The company records no property, plant and equipment under finance lease or mortgage.

No impairment or increase in the value of property, plant and equipment was carried out in 2007.

Depreciation groups of property, plant and equipment

CATEGORY OF PROPERTY, PLANT AND EQUIPMENT	DEPRECIATION RATE	USEFUL LIFE
Buildings	1.5 % - 10 %	10 - 66 years
Furniture	10 % - 25 %	4 - 10 years
Computer equipment	20 % - 50 %	2 - 5 years
Small tools	25 % - 33.33 %	3 - 4 years
Cars	12.5 % - 20 %	5 - 8 years
Manufacturing plant and equipment	2 % - 20 %	5 - 50 years
Other equipment	20 % - 25 %	4 - 5 years

Cost and accumulated depreciation of property, plant and equipment

in €

AS AT 31/12/2007	BUILDINGS	MANUFACT. PLANT AND EQUIPMENT	OTHER PLANT AND EQUIPMENT	ADVANCES FOR PPE	PPE IN THE COURSE OF CONSTRUCT.	TOTAL
Cost	35,264,246	34,182,690	5,772,021	8,175,910	50,225,843	133,620,710
Value adjustment	898,172	2,047,235	2,793,476	0	0	5,738,883
Carrying amount	34,366,074	32,135,455	2,978,545	8,175,910	50,225,843	127,881,827

Changes in property, plant and equipment

in €

PROPERTY, PLANT AND EQUIPMENT	BUILDINGS	MANUFACT. PLANT AND EQUIPMENT	OTHER PLANT AND EQUIP-MENT	ADVANCES FOR PPE	PPE IN THE COURSE OF CONSTR.	TOTAL
Carrying amount as at 31/12/2006	32,598,083	33,397,900	3,038,883	6,346,348	24,934,211	100,315,425
Acquisitions	2,303,736	108,084	764,456	5,056,687	30,245,190	38,478,153
Decreases, disposals	0	0	(44,703)	(3,227,125)	(23,998)	(3,295,826)
Transfers *	0	0	0	0	(4,929,560)	(4,929,560)
Depreciation	(535,745)	(1,370,529)	(780,091)	0	0	(2,686,365)
Carrying amount as at 31/12/2007	34,366,074	32,135,455	2,978,545	8,175,910	50,225,843	127,881,827

* Capitalisation of buildings (€ 2,303,736) and equipment (€ 872,540), and transfer to intangible assets (€ 1,753,284).

(3)
Long-term investments
€ 819,063,439

Investments in shares and interests in Group companies refer to the value of long-term investments in companies in which the company has a majority interest (whether direct or indirect through other companies) and prepares consolidated financial statements for this group of companies.

As a result of the spin-off with acquisition, the value of long-term investments of HSE Group companies decreased on 1 January 2007 by the value of the long-term investment in the companies Savske elektrarne Ljubljana d.o.o. and Termoelektrarna Brestanica d.o.o. in the total amount of € 144,277,867.

In 2007 the company purchased minority interests in the following companies:
- Soške elektrarne Nova Gorica d.o.o. (20.5 %),
- Termoelektrarna Trbovlje d.o.o. (0.99 %), and
- HSE Hungary d.o.o. (0. 2 %).

By way of a contribution in kind amounting to:
- 0.14 % of the interest of Dravske elektrarne Maribor d.o.o.,
- 80.34 % of the interest of Termoelektrarna Trbovlje d.o.o.,

the Republic of Slovenia increased the capital of HSE (increase in nominal capital).

Investments in interests of associates include a 45 % interest in the company Plinsko parna elektrarna.

Other shares and interests include investments in the company Toplofikatsia-Ruse EAD in the amount of € 43,425,871 and the company Stelkom d.o.o. (a 19 % interest) in the amount of € 111,000.

In 2007 the company acquired a 100 % stake in the Bulgarian company Toplofikatsia-Ruse EAD, selling 49 % of it in 2007 (this portion was recorded under short-term investments in 2007). The company still holds 51 % of voting rights for the remaining 51 % stake, but due to a higher majority that is required in order to adopt decisions, it cannot make strategic decisions without the approval of the other owner. Such decision-making conditions also apply to the co-owner. In 2007 the company launched activities to sell the 51 % interest, meaning it no longer has profit participation rights. Due to the above facts, the company Toplofikatsia-Ruse EAD has not been included in the consolidated financial statements of the HSE Group. For the same reasons, the investment in the above company has not been accounted for using the equity method. In the company's separate financial statements and the consolidated financial statements of the HSE Group, the investment has been valued at cost. The company considers more detailed disclosures to be a business secret.

The investment in Technological Centre for Research and Experimental Development (Tehnološki center za raziskave in eksperimentalni razvoj) in the amount of € 1,669 was recorded under other long-term investments. In 2007 the fair value of interest rate swaps, which totalled € 470,530 as at 31 December 2007, was also transferred from other short-term investments to long-term investments.

According to our estimates, the investments are not exposed to risk.

Cost and value adjustment of long-term investments

in €

AS AT 31/12/2007	INVESTMENTS IN SHARES AND INTERESTS OF GROUP COMPANIES EXCEPT ASSOCIATES	INVESTMENTS IN SHARES AND INTERESTS EXCEPT ASSOCIATES	OTHER INVESTMENTS IN SHARES AND INTERESTS	OTHER LONG-TERM INVESTMENTS	TOTAL
Cost	858,310,731	543,850	43,536,871	472,199	902,863,651
* Value adjustment	83,800,212	0	0	0	83,800,212
Carrying amount	774,510,519	543,850	43,536,871	472,199	819,063,439

* Adjustment to the value of investments refers to the impairment of investments in HSE Group companies from previous years.

Changes in long-term investments

in €

INVESTMENTS	INVESTMENTS IN SHARES AND INTERESTS OF GROUP COMPANIES EXCEPT ASSOCIATES	INVESTMENTS IN SHARES AND INTERESTS OF ASSOCIATES	OTHER INVESTMENTS IN SHARES AND INTERESTS	OTHER LONG-TERM INVESTMENTS	TOTAL
Carrying amount as at 31/12/2006	825,310,900	543,850	111,000	1,669	825,967,419
Spin-off on 01/01/2007	(144,277,867)	0	0	0	(144,277,867)
Acquisitions	25,016,560	0	43,425,871	0	68,442,431
Increase	68,460,926	0	0	470,530	68,931,456
Carrying amount as at 31/12/2007	774,510,519	543,850	43,536,871	472,199	819,063.439

Changes in long-term investments in group companies

in €

	2007
Spin-off of the investment in Termoelektrarna Brestanica d.o.o.	(28,909,824)
Spin-off of the investment in Savske elektrarne Ljubljana d.o.o.	(115,368,043)
Increase in HSE's capital by way of RS's interest in Dravske elektrarne Maribor d.o.o.	551,642
Repurchase of minority interests in Soške elektrarne Nova Gorica d.o.o.	43,066,491
Increase in investment in Termoelektrarna Šoštanj d.o.o.	20,864,000
Increase in HSE's capital by way of RS's interest in Termoelektrarna Trbovlje d.o.o.	24,182,340
Repurchase of minority interest in Termoelektrarna Trbovlje d.o.o.	321,000
Increase in capital of HSE Invest d.o.o.	69,568
Increase in capital of HSE Italia S.r.l.	20,000
Increase in capital of HSE Hungary Kft.	3,813,730
Repurchase of minority interest in HSE Hungary Kft.	413
Increase in capital of HSE Adria d.o.o.	75,082
New investment in HSE Bulgaria EOOD	513,220
Total changes in long-term investments	(50,800,381)

Long-term investments in group companies

in €

	31/12/2007	31/12/2006
Dravske elektrarne Maribor d.o.o.	387,058,979	386,507,337
Savske elektrarne Ljubljana d.o.o.	0	115,368,043
Soške elektrarne Nova Gorica d.o.o.	152,692,249	109,625,758
Termoelektrarna Brestanica d.o.o.	0	28,909,824
Termoelektrarna Šoštanj d.o.o.	114,864,977	94,000,977
Premogovnik Velenje d.d.	89,635,483	89,635,483
HSE Invest d.o.o.	80,000	10,432
HSE Italia S.r.l.	29,690	9,690
HSE Hungary Kft.	4,004,965	190,822
HSE Balkan Energy d.o.o.	1,025,063	1,025,063
HSE Adria d.o.o.	102,553	27,471
Termoelektrarna Trbovlje d.o.o.	24,503,340	0
HSE Bulgaria EOOD	513,220	0
Total long-term investments in group companies	774,510,519	825,310,900

Long-term investments in Group companies

DRAVSKE ELEKTRARNE MARIBOR d.o.o.
Obrežna ulica 170, 2000 Maribor, Slovenia
- share of HSE: 100 %
- total equity: € 511,249,084
- net profit for 2007: € 49,447,019

SOŠKE ELEKTRARNE NOVA GORICA d.o.o.
Erjavčeva 20, 5000 Nova Gorica, Slovenia
- share of HSE: 100 %
- total equity: € 154,361,715
- net profit for 2007: € 3,878,743

TERMOELEKTRARNA ŠOŠTANJ d.o.o.
Cesta Lole Ribarja 18, 3325 Šoštanj, Slovenia
- share of HSE: 100.0 %
- total equity: € 228,827,734
- net profit for 2007: € 10,391,053

PREMOGOVNIK VELENJE d.d.
Partizanska cesta 78, 3320 Velenje, Slovenia
- share of HSE: 77.73 %
- total equity: € 109,310,786
- net profit for 2007: € 905,867

HSE INVEST d.o.o.
Obrežna ulica 170a, 2000 Maribor, Slovenia
- share of HSE: 25.0 % (direct); 75.0 % (indirect)
- total equity: € 366,150
- net profit for 2007: € 114,719

TERMOELEKTRARNA TRBOVLJE d.o.o.
Ob železnici 27, 1420 Trbovlje, Slovenia
- share of HSE: 81.33 %
- total equity: € 31,932,206
- net profit for 2007: € 291,145

HSE Italia S.r.l.
Via Roma 20, Gorizia, Italy
- share of HSE: 100.0 %
- total equity: € 41,009
- net profit for 2007: € 4,089

HSE Hungary Kft.
Karolyi Mihaly u. 12, Budapest, Hungary
- share of HSE: 100.0 %
- total equity: HUF 1,326,305,186 or € 5,227,231
- net profit for 2007: HUF 324,345,881 or € 1,278,311

HSE Balkan Energy d.o.o.
Makenzijeva 74, Beograd, Serbia
- share of HSE: 100.0 %
- total equity: RSD 81,028,345 or € 977,729
- net profit for 2007: RSD 87,205 or € 1,052

HSE Adria d.o.o.
Miramarska 24, Zagreb, Croatia
- share of HSE: 100.0 %
- total equity: HRK 2,382,991 or € 325,066
- net profit for 2007: HRK 1,605,909 or € 219,063

HSE Bulgaria EOOD
37 Fridtjof Nansen Street, Sofia 1142, Bolgaria
- share of HSE: 100.0 %
- total equity: BGN 988,535 or € 505,438
- net loss for 2007: BGN 11,465 or € 5,862

Long-term investments in associates

Plinsko parna elektrarna d.o.o.
Tovarniška 10, 2325 Kidričevo, Slovenia
- share of HSE: 45.0 %
- total equity: € 1,208,642
- net profit for 2007: € 415

(4)
Receivables
€ 155,209,102

Long-term receivables due from others refer to the deposit given as collateral for trading in electricity on Slovenia's power market.

Short-term operating receivables due from group companies comprise receivables from electricity sold, receivables from services regarding the performance of certain functions for subsidiaries abroad, and receivables from costs charged in connection with the operation of HPP Boštanj.

The bulk of short-term trade receivables comprise receivables from the sale of electricity in Slovenia and abroad.

Short-term advances mostly include advances for electricity auctions.

Short-term receivables from operations for third party account include receivables from a grantor in connection with funds provided as security in the process of acquisition of land for HPP Blanca and HPP Krško, and receivables arising from the operation of HPP Boštanj from venturers participating in the construction of HPPs on the lower Sava River.

Short-term receivables associated with financial revenue include in particular default interest receivables and receivables from deposit interest.

Other short-term receivables include mostly receivables due from input value added tax and receivables from deposits provided as security for operations at the local and foreign power exchanges.

Receivables due from customers are mainly settled within the set terms or with minor delays. In case of default, the customers both in Slovenia and abroad are charged the default interest at the contractual rate. With the exception of doubtful and disputed receivables, outstanding receivables were mostly settled by the date of this report. In 2007 the company transferred € 14,684,435 to doubtful or disputed receivables.

Disputed receivables include a receivable in the amount of € 14,683,915, in connection with which court proceedings were initiated in March 2008. The receivable arises from the provision of system services.

Doubtful receivables include outstanding default interest in the amount of € 520. The company wrote off € 56 in receivables due from fees of foreign correspondent banks associated with payments by foreign customers.

Electricity receivables from customers arising from annual contracts are mostly secured with bills of exchange or bank guarantees. Such receivables include the receivables which exceed customer's limits. Receivables from certain customers are regulated in detail using the EFET Agreements, whereas in other cases collateralisation is not required due to customer's strategic position and/or financial stability. For each customer, the decision whether a security is required is taken on the basis of Systemic Credit Risk Management Instructions and Systemic Credit Risk Identification and Monitoring Instructions, which, among other things, lay down the setting of limits and monitoring of their utilisation.

Short-term electricity trading is carried out through power exchanges (in this case related receivables are secured by the obligatory membership system), through trading portals, and by bilateral agreements. In the latter case, the EFET Agreements are concluded with the majority of such customers, except in the case of receivables for which collateralisation is not required due to a customer's specifics circumstances regarding security, as in the case of trading under annual contracts, or when receivables are secured with counter guarantees because a limit for a certain customer has been exceeded.

The collateralisation of other receivables is not required due to their specific nature.

In our opinion, the trade receivables risk is well managed thanks to the above-mentioned management measures.

Short-term operating receivables

in €

TYPE OF RECEIVABLE	31/12/2007	31/12/2006
Short-term trade receivable in Slovenia	92,913,776	66,313,194
Short-term trade receivables abroad	30,304,798	29,166,041
Short-term advances for services in Slovenia not yet provided	690,557	3,740
Short-term advances for services in abroad not yet provided	0	549
Short-term collaterals	0	2,556,460
Short-term receivables from operations for third party account	41,473	793,287
Short-term receivables associated with financial revenue	181,762	99,574
Short-term liabilities to the state	28,110,024	14,546,292
short-term receivables from others	2,841,524	1,208,338
Total short-term operating receivables	155,083,914	114,687,475

Short-term operating receivables due from Group companies

in €

GROUP COMPANY	31/12/2007	31/12/2006
Dravske elektrarne Maribor d.o.o.	75,670	239,871
Savske elektrarne Ljubljana d.o.o.	0	98,129
Soške elektrarne Nova Gorica d.o.o.	2,701	21,807
Termoelektrarna Brestanica d.o.o.	0	21,807
Premogovnik Velenje d.d.	481,319	245,432
HSE Invest d.o.o.	0	513
HSE Balkan Energy d.o.o.	88,945	56,289
HSE Hungary Kft.	2,260,121	1,617,485
HSE Adria d.o.o.	17,917	0
HSE Bulgaria EOOD	6,000	0
HSE Italia S.r.l.	1,451	26
Total short-term operating receivables due from group companies	2,934,124	2,301,359

Breakdown of receivables by date of maturity

in €

MATURITY PERIOD	31/12/2007	31/12/2006
Receivables not yet due	139,916,028	113,858,653
Receivables overdue - up to 3 months	24,499,490	826,390
Receivables overdue - from 3 to 6 months	2,281,843	2,432
Receivables overdue for more than 6 months	3,070,988	0

(5)
Deferred tax assets
€ 4,360,454

Deferred tax assets were formed on the basis of expenses which influence the company's profit or loss for the year but are not deductible for tax purposes in the current year.

All deferred tax assets are recognised in the income statement.

In 2007 the decrease in deferred receivables was lower than the amount created. Deferred receivables changed as follows:
- in 2007 they were created in the amount of 50 % of tax non-deductible provisions for termination and jubilee benefits,
- they were created for the purpose of writing off disputed receivables due from Elektro Slovenija d.o.o.,
- they were created for the purpose of depreciation of fixed assets in cases when operating depreciation exceeded the amount of tax deductible depreciation,
- they were utilised for the purpose of using provisions relating to guarantees of origin,
- they were used to decrease provisions relating to guarantees of origin,
- they were eliminated to reverse the impairment of CO_2 emission coupons.

Changes in deferred tax assets

in €

DEFERRED TAX ASSETS	PROVISIONS	IMPAIRMENT	AMORTISATION	TOTAL
Value as at 31/12/2006	1,598,435	312,200	9,625	1,920,260
Formation, increase	2,525	2,936,784	15,072	2,954,381
Utilisation, decrease	(200,935)	(312,200)	(1,052)	(514,187)
Value as at 31/12/2007	1,400,025	2,936,784	23,645	4,360,454

(6)
Short-term investments
€ 16,909,850

In 2007 the company sold shares of a Slovene bank, thus generating financial revenue.

At the end of 2006, other short-term investments included the fair value of an interest rate swap, the portion of which that was not subject to the spin-off (€ 19,352) was transferred to long-term investments in 2007.

Short-term loans include:
- short-term revolving loan to a Group company,
- short-term loan to others, and
- deposits with major Slovene banks.

According to our estimates, the investments are not exposed to risk.

Short-term investments

in €

TYPE OF SHORT-TERM INVESTMENT	31/12/2007	31/12/2006
Short-term investments in shares	0	5,167,848
Short-term loans to group companies	3,246,850	3,065,470
Short-term loans to others	200,000	0
Short-term deposits	13,463,000	25,016,691
Short-term foreign currency deposits	0	0
*Interest rate swaps	0	38,704
Total of short-term investments	16,909,850	33,288,713

* Recorded under other long-term investments in 2007.

(7)
Cash
€ 3,839,722

Cash includes the cash in the company's accounts in Slovenia and abroad, and deposits redeemable at notice. As at the end of 2007, no automatic debit balances had been arranged in the form of limits in accounts with banks.

(8)
Short-term deferred costs and accrued revenue
€ 6,082,027

The majority of short-term accrued revenue and deferred costs consist of accrued costs of electricity transfer capacities.

Short-term deferred costs and accrued revenue of the company

in €

TYPE OF SHORT-TERM ACCRUED REVENUE AND DEFERRED COSTS	31/12/2007	31/12/2006
Short-term deferred costs	5,495,431	1,079,267
Short-term accrued revenue	586,596	83,458
VAT on advances received	0	25
Total accrued revenue and deferred costs	6,082,027	1,162,750

(9)
Off-balance sheet records
€ 225,623,904

The company's off-balance sheet records include financial instruments received and given as collaterals for receivables, liabilities, and performance of contract work. They also include outstanding futures transactions.

The company's collaterals as at 31 December 2007 were as follows:
- a guarantee issued to Geoplin in relation to the fulfilment of cash and other obligations of TPP Šoštanj arising from a long-term natural gas supply agreement for the period until 2012; furthermore, an agreement was signed with TPP Šoštanj stipulating that in case the payment is made to Geoplin by HSE, the receivables arising from the payment shall be offset by the liabilities due by HSE to TPP Šoštanj;
- a guarantee provided by HSE under the guarantee agreement signed by HSE, Soške elektrarne Nova Gorica and Bank Austria Creditanstalt, as an agent, and Bank Austria Creditanstalt, Bayerische Landesbank, Nova Ljubljanska banka and Nova Kreditna banka Maribor, as original guarantors, stating that HSE shall settle any outstanding liabilities arising from the guarantee agreement; an additional agreement was signed with Soške elektrarne stating that in case a payment is made by HSE pursuant to the guarantee agreement, the receivables arising from the payment shall be offset by the liabilities due by HSE to Soške elektrarne Nova Gorica;
- pursuant to the rules of the call for tenders and provisions of the contract entered into with the state of Bolgaria, HSE as the sole owner of Toplofikatsia-Ruse EAD concluded a stepping-in agreement under which it assumed all liabilities that the above company has in relation to companies in which the Bolgarian state holds at least a 51 % interest. When 49 % of the interest was transferred to another owner, the latter also assumed such liabilities;
- HSE's guarantee in connection with sponsorship contracts.

The company's electricity receivables due in Slovenia are mostly secured with blank bills of exchange.

Contractors issue blank bills of exchange to provide collateral for payments to sub-contractors involved in the project of the construction of HPPs on the lower Sava River.

Off-balance sheet records of the company

in €

	31/12/2007	31/12/2006
Bank guarantees received	101,140,703	53,010,269
Insurance policies received	328,675	504,229
Mutual fund (Modri sklad)	175,452	137,987
Bank guarantees issued	19,267,812	13,928,745
Futures employed in hedging - purchase	104,261,505	152,527,791
Statement of the possibility of obtaining funds (AE licence)	29,346	8,346
Lawsuits	179,810	179,810
Liabilities of Toplofikatsia-Ruse EAD	240,601	0
Total off-balance sheet records	225,623,904	220,297,177

(10)
Equity
€ 757,166,486

In 2007 the value of nominal capital changed as follows:

- the Republic of Slovenia increased the capital of HSE by € 24,733,982 through the contribution in kind of a 0.14 % interest in the company Dravske elektrarne Maribor d.o.o. and a 80.34 % interest in the company of Termoelektrarna Trbovlje d.o.o.;
- pursuant to the provisions of the Companies Act, nominal capital was converted due to the replacement of the national currency, leading to an increase in nominal capital by € 0.34.

There has also been a change in capital surplus which decreased by € 131,756,737 owing to the spin-off of long-term investments.

Other revenue reserves increased as follows:

- by a portion of accumulated profit for 2006 in the amount of € 8,950,855 in accordance with the General Meeting's resolution,
- by a portion of net profit for 2007 in the amount of € 6,205,598 in accordance with the Supervisory Board's resolution adopted on the management's proposal.

Under revaluation surplus, the company records the gains or losses on futures used for hedging, and the fair value of interest rate swaps.

Futures refer to the closing of deals on the purchase of electricity in foreign power exchanges in the future, on the basis of which the company secures the already concluded deals for the sale of electricity in the same period.

Revaluation surplus was decreased by the amounts of electricity purchases in 2007 that were hedged using futures. The cost of goods sold was increased in the income statement by € 13,278,034.

In the spin-off process, the fair value of the interest rate swap was transferred in the amount of € 19,352.

In accordance with the General Meeting's resolution, € 8,950,855 of retained earnings for 2006, which totalled € 17,901,709, were transferred to other revenue reserves, whereas € 8,950,854 was paid to the owner.

In accordance with the Supervisory Board's resolution adopted on the management's proposal, € 6,205,598 of the 2007 net profit, which totalled € 12,411,197, was allocated to other revenue reserves, while the difference of € 6,205,599 constitutes the company's accumulated profit.

In 2007 consumer prices increased by 5.6 %. Had the increase in consumer prices been taken into account, the total capital of the company would increase by € 39,539,969. The conversion of capital is exclusive of the net profit for the period, distributed retained earnings, the amount of the spin-off, and the increase in revaluation surplus in 2007.

Had the said conversion been taken into account, the company would record a net loss of € 27,128,772.

Total equity

in €

	31/12/2007	31/12/2006
Nominal capital	29,558,789	4,824,807
Capital surplus	561,243,185	692,999,922
Other revenue reserves	138,319,123	123,162,670
Revaluation surplus	21,839,790	7,908,714
Net profit or loss for the period	6,205,599	17,901,709
Total equity	757,166,486	846,797,822

Changes in capital surplus

in €

	PAID-IN CAPITAL SURPLUS	GENERAL EQUITY REVALUATION ADJUSTMENT	TOTAL
Value as at 31/12/2006	692,999,809	113	692,999,922
Spin-off on 01/01/2007	(131,756,737)	0	(131,756,737)
Increase	0	0	0
Decrease	0	0	0
Value as at 31/12/2007	561,243,072	113	561,243,185

Profit or loss of the company after equity restatement

in €

	31/12/2007
Net profit or loss	12,411,197
Profit or loss after the restatement on the basis of consumer prices (5.6 % growth)	(27,128,772)

Changes in revaluation surplus

in €

REVALUATION SURPLUS	FUTURES	INTEREST RATE SWAPS	TOTAL
Value as at 31/12/2006	7,870,010	38,704	7,908,714
Spin-off on 01/01/2007	0	(19,352)	(19,352)
Increase	26,384,963	451,178	26,836,141
Decrease	(26,163,747)	0	(26,163,747)
Increase in operating expenses	14,663,461	0	14,663,461
Decrease in operating expenses	(1,385,427)	0	(1,385,427)
Value as at 31/12/2007	21,369,260	470,530	21,839,790

(11) Provisions
€ 7,943,631

As at year-end 2007, provisions comprised:
- provisions for termination and jubilee benefits,
- provisions arising from the sale of electricity produced from renewable sources in 2006 and set aside due to the non-recognition by Italy of guarantees of origin that are used to prove the production of electricity from renewable sources,
- provisions for the payment of the fee for the limited area use for 2007.

Changes in provisions

in €

PROVISIONS	PROVISIONS FOR TERMINATION AND JUBILEE BENEFITS	OTHER PROVISIONS	TOTAL
Value as at 31/12/2006	398,707	6,600,000	6,998,707
Formation, increase	25,250	1,532,716	1,557,966
Utilisation	(13,042)	(243,938)	(256,980)
Elimination	0	(356,062)	(356,062)
Value as at 31/12/2007	410,915	7,532,716	7,943,631
Formation planned	0	0	0
Utilisation planned	0	0	0

(12) Long-term debts
€ 156,475,386

The company’s long-term debts include the following long-term financial loans:
- long-term financial loan taken out with a syndicate of Slovene banks in 2003 for the period of 12 years,
- long-term financial loan taken out with a Slovene bank in 2006 for the period of 5 years.
- long-term financial loan taken out with a Slovene bank in 2007 for the period of 10 years,
- long-term financial loan taken out with a Slovene bank in 2007 for the period of three years.

The values of principals due in 2008 are recorded among short-term liabilities to banks. Interest is settled on a quarterly or annual basis, and its undue portion payable in 2007 is recorded under short-term operating liabilities.

The long-term loan taken out in 2003 will be fully repaid in October 2015. The principal is repaid on a quarterly basis. After the introduction of the euro as a legal tender in Slovenia, the agreed-upon interest rate is equivalent to the 3-month EURIBOR plus a minimal mark-up. The loan is secured by ten blank bills of exchange.

The company entered into a 3-year interest rate swap contract effective 2 January 2007 to hedge against increasing interest rates in the future.

The estimated fair value of the interest rate swap, which totalled € 206,945 as at 31 December 2007, is recorded under other long-term investments and revaluation surplus.

The long-term loan taken out in 2006 will be fully repaid in December 2011. The principal is repaid on a quarterly basis. The agreed-upon interest rate is the 3-month EURIBOR plus a minimal mark-up. The loan is secured by six blank bills of exchange.

The company entered into a 5-year interest rate swap contract effective 1 December 2006 to hedge against increasing interest rates in the future.

The estimated fair value of the interest rate swap, which totalled € 90,227 as at 31 December 2007, is recorded under other long-term investments and revaluation surplus.

On the basis of the spin-off, the acquiring company took over the payment of 50 % of the loan and a proportionate portion of hedging against interest rate increases.

The long-term loan taken out in 2007 will be fully repaid in January 2017. The principal will be repaid on a semi-annual basis (the first repayment in January 2009). The agreed-upon interest rate is the 6-month EURIBOR plus a minimal mark-up. The loan is secured by six blank bills of exchange.

The company entered into a 5-year interest rate swap contract effective 19 January 2007 to hedge against increasing interest rates in the future.

The estimated fair value of the interest rate swap, which totalled € 173,358 as at 31 December 2007, is recorded under other long-term investments and revaluation surplus.

The long-term loan taken out in 2007 will be fully repaid in December 2010. The principal will be repaid in a single amount when due. The agreed-upon interest rate is the 6-month EURIBOR plus a minimal mark-up. The loan is secured by five blank bills of exchange.

Long-term operating liabilities to Group companies and long-term operating liabilities to others include venturers' payments for the joint venture for the construction of HPPs on the lower Sava River. Due to their specific nature, the payments are not secured.

Long-term operating liabilities are utilised after the start of operation of individual HPPs in the amount corresponding to the accumulated depreciation in the shares held by individual venturers. In the light of the above, they were decreased by € 922,299 in 2007.

By the end of 2007, € 121,732,736 was invested in the joint venture for the construction of HPPs on the lower Sava River.

Long-term operating trade liabilities include withheld payments to suppliers in connection with the construction of HPPs on the lower Sava River.

Long-term operating liabilities

in €

VENTURER	STAKE IN JOINT VENTURE	31/12/2007	31/12/2006
Dravske elektrarne Maribor d.o.o.	30.8 %	36,630,754	28,250,860
Savske elektrarne Ljubljana d.o.o.	12.6 %	14,985,308	11,557,170
Soške elektrarne Nova Gorica d.o.o.	2.8 %	3,330,069	2,568,260
Termoelektrarna Brestanica d.o.o.	2.8 %	3,330,068	2,568,260
Total long-term operating liabilities		58,276,199	44,944,550

Maturity of long-term liabilities

in €

LONG-TERM LIABILITIES	MATURITY DATE			TOTAL
	UP TO 31/12/2010	01/01/2011 TO 31/12/2012	AFTER 01/01/2013	
Long-term financial liabilities to banks	54,498,913	16,677,764	25,753,286	96,929,963
Long-term operating trade liabilities	1,237,483	31,740	0	1,269,223
Total	55,736,396	16,709,504	25,753,286	98,199,186

(13)
Short-term debts
€ 214,764,190

The value of short-term financial liabilities to banks includes the portion of long-term loan principals due in 2008 and a short-term loan taken out with a Slovene bank at the end of September, the repayment period of which is one year.

The interest rate for the short-term loan is the 1-month EURIBOR with a minimal mark-up.

The loan is secured by two blank bills of exchange accompanied with a "no protest" clause and two realisation authorisations.

Short-term liabilities to Group companies refer to the supply of electricity and services.

Short-term trade payables mostly include short-term payables to electricity suppliers, electricity-related costs, and short-term payables to suppliers in connection with investments in the construction of HPPs on the lower Sava River.

Short-term liabilities to employees include liabilities for December salaries and other employment-related income.

Short-term liabilities to the state and other institutions include value added tax liabilities, customs duty liabilities, liabilities for contributions in December and payroll tax, and contributions on other employment-related income payable by the employer.

Short-term interest liabilities include accounted for interest on long-term and short-term loans.

The company settles all liabilities in due time.

Short-term operating debts

in €

TYPE OF SHORT-TERM OPERATING LIABILITY	31/12/2007	31/12/2006
Short-term trade liabilities in Slovenia	128,278,802	92,295,537
Short-term trade liabilities abroad	41,557,329	26,284,255
Short-term advances received	38,939	150
Other short-term liabilities for operations for third party account	27,664	24,058
Short-term liabilities to employees	478,333	342,036
Short-term liabilities to state and other institutions	7,676,056	10,349,004
Short-term interest liabilities	1,155,970	125,271
Other short-term liabilities	176,383	436,930
Total short-term operating liabilities	179,389,476	129,857,241

Short-term operating debts by Group companies

in €

GROUP COMPANIES	COUNTRY	31/12/2007	31/12/2006
Dravske elektrarne Maribor d.o.o.	Slovenia	38,515,401	17,828,460
Savske elektrarne Ljubljana d.o.o.	Slovenia	0	1,446,777
Soške elektrarne Nova Gorica d.o.o.	Slovenia	3,128,111	3,369,690
Termoelektrarna Brestanica d.o.o.	Slovenia	0	2,613,203
Termoelektrarna Šoštanj d.o.o.	Slovenia	44,760,607	25,538,638
Premogovnik Velenje d.d.	Slovenia	17,144	8,836
HSE Invest d.o.o.	Slovenia	279,074	97,680
HSE Italia S.r.l.	Italy	28,080	7,800
HSE Hungary Kft.	Hungary	137,268	1,865,152
HSE Balkan Energy d.o.o.	Serbia	482,904	768,044
HSE Adria d.o.o.	Croatia	10,100,187	18,000
Termoelektrarna Trbovlje d.o.o.	Slovenia	5,736,001	0
Other group companies	Slovenia	2,647	140,196
Total short-term operating debts to group companies		103,187,424	53,702,476

(14)
Short-term accrued costs and deferred revenue
€ 5,509,767

Short-term accrued costs and deferred revenue mostly consist of contingent costs of electricity purchases and estimated deviations regarding electricity for 2007.

Short-term accrued costs and deferred revenue

in €

TYPE OF SHORT-TERM ACCRUED COSTS AND DEFERRED REVENUE	31/12/2007	31/12/2006
Short-term accrued costs	4,261,147	1,587,181
Short-term deferred revenue	50,640	1,170
VAT on advances granted	1,197,980	878,614
Total short-term accrued costs and deferred revenue	5,509,767	2,466,965

Changes in short-term accrued costs and deferred revenue

in €

SHORT-TERM ACCRUED COSTS AND DEFERRED REVENUE	SHORT-TERM ACCRUED COSTS	SHORT-TERM DEFERRED REVENUE	VAT	TOTAL
Value as at 31/12/2006	1,587,181	1,170	878,614	2,466,965
Formation, increase	32,391,439	49,470	1,079,955	33,520,864
Utilisation	(29,717,473)	0	(760,589)	(30,478,062)
Value as at 31/12/2007	4,261,147	50,640	1,197,980	5,509,767

4.8.2 Income statement

General

Information as to the basis for the preparation of the income statement, together with the specific accounting policies selected and applied to significant operations and transactions of the company are presented in disclosures of individual significant revenue and expense items.

The company's income statement has been prepared using Format I as defined under SAS (2006) 25.5.

The amount of expenses was influenced by methods, accounting policies and estimates explained in disclosures of balance sheet items (depreciation and amortisation, valuation of inventories). The company did not change methods and accounting policies, but it did change the accounting assessment by extending the useful lives of certain items of software recorded under property rights.

Revenue
€ 943,961,613

Revenue from the sale of electricity in Slovenia and abroad accounts for 99.9 % of the company's net sales revenue.

Revenue from services was generated mostly through services associated with electricity, rents, and the performance of certain functions for subsidiaries abroad.

Capitalised own services represent services rendered in connection with the construction of HPPs on the lower Sava River.

Revaluation operating revenue includes revenue from the reversed impairment of CO_2 emission coupons, reversed and utilised provisions for guarantees of origin (all for 2006), and revenue from the disposal of fixed assets.

Financial revenue from interests includes a gain on the disposal of shares, disposal of a stake in Toplofikatsia-Ruse EAD, and disposal of bonds used to finance the purchase of the said company.

Financial revenue from loans granted includes interest charged on deposits and interest on loans granted.

Financial revenue from operating receivables is comprised of gains on futures held for trading, increase in the number of CO_2 emission coupons, revenue from default interest, interest on guarantees at foreign exchange markets, and foreign exchange gains on cash and operating receivables.

Other revenue mostly includes compensation arising from electricity supply contracts.

Revenue of the company

in €

TYPE OF REVENUE	2007	2006
Operating revenue	923,302,179	785,480,573
Financial revenue	20,577,647	1,539,484
Other revenue	81,787	3,627
Total revenue	943,961,613	787,023,684

Operating revenue

in €

TYPE OF OPERATING REVENUE	2007	2006
Revenue from the sale of electricity	920,157,116	784,857,078
Revenue from sales of services	1,018,961	451,615
Capitalised own services	151,341	157,725
Revenue from elimination or utilisation of provisions	600,000	0
Revaluation operating revenue	1,374,761	14,155
Total operating revenue	923,302,179	785,480,573

Geographical segments

in €

	2007	2006
Domestic market	677,506,544	557,481,881
Foreign market	243,669,533	227,826,812
Domestic and foreign markets	921,176,077	785,308,693

Expenses
€ 927,131,954

The cost of goods sold, which accounts for 96.5 % of total operating expenses, encompasses expenses for the purchase of electricity and contingent costs of electricity purchases.

Costs of goods, materials and services, labour cost, write-downs in value, and other operating expenses represent less than 3.4 % of total operating expenses. The write-off of a disputed receivable represents more than a third of the above expenses.

The company did not receive any employee claims for payment on the basis of legal provisions, the collective labour agreement or the company's Articles of Association.

Financial expenses for financial liabilities mostly include interest on long-term and short-term loans obtained.

Financial expenses for operating liabilities include a loss on the disposal of CO_2 emission coupons, futures held for trading, foreign exchange losses on cash and operating liabilities.

Expenses of the company

in €

TYPE OF EXPENSES	2007	2006
Operating expenses	920,819,182	735,229,057
Financial expenses	6,312,538	7,667,343
Other expenses	234	24
Total expenses	927,131,954	742,896,424

Operating expenses

in €

TYPE OF OPERATING EXPENSES	2007	2006
Cost of merchandise sold	857,289,282	702,775,454
Contingent costs of merchandise sold	30,945,960	11,007,079
Costs of materials	248,881	236,454
Costs of services	7,405,864	4,699,093
Labour costs	5,950,139	5,025,536
Costs of depreciation and amortisation	2,236,463	1,477,511
Revaluation operating expenses	14,749,115	16,813
Other operating expenses	1,993,478	9,991,117
Total operating expenses	920,819,182	735,229,057

Costs by functional groups

in €

TYPE OF COSTS	2007	2006
Cost of merchandise sold	906,358,345	723,232,157
Selling costs	1,981,892	1,774,406
General and administrative costs	12,327,604	10,064,769

Profit
€ 16,829,659

The company concluded the financial year 2007 with a profit of € 16,829,659.

Net profit
€ 12,411,197

After deducting corporate income tax and deferred tax assets, net profit totalled € 12,411,197.

Corporate income tax
€ 6,858,656

In accordance with provisions of the Corporate Income Tax Act, the company's 2007 profit was taxed at 23 % of the taxable base reported in the company's tax return.

Deferred taxes
(€ 2,440,194)

Compared to 2007, the company's deferred tax assets increased by € 2,440,194.

The company did not account for deferred tax liabilities in 2007.

Profit of the company

in €

TYPE OF PROFIT OR LOSS	2007	2006
Gross return on operations	923,302,179	785,480,573
Operating profit or loss	2,482,997	50,251,516
Profit or loss on ordinary activities	16,748,106	44,123,657
Profit or loss on extraordinary activities	81,553	3,603
Total profit or loss	16,829,659	44,127,260
Net profit or loss for the period	12,411,197	36,100,302

4.8.3 Cash flow statement

General

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

Cash comprises deposit money in transaction accounts and deposits redeemable at notice.

The cash flow statement is prepared using the indirect method (Format II – SAS (2006) 26.9).

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

- under revaluation surplus, cash inflow associated with futures in the amount of € 13,499,250 has been recorded under inflows from operating activities,
- in increasing the value of property, plant and equipment, outstanding and not yet due liabilities to contractors in the amount of € 2,512,959 have been taken into account,
- revaluation operating expenses have been decreased by the amount of written off disputed receivables equalling € 14,683,915.

Cash flows

in €

TYPE OF CASH FLOW	2007	2006
Cash flows from operating activities	30,695,629	68,314,259
Cash flows from investing activities	(106,156,798)	(56,270,217)
Cash flows from financing activities	75,120,465	(12,054,537)
Net cash flow for the period	(340,704)	(10,495)

4.8.4 Statement of changes in equity

General

The statement of changes in equity encompasses all changes in equity components during the financial year.

The statement of changes in equity is prepared so that all components of equity are presented in the form of a spreadsheet (Format I – SAS (2006) 27.2).

Spin-off

As a result of the spin-off, the company's equity decreased as follows:

- capital surplus by € 131,756,737,
- revaluation surplus (fair value of interest rate swaps) by € 19,352.

Movements to equity

In the period under review, the company's equity increased by € 63,981,320 as follows:

- increase in nominal capital by € 24,733,982,
- net profit for the year by € 12,411,197,
- revaluation surplus associated with other financial instruments – futures – by € 26,384,963,
- revaluation surplus associated with other financial instruments – interest rate swaps – by € 451,178.

Movements within equity

Movements within the company's equity in the amount of € 15,156,453 refer to:
- allocation of a portion of the 2006 accumulated profit (in accordance with the General Meeting's resolution) in the amount of € 8,950,855 to other revenue reserves, and
- allocation of half of net profit for the current year (in accordance with the Supervisory Board's resolution adopted on the management's proposal) in the amount of € 6,205,598 to other revenue reserves.

Movements from equity

In 2007 the company's equity decreased by € 21,836,567 as follows:
- by € 8,950,854 which represents the payment of a portion of the 2006 accumulated profit to the owner,
- by € 12,885,713 which represents revaluation surplus associated with other financial instruments – futures.

Accumulated profit

Accumulated profit for 2007 totals € 6,205,599 which represents half of net profit for the period. The decision regarding the distribution of the accumulated profit is made by the sole founder.

Accumulated profit

in €

COMPONENTS OF ACCUMULATED PROFIT	2007	2006
Net profit or loss for the year	12,411,197	36,100,302
Retained earnings or retained net loss	0	(296,883)
Increase in revenue reserves in accordance with a resolution of management and supervisory board (other revenue reserves)	(6,205,598)	(17,901,710)
Accumulated profit for the year	6,205,599	17,901,709

4.8.5 Other disclosures

Remuneration of management and employees who are not subject to the tariff part of the collective labour agreement

Remuneration of management and employees who are not subject to the tariff part of the collective labour agreement:
- gross remuneration contained in the notice for income tax returns,
- other remuneration (meals, transportation, per diems, untaxed portion of jubilee benefits),
- premiums paid for voluntary additional pension insurance.

Remuneration of Supervisory Board members

Remuneration of Supervisory Board members represent gross attendance fees and travel expenses related to the performance of tasks in the Supervisory Board and the audit committee.

In 2007 no advances, loans or guarantees were extended to these groups of persons.

Short-term operating debts include December salaries for managers and employees who are not subject to the tariff part of the collective labour agreement, as well as December attendance fees to Supervisory Board members for their work in the Supervisory Board and the audit committee.

Remuneration of individual groups of persons

in €

	2007	2006
Management	165,511	116,497
Employees who are not subject to the tariff part of the collective labour agreement	1,530,369	1,225,501
Members of the Supervisory Board	82,279	18,699

Costs of auditing and tax consulting

In 2007 the costs of auditing and tax consulting were as follows:
- audit of the annual report of the company and the Group amounted to € 24,986,
- tax consulting services amounted to € 78,094.

Energy Act provisions

With the trial run of HPP Boštanj commencing in 2006, the company now performs not only the electricity trading activity but also the electricity production activity.

Rules by which the company separates the recording of assets and liabilities, and revenue and expenses arising from above activities are the following:
- when they occur, business events are posted to the relevant activity,
- assets and liabilities are recorded separately for individual activity,
- revenue and expenses are recorded separately for individual activity.

In the balance sheet, the production activity includes the total value of the joint venture for the construction of HPPs on the lower Sava River and the liabilities associated therewith. In the income statement, only the share of HSE as a venturer is recorded (51 %).

Balance sheet as at 31/12/2007 by company activities

in €

ITEM		TRADING	PRODUCTION	TOTAL
ASSETS		1,009,495,478	132,363,982	1,141,859,460
A.	LONG-TERM ASSETS	838,128,756	121,732,610	959,861,366
I.	Intangible assets and long-term deferred costs and accrued revenue	8,430,458	0	8,430,458
1.	Long-term property rights	8,430,458	0	8,430,458
II.	Property, plant and equipment	6,149,217	121,732,610	127,881,827
1.	Land and buildings	1,779,480	32,586,594	34,366,074
b)	Buildings	1,779,480	32,586,594	34,366,074
2.	Manufacturing plant and equipment	0	32,135,455	32,135,455
3.	Other plant and equipment	2,872,050	106,495	2,978,545
4.	Property, plant and equipment being acquired	1,497,687	56,904,066	58,401,753
a)	Property, plant and equipment in the course of construction	1,497,687	48,728,156	50,225,843
b)	Advances for acquisition of property, plant and equipment	0	8,175,910	8,175,910
IV.	Long-term investments	819,063,439	0	819,063,439
1.	Long-term investments, excluding loans	819,063,439	0	819,063,439
a)	Shares and interests in group companies	774,510,519	0	774,510,519
b)	Shares and interests in associated companies	543,850	0	543,850
c)	Other shares and interests	43,536,871	0	43,536,871
d)	Other long-term investments	472,199	0	472,199
V.	Long-term operating receivables	125,188	0	125,188
3.	Long-term operating receivables due from others	125,188	0	125,188
VI.	Deferred tax assets	4,360,454	0	4,360,454
B.	CURRENT ASSETS	165,298,944	10,617,123	175,916,067
II.	Inventories	82,581	0	82,581
1.	Material	1,897	0	1,897
4.	Advances for inventories	80,684	0	80,684
III.	Short-term investments	8,659,850	8,250,000	16,909,850
2.	Short-term loans	8,659,850	8,250,000	16,909,850
a)	Short-term loans to group companies	3,246,850	0	3,246,850
b)	Short-term loans to others	5,413,000	8,250,000	13,663,000
IV.	Short-term operating receivables	152,719,048	2,364,866	155,083,914
1.	Short-term operating receivables due from group companies	2,855,754	78,370	2,934,124
2.	Short-term operating trade receivables	120,285,841	14,858	120,300,699
3.	Short-term operating receivables due from others	29,577,453	2,271,638	31,849,091
V.	Cash	3,837,465	2,257	3,839,722
C.	SHORT-TERM DEFERRED COSTS AND ACCRUED REVENUE	6,067,778	14,249	6,082,027
	OFF-BALANCE SHEET RECORDS	192,946,104	32,677,800	225,623,904

* The accompanying notes are an integral part of financial statements and should be read in conjunction with them.

BALANCE SHEET (continued)

in €

ITEM		TRADING	PRODUCTION	TOTAL
EQUITY AND LIABILITIES		1,009,495,478	132,363,982	1,141,859,460
A.	EQUITY	696,570,767	60,595,719	757,166,486
I.	Called-up capital	29,558,789	0	29,558,789
1.	Nominal capital	29,558,789	0	29,558,789
II.	Capital surplus	501,044,478	60,198,707	561,243,185
III.	Revenue reserves	138,319,123	0	138,319,123
5.	Other revenue reserves	138,319,123	0	138,319,123
IV.	Revaluation surplus	21,839,790	0	21,839,790
VI.	Net profit or loss for the period	5,808,587	397,012	6,205,599
B.	PROVISIONS AND LONG-TERM ACCRUED COSTS AND DEFERRED REVENUE	7,943,631	0	7,943,631
1.	Provisions for pensions and similar liabilities	410,915	0	410,915
2.	Other provisions	7,532,716	0	7,532,716
C.	LONG-TERM LIABILITIES	96,929,963	59,545,423	156,475,386
I.	Long-term financial liabilities	96,929,963	0	96,929,963
2.	Long-term financial liabilities to banks	96,929,963	0	96,929,963
II.	Long-term operating liabilities	0	59,545,423	59,545,423
1.	Long-term operating liabilities to group companies	0	39,960,823	39,960,823
2.	Long-term operating trade liabilities	0	1,269,223	1,269,223
5.	Other long-term operating liabilities	0	18,315,377	18,315,377
D.	SHORT-TERM LIABILITIES	203,726,768	11,037,422	214,764,190
II.	Short-term financial liabilities	35,374,714	0	35,374,714
2.	Short-term financial liabilities to banks	35,374,714	0	35,374,714
III.	Short-term operating liabilities	168,352,054	11,037,422	179,389,476
1.	Short-term operating liabilities to group companies	102,903,661	283,763	103,187,424
2.	Short-term operating trade liabilities	56,041,299	10,635,072	66,676,371
4.	Short-term operating liabilities from advances	38,939	0	38,939
5.	Other short-term operating liabilities	9,368,155	118,587	9,486,742
E.	SHORT-TERM ACCRUED COSTS AND DEFERRED REVENUE	4,324,349	1,185,418	5,509,767
	OFF-BALANCE SHEET RECORDS	192,946,104	32,677,800	225,623,904

* The accompanying notes are an integral part of financial statements and should be read in conjunction with them.

Income statement for 2007 by company activities

in €

ITEM		TRADING	PRODUCTION	TOTAL
1.	Net sales revenue	919,315,389	1,860,688	921,176,077
a)	Domestic market	675,645,856	1,860,688	677,506,544
b)	Foreign market	243,669,533	0	243,669,533
3.	Capitalised own products and own services	151,341	0	151,341
4.	Other operating revenue (including revaluation operating revenue)	1,974,761	0	1,974,761
5.	Costs of goods, materials and services	895,464,384	425,603	895,889,987
a)	Cost of goods and materials sold and costs of material used	888,481,266	2,857	888,484,123
b)	Costs of services	6,983,118	422,746	7,405,864
6.	Labour costs	5,950,139	0	5,950,139
a)	Payroll costs	4,332,453	0	4,332,453
b)	Social security costs	870,592	0	870,592
	- of which pension insurance costs	534,097	0	534,097
c)	Other labour costs	747,094	0	747,094
7.	Write-downs in value	16,025,634	959,944	16,985,578
a)	Depreciation or amortisation	1,276,519	959,944	2,236,463
b)	Revaluation operating expenses associated with intangible assets and property, plant and equipment	37,792	0	37,792
c)	Revaluation operating expenses for operating current assets	14,711,323	0	14,711,323
8.	Other operating expenses	1,748,206	245,272	1,993,478
	OPERATING PROFIT OR LOSS	2,253,128	229,869	2,482,997
9.	Financial revenue from interests	17,852,896	0	17,852,896
a)	Financial revenue from interests in group companies	8,502,104	0	8,502,104
c)	Financial revenue from interests in other companies	6,129,694	0	6,129,694
d)	Financial revenue from other investments	3,221,098	0	3,221,098
10.	Financial revenue from loans granted	1,388,069	285,730	1,673,799
a)	Financial revenue from loans to group companies	278,603	0	278,603
b)	Financial revenue from loans to others	1,109,466	285,730	1,395,196
11.	Financial revenue from operating receivables	1,050,952	0	1,050,952
a)	Financial revenue from operating receivables due from group companies	3,797	0	3,797
b)	Financial revenue from operating receivables due from others	1,047,155	0	1,047,155
13.	Financial expenses for financial liabilities	5,885,832	0	5,885,832
b)	Financial expenses for loans received from banks	5,880,334	0	5,880,334
d)	Financial expenses for other financial liabilities	5,498	0	5,498
14.	Financial expenses for operating liabilities	426,706	0	426,706
b)	Financial expenses for trade liabilities and bills payable	6,732	0	6,732
c)	Financial expenses for other operating liabilities	419,974	0	419,974
	PROFIT OR LOSS FROM ORDINARY ACTIVITIES	16,232,507	515,599	16,748,106
15.	Other revenue	81,787	0	81,787
16.	Other expenses	234	0	234
	TOTAL PROFIT OR LOSS	16,314,060	515,599	16,829,659
17.	Corporate income tax	6,740,069	118,587	6,858,656
18.	Deferred taxes	(2,440,194)	0	(2,440,194)
19.	NET PROFIT OR LOSS FOR THE PERIOD	12,014,185	397,012	12,411,197

* The accompanying notes are an integral part of financial statements and should be read in conjunction with them.

Business events after the balance sheet date

Business events after the balance sheet date have been disclosed in the business report. Apart from those mentioned, there have been no other important events.

4.9 Accounting ratios of the controlling company

EQUITY FINANCING RATE

in €

	31/12/2007	31/12/2006
1. Liabilities	1,141,859,460	1,087,310,395
2. Equity	757,166,486	846,797,822
Equity financing rate = 2 / 1	66.31	77.88

At the end of 2007, the company's equity amounted to 66 % of total liabilities. Compared to the end of 2006, the equity financing rate decreased primarily on account of an increase in bank loans and decrease in equity arising from the spin-off of SEL and TEB.

LONG-TERM FINANCING RATE

in €

	31/12/2007	31/12/2006
1. Equity	757,166,486	846,797,822
2. Long-term liabilities	156,475,386	96,288,020
3. Provisions and long-term accrued expenses and deferred revenue	7,943,631	6,998,707
4. Total (1 + 2 + 3)	921,585,503	950,084,549
5. Liabilities	1,141,859,460	1,087,310,395
Accumulated profit for the year = 4 / 5	80.71	87.38

At the end of 2007, the company financed 81 % of assets from long-term sources and 19 % of assets from short-term sources. Compared to the balance as at the end of the previous year, the long-term financing rate decreased primarily owing to the lower amount of equity and higher short-term operating liabilities.

OPERATING FIXED ASSETS RATE

in €

	31/12/2007	31/12/2006
1. Property, plant and equipment	127,881,827	100,315,425
2. Intangible assets and long-term deferred costs and accrued revenue	8,430,458	5,659,464
3. Total long-term assets at carrying amount (1 + 2)	136,312,285	105,974,889
4. Assets	1,141,859,460	1,087,310,395
Operating fixed assets rate = 3 / 4	11.94	9.75

Because long-term investments represent the majority of assets, the share of property, plant and equipment, intangible assets, and long-term accrued revenue and deferred costs amounted to not more than 12 % at the end of 2007. Relative to the end of the previous year, the share increased by 22 % thanks to new investments mostly in the construction of HPPs on the lower Sava River.

LONG-TERM ASSETS RATE

in €

	31/12/2007	31/12/2006
1. Property, plant and equipment	127,881,827	100,315,425
2. Intangible assets and long-term deferred costs and accrued revenue	8,430,458	5,659,464
3. Investment property	0	0
4. Long-term investments	819,063,439	825,967,419
5. Long-term operating receivables	125,188	125,188
6. Total (1 + 2 + 3 + 4 + 5)	955,500,912	932,067,496
7. Assets	1,141,859,460	1,087,310,395
Long-term assets rate = 6 / 7	83.68	85.72

Long-term assets represent 84 % of the company's total assets. The remaining portion includes inventories, short-term investments, short-term operating receivables, cash, and accrued revenue and deferred costs. Compared to the end of 2006, the ratio decreased somewhat mostly due to higher short-term operating receivables.

EQUITY TO OPERATING FIXED ASSETS

in €

	31/12/2007	31/12/2006
1. Equity	757,166,486	846,797,822
2. Property, plant and equipment	127,881,827	100,315,425
3. Intangible assets and long-term deferred costs and accrued revenue	8,430,458	5,659,464
4. Total fixed assets at carrying amount (2 + 3)	136,312,285	105,974,889
Equity to operating fixed assets = 1/4	5.55	7.99

At the end of 2007, the equity to fixed assets ratio equalled 5.6, meaning that the most illiquid assets were fully financed with equity. Relative to the previous period, the ratio decreased despite higher investment because there had been a decrease in equity arising from the spin-off of two subsidiaries.

IMMEDIATE SOLVENCY RATIO

in €

	31/12/2007	31/12/2006
1. Cash	3,839,722	4,180,426
2. Short-term investments	16,909,850	33,288,713
3. Total liquid assets (1 + 2)	20,749,572	37,469,139
4. Short-term liabilities	214,764,190	134,758,881
Immediate solvency ratio = 3 / 4	0.10	0.28

The acid test ratio shows a relation between liquid assets and short-term debts. Although the ratio stood at 0.10 at the end of 2007, the company had no solvency issues in 2007. The majority of short-term liabilities consist of operating liabilities to Group companies.

QUICK RATIO

in €

	31/12/2007	31/12/2006
1. Cash	3,839,722	4,180,426
2. Short-term investments	16,909,850	33,288,713
3. Short-term receivables	155,083,914	114,687,475
4. Total (1 + 2 + 3)	175,833,486	152,156,614
5. Short-term liabilities	214,764,190	134,758,881
Quick ratio = 4 / 5	0.82	1.13

At the end of 2007, the quick ratio stood at 0.8, meaning that in the period under review, the company financed long-term assets also from short-term sources.

CURRENT RATIO

in €

	31/12/2007	31/12/2006
1. Current assets	175,916,067	152,159,889
2. Short-term deferred costs and accrued revenue	6,082,027	1,162,750
3. Total (1 + 2)	181,998,094	153,322,639
4. Short-term liabilities	214,764,190	134,758,881
Current ratio = 3 / 4	0.85	1.14

The current ratio shows the financing of current assets from short-term liabilities. At the end of 2007, the company covered 85 % of its short-term liabilities from current assets.

OPERATING EFFICIENCY RATE

in €

	2007	2006
1. Operating revenues	923,302,179	785,480,573
2. Costs of goods, materials and services	895,889,987	718,718,080
3. Labour costs	5,950,139	5,025,536
4. Write-downs in value	16,985,578	1,494,324
5. Other operating expenses	1,993,478	9,991,117
6. Total operating expenses (2 + 3 + 4 + 5)	920,819,182	735,229,057
Operating efficiency rate = 1 / 6	1.00	1.07

Due to changed operating conditions in electricity markets, the company's operating revenue exceeded its operating expenses by 0.3 % in 2007. The low value of the ratio was considerably affected by the transfer of receivables in the amount of € 14.7 million to disputed receivables.

NET RETURN ON EQUITY RATIO

in €

	2007	2006
1. Net profit for the period	12,411,197	36,100,302
2. Average capital	736,094,110	832,099,195
Net return on equity = 1 / 2	0.02	0.04

In 2007, the company generated € 12,411,197 in net profit, meaning that per one euro of equity invested € 0.02 of net profit was generated. The low value of the ratio was considerably affected by the transfer of receivables in the amount of € 14.7 million to disputed receivables.

I AM DONATING a four-leaved clover,
because I don’t need it anymore. Our management has made the right decisions for seven years now and we are doing really well. And if one is doing well at work this shows also at home.
For a person less lucky - contact info@hse.si and I’ll send them the clover by post.

05

FINANCIAL REPORT OF THE HSE GROUP

5.1 General notes

Basis

The consolidated financial statements presented herein have been prepared in accordance with provisions of the Companies Act (ZGD-1) and the Slovene Accounting Standards 2006 (SAS 2006) for the financial year 2007, which corresponds to the calendar year.

The consolidated financial statements are presented in euros. Owing to the replacement of the national currency on 1 January 2007, opening items of the consolidated balance sheet and the consolidated statement of changes in equity were converted at the conversion rate prescribed by the Council Regulation (EC) No. 1086/2006 of 11 July 2006, i.e. € 1 = SIT 239.64.

A group of companies is an economic, yet not a legal entity, and as such not an independent holder of rights and liability. The financial statements of a group are presented as those of a single company. The consolidated financial statements are prepared on the basis of the primary financial statements of Group companies, including relevant consolidation adjustments (eliminations).

In the preparation of the consolidated financial statements, the following qualitative characteristics have been taken into account:

- understandability,
- relevance,
- reliability and
- comparability.

Companies included in the consolidated financial statements

Prior to the consolidation of the HSE Group, the Premogovnik Velenje Group had been consolidated. In accordance with consecutive methodology, the consolidated financial statements are already prepared by subsidiaries, and such statements are then included in the consolidated financial statements of the HSE Group.

The companies Termoelektrarna Trbovlje d.o.o. and HSE Bulgaria EOOD have been included in the consolidated financial statements for the first time. The long-term investment in Termoelektrarna Trbovlje d.o.o. represents a contribution in kind by the Republic of Slovenia to the controlling company in 2007, whereas the company HSE Bulgaria EOOD was established by the controlling company in 2007. The contribution in kind of Termoelektrarna Trbovlje was carried out on 16 March 2007, but owing to the fact that the elimination of transactions between the controlling and the subsidiary company does amount to a significant value, the income statement of the subsidiary has been included in the consolidated income statement for the entire period.

In 2007 the controlling company effected a spin-off and acquisition pursuant to a decision of the sole founder, the Republic of Slovenia, adopted at the end of 2006 according to which HSE d.o.o. as the transferring company transferred to GEN energija d.o.o., the acquiring company, its long-term investments in the companies Savske elektrarne Ljubljana d.o.o. and Termoelektrarna Brestanica d.o.o. The spin-off was accounted for on 31 December 2006.

Hence, assets and liabilities of the spun off companies are recorded in the balance sheet only as at 31 December 2006 and no longer as at 31 December 2007. Also, the companies have not been included in the consolidated income statement and the consolidated cash flow statement for 2007.

Value of spun-off assets and liabilities of SEL and TEB as at 31/12/2006

in €

ITEM	TOTAL	SEL	TEB
LONG-TERM ASSETS	178,042,911	120,177,387	57,865,524
Intangible assets and long-term deferred costs and accrued revenue	10,547,196	214,593	10,332,603
Property, plant and equipment	161,527,421	116,139,985	45,387,436
Long-term investments	2,651,423	605,425	2,045,998
Long-term operating receivables	3,101,953	3,088,103	13,850
Deferred tax assets	214,918	129,281	85,637
CURRENT ASSETS	29,375,994	17,178,030	12,197,964
Inventories	4,431,572	759,748	3,671,824
Short-term investments	23,408,012	15,252,733	8,155,279
Short-term operating receivables	1,235,262	911,255	324,007
Cash	301,148	254,294	46,854
SHORT-TERM DEFERRED COSTS AND ACCRUED REVENUE	257,403	244,897	12,506
EQUITY	59,795,902	32,718,924	27,076,978
Retained earnings	29,438,074	2,361,096	27,076,978
Equity of minority owners	30,357,828	30,357,828	0
PROVISIONS AND LONG-TERM ACCRUED COSTS AND DEFERRED REVENUE	2,191,750	957,332	1,234,418
LONG-TERM LIABILITIES	9,678,177	0	9,678,177
Long-term financial liabilities	9,678,177	0	9,678,177
SHORT-TERM LIABILITIES	9,830,245	1,464,914	8,365,331
Short-term financial liabilities	6,594,062	0	6,594,062
Short-term operating liabilities	3,236,183	1,464,914	1,771,269
Short-term accrued costs and deferred revenue	49,016	48,903	113
Off-balance sheet records	38,817	38,817	0

Companies included in the consolidated financial statements

- Holding Slovenske elektrarne d.o.o.
- Dravske elektrarne Maribor d.o.o.
- Soške elektrarne Nova Gorica d.o.o.
- Termoelektrarna Šoštanj d.o.o.
- Premogovnik Velenje Group
- Termoelektrarna Trbovlje d.o.o.
- HSE Invest d.o.o.
- HSE Italia S.r.l.
- HSE Balkan Energy d.o.o.
- HSE Hungary Kft.
- HSE Adria d.o.o.
- HSE Bulgaria EOOD

Hereinafter the term Group refers to companies of the HSE Group that are included in the consolidated financial statements.

Companies excluded from the consolidated financial statements

The companies Elprom d.o.o., Mikrotisk d.o.o. and Jama Škale v zapiranju d.o.o. are dormant companies and are thus not consolidated at the level of the controlling companies or the level of the Group. These companies are not deemed to have a significant impact on the true and fair presentation of the Group's operations. In 2007 the controlling company HSE purchased a 100 % stake in the Bulgarian company Toplofikatsia-Ruse EAD, selling 49 % of it in the same year. The company still holds 51 % of voting rights for the remaining 51 % stake, but due to a higher majority that is required in order to adopt decisions, it cannot make strategic decisions without the approval of the other owner. Such decision-making conditions also apply to the co-owner. In 2007 the controlling companies launched activities to sell the 51 % interest, meaning it no longer has profit participation rights. Due to the above facts, the company Toplofikatsia-Ruse EAD has not been included in the consolidated financial statements. For the same reasons, the investment in the above company has not been accounted for using the equity method.

Although the company DEM has a 50 % share in the company Eldom, the controlling company did not carry out the consolidation due to material insignificance, and DEM also has no controlling influence over the operations of Eldom.

Correction of financial statements – fundamental error

In the subsidiary Premogovnik Velenje d.d., a fundamental error was discovered in 2007 which originated from previous years. As a result, the data in the consolidated balance sheet and the consolidated statement of equity has been appropriately corrected. The error refers to provisions for the future closing of coal mining sites, which in turn affected deferred tax assets and accrued liabilities for unutilised leave. The correction of the fundamental error affected the Group's retained earnings.

Full consolidation

The financial statements of Group companies have been incorporated into the consolidated financial statements on the basis of full consolidation. The financial statements have been merged item by item by adding together similar items of assets, debts, equity, revenue and expenses. Because the Group needs to be presented as if it were a single enterprise, the following was eliminated:
- the controlling company's investments in subsidiaries and its corresponding
- interests in the equity of subsidiaries,
- the controlling company's loan to a subsidiary and the resulting loan received by the subsidiary,
- intangible assets of subsidiaries and long-term liabilities of the controlling company,
- intra-group receivables and liabilities,
- intra-group revenue and expenses.

The consolidated income statement encompasses the share of minority owners in the Group's profit or loss, while in the consolidated balance sheet as well as in the consolidated statement of changes in equity minority interests in the Group's equity are presented.

Associated companies of the Group

Associated companies are the companies in which the Group exercises important but not dominant control over business decisions.
- Plinsko parna elektrarna d.o.o.
- Erico, inštitut za ekološke raziskave, d.o.o.
- Habit, podjetje za upravljanje s stanovanji, d.o.o.
- PLP, lesna industrija, d.o.o.
- PUP PV, podjetje za vzdrževanje površin, d.o.o.
- Robinoks, proizvodnja izdelkov iz nerjavečega jekla, d.o.o.
- Sipoteh, strojna in proizvodna industrija, d.o.o.

Audit

Apart from the subsidiary HSE Bulgaria EOOD that was established in the last quarter of 2007 and has not yet begun to operate, all consolidated companies have been audited. Except in the case of HSE Adria d.o.o. which has been audited by KPMG Croatia, the Group's companies have been audited by Deloitte audit firms.

Accounting policies and the rules regarding the valuation of material items were harmonised between companies during the preparation of the consolidated financial statements.

In 2007 subsidiaries in the Premogovnik Velenje Group were consolidated using the full consolidation method, which, however, did not apply to dormant subsidiaries. Associated companies were consolidated using the equity method.

Foreign exchange rate and method of conversion to the national currency

In separate income statements, items in the financial statements of individual Group companies that are denominated in foreign currencies are translated into the local currency at the middle exchange rate of the Bank of Slovenia on the day of accrual or at the required exchange rate of the country in which the company is registered or where it operates.

On 31 December 2007, the balances of assets and liabilities in the balance sheets of individual Group companies expressed in a foreign currency have been translated at the middle exchange rate of the Bank of Slovenia or at the required exchange rate of the country in which the company is registered or where it operates.

The resulting exchange gains and losses are carried as financial revenue or financial expenses, respectively. Foreign exchange differences that occur in consolidation are recorded under consolidation equity adjustment.

In translating the financial statements of foreign subsidiaries for the purpose of inclusion in the consolidated financial statements, the following shall apply:
- assets and liabilities are translated at the middle exchange rate of the Bank of Slovenia as at 31 December 2007,
- revenue and expenses are translated at the average middle exchange rate of the Bank of Slovenia for 2007.

Intangible assets and long-term deferred costs and accrued revenue

Intangible assets are long-term assets enabling the performance of the Company's registered activities, whereas physically they do not exist.

On initial recognition, they are valued at cost, which is inclusive of import duties and other costs that occur while preparing the asset for its intended use. Interest on loans for the acquisition of intangible assets are not part of the cost.

After initial recognition, intangible assets are measured using the cost model.

An item of intangible assets with finite useful life is amortised using the straight-line amortisation method. Amortisation shall begin when the intangible asset is available for use. The residual value of intangible assets has not been determined.

In the bookkeeping records, the cost and the accumulated amortisation of items of intangible assets are recorded separately, whereas in the balance sheet they are recorded at carrying amount, i.e. as a difference between the cost and accumulated amortisation.

On disposal, intangible assets are eliminated from the books of account, and the difference between the net sales value and the carrying amount of a disposed of intangible asset is transferred to revaluation revenue or expenses.

Goodwill occurs in consolidation as a result of the cost of acquired interest of a company which is higher than the value of this interest in the equity of such company. Goodwill is not amortised. It is impaired if necessary.
Long-term deferred costs and accrued revenue include long-term costs that are initially recognised at cost but are later written down as part of costs to which they belong.

Property, plant and equipment

Property, plant and equipment are long-term assets owned by Group companies and used for the performance of the registered activities.

An item of property, plant and equipment is initially recognised at cost. The cost comprises its purchase price, import duties and non-refundable purchase taxes, and any directly attributable costs of bringing the asset to working condition for its intended use, especially the costs of transportation and installation. The cost does not include the costs incurred upon the dismantling or renovation of items of property, plant and equipment.

In one of the Group companies, the cost is also increased by the amount of interest on a loan taken out to acquire an item of property, plant and equipment until the item is ready for use.

The cost of an item of property, plant and equipment constructed or manufactured within the Group consists of costs incurred as a result of its construction or manufacturing, and of indirect construction or manufacturing costs that can be attributed to the item.

The cost of items of property, plant and equipment of greater value is divided to individual items with different useful lives.

Spare parts of higher value are accounted for under property, plant and equipment and depreciated over the useful life of the related asset.

The anticipated costs of regular inspections and repairs of property, plant and equipment are considered as parts of property, plant and equipment.

The cost model is used for the measurement of items of property, plant and equipment after initial recognition.

Grants and state aid provided in the acquisition of property, plant and equipment are not deducted from their cost but are instead included in long-term accrued costs and deferred revenue and utilised in accordance with the accounted for depreciation.

Subsequent expenditure on an item of property, plant and equipment increases its cost when it increases its future economic benefits in excess of the originally assessed future economic benefits. The subsequent expenditure enabling the extension of the useful life of the asset initially reduces the accumulated depreciation.

Expenditure on repairs or maintenance of property, plant and equipment is made to restore or maintain the future economic benefits that an enterprise can expect from the originally assessed standard of performance of the asset. As such, it is usually recognised as an expense when incurred.

The difference between the net sales value and the carrying amount of a disposed of item of property, plant and equipment, is transferred to revaluation operating revenue or expenses.

Property, plant and equipment intended for sale in the next 12 months are recorded among short-term assets available for sale.

An item of property, plant and equipment is depreciated using the straight-line depreciation method over its useful life. The depreciation of an item of property, plant and equipment begins on the first day of the following month after it has been available for use. Depreciation accounted for in the current year is recorded as an operating expense for that financial year. The residual value of property, plant and equipment has not been determined.

Property, plant and equipment is revalued if the carrying amount exceeds the recoverable amount. In Group companies, the reasons underlying the revaluation of property, plant and equipment are verified individually.

In the bookkeeping records the cost and the accumulated depreciation are recorded separately for items of property, plant and equipment, whereas in the consolidated balance sheet they are recorded at carrying amount, i.e. as the difference between the cost and accumulated depreciation.

Investment property

Investment property is part of companies' fixed assets intended to bring economic benefits through renting and increasing of property value. In the books of account, they are disclosed at cost.

Long-term investments

Long-term investments are part of fixed assets that are made to earn returns and thus increase financial revenue. Group companies normally own them for more than a year.

On initial recognition, long-term investments are recorded at their historical cost increased by the costs directly attributable to the investment.

In the books of account, the long-term investments of Group companies are recognised on their settlement date (payment date).

After their initial recognition in the books of account, long-term investments are carried at cost (which also includes investments in subsidiaries and associates) and recorded under available-for-sale financial assets. Because their fair value cannot be determined (this is not the case with derivatives), they are not strengthened and as a result do not affect profit or loss or revaluation surplus.

In the consolidated financial statements, investments in associates are valued using the equity method.

Other long-term investments also include derivatives, specifically the fair values of interest rate swaps entered into for hedging in which interest on long-term loans is considered as a hedged item. Because the cash flow is hedged, a portion of gains and losses considered as successful hedging is recognised in equity (revaluation surplus).

In 2006 these instruments were recorded under other short-term investments.

Any indications of impairment of long-term investments are determined on an annual basis.

Depending on the envisaged settlement or the reason for the investment being held, the investments are carried in the balance sheet under long- or short-term assets.

Assets (disposal groups) held for sale

Assets (disposals groups) held for sale include assets for which it can be reasonably assumed that their carrying amount will be settled with the sale of these assets in the next year and not by their further use.

Inventories

Inventories are part of current assets that will be used while making products, rendering services or during their sale. Inventories comprise quantities held in storage, in the process of completion and modification.

Material is initially recognised at cost comprising the purchase price, import duties and other taxes, and direct costs of purchase.

Inventory of most end products is valued as per production costs in the narrower sense.

The companies reduce the value of material and raw material inventories using the FIFO or the weighted average cost method.
The reconciliation at the Group level has not been disclosed because the amount is immaterial.

Inventories are revalued if their carrying amount exceeds their net realisable value. In this is the case, inventories are impaired and the value of impairment increases revaluation operating expenses for current assets.

Receivables

Receivables mostly include the rights to require from customers the payment for deliveries or rendered services, and are part of the Group's assets. Receivables are classified into long-term (due in more than 1 year) and short-term (due in less than 1 year).

A receivable is recognised as an asset if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise and if the historical cost of the asset can be measured reliably. Receivables of all categories are initially recognised at amounts recorded in relevant documents under the assumption that they will be recovered.

In the consolidated balance sheet, advances paid are recorded under assets for which they were provided.

If receivables are not paid within a reasonable time or court proceedings are initiated in connection with the collection, allowances are created and revaluation operating expenses increased. The value of receivables is adjusted on an individual basis. Receivables are written-off when all legal remedies relating to their repayment have been used.

The part of long-term receivables due to be settled within twelve months of the balance sheet date is recorded under short-term receivables.

Short-term investments

Short-term investments are the part of the Group's current assets that generate profits and thus increase financial revenue in a period shorter than a year.

On initial recognition, long-term investments are recorded at their historical cost increased by the costs directly attributable to the investment.

In the books of account of Group companies, short-term investments are recognised by their settlement date (payment date). After initial recognition, they are carried at cost.

Group companies disclose short-term investments within the group of investments available for sale.

Short-term investments also include the portions of long-term investments that are due within a year after the balance sheet date.

Cash

The Group's cash includes cash in hand, cash in transaction accounts, and deposits redeemable at notice held with commercial banks.

The carrying amount of an item of cash equals its initial nominal value which can change in the case of cash denominated in foreign currencies, owing to changes in foreign exchange rates.

Short-term deferred costs and accrued revenue

Short-term deferred costs and accrued revenue include short-term deferred costs (expenses) and short-term accrued revenue.

Short-term deferred costs are amounts incurred but not yet charged against the activities of Group companies.

Short-term accrued revenue includes amounts included in revenue during the preparation of the consolidated financial statements but not yet invoiced by Group companies.

Equity

Total equity is defined by the amounts invested by owners and the amounts generated during operations and belonging to the owners.

Nominal capital is stated in the national currency. Nominal capital and capital surplus represent cash contributions and contributions in kind made by the owner of the controlling company.

Other revenue reserves are set aside on the basis of resolutions adopted by the Supervisory Board and the General Meeting of the controlling company.

Net profit or loss represents the unallocated portion of net profit or loss of the controlling company for the year and the controlling company's share in net profit or loss of subsidiaries.

Revaluation surplus includes the values of hedging derivatives (futures and interest rate swaps), the value of increases in investments in associates accounted for using the equity method, and the strengthening of intangible assets and property, plant and equipment.

The consolidation equity adjustment includes foreign exchange differences arising from the conversion of accounting categories used by foreign companies.

Minority interest represents the share of minority owners in the total equity of subsidiaries.

Provisions and long-term accrued costs and deferred revenue

Provisions are set aside for obligations expected to arise from obligating past events in a period exceeding one year. They are formed when the obligation can be reliably measured.
The assessment of provisions for jubilee benefits and termination benefits was performed on the basis of an actuarial calculation.

Long-term deferred costs and accrued revenue comprise deferred revenue expected to arise in a period of more than one year. They also include grants for the acquisition of property, plant and equipment provided to cover depreciation costs through progressive transfers to operating revenue.

Long-term debts

Long-term debts are obligations recognised in connection with the financing of Group companies; they are classified as financial and operating debts. Long-term debts refer to liabilities of the Group companies the settlement of which is expected in a period longer than a year.

Long-term financial debts refer to liabilities to lenders while operating debts refer to trade payables.

On initial recognition, long-term financial debts are recorded in amounts paid and at a later stage decreased on the basis of repayments made. They are carried at cost.

Long-term operating debts are initially valued on the basis of relevant documents that evidence the receipt of goods or services.

The part of long-term debts due to be settled within twelve months of the balance sheet date is recorded in the balance sheet under short-term debts.
The carrying amount of long-term debts equals their amortised cost.

Short-term debts

Short-term debts are obligations that have to be settled within a year. The Group records short-term financial and operating debts.

Short-term financial debts refer to liabilities to lenders and short-term operating debts to trade payables.

On initial recognition short-term debts are recorded in amounts paid and at a later stage decreased on the basis of repayments made. They are carried at cost.

Short-term operating debts are initially valued on the basis of relevant documents that evidence the receipt of goods or services.

The part of long-term debts that is due in less than 1 year after the balance sheet date, is recorded among short-term debts.

The carrying amount of short-term debts equals their amortised cost.

Short-term accrued costs and deferred revenue

Short-term accrued costs and deferred revenue comprise short-term accrued costs (expenses) and short-term deferred revenue.

Short-term accrued costs include costs that are expected but have not yet occurred (not yet charged) although they refer to the period for which the financial statements have been prepared.

Short-term deferred revenue represents services already charged but not yet rendered.

Revenue

Revenue represents increases in economic benefits in the accounting period in the form of increases in assets. It is recognised when it is probable that cash receipts will flow from it.

Operating revenue includes sales revenue and other operating revenue associated with products and services.

Net sales revenue includes the selling values of products, merchandise and materials sold and services rendered during the accounting period. It should be measured at selling prices stated in invoices less discounts and rebates.

Changes in the value of inventories are the difference between the opening and closing balance of inventories.

Capitalised own products and services are products or services provided by the Group and recorded under intangible assets or property, plant and equipment.

Other operating revenue is associated with grants and the reversal of provisions.

Revaluation operating revenue is revenue recognised on the disposal of property, plant and equipment and intangible assets if their carrying amount is lower than selling price, as well as on the reversal of impairment of trade receivables.

Financial revenue is revenue arising from investing. It arises in relation to long-term and short-term investments as well as in connection with short-term receivables. It includes interest accounted for, shares in the profit of others, and revaluation financial revenue. It is recognised when accounted for, irrespective of receipts.

Other revenue comprises extraordinary items that are recorded in actual amounts.

Expenses

Expenses are decreases in economic benefits in the accounting period in the form of decreases in assets or increases in debts. Expenses are recognised if decreases in economic benefits in the accounting period are associated with decreases in assets or increases in debts and such decreases can be measured reliably.

Operating expenses are equal to the accrued costs in the accounting period increased by the costs held in the opening inventories of products and work in progress and reduced by the costs held in the closing inventories of products and work in progress. Operating expenses also include the cost of goods sold. Operating expenses are recognised once costs are no longer held in the inventories of products and work in progress or once the merchandise has been sold.

Operating expenses comprise the cost of goods sold, material costs, cost of services, labour cost and depreciation or amortisation.

Other operating expenses include various duties payable to the state, environmental charges and provisions.

Revaluation operating expenses arise from the impairment of property, plant and equipment, intangible assets, inventories and current operating assets. They are recorded also in case of a sale of the above assets if the carrying amount exceeds the selling amount.

Financial expenses are expenses arising on financing and investing. They include interest accounted for and revaluation financial expenses. They are recognised when accounted for, irrespective of payments associated with them.

Financial expenses also include foreign exchange losses on receivables and liabilities.

Revaluation financial expenses include losses on the disposal of investments.

Other expenses include expenses that are neither operating nor financial. They are recorded at actual amounts.

Segment reporting

A segment is an identifiable component of a group which is concerned with products or services (a business segment) or which is concerned with products and services in a particular economic environment (a geographical segment).

At the Group level, primary reporting is performed by business segments. Accordingly, net sales revenue is divided into two business segments: electricity and other.

Net sales revenue is also divided into two geographical segments: domestic market and foreign markets.

Taxation

The corporate income tax is calculated by taking into account prescribed tax rates in countries in which the Group companies are located. All Group companies are subject to this tax. Moreover, all Group companies are subject to the value added tax.

Deferred taxes

Deferred taxes are earmarked for covering temporary differences between the carrying amount and tax values of assets and liabilities. Deferred tax assets represent the current amount of corporate income tax, deductible temporary differences and unused tax losses, which result in lower tax payable in future periods.

5.2 Auditor's report

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INDEPENDENT AUDITORS' REPORT
to the owners of Holding Slovenke elektrarne d.o.o.

We have audited the accompanying consolidated financial statements of the group Holding Slovenske elektrarne, which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Slovenian Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the group Holding Slovenske elektrarne as of 31 December 2007, and its financial performance and its cash flows for the year then ended in accordance with Slovenian Accounting Standards.

Without qualifying our opinion, we draw attention to Notes 5.7.4 *"Consolidated statement of changes in equity, Fundamental error"*, 12) *"Provisions and long-term accrued costs and deferred revenue"*, 15) *"Short-term accrued costs and deferred revenue"*, and 4) *"Deferred tax assets"* in the Group's financial report where it is explained in more detail that the Group had corrected a fundamental accounting error from the previous periods arising from the future closing of the remaining coal mining sites in Velenje, from unutilised leave in 2006, and from deferred tax assets. On 1 January 2006, the Group thus increased the provisions set aside for the future closing of the remaining coal mining sites in Velenje by EUR 33,484,425, increased short-term accrued costs and deferred revenue associated with unutilised annual leave for 2006 by EUR 1,290,051, increased deferred tax assets by EUR 9,612,057, decreased the share of retained earnings attributable to minority owners by EUR 5,604,119, and decreased the majority owner's retained earnings by EUR 19,558,300. Consequently, the financial statements, which had been audited by another audit firm, have been adjusted for these errors. The corrected financial statements have been presented in the consolidated balance sheet in a separate column "31/12/2006 – fundamental error correction".

Report on Other Legal and Regulatory Requirements

Pursuant to Article 57(1) of the Companies Act (ZGD-1), we have reviewed the Company's business report. In our opinion, the business report is consistent with the audited financial statements.

DELOITTE REVIZIJA d.o.o.

Dušan Hartman
Certified Auditor
Member of the Board

Ljubljana, 31 March 2008

Deloitte.

DELOITTE REVIZIJA D.O.O.
Ljubljana, Slovenija 1

TRANSLATION ONLY – SLOVENIAN ORIGINAL PREVAILS

5.3 Consolidated balance sheet

CONSOLIDATED BALANCE SHEET

in €

ITEM		NOTE	31/12/2007	31/12/2006 - FUNDAMENTAL ERROR CORRECTION	31/12/2006
ASSETS			1,628,551,663	1,567,954,113	1,558,342,056
A.	LONG-TERM ASSETS		1,292,678,614	1,269,498,682	1,259,886,625
I.	Intangible assets and long-term deferred costs and accrued revenue	1	27,874,726	21,529,043	21,529,043
1.	Long-term property rights		12,832,029	7,989,480	7,989,480
2.	Goodwill		12,304,714	10,327,992	10,327,992
4.	Long-term deferred development costs		502,465	663,474	663,474
5.	Other long-term deferred costs and accrued revenue		2,235,518	2,548,097	2,548,097
II.	Property, plant and equipment	2	1,189,336,408	1,224,036,254	1,224,036,254
1.	Land and buildings		517,030,848	604,892,634	604,892,634
a)	Land		25,685,831	45,627,061	45,627,061
b)	Buildings		491,345,017	559,265,573	559,265,573
2.	Manufacturing plant and equipment		448,294,882	499,967,389	499,967,389
3.	Other plant and equipment		7,053,361	8,916,270	8,916,270
4.	Property, plant and equipment being acquired		216,957,317	110,259,961	110,259,961
a)	Property, plant and equipment in the course of construction		198,433,778	87,694,851	87,694,851
b)	Advances for acquisition of property, plant and equipment		18,523,539	22,565,110	22,565,110
III.	Investment property		936,992	0	0
IV.	Long-term investments	3	49,870,537	5,630,626	5,630,626
1.	Long-term investments, excluding loans		49,426,321	5,182,203	5,182,203
a)	Shares and interests in group companies		26,928	25,196	25,196
b)	Shares and interests in associated companies		1,060,227	552,838	552,838
c)	Other shares and interests		46,909,871	2,290,352	2,290,352
d)	Other long-term investments		1,429,295	2,313,817	2,313,817
2.	Long-term loans		444,216	448,423	448,423
b)	Long-term loans to others		444,216	448,423	448,423
V.	Long-term operating receivables	6	692,280	3,911,204	3,911,204
2.	Long-term operating trade receivables		38,197	3,071,620	3,071,620
3.	Long-term operating receivables due from others		654,083	839,584	839,584
VI.	Deferred tax assets	4	23,967,671	14,391,555	4,779,498
B.	CURRENT ASSETS		328,928,916	294,237,358	294,237,358
I.	Assets (disposal groups) held for sale		210,556	210,556	210,556
II.	Inventories	5	29,323,053	29,452,558	29,452,558
1.	Material		21,414,365	19,922,968	19,922,968
2.	Work in progress		68,173	6,147	6,147
3.	Products and merchandise		7,754,105	8,943,661	8,943,661
4.	Advances for inventories		86,410	579,782	579,782
III.	Short-term investments	7	103,505,751	129,103,835	129,103,835
1.	Short-term investments, excluding loans		0	2,898,185	2,898,185
b)	Other shares and interests		0	2,457,808	2,457,808
c)	Other short-term investments		0	440,377	440,377
2.	Short-term loans		103,505,751	126,205,650	126,205,650
b)	Short-term loans to others		103,505,751	126,205,650	126,205,650
IV.	Short-term operating receivables	6	180,592,264	129,526,393	129,526,393
2.	Short-term operating trade receivables		131,032,731	103,897,258	103,897,258
3.	Short-term operating receivables due from others		49,559,533	25,629,135	25,629,135
V.	Cash	8	15,297,292	5,944,016	5,944,016
C.	SHORT-TERM DEFERRED COSTS AND ACCRUED REVENUE	9	6,944,133	4,218,073	4,218,073
	OFF-BALANCE SHEET RECORDS	10	312,362,776	305,870,719	305,870,719

CONSOLIDATED BALANCE SHEET (continued)

in €

ITEM		Note	31/12/2007	31/12/2006 - FUNDAMENTAL ERROR CORRECTION	31/12/2006
EQUITY AND LIABILITIES			1,628,551,663	1,567,954,113	1,558,342,056
A.	EQUITY	11	1,037,374,202	1,141,729,352	1,166,891,771
I.	Called-up capital		29,558,789	4,824,807	4,824,807
1.	Nominal capital		29,558,789	4,824,807	4,824,807
II.	Capital surplus		561,243,185	692,999,922	692,999,922
III.	Revenue reserves		138,319,123	123,162,670	123,162,670
5.	Other revenue reserves		138,319,123	123,162,670	123,162,670
IV.	Revaluation surplus		22,670,400	8,507,732	8,507,732
V.	Retained earnings		178,559,130	167,230,962	186,789,262
VI.	Net profit or loss for the period		77,255,420	59,366,425	59,366,425
VII.	Consolidation equity adjustment		(433,309)	5,591	5,591
VIII.	Equity of minority owners		30,201,464	85,631,243	91,235,362
B.	PROVISIONS AND LONG-TERM ACCRUED COSTS AND DEFERRED REVENUE	12	95,148,216	90,862,834	57,378,409
1.	Provisions for pensions and similar liabilities		11,587,925	13,328,877	13,328,877
2.	Other provisions		70,728,491	67,135,468	33,651,043
3.	Long-term accrued costs and deferred revenue		12,831,800	10,398,489	10,398,489
C.	LONG-TERM LIABILITIES	13	244,554,162	148,582,048	148,582,048
I.	Long-term financial liabilities		224,606,377	148,095,718	148,095,718
2.	Long-term financial liabilities to banks		224,606,010	148,095,351	148,095,351
4.	Other long-term financial liabilities		367	367	367
II.	Long-term operating liabilities		19,947,785	486,330	486,330
2.	Long-term operating trade liabilities		1,305,363	444,175	444,175
5.	Other long-term operating liabilities		18,642,422	42,155	42,155
D.	SHORT-TERM LIABILITIES	14	241,650,620	177,993,312	177,993,312
II.	Short-term financial liabilities		82,545,085	43,984,047	43,984,047
2	Short-term financial liabilities to banks		82,457,908	43,499,508	43,499,508
4	Other short-term financial liabilities		87,177	484,539	484,539
III.	Short-term operating liabilities		159,105,535	134,009,265	134,009,265
2.	Short-term operating trade liabilities		123,356,663	105,984,870	105,984,870
4.	Short-term operating liabilities from advances		442,148	506,735	506,735
5.	Other short-term operating liabilities		35,306,724	27,517,660	27,517,660
E.	SHORT-TERM ACCRUED COSTS AND DEFERRED REVENUE	15	9,824,463	8,786,567	7,496,516
	OFF-BALANCE SHEET RECORDS	10	312,362,776	305,870,719	305,870,719

* The accompanying notes are an integral part of consolidated financial statements and should be read in conjunction with them.

5.4 Consolidated income statement

Consolidated income statement

in €

ITEM		2007	2006
1.	Net sales revenue	982,333,321	842,064,050
a)	Domestic market	722,268,188	582,386,025
b)	Foreign market	260,065,133	259,678,025
2.	Changes in inventories of products and work in progress	(1,132,343)	(2,109,531)
3.	Capitalised own products and own services	11,381,614	8,638,954
4.	Other operating revenue (including revaluation operating revenue)	19,034,416	21,077,721
5.	Costs of goods, materials and services	681,696,549	531,115,991
a)	Cost of goods and materials sold and costs of materials used	629,285,523	480,166,400
b)	Costs of services	52,411,026	50,949,591
6	Labour costs	123,900,511	128,984,736
a)	Payroll costs	87,568,286	89,836,797
b)	Social security costs	22,306,892	22,963,220
	- of which pension insurance costs	15,624,512	16,067,898
c)	Other labour costs	14,025,333	16,184,719
7.	Write-downs in value	96,561,644	81,075,513
a)	Depreciation or amortisation	72,040,630	76,853,117
b)	Revaluation operating expenses associated with FA and PPE	9,469,391	3,909,539
c)	Revaluation operating expenses for operating current assets	15,051,623	312,857
8.	Other operating expenses	42,958,501	35,080,454
OPERATING PROFIT OR LOSS		66,499,803	93,414,500
9.	Financial revenue from interests	21,992,017	1,717,376
a)	Financial revenue from interests in group companies	8,502,133	0
c)	Financial revenue from interests in other companies	6,844,423	1,371,691
d)	Financial revenue from other investments	6,645,461	345,685
10.	Financial revenue from loans granted	5,847,060	4,172,563
b)	Financial revenue from loans to others	5,847,060	4,172,563
11.	Financial revenue from operating receivables	4,462,773	2,040,694
b)	Financial revenue from operating receivables due from others	4,462,773	2,040,694
12.	Financial expenses for impairment and write-downs of investments	80,193	4,686,609
13.	Financial expenses for financial liabilities	12,516,639	8,602,199
b)	Financial expenses for loans received from banks	12,492,692	8,571,340
d)	Financial expenses for other financial liabilities	23,947	30,859
14.	Financial expenses for operating liabilities	2,643,084	375,488
b)	Financial expenses for trade liabilities and bills payable	1,979,740	106,639
c)	Financial expenses for other operating liabilities	663,344	268,849
PROFIT OR LOSS FROM ORDINARY ACTIVITIES		83,561,737	87,680,837
15.	Other revenue	804,588	1,241,750
16.	Other expenses	1,141,529	1,207,737
TOTAL PROFIT OR LOSS		83,224,796	87,714,850
17.	Corporate income tax	8,749,121	11,815,544
18.	Deferred taxes	(9,596,066)	(1,748,807)
19.	NET PROFIT OR LOSS FOR THE PERIOD	84,071,741	77,648,113
	Net profit or loss of majority owner for the financial year	83,461,018	76,737,280
	Net profit or loss of minority owner for the financial year	610,723	910,833

* The accompanying notes are an integral part of consolidated financial statements and should be read in conjunction with them.

5.5 Consolidated cash flow statement

Consolidated cash flow statement

in €

ITEMS		2007	2006
A.	CASH FLOWS FROM OPERATING ACTIVITIES		
a)	Income statement items	155,162,910	167,341,817
	Operating revenue (except from revaluation) and financial revenue from operating receivables	1,001,790,115	856,257,315
	Operating expenses excluding depreciation or amortisation (except from revaluation) and financial expenses from operating liabilities	(836,106,276)	(687,091,750)
	Income taxes and other taxes not included in operating expenses	(10,520,929)	(1,823,748)
b)	Changes in net current operating assets in the operating balance sheet items (including accruals and deferrals, provisions and deferred tax assets and liabilities)	(36,908,425)	(10,941,429)
	Opening less closing operating receivables	(50,422,595)	(36,016,950)
	Opening less closing deferred costs and accrued revenue	(2,550,054)	(2,712,139)
	Opening less closing deferred tax assets	(9,561,983)	(1,758,596)
	Opening less closing assets (disposal groups) held for sale	0	237,356
	Opening less closing inventories	(609,806)	(330,500)
	Closing less opening operating liabilities	24,784,325	23,143,494
	Closing less opening accrued costs and deferred revenue, and provisions	1,451,688	6,495,906
c)	Net cash flows from operating activities (a+b)	118,254,485	156,400,388
B.	CASH FLOWS FROM INVESTING ACTIVITIES		
a)	Cash receipts from investing activities	1,699,829,662	1,027,898,439
	Interest and dividends received from investing activities	23,522,728	4,389,422
	Cash receipts from disposal of intangible assets	197,350	1,671,532
	Cash receipts from disposal of property, plant and equipment	9,422,237	3,225,851
	Cash receipts from disposal of investment property	49,089	0
	Cash receipts from disposal of long-term investments	2,009,442	1,493,987
	Cash receipts from disposal of short-term investments	1,664,628,816	1,017,117,647
b)	Cash disbursements from investing activities	(1,919,557,557)	(1,162,713,883)
	Cash disbursements to acquire intangible assets	(2,344,218)	(4,930,830)
	Cash disbursements to acquire property, plant and equipment	(163,341,825)	(86,147,688)
	Cash disbursements to acquire long-term investments	(88,121,235)	(24,979,423)
	Cash disbursements to acquire short-term investments	(1,665,750,279)	(1,046,655,942)
c)	Net cash from investing activities (a + b)	(219,727,895)	(134,815,444)
C.	CASH FLOWS FROM FINANCING ACTIVITIES		
a)	Cash receipts from financing activities	449,873,139	144,203,643
	Cash proceeds from increase in long-term financial liabilities	128,671,555	33,288,291
	Cash proceeds from increase in short-term financial liabilities	321,201,584	110,915,352
b)	Cash disbursements from financing activities	(340,368,728)	(166,355,620)
	Interest paid on financing activities	(10,851,660)	(8,471,649)
	Cash repayments of long-term financial liabilities	(25,059,182)	(30,944,792)
	Cash repayments of short-term financial liabilities	(295,507,032)	(114,420,401)
	Dividends and other profit shares paid	(8,950,854)	(12,518,778)
c)	Net cash from financing activities (a + b)	109,504,411	(22,151,977)
D.	CLOSING BALANCE OF CASH	15,297,292	5,944,016
x)	Net cash flow for the period	8,031,001	(567,033)
y)	Opening balance of cash	7,266,291	6,511,049

* The accompanying notes are an integral part of consolidated financial statements and should be read in conjunction with them.

5.6 Consolidated statement of changes in equity

For the year 2007

in €

ITEMS		CALLED-UP CAPITAL	CAPITAL SURPLUS	REVENUE RESERVES	REVALUATION SURPLUS	RETAINED EARNINGS	NET PROFIT OR LOSS FOR THE PERIOD	CONSOLIDATION EQUITY ADJUSTMENT	EQUITY OF MINORITY OWNERS	TOTAL
		NOMINAL CAPITAL		OTHER REVENUE RESERVES						
	Balance as at 01/01/2007	4,824,807	692,999,922	123,162,670	8,507,732	226,597,387	0	5,591	85,631,243	1,141,729,352
	Spin-off on 01/01/2007	0	(131,756,737)	0	(19,352)	(29,434,985)	0	0	(30,357,828)	(191,568,902)
A.	Balance on 01/01/2007 after the spin-off	4,824,807	561,243,185	123,162,670	8,488,380	197,162,402	0	5,591	55,273,415	950,160,450
B.	Movements to equity	24,733,982	0	0	27,335,860	(969,690)	83,461,018	(438,900)	6,334,746	140,457,016
a)	Subscription of called-up nominal capital	24,733,982							5,984,297	30,718,279
d)	Net profit or loss for the period						83,461,018	(314,952)	610,723	83,756,789
e)	Equity revaluations							(119,800)	19,548	(100,252)
f)	Other increases in components of equity				27,335,860	(969,690)		(4,148)	(279,822)	26,082,200
C.	Movements within equity	0	0	15,156,453	(268,127)	(8,682,728)	(6,205,598)	0	0	0
a)	Allocation of net profit as a component of equity in accordance with management and supervisory board resolution			6,205,598			(6,205,598)			0
b)	Allocation of net profit to additional reserves in accordance with general meeting resolution			8,950,855		(8,950,855)				0
c)	Settlement of loss as a deduction component of equity				(268,127)	268,127				0
D.	Movements from equity	0	0	0	(12,885,713)	(8,950,854)	0	0	(31,406,697)	(53,243,264)
a)	Payment of dividends					(8,950,854)				(8,950,854)
b)	Redemption of equity								(31,406,697)	(31,406,697)
d)	Transfer of specific equity revaluation adjustments (to operating or financial revenue)				13,278,034					13,278,034
e)	Other eliminations of equity components				(26,163,747)					(26,163,747)
E.	Closing balance for the period	29,558,789	561,243,185	138,319,123	22,670,400	178,559,130	77,255,420	(433,309)	30,201,464	1,037,374,202

* The accompanying notes are an integral part of consolidated financial statements and should be read in conjunction with them.

For the year 2006

in €

ITEMS		CALLED-UP CAPITAL	CAPITAL SURPLUS	REVENUE RESERVES	REVALUATION SURPLUS	RETAINED EARNINGS	NET PROFIT OR LOSS FOR THE PERIOD	CONSOLIDATION EQUITY ADJUSTMENT	EQUITY OF MINORITY OWNERS	TOTAL
		NOMINAL CAPITAL		OTHER REVENUE RESERVES						
	Balance as at 31/12/2005	4,824,807	692,999,922	103,103,210	2,092,985	98,697,500	0	46	144,620,656	1,046,339,126
	Changes arising from transition to SAS 2006	0	0	0	10,394,070	98,196,040	0	271	(1,890,473)	106,699,908
A.	Balance at year start	4,824,807	692,999,922	103,103,210	12,487,055	196,893,540	0	317	142,730,183	1,153,039,034
	Fundamental error correction 2006					(19,558,300)			(5,604,119)	(25,162,419)
	Balance at year start after fundamental error correction	4,824,807	692,999,922	103,103,210	12,487,055	177,335,240	0	317	137,126,064	1,127,876,615
B.	Movements to equity	0	0	0	18,242,340	0	76,737,281	5,274	1,070,005	96,054,900
e)	Net profit or loss for the period						76,737,281		910,833	77,648,114
f)	Other increases in components of equity				18,242,340			5,274	159,172	18,406,786
C.	Movements within equity	0	0	20,059,460	(10,384,877)	8,524,010	(18,198,593)			0
a)	Allocation of net profit as a component of equity in accordance with management and supervisory board resolution			17,901,710			(17,901,710)			0
b)	Allocation of net profit to additional reserves in accordance with general meeting resolution			2,157,750		(2,157,750)				0
c)	Settlement of loss as a deduction component of equity					296,883	(296,883)			0
f)	Other reallocations of components of equity				(10,384,877)	10,384,877				0
D.	Movements from equity	0	0	0	(11,836,786)	(18,628,288)	827,737	0	(52,564,826)	(82,202,163)
a)	Payment of dividends					(12,518,778)				(12,518,778)
b)	Redemption of equity					(6,109,510)	827,737		(52,564,826)	(57,846,599)
d)	Transfer of specific equity revaluation adjustments (to operating or financial revenue)				146,394					146,394
e)	Other eliminations of equity components				(11,983,180)					(11,983,180)
E.	Closing balance for the period	4,824,807	692,999,922	123,162,670	8,507,732	167,230,962	59,366,425	5,591	85,631,243	1,141,729,352

* The accompanying notes are an integral part of consolidated financial statements and should be read in conjunction with them.

5.7 Notes to the consolidated financial statements

5.7.1 Consolidated balance sheet

General

Information regarding the basis for preparation of the consolidated balance sheet and the specific accounting policies selected and applied to significant transactions and other business transactions of the Group are presented in disclosures of individual assets and liabilities.

The Group has no additional information whose disclosure in the consolidated balance sheet is not obligatory but is deemed significant for a true and fair presentation of the Group's operations.

The exposure to risks associated with individual types of assets and liabilities and their management has been disclosed in the business report.

The opening balance of assets and liabilities of Termoelektrarna Trbovlje d.o.o., which joined the Group in 2007, is shown under acquisitions.

Assets and liabilities are recorded at fair value unless the fair value of individual types of assets or liabilities cannot be determined. In this case, they are carried at historical cost.

(1)
Intangible assets and long-term deferred costs and accrued revenue
€ 27,874,726

Long-term property rights mostly include computer applications and CO_2 emission coupons, while long-term deferred costs and accrued revenue include compensation payable in the future periods.

Under the Environment Protection Act and the Ordinance on the National Plan for the Allocation of CO_2 Emission Coupons for the period 2005-2007, two subsidiary companies received 4,833,426 CO_2 emission coupons in 2007. In accordance with Note 1 to SAS 2 (2006) issued by the Slovene Institute of Auditors, these coupons are carried at € 1 per coupon.

The controlling company also has CO_2 emission coupons that are held for trading pursposes.

At the Group level, the opening balance of CO_2 emission coupons amounted to 9,816,411 coupons. In 2007, 515,600 CO_2 emission coupons were purchased and 5,466,219 were sold. As a result, the company had 4,865,792 CO_2 emission coupons at the end of 2007.

In the process of consolidation, CO_2 emission coupons in the amount of € 2,742,322 were eliminated on account of an intra-group sale, as were long-term property rights in the amount of € 39,960,823, which represents a contribution of two subsidiaries – venturers in the joint venture for the construction of HPPs on the lower Sava River.

Goodwill was formed in the amount of € 12,304,714 as a result of the cost exceeding the carrying amount of the share in the capital of a company acquired in 2007.

Intangible assets with finite useful lives are amortised at the rates of amortisation ranging from 4.56 to 33.33 % p.a.

There were no reasons in 2007 for the Group to impair intangible assets.

Cost and accumulated amortisation of intangible assets and long-term accrued revenue and deferred costs

in €

AS AT 31/12/2007	LONG-TERM PROPERTY RIGHTS	GOODWILL	LONG-TERM DEFERRED DEVELOPMENT COSTS	OTHER LONG-TERM ACCRUED REVENUE AND DEFERRED COSTS	TOTAL
Cost	18,749,153	12,304,714	531,885	2,235,518	33,821,270
Value adjustment	5,917,124	0	29,420	0	5,946,544
Carrying amount	12,832,029	12,304,714	502,465	2,235,518	27,874,726

Changes in intangible assets and long-term accrued revenue and deferred cost

in €

INTANGIBLE ASSETS	LONG-TERM PROPERTY RIGHTS	GOODWILL	LONG-TERM DEFERRED DEVELOPMENT COSTS	OTHER LONG-TERM ACCRUED REVENUE AND DEFERRED COSTS	TOTAL
Carrying amount as at 31/12/2006	7,989,480	10,327,992	663,474	2,548,097	21,529,043
Spin-off on 01/01/2007	(218,657)	(10,327,992)	0	(547)	(10,547,196)
Acquisitions	11,048,758	12,304,714	8,425	167,095	23,528,992
Disposals	(6,451,803)	0	(168,123)	(479,125)	(7,099,051)
Depreciation or amortisation	(1,349,157)	0	(1,311)	0	(1,350,468)
Transfers	1,813,423	0	0	0	1,813,423
Foreign exchange differences	(15)	0	0	(2)	(17)
Carrying amount as at 31/12/2007	12,832,029	12,304,714	502,465	2,235,518	27,874,726

(2)
Property, plant and equipment
€ 1,189,336,408

The items of property, plant and equipment were not impaired in 2007.

Group companies record no property, plant and equipment under finance lease or mortgage.

Cost and accumulated depreciation of property, plant and equipment

in €

AS AT 31/12/2007	LAND	BUILDINGS	MANUFACTURING PLANT AND EQUIPMENT	OTHER PLANT AND EQUIPMENT	PPE IN THE COURSE OF CONSTRUCTION	ADVANCES FOR ACQUISITION OF PPE	TOTAL
Cost	25,685,831	1,152,379,770	1,775,830,302	34,335,968	198,433,778	18,523,539	3,205,189,188
Value adjustment	0	661,034,753	1,327,535,420	27,282,607	0	0	2,015,852,780
Carrying amount	25,685,831	491,345,017	448,294,882	7,053,361	198,433,778	18,523,539	1,189,336,408

Changes in property, plant and equipment

in €

PROPERTY, PLANT AND EQUIPMENT	LAND	BUILDINGS	MANUFACTURING PLANT AND EQUIPMENT	OTHER PLANT AND EQUIPMENT	PPE IN THE COURSE OF CONSTRUCTION	ADVANCES FOR ACQUISITION OF PPE	TOTAL
Carrying amount as at 31/12/2006	45,627,061	559,265,573	499,967,389	8,916,270	87,694,851	22,565,110	1,224,036,254
Spin-off on 01/01/2007	(20,648,206)	(59,442,844)	(74,189,455)	(1,443,277)	(5,796,282)	(7,357)	(161,527,421)
Acquisitions	826,227	18,678,622	54,638,416	1,398,882	150,429,790	16,547,726	242,519,663
Disposals	(284,838)	(6,661,169)	(3,338,936)	(197,971)	(3,023,591)	0	(13,506,505)
Transfers	165,587	737,131	19,322,259	36,094	(30,870,993)	(20,581,940)	(31,191,862)
Depreciation or amortisation	0	(21,232,290)	(48,104,791)	(1,656,228)	0	0	(70,993,309)
Foreign exchange differences	0	(6)	0	(409)	3	0	(412)
Carrying amount as at 31/12/2007	25,685,831	491,345,017	448,294,882	7,053,361	198,433,778	18,523,539	1,189,336,408

(3)
Long-term investments
€ 49,870,537

In the process of consolidation, € 774,670,519 of long-term investments in Group companies were eliminated.

In the process of consolidation, the value of investments in associated companies accounted for using the equity method increased by € 87,769. The increase was recorded under revaluation surplus.

A significant increase in other investments in shares and interests refers to the value of a 51 % stake of the controlling company in Toplofikatsia-Ruse EAD (the purchase and sale of the 49 % interest in the said company were recorded under short-term investments in 2007).

Cost and value adjustment of long-term investments other than loans

in €

AS AT 31/12/2007	INTERESTS AND SHARES IN GROUP COMPANIES	INTERESTS AND SHARES IN ASSOCIATES	OTHER INVESTMENTS IN SHARES AND INTERESTS	OTHER LONG-TERM FINANCIAL INVESTMENTS	TOTAL
Cost	26,928	1,060,227	46,909,871	1,429,295	49,426,321
Value adjustment	0	0	0	0	0
Carrying amount	26,928	1,060,227	46,909,871	1,429,295	49,426,321

Changes in long-term investments other than loans

in €

LONG-TERM INVESTMENTS	INTERESTS AND SHARES IN GROUP COMPANIES	INTERESTS AND SHARES IN ASSOCIATES	OTHER INVESTMENTS IN SHARES AND INTERESTS	OTHER LONG-TERM FINANCIAL INVESTMENTS	TOTAL
Carrying amount as at 31/12/2006	25,196	552,838	2,290,352	2,313,817	5,182,203
Spin-off	(15,795)	0	(161,559)	(2,045,998)	(2,223,352)
Acquisitions	17,527	300,612	44,696,498	512,183	45,526,820
Transfers	0	119,006	91,240	661,960	872,206
Disposals	0	0	(6,660)	(12,667)	(19,327)
Revaluation	0	87,771	0	0	87,771
Carrying amount as at 31/12/2007	26,928	1,060,227	46,909,871	1,429,295	49,426,321

(4) Deferred tax assets
€ 23,967,671

In 2007 deferred tax assets were created anew in connection with the following:
- provisions for the future closing of coalmining sites (fundamental error correction),
- provisions for jubilee and termination benefits,
- other provisions,
- allowances for receivables,
- differences between operating and tax depreciation and amortisation,
- unused tax losses at two companies (other).

The utilisation of deferred tax assets took place in connection with the following:
- utilisation of provisions for jubilee and termination benefits,
- reversal of other provisions,
- reconciliation of deferred tax assets to a lower tax rate.

In the consolidated income statement for 2007, deferred tax assets were recognised in the amount of € 9,596,066, while in the consolidated balance sheet they were recognised in the amount of € 9,568,507.

No deferred tax liabilities were established by Group companies in 2007.

Changes in deferred tax assets

in €

DEFERRED TAX ASSETS	PROVISIONS	IMPAIRMENT	AMORTISATION	OTHER	TOTAL
Value as at 31/12/2006	4,457,673	312,200	9,625	0	4,779,498
Fundamental error correction for 2006	6,057,265	0	0	3,554,792	9,612,057
Spin-off on 01/01/2007	(214,918)	0	0	0	(214,918)
Formation, increase	402,354	2,936,784	15,072	7,821,647	11,175,857
Utilisation, decrease	(1,071,571)	(312,200)	(1,052)	0	(1,384,823)
Value as at 31/12/2007	9,630,803	2,936,784	23,645	11,376,439	23,967,671

(5) Inventories
€ 29,323,053

The Group's inventories consist of material, which also includes small tools with a useful life up to 1 year and the value of not more than EUR 500, products, work in progress and advances for inventories.

In the inventories of material, the biggest amount refers to inventories of maintenance material, spare parts and heating oil.
Inventories of products mostly include coal.

In performing the inventory count, material and product surpluses determined amounted to € 922,976 and € 290,838, respectively, while material deficits amounted to € 101,592.

The net realisable value of inventories is not lower than the carrying amount.

(6) Receivables
€ 181,284,544

Long-term trade receivables are not secured.

The majority of short-term trade receivables are secured, whereas due to their nature, others are not.

At the Group level, allowances for receivables total € 16,286,156, of which the majority refers to a written off receivable of the parent company arising from the provisions of system services.

The amount of short-term receivables eliminated in consolidation totalled € 120,190,947.

Long-term operating receivables by maturity

in €

LONG-TERM OPERATING RECEIVABLES	MATURITY DATE			TOTAL
	UP TO 3 YEARS	3 TO 5 YEARS	OVER 5 YEARS	
Trade receivables	0	0	38,197	38,197
Receivables from others	359,587	93,090	201,406	654,083
Total	359,587	93,090	239,603	692,280

Short-term operating receivables by maturity

in €

SHORT-TERM OPERATING RECEIVABLES	BREAKDOWN BY MATURITY						TOTAL
	not yet due	OVERDUE UP TO 3 MONTHS	OVERDUE FROM 3 TO 6 MONTHS	OVERDUE FROM 6 TO 9 MONTHS	OVERDUE FROM 9 TO 12 MONTHS	OVERDUE BY MORE THAN 1 YEAR	
Trade receivables	115,574,992	24,754,433	2,303,613	3,078,355	310,002	732,113	146,753,508
Receivables from others	49,540,160	128,786	540	0	993	454,433	50,124,912
Total	165,115,152	24,883,219	2,304,153	3,078,355	310,995	1,186,546	196,878,420

(7)
Short-term investments
€ 103,505,751

The bulk of the Group's short-term investments refer to deposits with Slovenia's major banks, hence the exposure to risks is minimum. Deposits with banks have not been secured, while the loans granted have been secured.

The amount of short-term investments eliminated in consolidation totalled € 3,246,850.

Short-term investments

in €

TYPE OF SHORT-TERM INVESTMENTS	31/12/2007	31/12/2006
Deposits with banks	81,741,383	125,489,075
Investments in equities	0	2,457,808
Short-term loans to associates	50,075	50,075
Short-term loans to others	21,714,293	666,500
Other short-term investments	0	440,377
Total	103,505,751	129,103,835

(8)
Cash
€ 15,297,292

On the balance sheet date, the amount of automatic debit balances arranged by Group companies in the form of limits in accounts with banks totalled € 1,254,359.

(9)
Short-term deferred costs and accrued revenue
€ 6,944,133

The bulk of deferred costs and accrued revenue refer to short-term deferred costs (accrued contingent costs of electricity, concessions paid in advance, insurance premiums and maintenance costs, etc.).

The amount of short-term accrued revenue and deferred costs eliminated in consolidation totalled € 16,404,754.

(10)
Off-balance sheet records
€ 312,362,776

Off-balance sheet items encompass granted and received instruments for the collateralisation of payments (bank guarantees, insurance policies), granted guarantees, received damages and the value of futures.

Off-balance sheet records

in €

TYPE OF OFF-BALANCE SHEET RECORDS	31/12/2007	31/12/2006
Bank guarantees received and other forms of collaterals	122,764,966	77,558,597
Bank guarantees issued and other forms of collaterals	82,901,089	73,551,129
Futures employed in hedging - purchase	104,261,505	152,527,791
Other	1,848,228	1,573,506
Lawsuits	586,988	659,696
Total off-balance sheet records	312,362,776	305,870,719

(11)
Equity
€ 1,037,374,202

In 2007 the value of nominal capital changed as follows:

- The Republic of Slovenia increased the capital of the controlling company by € 24,733,982 through the contribution in kind of a 0.14 % interest in the company Dravske elektrarne Maribor d.o.o. and a 80.34 % interest in the company of Termoelektrarna Trbovlje d.o.o.;
- pursuant to the provisions of the Companies Act, nominal capital of the controlling company was converted due to the replacement of the national currency, leading to an increase in nominal capital by € 0.34.

There has also been a change in capital surplus which decreased by € 131,756,737 owing to the spin-off.

Other revenue reserves increased as follows:

- by a portion of accumulated profit for 2006 in the amount of € 8,950,855 in accordance with the General Meeting's resolution,
- by a portion of net profit for 2007 in the amount of € 6,205,598 in accordance with the Supervisory Board's resolution adopted on the management's proposal.

Retained earnings in the amount of € 178,559,130 represent the controlling company's participation in the retained earnings of subsidiaries and the differences in consolidation from previous years.

Net profit for the year totalled € 77,255,420 and is comprised of the accumulated profit of the controlling company in the amount of € 6,205,599, the 2007 profit or loss of subsidiaries attributable to the parent company in the amount of € 67,382,603, inclusion of financial revenue from previous year arising from the disposal of investments between Group companies in the amount of € 3,667,218, use of negative goodwill, and other effects on the Group's profit or loss in the consolidation process.

Revaluation surplus in the amount of € 22,670,400 has been created at the parent company in the amount of € 21,839,790 (hedging derivatives) and in the consolidation process in the amount of € 830,610, which represents the parent company's share in the creation of revaluation surpluses in subsidiaries.

Consolidation equity adjustment of € 433,309 represents foreign exchange differences that occurred in the translation of balance sheet items and income statement items of subsidiaries abroad foreign exchange difference determined in the process of consolidation.

In 2007 minority interest decreased by € 61,033,898 to € 30,201,464 due to the spin-off and the repurchase of minority interests by the controlling company.

The amount of the capital of subsidiaries eliminated in the process of consolidation totalled € 762,030,666.

The Group's equity

in €

TOTAL EQUITY	31/12/2007	31/12/2006 - FUNDAMENTAL ERROR CORRECTION	31/12/2006
Nominal capital	29,558,789	4,824,807	4,824,807
Capital surplus	561,243,185	692,999,922	692,999,922
Other revenue reserves	138,319,123	123,162,670	123,162,670
Revaluation surplus	22,670,400	8,507,732	8,507,732
Retained earnings	178,559,130	167,230,962	186,789,262
Net profit or loss for the period	77,255,420	59,366,425	59,366,425
Consolidation equity adjustment	(433,309)	5,591	5,591
Equity of minority owners	30,201,464	85,631,243	91,235,362
Total	1,037,374,202	1,141,729,352	1,166,891,771

Net profit or loss of the Group after equity restatement

in €

	2007
Net profit or loss of the group	83,461,018
Net profit or loss after the restatement on the basis of consumer prices (5.6 % growth)	33,888,193

(12)
Provisions and long-term accrued costs and deferred revenue
€ 95,148,216

Provisions include the provisions set aside and used in conformity with disability organisations legislation, provisions for obligations under sales agreements, provisions for the closure of the Škale Cave and the remaining coalmining sites in Velenje, and provisions for pending claims arising from lawsuits.

In 2007 the subsidiary company set aside backdated provisions for the future closing of the remaining coalmining sites in Velenje in the amount of € 33,484,425, which had been created to correct the fundamental error that affected the Group's retained earnings.

Long-term accrued and deferred costs include provisions for government grants received for the acquisition of fixed assets, which were utilised in 2007 in connection with the accounted for depreciation. This category also includes provisions set aside in connection with CO_2 emission coupons obtained and the exempted contributions for the disabled.

Changes in provisions and long-term accrued costs and deferred revenue

in €

ITEM	BALANCE 31/12/2006	FUNDAMENTAL ERROR CORRECTION	SPIN-OFF	INCREASE (FORMATION)	UTILISATION, ELIMINATION	BALANCE as at 31/12/2007	FORMATION PLANNED	UTILISATION PLANNED
Long-term provisions for termination and jubilee benefits	13,328,877	0	(1,329,657)	1,884,826	(2,296,121)	11,587,925	0	0
Other long-term provisions	33,651,043	33,484,425	0	11,506,388	(7,913,365)	70,728,491	0	0
Long-term accrued costs and deferred revenue	10,398,489	0	(862,093)	9,289,221	(5,993,817)	12,831,800	10,415,521	8,035,993
Total	57,378,409	33,484,425	(2,191,750)	22,680,435	(16,203,303)	95,148,216	10,415,521	8,035,993

(13)
Long-term debts
€ 244,554,162

Long-term debts mostly include long-term bank loans and liabilities of the controlling company arising from the payments made by venturers (that are not part of the Group) in connection with the joint venture for the construction of HPPs on the lower Sava River.

Long-term financial liabilities are secured by bills of exchange, acceptance orders, guarantees, receivables or warranties issued by the Republic of Slovenia.

Loans have been taken with Slovene and foreign banks, and interest rates range between 2.4 and 6.6 %, depending on the type of the loan, maturity and moment of borrowing. They also include loans due in a period longer than five years, but not later than in 2017. The increase in long-term loans is the result of four companies taking out additional loans and the integration of another subsidiary into the Group. Long-term financial liabilities are disclosed in greater detail in the annual reports of individual Group companies.

For a portion of long-term debts of the Group, interest rate swaps have been entered into, thus lowering the risk of increasing variable interest rates.

All long-term liabilities are settled within contractual deadlines.

In the process of consolidation, the amount of eliminated intra-group long-term operating debts totalled € 39,960,823.

Maturity of long-term liabilities

in €

LONG-TERM LIABILITIES	MATURITY DATE			TOTAL
	1 TO 3 YEARS	3 TO 5 YEARS	OVER 5 YEARS	
Long-term financial liabilities to banks	90,553,159	54,030,337	80,022,514	224,606,010
Long-term financial liabilities to others	367	0	0	367
Long-term operating trade liabilities	1,305,363	0	0	1,305,363
Long-term operating liabilities to others	18,330,863	6,780	304,779	18,642,422
Total	110,189,752	54,037,117	80,327,293	244,554,162

(14)
Short-term debts
€ 241,650,620

All short-term liabilities have not yet fallen due and mostly represent the portion of long-term loans falling due one year after the balance sheet date. They are secured by bills of exchange, acceptance orders, guarantees, receivables or warranties issued by the Republic of Slovenia.

Interest rates charged on short-term loans range from 4.7 to 5.9 %.

Short-term loans are disclosed in greater detail in the annual reports of individual Group companies.
On the balance sheet date, the amount of due short-term operating liabilities totalled € 62,778.

In consolidation, the amount of eliminated short-term loans and short-term operating liabilities totalled € 3,260,080 and € 136,587,382, respectively.

Types of short-term liabilities

in €

TYPE OF SHORT-TERM LIABILITIES	31/12/2007	31/12/2006
Short-term financial liabilities to banks	82,457,908	43,499,508
Short-term financial liabilities to others	87,177	484,539
Short-term operating trade liabilities	123,352,275	105,975,819
Short-term operating liabilities to associates	4,388	9,051
Short-term operating liabilities from advances	442,148	506,735
Short-term operating liabilities to others	35,306,724	27,517,660
Total	241,650,620	177,993,312

Maturity of short-term operating liabilities

in €

SHORT-TERM OPERATING LIABILITIES	BREAKDOWN BY MATURITY		TOTAL
	NOT YET DUE	OVERDUE UP TO 3 MONTHS	
Short-term trade liabilities	123,293,885	62,778	123,356,663
Short-term operating liabilities from advances	442,148	0	442,148
Short-term liabilities to others	35,306,724	0	35,306,724
Total	159,042,757	62,778	159,105,535

(15)
Short-term accrued costs and deferred revenue
€ 9,824,463

The bulk of the Group's short-term accrued costs and deferred revenues refer to accrued costs of contingent electricity costs, accrued costs of unutilised leave, and VAT on advances granted.

In 2007 the subsidiary company made a backdated accrual of liabilities for unutilised leave in the amount of € 1,290,051 to correct the fundamental error that affected the Group's retained earnings.

In consolidation, short-term accrued costs and deferred revenue arising from accrued costs of CO_2 emission coupons were eliminated in the amount of € 3,072,550 (the amount of € 330,228 will be included in the consolidated income statement for 2008 because at the Group level the resulting revenue will be recorded in 2008; the amount of € 2,742,322 represents the sale of coupons within the Group).

Changes in short-term accrued costs and deferred revenue

in €

ITEM	BALANCE AS AT 31/12/2006	FUNDAMENTAL ERROR CORRECTION	SPIN-OFF	INCREASE (FORMATION)	"UTILISATION, ELIMINATION"	FOREIGN EXCHANGE DIFFERENCES	BALANCE AS AT 31/12/2007
Short-term accrued costs	7,481,560	1,290,051	(48,903)	39,775,595	(38,736,545)	(11,946)	9,749,812
Short-term deferred revenue	14,956	0	(113)	78,623	(18,815)	0	74,651
Total	7,496,516	1,290,051	(49,016)	39,854,218	(38,755,360)	(11,946)	9,824,463

5.7.2 Consolidated income statement

General

Information as to the basis for the preparation of the consolidated income statement, together with the specific accounting policies selected and applied to significant operations and transactions of the Group are presented in disclosures of individual revenue and expense items.

The consolidated income statement has been prepared by applying Format I as defined under SAS 25.

Revenue
€ 1,044,723,446

Revenue is classified into operating, financial and other revenue.

TYPE OF REVENUE

in €

	2007	2006
Operating revenue	1,011,617,008	869,671,194
Financial revenue	32,301,850	7,930,633
Other revenue	804,588	1,241,750
Total revenue	1,044,723,446	878,843,577

Operating revenue
€ 1,011,617,008

Most of the net sales revenue refers to the revenue generated through the sale of electricity.

The amount of net sales revenue and other operating revenue eliminated in consolidation totalled € 633,245,522 and € 1,357,389, respectively.
In consolidation, the value of capitalised own products and services increased by € 3,488,594, which represents the sale of property, plant and equipment within the Group.

Other operating revenue increased by € 1,317,629 in the consolidation process, which mostly represents negative goodwill arising from the carrying amount of long-term investments acquired in 2007 in the form of a contribution in kind exceeding the cost.

Financial revenue
€ 32,301,850

Financial revenue includes interest on deposits and loans, dividends, and revenue from the disposal of long-term investments.

The amount of financial revenue from loan interest and other intra-group transactions eliminated in consolidation totalled € 543,516, while the amount of financial revenue from previous years arising from the disposal of the intra-group investment included in consolidation totalled € 2,710,040.

Other revenue
€ 804,588

Other revenue includes compensation and government grants received.

Segments

Net revenue from sales by business segment

in €

	2007	2006
Electricity	953,578,530	779,192,635
Other	28,754,791	62,871,415
Total business segments	982,333,321	842,064,050

Net revenue from sales by geographical segments

in €

	2007	2006
Domestic market	722,268,188	582,386,025
Foreign market	260,065,133	259,678,025
Total geographical segments	982,333,321	842,064,050

Expenses
€ 961,498,650

The Group's expenses are classified as operating, financial and other expenses.

Type of expenses

in €

	2007	2006
Operating expenses	945,117,205	776,256,694
Financial expenses	15,239,916	13,664,296
Other expenses	1,141,529	1,207,737
Total expenses	961,498,650	791,128,727

Operating expenses
€ 945,117,205

The cost of goods sold refers predominantly to the cost of electricity held for sale.

The costs of material represent mostly the costs of energy, fuel, material for each individual type of production, and spare parts.

The cost of goods and material sold that was eliminated in consolidation totalled € 628,628,837.

The grater part of the costs of services refers to production, maintenance, transport and insurance premiums.

The costs of services eliminated in consolidation totalled € 1,325,703.

Labour costs comprise salaries and allowances, social insurance contributions, additional pension insurance and other labour cost (meal allowance, commuting allowance, holiday allowance, jubilee benefits, financial support, termination benefits, etc.). Other labour costs also include the payroll tax.

Most of the write-downs in value refer to the amortisation of intangible assets and depreciation of property, plant and equipment.

With intangible assets and property, plant and equipment, the biggest part of revaluation operating expenses refers to the write-down of unusable and technologically or economically inefficient assets, whereas with operating current assets, it refers to allowances for receivables.
The Group companies account for the amortisation/depreciation of intangible assets and property, plant and equipment using the straight-line method. Assets are amortised individually taking into account the anticipated useful lives.

The depreciation of property, plant and equipment acquired through government grants is accounted for separately. For the amount of accumulated depreciation, long-term accrued costs and deferred revenue are used and other operating revenue recorded.

Amortisation rates for intangible assets and depreciation rates for property, plant and equipment

TYPE OF ASSETS	DEPRECIATION RATE
Buildings	0.75 - 11.33 %
Production equipment	0.74 - 33.33 %
Other equipment	3.34 - 33.3 %
Computer equipment	33.33 - 50 %
Intangible assets	4.56 - 33.33 %

The Group applies similar rates of depreciation to property, plant and equipment of the same kind. As for the manufacturing plant and equipment, individual subsidiaries apply depreciation rates that correspond to the activity carried out.

Other operating expenses comprise a concession contribution to the state, contributions for building sites, fee for the limited area use, water charge, environmental charge, formation of provisions, scholarships and donations.

The amount of other intra-group operating expenses eliminated in consolidation totalled € 1,058,523.

Financial expenses
€ 15,239,916

Financial expenses represent the bulk of interest on long-term and short-term loans, and foreign exchange losses on operating liabilities.

The amount of financial expenses for interest on loans eliminated in consolidation totalled € 284,319.

Other expenses
€ 1,141,529

Other expenses are mainly comprised of compensation.

Overview of costs by functional groups

in €

FUNCTIONAL GROUPS	2007	2006
Cost of goods sold and production costs of quantities sold	844,851,228	691,957,357
Selling costs	11,226,747	12,220,986
General and administrative costs	78,789,959	65,548,928

Corporate income tax
€ 8,749,121

In 2007 five Group companies in Slovenia and four abroad were subject to the payment of the corporate income tax. Thanks to the utilisation of reliefs or tax losses, the remaining companies did not calculate the basis for the payment.

At the end of 2007, the amount of unutilised tax losses of Group companies totalled € 84,380,047, of which deferred tax assets created by two companies totalled € 11,376,439. The remaining companies did not create deferred tax assets arising from tax losses because they were unable to ensure with sufficient certainty that in future enough taxable profit will be available to utilise tax losses.

Deferred taxes
(€ 9,596,066)

Deferred taxes refer to deferred tax assets recognised in the likely amount of available profit against which they can be used in the future. Deferred tax assets are decreased by the amount up to which it is no longer probable that tax deductible expenses can be utilised in the future or the amount up to which expenses have been included in tax statements for the current year. The amount of € 9,596,066 represents deferred tax assets for 2007 that affect the Group's profit or loss.

Net profit
€ 84,071,741

Net profit includes the net profit of the controlling company (€ 12,411,197), the Group companies' share in the net profit of subsidiaries (€ 67,382,603), the net profit referring to the utilisation of negative goodwill and other impacts on the consolidated income statement arising from consolidation (€ 3,667,218), and the net profit of minority owners (€ 610,723).

Profit or loss of the Group

in €

TYPE OF PROFIT OR LOSS	2007	2006
Gross return on operations	1,011,617,008	869,671,194
Operating profit or loss	66,499,803	93,414,500
Profit or loss on ordinary activities	83,561,737	87,680,837
Profit or loss on extraordinary activities	(336,941)	34,013
Total profit or loss	83,224,796	87,714,850
Net profit or loss for the period	84,071,741	77,648,113
- of which majority owner	83,461,018	76,737,280
- of which minority owner	610,723	910,833

5.7.3 Consolidated cash flow statement

General

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

Cash comprises cash in hand, deposit money in transaction accounts, and deposits redeemable at notice.

The consolidated cash flow statement is prepared using the indirect method (Format II – SAS 26.9).

The data in the consolidated cash flow statement has been obtained from cash flow statements of Group companies, taking into account also eliminations in the process of consolidation.

The opening balance of cash for 2007 is different from the closing balance for 2006 due to the integration and spin-off of Group companies.

Cash flow

in €

TYPE OF CASH FLOW	2007	2006
Cash flows from operating activities	118,254,485	156,400,388
Cash flows from investing activities	(219,727,895)	(134,815,444)
Cash flows from financing activities	109,504,411	(22,151,977)
Net cash flow for the period	8,031,001	(567,033)

5.7.4 Consolidated statement of changes in equity

General

The consolidated statement of changes in equity shows all changes in equity components during the financial year.

Method

The consolidated statement o changes in equity has been prepared in accordance with Format I as defined under SAS 27.2.

Accumulated profit is not determined at the Group level.

Fundamental error

The changes in the financial statements of a subsidiary arising from the correction of a fundamental error have been disclosed in the statement of changes in equity for 2006 under opening balance and reflected in retained earnings that decreased by € 25,162,419 as follows:
- retained earnings of the Group decreased by € 19,558,300, and
- retained earnings of minority owners decreased by € 5,604,119.

Spin-off

As a result of the spin-off, the Group's equity decreased as follows:
- capital surplus by € 131,756,737,
- revaluation surplus by € 19,352, and
- retained earnings (profit of the spun off companies) by € 29,434,985.

Movements to equity

Due to the spin-off, the equity of minority owners decreased by € 30,357,828.

In 2007 movements to equity were recorded in the amount of € 140,457,016.

The equity of the Group (exclusive of minority interests) changed by € 134,122,270 as follows:
- it increased by € 24,733,982 due to the increase in the capital of the controlling company,
- it increased by net profit of the Group in the amount of € 83,461,018,
- it decreased by the amount of the Group's retained earnings of € 969,690 arising from the accrual of costs of unused leave in certain subsidiaries,
- it decreased by the amount of the consolidation equity adjustment of € 438,900 arising from foreign exchange differences at subsidiaries abroad,
- it increased by the amount of revaluation surplus of € 27,335,860, of which € 26,836,141 has been disclosed by the controlling company (gains on futures employed in hedging and the fair value of interest rate swaps), and € 499,719 represents the controlling company's share in the revaluation surplus created by subsidiary companies.

The equity of minority owners changed by € 6,334,746 as follows:
- it increased by € 5,984,297 due to the inclusion of a new companies in the Group and the spin-off of the company holding a stake in another subsidiary,
- it increased by net profit of the Group in the amount of € 610,723,

- it increased by the revaluation surplus created by Group companies in the amount of € 19,548,
- it decreased by the amount of retained earnings of € 279,822 arising from the accrual of costs of unused leave in certain subsidiaries

Movements within equity

Movements within equity amounting to € 15,424,580 comprise:
- allocation of a portion of the 2006 accumulated profit of the controlling company (in accordance with the General Meeting's resolution) in the amount of € 8,950,855 to other revenue reserves, and
- allocation of half of net profit of the controlling company for the current year (in accordance with the Supervisory Board's resolution adopted on the management's proposal) in the amount of € 6,205,598 to other revenue reserves.
- covering of the loss of a subsidiary in the amount of € 268,127 from revaluation surplus.

Movements from equity

Movements from equity total € 53,243,264.

The Group's equity (exclusive of minority interests) decreased by € 21,836,567 as follows:
- by € 8,950,854 which represents the payment of a portion of the 2006 accumulated profit of the controlling company to the owner,
- by € 12,885,713 which represents a decrease in the controlling company's revaluation surplus arising from futures employed in hedging (losses on futures in the amount of € 26,163,747 and the transfer of the fulfilled futures contracts to operating expenses in the amount of € 13,278,034).

The decrease in the equity of minority owners by € 31,406,697 represents the value of the sale of interests to the controlling company or increase in interests in two subsidiaries by the controlling company.

5.7.5 Other disclosures

Remuneration of Management Board members and employees who are not subject to the tariff part of the collective labour agreement

Remuneration of members of the Management Boards and other employees who are not subject to the tariff part of the collective labour agreement includes:
- gross remuneration contained in the notice for income tax returns,
- premiums paid for additional pension insurance, and
- other remuneration.

Remuneration of Supervisory Board members includes:
- gross attendance fees and travel expenses.

Remuneration of Supervisory Board members

In 2007 members of Management Boards, other employees who are not subject to the tariff part of the collective labour agreement, and members of the Group's Supervisory Boards did not participate in the net profits under resolutions adopted by General Meetings, nor were they approved any advances, loans or guarantees by group companies.

At the end of 2007 Group companies had no loan receivables and operating receivables from the above groups of persons.

Remuneration of individual groups of persons

in €

GROUPS OF PERSONS	2007	2006
Members of Management Boards	998,798	1,070,977
Employees who are not subject to the tariff part of the collective labour agreement	4,167,985	3,510,787
Members of Supervisory Boards	202,535	80,170

Receivables from loans to individual groups of persons

in €

GROUPS OF PERSONS	31/12/2007	31/12/2006*
Members of Management Boards	0	0
Employees who are not subject to the tariff part of the collective labour agreement	0	9,176
Members of Supervisory Boards	0	0

* Balance of loans exclusive of loans under the Housing Act (Official Gazette of RS 18/91)

Operating receivables from individual groups of persons

in €

GROUPS OF PERSONS	31/12/2007	31/12/2006
Members of Management Boards	0	88
Internal owners	0	0
Members of Supervisory Boards	0	0

Costs of auditing and tax consulting

In 2007 the costs of auditing of annual reports of HSE Group companies and tax consulting totalled € 283,887.

Costs of auditing and tax consulting

in €

TYPE OF SERVICES	2007	2006
Auditing of annual reports of HSE Group companies	200,606	153,251
Other auditing services	0	144,454
Tax consulting services	83,281	73,961

Business events after the consolidated balance sheet date

Business events after the consolidated balance sheet date Business events after the consolidated balance sheet date have been disclosed in the business report. Apart from those mentioned, there have been no other important events.

5.8 Accounting ratios for the HSE Group[8]

EQUITY FINANCING RATE

in €

	31/12/2007	31/12/2006
1. Liabilities	1,628,551,663	1,567,954,113
2. Equity	1,037,374,202	1,141,729,352
Equity financing rate = 2 / 1	63.70	72.82

At the end of 2007, the Group's capital amounted to almost 64 % of total liabilities. Compared to the end of 2006, the equity financing rate decreased on account of a decrease in equity (mostly due to the spin-off of SEL and TEB) and an increase in the amount of financial liabilities to banks.

LONG-TERM FINANCING RATE

in €

	31/12/2007	31/12/2006
1. Equity	1,037,374,202	1,141,729,352
2. Long-term liabilities	244,554,162	148,582,048
3. Provisions and long-term accrued expenses and deferred revenue	95,148,216	90,862,834
4. Total (1 + 2 + 3)	1,377,076,580	1,381,174,234
5. Liabilities	1,628,551,663	1,567,954,113
Long-term financing rate = 4 / 5	84.56	88.09

The Group financed 85 % of its assets from long-term sources and 15 % from short-term sources. Compared to the same period of the previous year, the long-term financing rate decreased by three percentage points.

OPERATING FIXED ASSETS RATE

in €

	31/12/2007	31/12/2006
1. Property, plant and equipment	1,189,336,408	1,224,036,254
2. Intangible assets and long-term deferred costs and accrued revenue	27,874,726	21,529,043
3. Total long-term assets at carrying amount (1 + 2)	1,217,211,134	1,245,565,297
4. Assets	1,628,551,663	1,567,954,113
Operating fixed assets rate = 3 / 4	74.74	79.44

In 2007 the Group's property, plant and equipment, intangible assets, and long-term deferred costs and accrued revenue accounted for 75 % of its total assets. The percentage was lower at the end of 2006 mostly due to the spin-off of SEL and TEB.

LONG-TERM ASSETS RATE

in €

	31/12/2007	31/12/2006
1. Property, plant and equipment	1,189,336,408	1,224,036,254
2. Intangible assets and long-term deferred costs and accrued revenue	27,874,726	21,529,043
3. Investment property	936,992	0
4. Long-term investments	49,870,537	5,630,626
5. Long-term operating receivables	692,280	3,911,204
6. Total (1 + 2 + 3 + 4 + 5)	1,268,710,943	1,255,107,127
7. Assets	1,628,551,663	1,567,954,113
Long-term assets rate = 6 / 7	77.90	80.05

The Group's total long-term assets account for 78 % of the Group's total assets. Due to an increase in current assets, the ratio decreased at the end of 2006.

[8] The data as at 31 December 2006 is inclusive of the correction of financial statements performed as a result of the fundamental error from previous years.

EQUITY TO OPERATING FIXED ASSETS

in €

	31/12/2007	31/12/2006
1. Equity	1,037,374,202	1,141,729,352
2. Property, plant and equipment	1,189,336,408	1,224,036,254
3. Intangible assets and long-term deferred costs and accrued revenue	27,874,726	21,529,043
4. Total fixed assets at carrying amount (2 + 3)	1,217,211,134	1,245,565,297
Equity to operating fixed assets = 1/4	0.85	0.92

At the end of 2007, the equity to fixed assets ratio, which describes the relation between equity and fixed assets, intangible assets, long-term accrued revenue and deferred costs, equalled 0.9, meaning the bulk of most illiquid assets were financed with equity.

IMMEDIATE SOLVENCY RATIO

in €

	31/12/2007	31/12/2006
1. Cash	15,297,292	5,944,016
2. Short-term investments	103,505,751	129,103,835
3. Total liquid assets (1 + 2)	118,803,043	135,047,851
4. Short-term liabilities	241,650,620	177,993,312
Immediate solvency ratio = 3 / 4	0.49	0.76

The acid test ratio describes the relation between liquid assets and short-term debts. At the end of 2007, it equalled 0.5, meaning that only half of the Group's short-term liabilities were covered with liquid assets.

QUICK RATIO

in €

	31/12/2007	31/12/2006
1. Cash	15,297,292	5,944,016
2. Short-term investments	103,505,751	129,103,835
3. Short-term receivables	180,592,264	129,526,393
4. Total (1 + 2 + 3)	299,395,307	264,574,244
5. Short-term liabilities	241,650,620	177,993,312
Quick ratio = 4 / 5	1.24	1.49

At the end of 2007, the quick ratio stood at 1.2, meaning that in addition to inventories other current assets were also financed from long-term sources.

CURRENT RATIO

in €

	31/12/2007	31/12/2006
1. Current assets	328,928,916	294,237,358
2. Short-term deferred costs and accrued revenue	6,944,133	4,218,073
3. Total (1 + 2)	335,873,049	298,455,431
4. Short-term liabilities	241,650,620	177,993,312
Current ratio = 3 / 4	1.39	1.68

The current ratio amounted to 1.4 at the end of 2007, which is an indication of the Group's solvency given that short-term liabilities were fully covered with current assets.

OPERATING EFFICIENCY RATE

in €

	2007	2006
1. Operating revenues	1,011,617,008	869,671,194
2. Costs of goods, materials and services	681,696,549	531,115,991
3. Labour costs	123,900,511	128,984,736
4. Write-downs in value	96,561,644	81,075,513
5. Other operating expenses	42,958,501	35,080,454
6. Total operating expenses (2 + 3 + 4 + 5)	945,117,205	776,256,694
Operating efficiency rate = 1 / 6	1.07	1.12

Operating revenue exceeded operating expenses by 7 % in 2007. Because the increase in expenses was higher than the increase in revenue, the ratio decreased 4 % compared to 2006.

NET RETURN ON EQUITY RATIO

in €

	2007	2006
1. Net profit for the period	84,071,741	77,648,113
2. Average capital	1,102,132,987	1,094,174,871
Net return on equity = 1 / 2	0.08	0.07

In 2007 the Group generated € 8 of net profit per € 100 of equity invested. Relative to 2006, the ratio increased by 7 %, primarily thanks to higher net profit of the Group.

I AM EXCHANING this crystal sphere for a bowling ball.

It really made no sense for it to keep collecting dust on my office desk. Because I know exactly what is going to happen. In our business, certain measures bring certain results. Nothing is left to chance or magic.

Place a Classified Ad: "Give and take."

06

CONTACT INFORMATION

6. CONTACT INFORMATION

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Abbreviations

APPD	Austrian power plants on the Drava River
BPP	Building permit acquisition project
BU	Business unit
CA	Companies Act
CC	Control centre
CCS	Carbon capture and sequestration
DEM	Dravske elektrarne Maribor d.o.o.
DTS	Distribution transformer station
EE	Electricity
EES	Electricity system
EEX	European electricity exchange in Leipzig
EFET	Standard electricity trading contract
EIB	European Investment Bank
ELES	Elektro – Slovenija d.o.o.
EMU	Economic and monetary union
E-RES	Electricity from renewable energy sources
EU	European Union
EURIBOR	Euro interbank offered rate
EA	Energy Act
€	The euro
GDP	Gross domestic product
GoO	Guarantee of origin
HPP	Hydropower plant
HESS	Hidroelektrarne na spodnji Savi d.o.o.
HSE	Holding Slovenske elektrarne d.o.o.
IFA	Intangible fixed assets m
IMAD	Institute of Macroeconomic Analysis and Development
IP	Implementation project
IS	Information system
ISO	International Organisation for Standardisation
IT	Information technology
ITIL	Information technology infrastructure library
MoF	Ministry of Finance
mHPP	Mini hydropower plants
MESP	Ministry of the Environment and Spatial Planning
NDP	National detailed plan
NEK	Nuklearna elektrarna Krško d.o.o.
NSP	National spatial plan
ODOS	Electronic document system
OHSAS	Occupational health and safety management system
PPE	Property, plant and equipment
PSP	Pumped storage plant
PV	Premogovnik Velenje d.d.
RECS	Renewable energy certificate system
RES	Renewable energy sources
RS	Republic of Slovenia
SAS	Slovene Accounting Standards

SB	Supervisory Board
SDE	Slovene Power Sector Trade Union
SEL	Savske elektrarne Ljubljana d.o.o.
SENG	Soške elektrarne Nova Gorica d.o.o.
SPESS	Slovene Union of Coalminers
SORS	Statistical Office of the Republic of Slovenia
TC	Telecommunications
TEB	Termoelektrarna Brestanica d.o.o.
TEŠ	Termoelektrarna Šoštanj d.o.o.
TET	Termoelektrarna Trbovlje d.o.o.
TPP	Thermal power plant
ZEPP	Slovene technological platform for ZEP
ZSSS	Association of Free Trade Unions of Slovenia

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The Slovenian version of this Annual Report is authoritative.