

ANNUAL REPORT

200∞
The endless circle of energy.



hse

Holding Slovenske elektrarne d.o.o.

ANNUAL REPORT
of the company HSE and HSE Group

200∞

The endless circle of energy.



Viljem Pozeb, M.Sc.
Managing Director of HSE



Jože Zagožen, Ph.D.
Managing Director of HSE

hse

Holding Slovenske elektrarne d.o.o.

Energy circulates.
Within us and between us.
It remains with us like a fair memory.
Flowing between us like a sincere wish.
Bringing opportunity and carrying away monotony.
Driving us from one goal to the next.
Connecting us like an experience.
It guides our efforts.
Changing with us.
Time and again.
And again.

Management's statement

In accordance with Article 60a of the Companies Act, the managing directors of the company Holding Slovenske elektrarne d.o.o. confirm that the annual report of the company HSE and the HSE Group for the year 2008, together with the corporate governance statement, has been prepared and published in accordance with the Companies Act and Slovene Accounting Standards.

The managing directors confirm that the appropriate accounting policies have been applied consistently in the preparation of the financial statements and that the accounting estimates have been prepared based on the principle of prudence and good management. The financial statements have been prepared on the going concern basis.

The managing directors of Holding Slovenske elektrarne d.o.o. declare that to their best knowledge:

- the financial report of the company HSE and the HSE Group for the year 2008 gives a true and fair view of the assets and liabilities, financial position and financial performance of the company HSE and other consolidated companies as a whole;
- the business report of the company HSE and the HSE Group for the year 2008 presents fairly the development and operating results of the company and its financial position, including the description of significant risks.



Viljem Pozeb, M.Sc.
Managing Director of HSE



Jože Zagožen, Ph.D.
Managing Director of HSE

Ljubljana, 22/05/2009

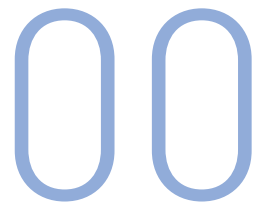


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01 Introduction

18 is the number of markets in Western, Central and SE Europe that we were present in at the end of 2008. Operations in international electricity markets represent our basic activity and as a result we are constantly expanding our presence there.



The HSE Group in Slovenia

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.

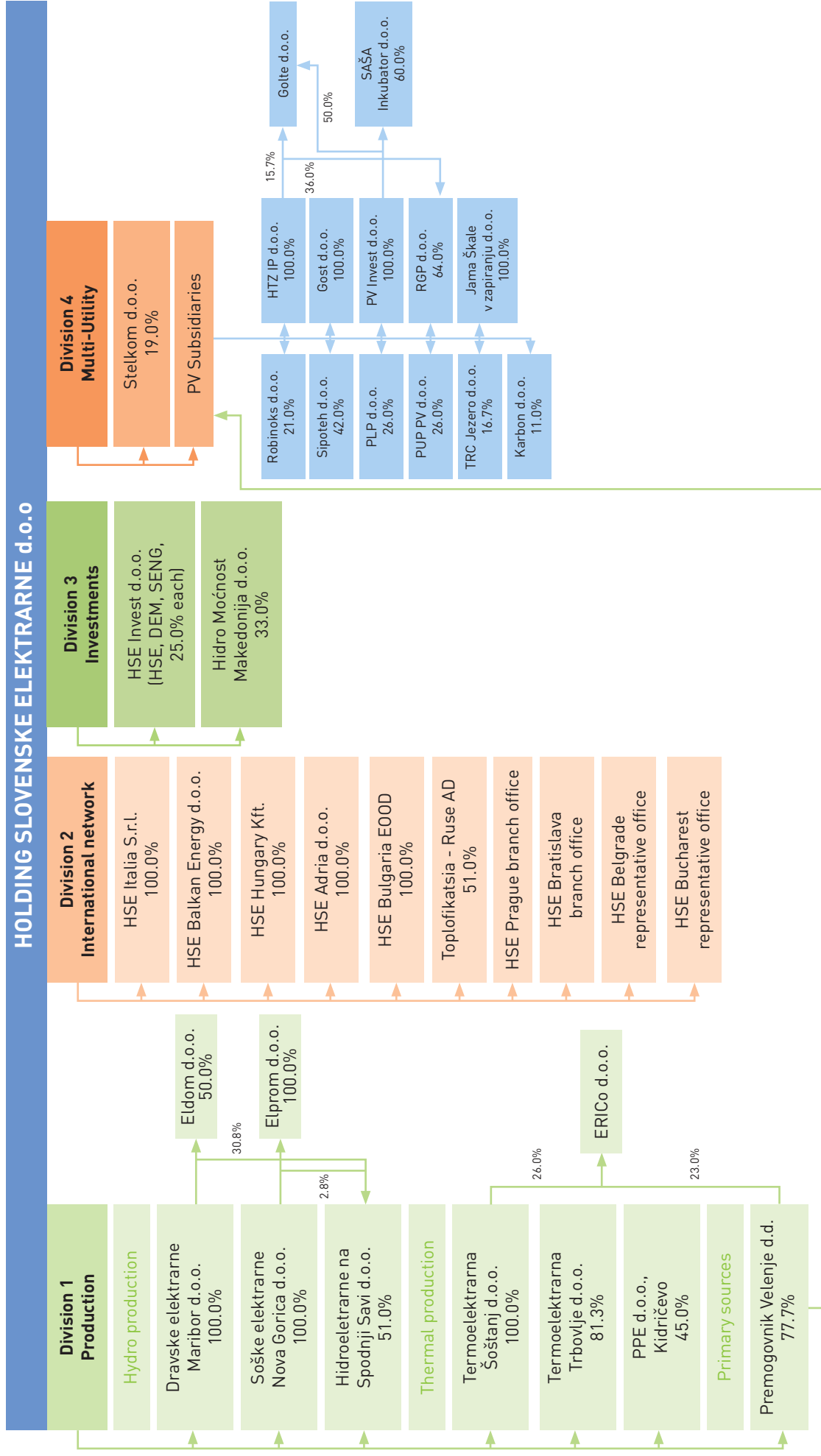
United under a single brand – the HSE Group – hydro power plants, thermal power plants and a coalmine together produce a large portion of the electricity in Slovenia. Through distribution, which consists of a combination of various resources, HSE plays a key role in ensuring a secure, reliable and high-quality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



- Controlling company
- Subsidiaries
- Hydro power plants
- Hydro power plants under construction
- Thermal power plants
- Coalmine



HSE Group as at 31/12/2008



The HSE Group in the markets of Western, Eastern and South-Eastern Europe

HSE's companies, branch offices and representative offices are located in Slovenia, Croatia, Serbia, Italy, Hungary, Bulgaria, the Czech Republic, Slovakia, Romania, and Macedonia. HSE is a member of the German energy exchange EEX, Austrian energy exchange EXAA, French power exchange Powernext, Italian power exchange IPEX, Czech energy exchange OTE and in 2008 became a member of the Prague power exchange PXE and the regional energy exchange Southpool.

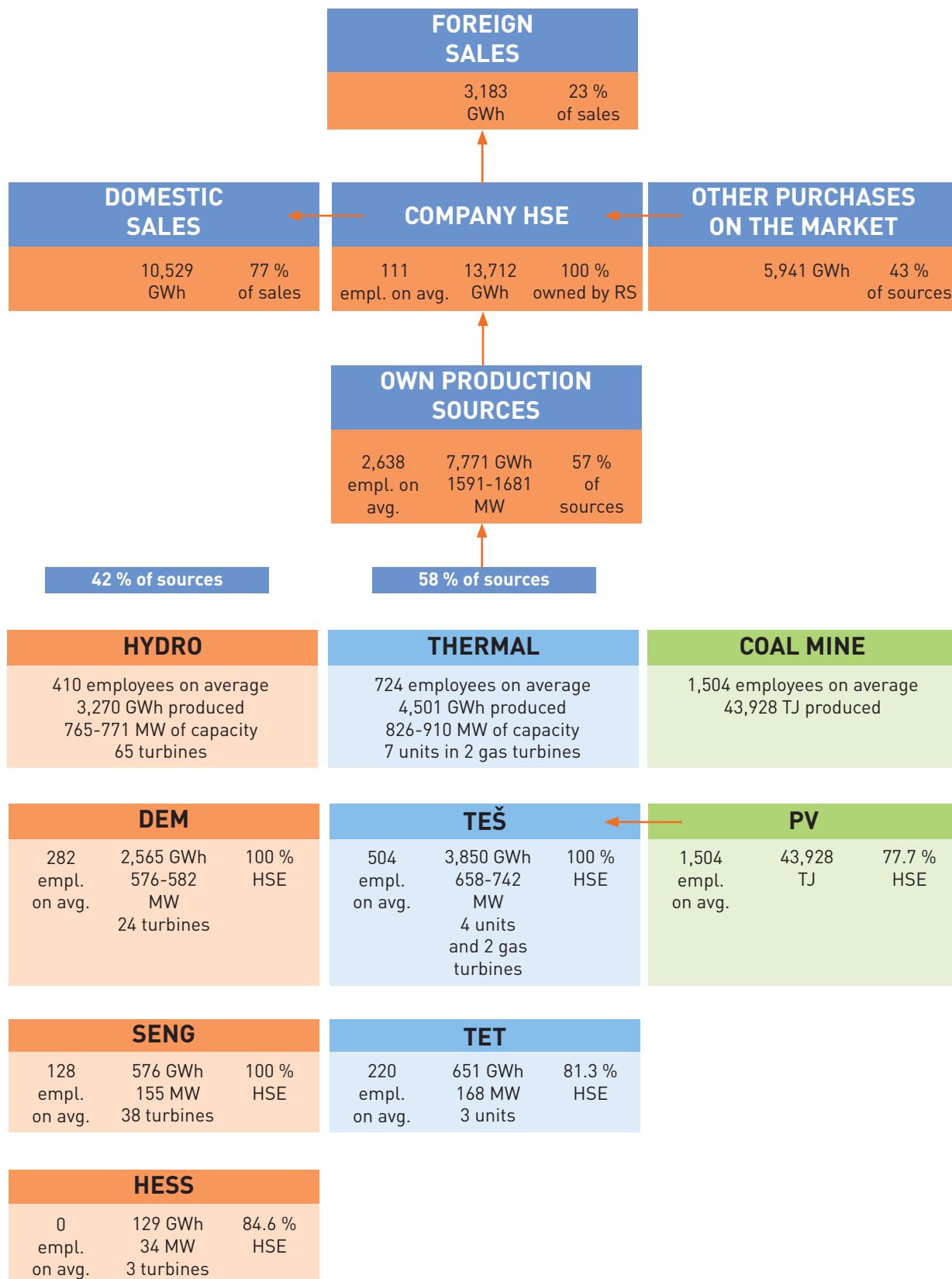
The HSE Group's other trading markets include:

- Albania,
- Bosnia and Herzegovina,
- Montenegro,
- Switzerland, and
- Kosovo.



* Electricity production and trading by the HSE Group in 2008.

Electricity production and trading by the HSE Group in 2008



1.1 Operating highlights of the Company and the HSE Group in 2008

The operations of the company and the HSE Group were successful also in 2008. HSE further pursued the set development path of a strong electricity producer and trader in the domestic and wider regional energy market.

In 2008 HSE established its balancing group GEN energija on the Slovene electricity market. Thus, the HSE balancing group became smaller, as TEB, SEL and NEK left it. In addition, other foreign traders entered the Slovene wholesale market, since the legislative amendments no longer required that in order to trade in Slovenia a company must be founded in Slovenia. Furthermore, in 2008 HSE had no long-term allocated capacities for electricity export to Italy and for electricity import from Austria. These are the main reasons for HSE recording lower electricity trading volumes and turnover compared to 2007.

Nevertheless, compared to 2007, the HSE Group generated:

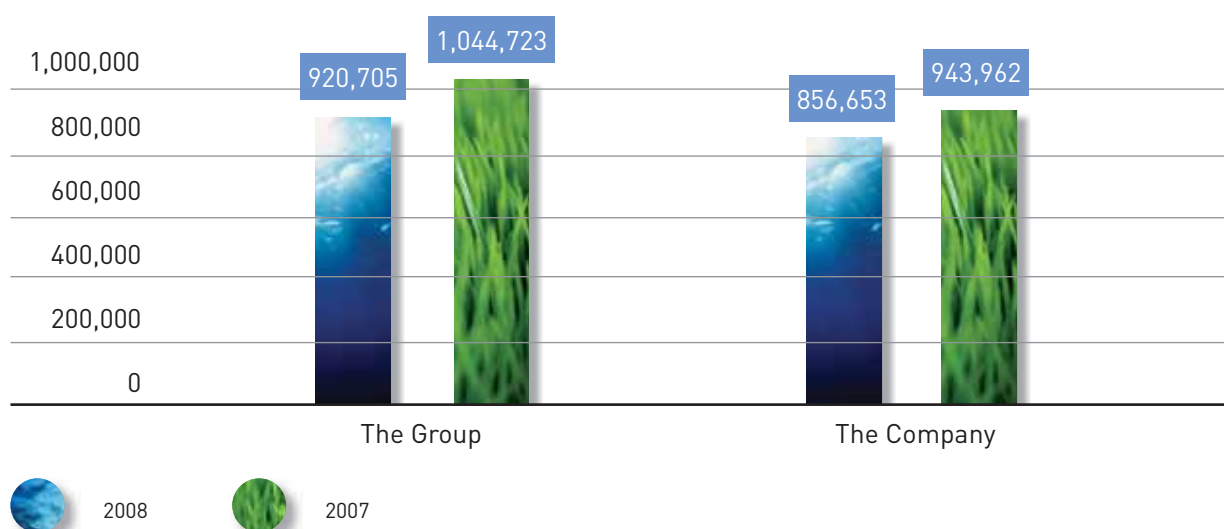
- 76% higher EBIT in the amount of € 116.7 million,
- 11% higher electricity production,
- 11% lower net operating result (the Group achieved a 12% higher total operating profit, but due to tax liabilities the net operating result was lower),
- 7% higher assets, which as at 31 December 2008 stood at € 1,748 million,
- 9% higher equity, which as at 31 December 2008 stood at € 1,128 million,
- 16% higher added value, and
- 70% higher cash flow from operating activities.

In spite of the good business results in 2008, the HSE Group is aware that it has only started implementing its ambitious long-term development plans and that it should continue with its well-started activities. The year 2009 brings numerous business challenges for which the HSE Group is prepared. Our priorities remain responsible operation, provision of funds for development investments and realisation of investments, and further streamlining of operations.

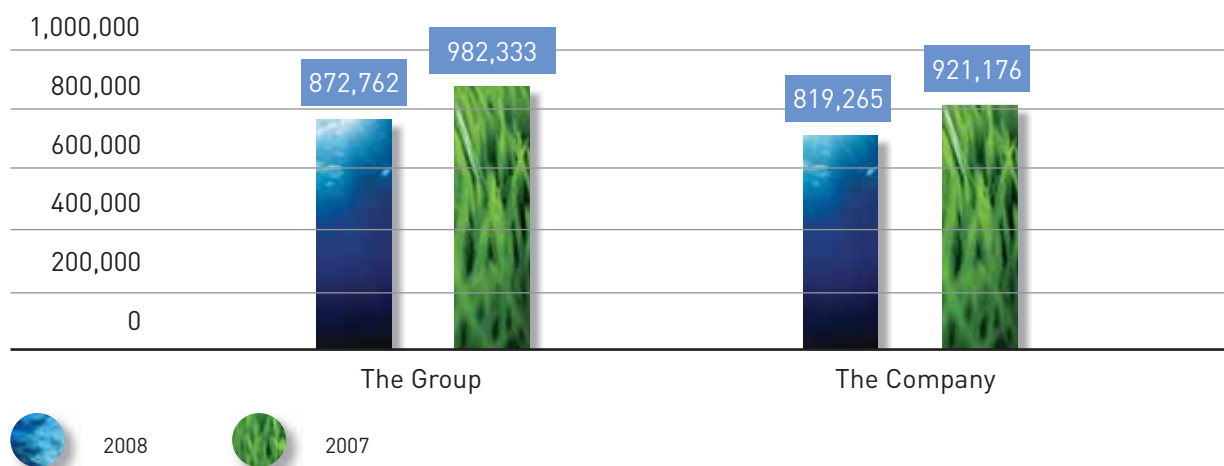
HSE Group	2008	2007	IND 08/07
Net sales revenue in €	872,762,328	982,333,321	89
Revenue in €	920,705,280	1,044,723,446	88
EBIT in €	116,771,920	66,499,803	176
EBITDA in €	191,130,415	138,540,433	138
Net profit or loss in €	74,515,214	84,071,741	89
Assets in €	1,747,710,783	1,628,551,663	107
Equity in €	1,127,608,615	1,037,374,202	109
Cash flows from operating activities in €	201,464,315	118,254,485	170
Added value in €	334,139,771	286,961,958	116
Electricity production in GWh	7,771	7,019	111
Electricity sales in GWh	13,705	17,084	80
Number of employees as at 31/12	3,897	4,025	97
Number of group companies as at 31/12	26	24	108

COMPANY HSE D.O.O.	2008	2007	IND 08/07
Net sales revenue in €	819,264,527	921,176,077	89
Revenue in €	856,652,784	943,961,613	91
EBIT in €	35,126,795	2,482,997	1,415
EBDITA in €	36,585,337	4,719,460	775
Net profit or loss in €	53,756,215	12,411,197	433
Assets in €	1,158,781,276	1,141,859,460	101
Equity in €	798,817,478	757,166,486	106
Cash flows from operating activities in €	53,356,324	30,695,629	174
Added value in €	43,165,180	25,418,714	170
Electricity sales in GWh	13,712	16,894	81
Number of employees as at 31/12	112	109	103

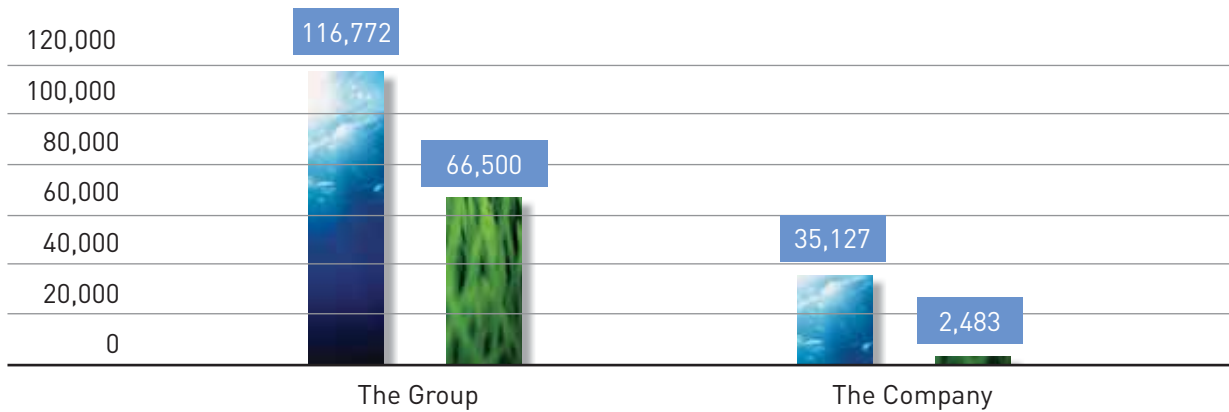
Total revenue in € thousand



Net sales revenue in € thousand



EBIT in € thousand

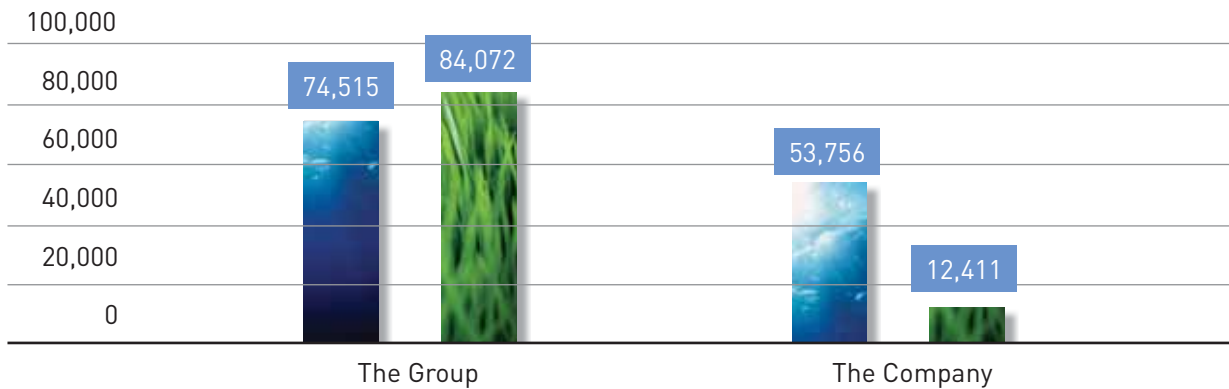


2008



2007

Net profit or loss in € thousand

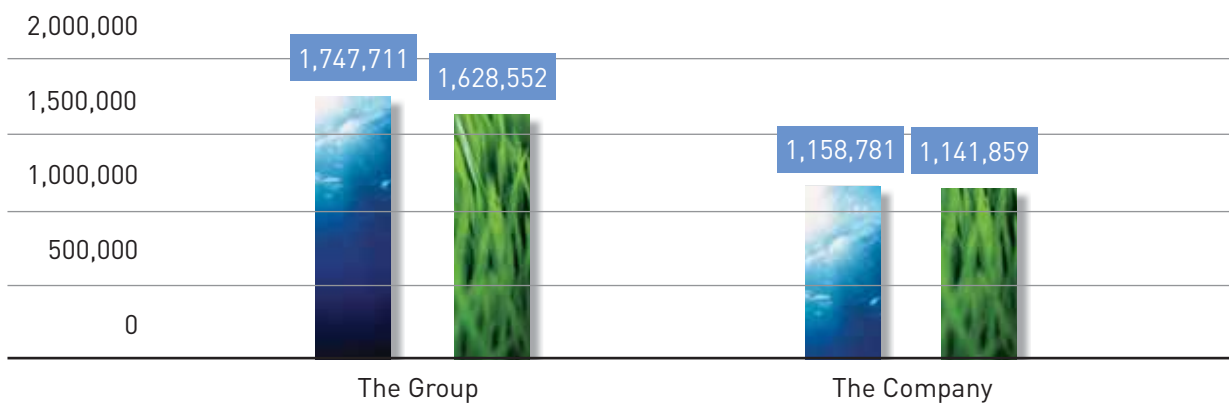


2008



2007

Assets in € thousand

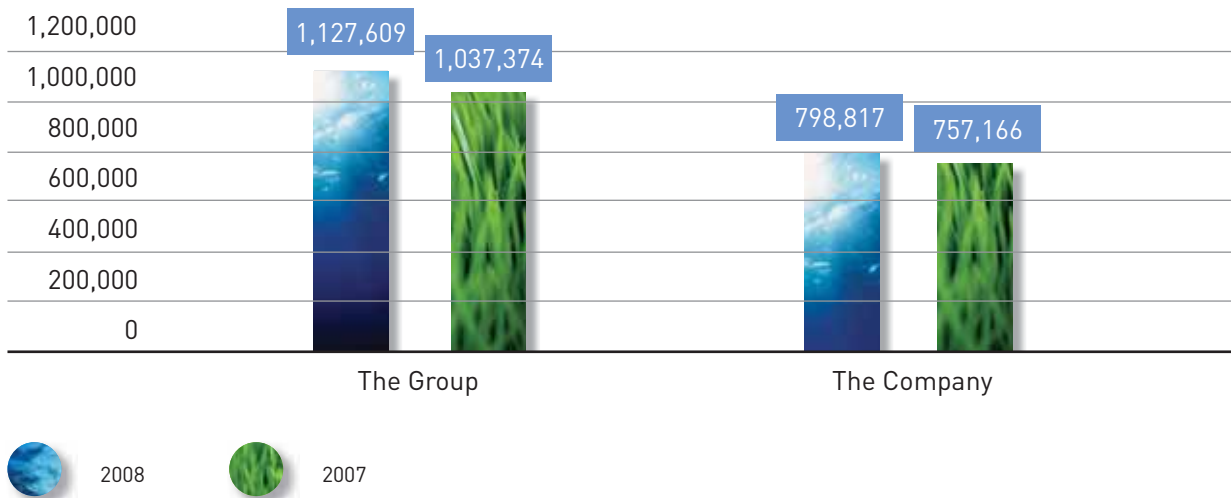


2008

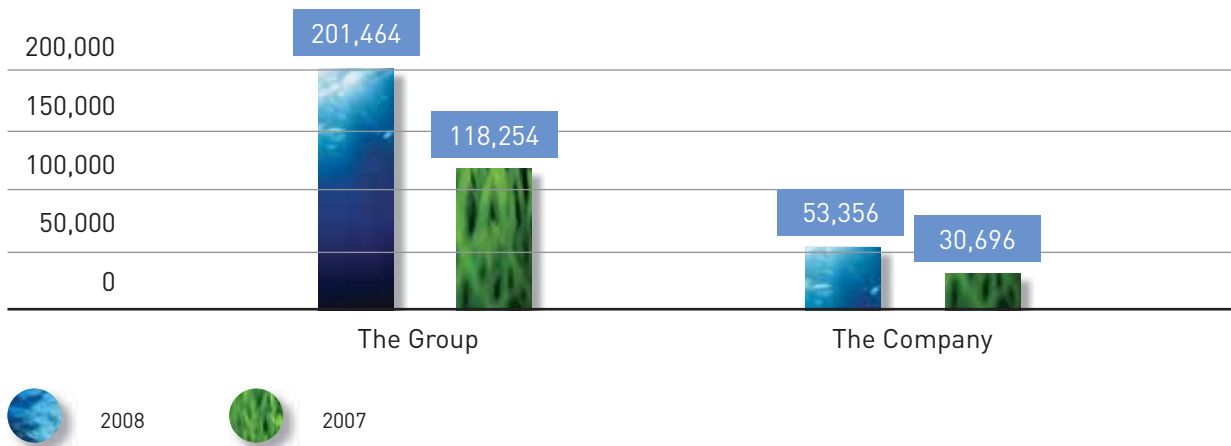


2007

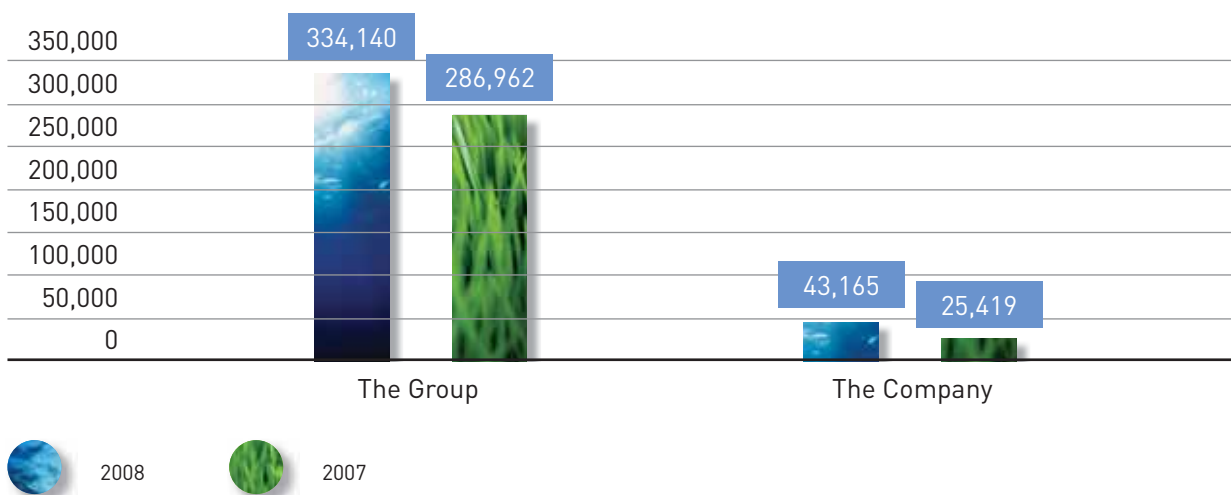
Equity in € thousand



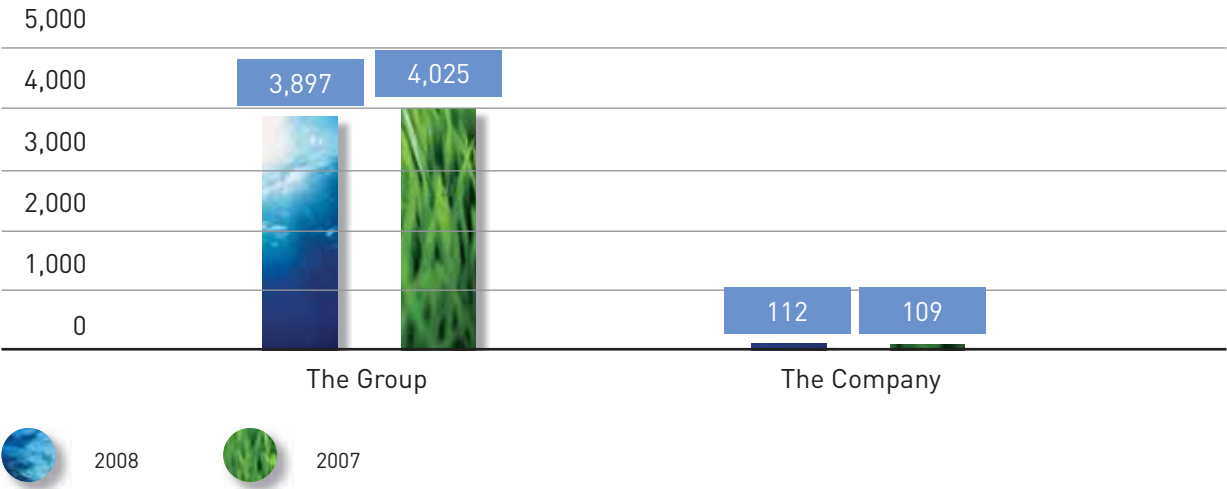
Cash flows from operating activities in € thousand



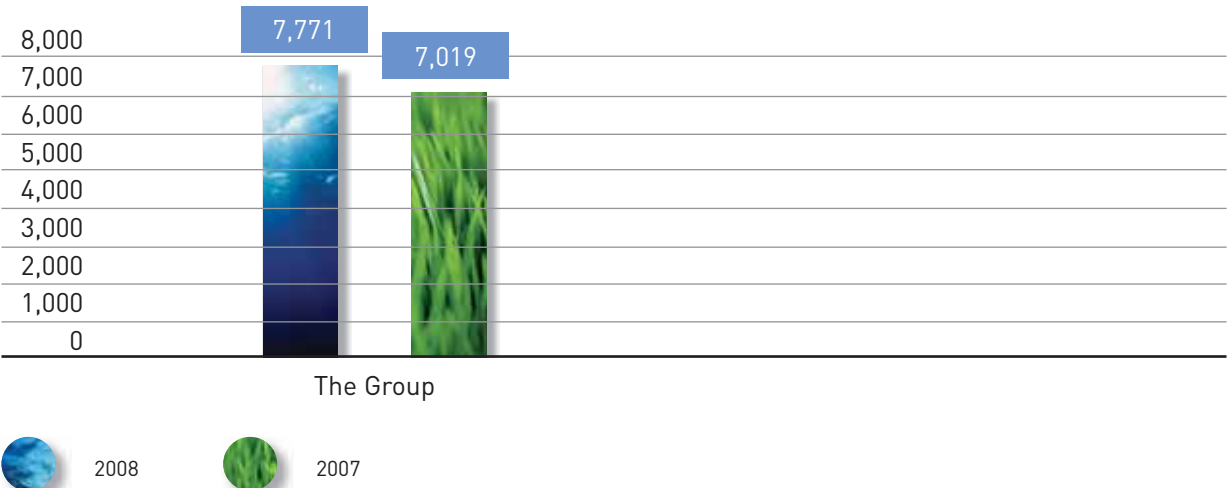
Added value in € thousand



Employees



Production of HSE Group companies in GWh



1.2 Letter from the management

We meaningfully entered the year 2008 with the number eight turned on its side – the symbol of infinity, which is in a way connected with us. Namely, it is connected with electricity, a limited resource, which nevertheless is permanent, irreplaceable and has a future. In many respects it is infinite.



Milestones and building blocks of infinity

The year 2008 was also concluded with an open end: projects, plans and opportunities, which granted are not infinite, but long-term and lasting. Such that they simply cannot be presented in a single annual report nor can a line be drawn under them. Everything we

started in the past year – and the years before – we are still bravely continuing today. The growth, development and expansion of Holding Slovenske elektrarne, one of the largest Slovene electricity producers and traders, are based on successfully set goals and on capable, motivated employees who can and want to deliver results. In spite of the stringent operating conditions, the 2008 operating results again exceeded the set goals and expectations. They are presented fur-

ther in this Annual Report. What was it that ultimately translated into success and how did we achieve the desired result?

Without a doubt this is hugely owing to HSE's activities in international electricity trading, which is our core activity. Successful trading is further boosted by a widespread network of companies, representative offices and branch offices of HSE abroad, enabling us to establish important business contacts and find the paths through which electricity can be transported, with benefits for both parties: the seller and the buyer. Naturally, we are investing in new production capacities, which will ensure successful operations in the long run. Namely, we are aware that having our own production sources is a key competitive advantage, and electricity should mainly be produced in-house. In 2008 our investments again focused on modernisation of our existing thermal energy and hydro energy capacities and the construction of new energy facilities, whereby we will upgrade the already good structure of production sources and ensure that all our sub-systems are competitive in the long run. Of particular importance for the HSE Group is further investment in the priority project involving the construction of Unit 6 at Termoelektrarna Šoštanj, which in the past year received much of our attention as well.

Of course, along with the above, we foster a positive attitude toward the wider community that we operate in. The nature of our activity is to be as environmentally friendly as possible. But not always. Therefore, we pay a lot of attention to new, "green" and alternative energy sources, and to the application of new technologies through specific pilot projects. Blue Energy celebrated its fourth birthday in 2008, servicing more than 2,000 loyal customers, to whom it matters what kind of environment we leave behind for future generations. In addition to production-oriented projects, we invest in projects whose effect should be observed in reduced costs of maintenance, operation and environmental care. In 2009 we thus continue investing in the construction of a hydro power plant on the lower Sava River, a project whose concession was transferred to a new company by HSE in 2008, but in which HSE nevertheless remains an important player, and the construction of PSP Avče and Kozjak. There is yet another great challenge ahead of us: the construction of hydro power plants on the central Sava River, for which HSE already won the concession in 2008. We are waiting for

the concession agreement to be signed. With this project HSE will continue the construction of production capacities using renewable energy sources, which is consistent with the sustainable electricity consumption objective and the National Energy Programme as well as the requirement to increase the share of electricity produced from renewable energy sources.

The period which the Slovene electricity production industry is entering along with the entire Slovene economy is uncertain. The end of 2008 was marked by the global financial and economic crisis, which is still present and will be impossible to completely avoid in the long run. We already know for certain that the operating strategy of the HSE Group is outlined so that the crisis and stringent conditions on the global energy markets do not jeopardise our long-term goals – and will not, as long as we act with due diligence in all operating segments. We are certain that is something we know how to do, as we have proven numerous times that our actions are not merely focused on market penetration, but also on rational business management. The combination of the two is what guarantees our future and within it business success to infinity. The infinity of knowledge, experience, willpower, motivation and loyalty of all those who contributed to this year's Annual Report once again portraying our excellence. Strategic, operational and financial.

That is why we want to sincerely thank you, our owners, for helping us find the right paths and methods to achieve our goals in 2008. And our employees, for the knowledge and willpower to transform these goals into figures, evolve building blocks into projects and attach a reputation to the name of HSE. We also thank our business partners for trusting us and choosing us. Without any of you, infinity would be merely a word on paper, instead of a notion that gains new dimensions every year. Infinite dimensions.



Viljem Pozeb, M.Sc.
Managing Director of HSE



Jože Zagožen, Ph.D.
Managing Director of HSE

Ljubljana, 31/03/2009

1.3 Report of the Supervisory Board

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

- the method and extent of the examination of the company's operations in the financial year 2008,
- the examination and confirmation of the annual report of the company HSE and the HSE Group for 2008,
- the examination of the proposal for the allocation of accumulated profit,
- the Supervisory Board's position on the auditor's reports.

Until 14/10/2008, the company's Supervisory Board was comprised of Alojz Stana, M.Sc. (president), Andrej Aplenc, M.Sc. (vice-president), France Križanič, Ph.D., Franc Bogovič, Franc Ervin Janežič and Janez Požar, all serving as owner's representatives. The members Boštjan Jančar, Branko Sevčnikar and Miran Božič served as employee representatives until 01/10/2008.

On 14/10/2008, the Government of the Republic of Slovenia, being the company's founder, relieved France Križanič, Ph.D. and Franc Bogovič of their posts as Supervisory Board members, replacing them with Silvester Jeršič and Viktorija Komavec, M.Sc., for the period until the end of their predecessors' term of office. The employee representative Branko Sevčnikar was replaced by Silvester Medvešček on 01/10/2008.

Until the end of 2008, the Supervisory Board consisted of the following members:

- owner's representatives: Alojz Stana, M.Sc. (president), Andrej Aplenc, M.Sc. (vice-president), Franc Ervin Janežič, Janez Požar, Silvester Jeršič, Viktorija Komavec, M.Sc.;
- employee representatives: Boštjan Jančar, Miran Božič and Silvester Medvešček.

Until 14/10/2008, the Supervisory Board's audit committee was comprised of the Supervisory Board members Franci Križanič, Ph.D. (president), Alojz Stana, M.Sc., Andrej Aplenc, M.Sc., and Branko Sevčnikar, as well as of Alenka Podbevšek, who was appointed to

the audit committee as an independent expert in the field of accounting and taxes, in accordance with Article 280 of the Companies Act.

Because of the end of Branko Sevčnikar's term of office as a Supervisory Board member, his appointment to the audit committee also ceased to be effective. That is why the Supervisory Board appointed Boštjan Jančar to the audit committee on 14/10/2008. Because of the end of France Križanič's, Ph.D. term of office as a Supervisory Board member, his appointment as member and president of the audit committee also ceased to be effective. That is why the Supervisory Board appointed Franc Ervin Janežič to the audit committee, nominating him chairman of the committee.

Until the end of 2008, the audit committee had the following members:

- members of the Supervisory Board: Franc Ervin Janežič (chairman), Alojz Stana, M.Sc., Andrej Aplenc, M.Sc., and Boštjan Jančar;
- independent expert in the field of accounting and taxes in accordance with Article 280 of the Companies Act: Alenka Podbevšek.

Monitoring and supervision of the company's operations

The company's Supervisory Board held twenty-five meetings in 2008, of which thirteen were regular meetings and eleven were correspondence meetings. In addition to obtaining information about the company's operations and discussing legal transactions requiring its preliminary approval, the Supervisory Board was also brought up to date in all areas that significantly affect the company's long-term interests, the implementation of its development strategy and socially responsible improvements to its economic efficiency.

In accordance with Article 17 of the Articles of Incorporation, the company's management needs to seek a preliminary approval from the Supervisory Board to enter into any legal transaction exceeding EUR 2,955,000 in value, which also includes electricity trading transactions. Because these transactions are concluded on a daily basis, a large number of Supervisory Board meetings were required to enable the company to operate smoothly. On 22/12/2008, the president of

the company's Supervisory Board addressed to the Government of the Republic of Slovenia, which is the legal representative of the Republic of Slovenia, a written proposal to amend the company's Articles of Incorporation by excluding electricity trading transactions and related transactions from the limitations under Article 17. This amendment would enable the company's management to work smoothly and without interruptions as well as decrease the burden on the Supervisory Board, which would no longer have to consider preliminary approvals so frequently. The company's Supervisory Board and management have sought and will continue to seek to establish such a comprehensive trading risk management model that would provide the same quality of control while decreasing the number of Supervisory Board meetings required. The Supervisory Board adopted the electricity trading risk management model at its meeting held on 18/02/2009, while the amendments to Article 17 of the Articles of Incorporation were adopted on 04/06/2009.

The meetings of the Supervisory Board were attended by management members Jože Zagožen, Ph.D. and Damijan Koletnik, who was replaced by Viljem Pozeb on 28/06/2008.

Important matters and issues discussed by the company's Supervisory Board in 2008 are presented below:

- the Supervisory Board adopted the business plan of HSE d.o.o. for 2008;
- it was acquainted with the interim unaudited financial report of the company for the year 2007 and supported the management's proposal that half of the net profit for 2007 should be allocated to other revenue reserves;
- it confirmed the annual report of the company HSE and the HSE Group for 2007 together with auditor's reports;
- it discussed the materials for the company's General Meeting and approved the management's decisions prepared for the founder;
- it proposed to the founder that the auditing company Deloitte revizija d.o.o. should be appointed to audit the financial statements and the annual report of the company HSE and the HSE Group for the years 2009 and 2010;
- it was informed of the basis for the preparation of the company's business plan and of the procedures for the preparation of the 2009 business plans of HSE group companies;
- it approved the proposal of the company's manage-

ment to carry out a public call for applications for the position of the company's managing director and management member, appointing to this end a four-member selection committee which monitored the activities related to the call for applications. Based on the presentations by all candidates, it appointed Viljem Pozeb, M.Sc., as the company's managing director and management member;

- it adopted amendments to the Rules governing the work of the company's management and the Rules governing the work of the company's Supervisory Board, and the consolidated text thereof;
- it discussed periodic reports on the operations of the company and the group, and was also acquainted with how the HSE's international network functions;
- it was informed about the projects for the construction and refurbishment of HSE Group's production facilities;
- it discussed and approved the EUR 15,794,000.00 increase in the capital of Termoelektrarna Šoštanj d.o.o.;
- it was acquainted with and approved the process of transforming the joint venture for the construction of HPPs on the lower Sava River into the company Hidroelektrarne na Spodnji Savi d.o.o.;
- in accordance with provisions of the Articles of Incorporations, it discussed and issued preliminary approvals for trading and other legal transactions and for the establishment of new companies and branch offices;
- it was acquainted with the strategy for selling the energy produced and with the comprehensive trading risk management model, and also approved the model;
- it was acquainted with development projects of HSE Group companies and instructed the management to complete them;
- it approved the signing of the contract for a EUR 74 million long-term loan from the EIB to finance HPP Blanca and HPP Krško, and issued preliminary approvals for short-term deposits of surplus cash made subject to observing the principle of the diversification of deposits with individual banks.

In 2008 the Supervisory Board's audit committee held twelve regular meetings and one extraordinary meeting at which it discussed the matters prescribed by law as well as the following issues and matters for which it is responsible in accordance with the special decisions of the Supervisory Board: technical and financial information in connection with the projects for

the construction and refurbishment of HSE Group's production facilities, Rules governing the work of the company's management, Rules governing the work of the company's Supervisory Board, strategy for selling the energy produced and the comprehensive trading risk management model.

Owing to the company's strategy to intensify its presence in the energy market and the changed market conditions, the work of the Supervisory Board and audit committee was extensive in 2008. The Supervisory Board estimates that the reports, information and analyses prepared by the management were appropriate and accurate, and they were also further explained by the management, or occasionally by preparers, at the meetings. The Supervisory Board thus obtained the necessary insight into all important areas of operations, enabling it to perform, without interruptions, its functions of monitoring and controlling the handling of transactions and operations of the company within the scope of its powers and competences laid down in the Articles of Incorporation.

Examination of the annual report and position on the audit report

From the independent auditor's report on the 2008 annual report it is evident that the financial statements present fairly, in all material respects, the financial position of the company and its financial performance and cash flows for the year 2008. Based on the examination of audit reports, the assessment of the Supervisory Board's audit committee and explanations given at the Supervisory Board meeting, the Supervisory Board of the company HSE raised no objections to the audit reports. Given the regular monitoring of HSE's operations, unqualified audit opinions, good operating results of the company HSE and the HSE Group, and exceeded business plan for 2008, the Supervisory Board of the company HSE, in line with its competences and after the final examination, raised no objections to the annual report of the company HSE and the HSE Group for the year 2008 and confirmed the annual report on 10/06/2009.

At its meeting held on 10/06/2009, the Supervisory Board was also informed of the convening of the com-

pany's General Meeting and examined the proposal for the allocation of accumulated profit as determined in the annual accounts.

Determination and proposed allocation of accumulated profit


The company Holding Slovenske elektrarne d.o.o. ended the financial year 2008 with a net profit of EUR 53,756,215.01.

At its 38th regular meeting held on 18/02/2009, the Supervisory Board agreed with the management's proposal that half of the net profit of EUR 26,878,107.50 should be allocated to other revenue reserves already during the preparation of the financial statements for the year 2008.

The remaining net profit represents the accumulated profit for the year 2008 and amounts to EUR 26,878,107.51.

Based on the strategic objectives and investment policy, the Supervisory Board of HSE d.o.o. agrees with the management's proposal submitted to the founder that the entire accumulated profit of EUR 26,878,107.51 should be allocated to other revenue reserves. Further on, the Supervisory Board proposes to the General Meeting that a discharge from liability should be granted to the management and the Supervisory Board as regards the operations in the year 2008.

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



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

Ljubljana, 10/06/2009

1.4 Chronology of major events in the HSE Group in 2008

January

- The Supervisory Board of HSE adopted the business plan of HSE for 2008.
- At HPP Zlatoličje, DEM installed a new driver, around a 90-tonne component of the new turbine, which was by means of a special lift lowered to the lower part of the turbine 2 shaft. This installation is one of the most demanding and important renovation phases of this turbine in the largest Slovene HPP.
- After concluding the contract to sell and purchase SEL's interest in a joint venture, GEN energija joined the joint venture for HPP construction on the lower Sava River.
- TEŠ started combusting wood biomass, which will contribute to the fulfilment of the EU requirements related to greenhouse gas emissions and the produced primary energy from renewable energy sources.
- DEM and the Austrian company KELAG signed the Data Exchange Agreement referring to mutual energy impacts on account of an upgrade of the pumping unit for pumping water from the Drava River to the reservoir lake of HPP Golica in the Koroška region in Austria.

February

- The Supervisory Boards/General Meetings of subsidiaries adopted the business plans of DEM, SENG, TET, PV and HSE Invest for 2008.
- At the end of February, the Minister of the Environment and Spatial Planning, Janez Podobnik, and his colleagues inspected the entire construction site next to the reservoir of HPP Blanca and the dam facility.
- DEM selected the company HSE Invest as the lead designer and manager of construction investment engineering at PSP Kozjak and of the transmission line between the pumped storage plant and DTS Maribor.
- Articles of Association were signed on the foundation of Hidroelektrarna na Spodnji Savi d.o.o. (HESS).
- SENG obtained a partial building permit for the construction of the connecting transmission line and 110 kV cable line for PSP Avče.



March

- Three contracts were signed with designers on the production of project and technical documentation for the NPP Krško reservoir.
- The 11th Strategic Conference of the PV Group took place.

- SENG acquired the building permit for the gravel barrier on the Soča River above HPP Doblar.

April

- On 4 April, DEM started the completely renovated driver of turbine 2 at HPP Zlatoličje for the first time.
- Thorsten Diercks, Ph.D., Secretary General of the European Association for Coal and Lignite – Euracoal came to the Šalek Valley in early April for a two-day visit. He visited PV and TEŠ, and learned about the technological achievements and plans of both companies.
- DEM was ranked second among the TOP 101 Slovene companies in 2007 based on two indicators: added value per employee and the operating profit/operating revenues ratio.
- After replacing the hydro-mechanical and electrical equipment, SENG began trial operations at SHPP Jelenk.

May

- The Supervisory Board of HSE approved the Annual Report of the Company and the HSE Group for 2007.
- The members of the HSE Supervisory Board appointed Viljem Pozeb, M.Sc., the then Assistant Director, new director of the company. Together with Jože Zagožen, Ph.D., he constitutes the HSE management.
- DEM celebrated the 90th anniversary of HPP Fala.
- TEŠ held a ceremonial opening of the first 42 MW gas turbine for producing electricity and introduced natural gas in addition to coal.
- SENG signed a contract on BPP, PT and WEP documentation for the reconstruction of HPP Doblar 1, phase II.
- The company TEŠ gained accreditation from the coal and desulphurisation testing laboratory.
- PV created the Energy Office, tasked with constant care for rational and optimal use of energy in the PV Group.
- TEŠ adopted the 2008 Business Plan.

June

- An annex was signed to the Concession Contract on utilisation of the energy potential of the lower Sava River, enabling the transfer of the concession right to HESS.
- TEŠ signed a contract on the supply of main 600 MW technological equipment for Unit 6.

- In co-operation with partners from the Pomurje region, DEM founded the Pomurje Development Institute (PRI), which is, in addition to expert tasks, also assigned an important role in bringing the project for constructing an HPP on the Mura River closer to the interested public.
- After the reconstruction of HPP Ajba1 and successful initial trial start-up, SENG successfully passed the technical inspection.
- HSE increased the capital of the subsidiary TEŠ to € 15,794,000.
- PV hosted the international workshop "Mine Greenhouse Gases CO₂ and CH₄ – Safety, Prevention, Management and Utilisation".
- PV organised events on Miner's Day. At the 48th "Jump over the skin", 51 novices took on the mining profession and the honorary jumper was Uroš Rotnik, Ph.D., Managing director of TEŠ. Moreover, the best colleague and working group were announced.

July

- The subsidiary HSE Bratislava was established in Slovakia on 23 July 2008.
- On 1 July 2008, the joint venture was transferred to the newly founded company HESS.
- The General Meeting of HSE Invest re-appointed the current members of the Supervisory Board for another 4-year term, as their term of office expired.

August

- PV witnessed a record daily progression entailing an 8.5-metre G2/B excavation in the northern branch of the Preloge pit.
- HESS became a concessionaire on the lower Sava River.
- As the sole owner of DEM and TEŠ, HSE passed a resolution of the payment of accumulated profit in the amount of € 24 million for DEM and € 2.8 million for TEŠ.

September

- HSE drew a long-term loan from the EIB in the amount of € 74 million, granted for financing the investments in HPP Blanca and HPP Krško for the period of 20 years.
- The company Hidro Moćnost Makedonija d.o.o., in which HSE holds a 33% stake, was founded in Skopje on 16 September 2008.

- TET organised a celebration on the 40th anniversary of the 125 MW unit.
- TEŠ successfully synchronised the second 42 MW gas turbine.
- The HSE Group sees great potential for Slovene mining knowledge to penetrate SE Europe. As a result of looking for new business opportunities, PV applied to the international tender for knowledge transfer, start-up of new production and introduction of new technology in the Mramor coalmine in the framework of the Kreka coalmine in Tuzla, Bosnia and Herzegovina. In September, the Mramor coalmine celebrated the start of trial operations.

October

- The Government of the RS acknowledged the Annual Report of the Company and the HSE Group for 2007 and granted a discharge from liability to the management and the Supervisory Board of the company for the 2007 financial year.
- Viktorija Komavec, M.Sc., Silvester Jeršič and Silvester Medvešček became new members of HSE's Supervisory Board.
- At a ceremony in the scope of the 11th Conference on Human Resources Management, SENG was awarded second prize for the best HRM project in 2008, namely the "Project for combining hydro power plant teams on the Soča River". The prize recognises SENG's innovative practice for connecting the organisation and training of employees for transition to new working methods.

November

- The General Meeting of TEŠ appointed Jože Zagožen, Ph.D., new member of the Supervisory Board.
- On 12 November 2008, at 10 a.m., PV for the first time in the history of Slovenia and, according to data from the Guinness Book of Records, for the first time in the world, broadcast live the longest excavation ever, 210 metres. The longest excavation in the history of the coalmine is important as it will provide the necessary quantity of competitive coal in the long run, reduce excavation losses and optimise the technological coal extraction process as well as offer great streamlining possibilities for the production process.

December

- The Government of the RS passed a decision to bring



the share capital and founding stakes of HSE in line with the amounts recorded in the Companies Register, and adjusted the wording of the company's Articles of Association with Companies Register.

- The General Meeting of DEM appointed Viljem Pozeb, M.Sc., and Ladislav Tomšič, M.Sc., new members of the Supervisory Board.
- Tomaž Štokelj, Ph.D., and Irena Stare became new supervisors at SENG.
- In 2008 TEŠ supplied 3,850 GWh of electricity to the network, thus recording the second highest production in the entire history of TEŠ. More electricity was generated only in 1983, i.e. 4,077 GWh.
- DEM also generated a record amount of electricity in 2008, namely 2,565 GWh, which was 19% more than planned.



02 Business report

76 is the percentage of the increase in the HSE Group's operating profit, which stood at € 117 million at the end of 2008. Growth, development and expansion of HSE, the leading Slovene electricity producer and trader, rely on ambitious goals and competent, motivated employees who aim to achieve them.

2.1 The controlling company

2.1.1 Profile of the controlling company

The Government of the Republic of Slovenia adopted the Articles of Incorporation of the limited liability company Holding Slovenske elektrarne d.o.o., which 100% owned by the Republic of Slovenia, at its 38th meeting held on 26 June 2001.

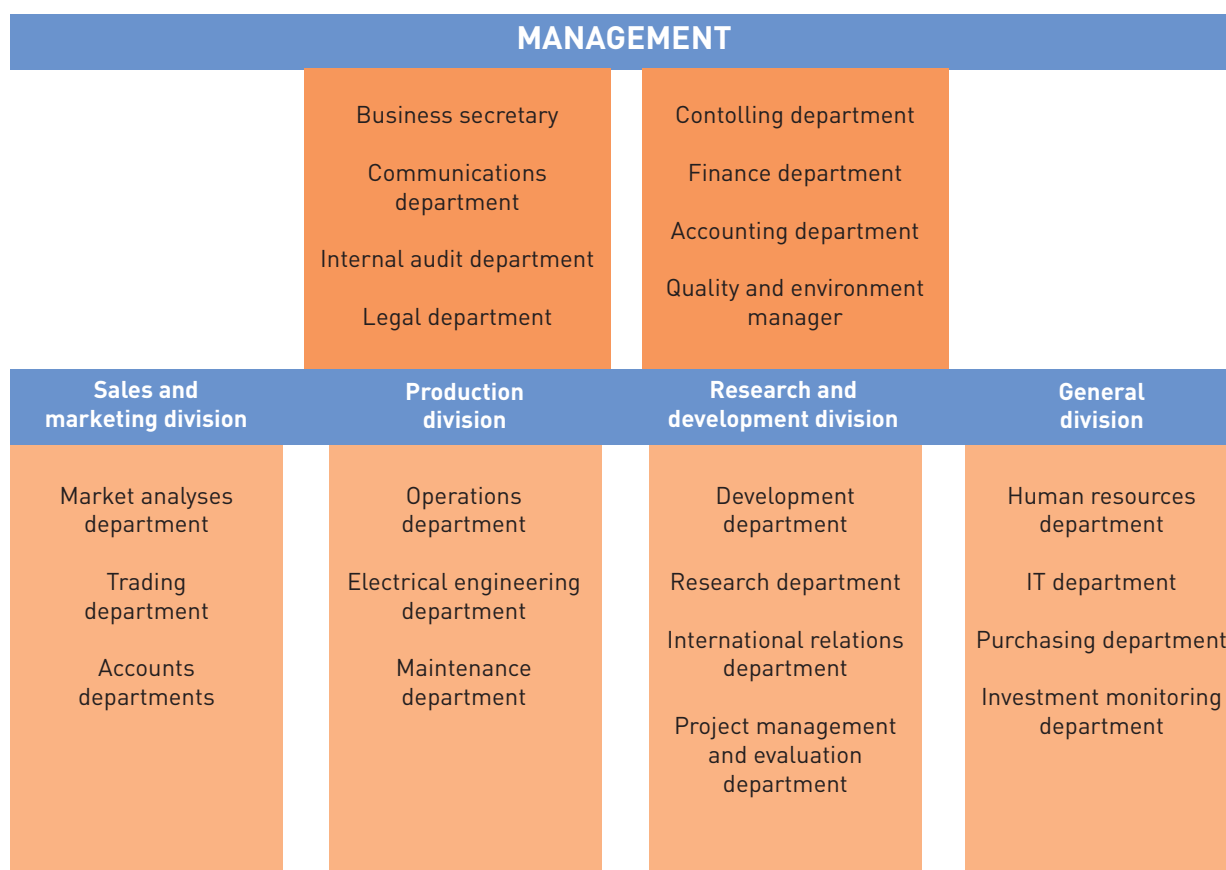
The holding company was established to ensure a uniform market appearance of its companies in the area of electricity sales, to improve the competitiveness of Slovene production companies, and carry out the project for the construction of hydropower plants on the lower Sava River.

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, Slovenija
Telephone	01 470 41 00
Fax	01 470 41 01
Entry No.	1/35036/00, registered with the District Court in Ljubljana
Nominal capital	29,558,789.00 €
Size	large company
Ownership structure	100%, 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
Tax number	99666189
VAT ID number	SI99666189
Registration number	1662970
Main activity	35.140 Electricity trading
Website	www.hse.si
E-mail	hse@hse.si; info@hse.si
The company's management	Jože Zagožen, Ph.D., Viljem Pozeb, M.Sc.
President of the Supervisory Board	Alojz Stana, M.Sc.

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 and Nova Gorica. Its business functions are divided depending on where various advantages can best be used. The management, sales and marketing division, research and development division, general division, and the departments of internal audit, communications, legal affairs, controlling, finance and accounting are located in Ljubljana. The production control, investment management and telecommunications centre is in Maribor. The business establishment in Velenje is responsible for the domestic market, trade relations between group companies, monitoring and calculation of deviations, long-term planning and electricity accounts. The establishment in Nova Gorica is responsible for foreign markets.



2.1.3 Management of the controlling company

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

Governing bodies of the controlling company as at 01/01/2008

GENERAL MEETING	SUPERVISORY BOARD	AUDIT COMMITTEE	MANAGEMENT
Company members Republic of Slovenia (100% stake)	Owner's representatives Alojz Stana, M.Sc. (president) Andrej Aplenc, M.Sc. (vice-president) France Križanič, Ph.D. Franci Bogovič Franc Ervin Janežič Janez Požar Employee representatives Branko Sevčnikar Miran Božič Boštjan Jančar	France Križanič, Ph.D. (chairman) Alojz Stana, M.Sc. Andrej Aplenc, M.Sc. Branko Sevčnikar Alenka Podbevšek (external member)	Jože Zagožen, Ph.D. Damijan Koletnik (until 27/06/2008)

Governing bodies of the controlling company as at 31/12/2008

GENERAL MEETING	SUPERVISORY BOARD	AUDIT COMMITTEE	MANAGEMENT
Company members Republic of Slovenia (100% stake)	Owner's representatives Alojz Stana, M.Sc. (president) Andrej Aplenc, M.Sc. (vice-president) Silvester Jeršič Viktorija Komavec, M.Sc. Franc Ervin Janežič Janez Požar Employee representatives Silvester Medvešček Miran Božič Boštjan Jančar	Franc Ervin Janežič (chairman) Alojz Stana, M.Sc. Andrej Aplenc, M.Sc. Boštjan Jančar Alenka Podbevšek (external member)	Jože Zagožen, Ph.D. Viljem Pozeb, M.Sc.

To ensure even greater transparency of operations of the company HSE and the HSE Group, the company's Supervisory Board appointed at its 5th regular meeting of 9 June 2006 an audit committee which was charged with the following tasks:

- to review periodic reports and prepare opinions,
- to review the annual report of the company HSE and

- the HSE Group and prepare opinions,
- to cooperate with auditors during the audit of the financial statements and annual reports of the company HSE and the HSE Group,
- to carry out other tasks proposed by the Supervisory Board.

2.1.4 Corporate governance statement

The managing directors of the company HSE declare that the company has been managed in accordance with applicable legal standards and the Articles of Incorporation of the limited liability company Holding Slovenske elektrarne d.o.o., which were adopted by the Republic of Slovenia as the founder and sole member of Holding Slovenske elektrarne d.o.o., as well as in conformity with good business practice.

As laid down in the Articles of Incorporation, the company is managed directly through the founder and company bodies, i.e. the Supervisory Board and the management.

The founder independently decides on the following matters:

- 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 confirmed 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,
- granting a discharge from liability to the management and the Supervisory Board,
- division and termination of ownership interests,
- changes in the nominal capital of the company,
- status changes and dissolution of the company,
- election and dismissal of members of the company's Supervisory Board,
- appointment of auditors,
- appointment of procurators and other authorised persons,
- other matters 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 nine members, of which six members represent the interests of the owner and are appointed and removed by the owner, while three members represent the interests of employees and are appointed under the Worker Participation in Management Act. Supervisory Board members are appointed for a term of four years and can be re-appointed when their term of office expires. Under

the Articles of Incorporation, the Supervisory Board has the following powers:

- it supervises the management of the company,
- it examines the structure of the annual report and the proposal for the allocation of accumulated profit,
- it prepares a report on the results of the examination of the annual report for the founder,
- it confirms the annual report or makes comments thereon,
- it gives an opinion on the business policy bases and development plan of the company,
- it approves the business plan of the company,
- it proposes to the founder the decisions falling within its area of competence or gives opinions on the proposals made by the management in connection with the decisions to be accepted by the founder,
- it appoints or removes the management,
- it concludes employment contracts with the management,
- it authorises the management to take decisions at the general meetings of subsidiaries when there are changes in the status or equity structure,
- it adopts the Rules governing the work of the Supervisory Board,
- it may request reports on other matters,
- it issues preliminary approvals for legal transactions such as acquiring, disposing of and pledging the shares and interests in subsidiaries, establishing or winding up other companies, branch offices and plants, acquiring, exchanging or pledging the property owned by the company, and any legal transactions exceeding 10% of the company's nominal capital other than electricity trading transactions executed via trading portals and commodity exchanges.

The Supervisory Board may also carry out other tasks laid down in regulations, the company's governing 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 and represented by the management, which is comprised of two members – managing directors. Managing directors are appointed by the Supervisory Board. After the expiry of their term of office, managing directors can be re-appointed. In accordance with provisions of the Articles of Incorporation,

the management represents and runs the company on its own responsibility in line with the goals, strategy and guidelines. The division of responsibilities for individual business fields between management members, the management's activities, competences and work and decision-making methods are determined in accordance with the rules governing the work of the management as adopted by the Supervisory Board.

As regards the financial reporting procedure, the company's internal control and risk management system focuses in particular on the following:

- identification of important business events which directly and significantly affect the financial reporting process;
- accounting categories, individual accounts and related processes;
- updating of records concerned with the performance of business processes;
- evaluation of results and elimination of weaknesses in the planned and existing internal controls.

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



Viljem Pozeb, M.Sc.
Managing Director of HSE



Jože Zagožen, Ph.D.
Managing Director of HSE

Ljubljana, 31/03/2009

26 was the number of HSE Group companies at the end of 2008. The HSE Group seeks to further maintain its leading role in the domestic market and take on a more prominent role in the markets of SE Europe. In light of these objectives, we constantly expand our network of group companies.

2.2 Profile of the HSE Group

The uniform market appearance of HSE Group companies provides improved competitiveness in the market, optimum use of production capacities given the existing market conditions, mitigation of negative financial effects of production shortfalls, more comprehensive supply of all types of electricity, fewer risks when entering into long-term contracts and better chances for penetrating foreign markets. Since its establishment, HSE has been a driving force in the development of the Slovene electricity industry, and through its constant growth and expansion to European markets it has been on a par with the largest and the best competitors in the industry.

Main activity of the Group

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 its activities can be grouped into the following main categories:

- production of electricity and heat,
- lignite extraction,
- electricity and heat sales and trading, electricity forward contracts, CO₂ emission coupons, RECS certificates and gas,
- optimisation of HSE Group's production,
- provision of ancillary services necessary for the operation of the electricity system,
- management and implementation of energy and environmental projects.

The Group's main activity is the production of electricity and electricity trading, which is why the HSE Group seeks to take advantage of the synergies associated with the wide spectrum of production capacities to maximise its operating efficiency. Because differ-

ent production units have different operational and cost characteristics, a more cost-effective electricity supply can be achieved through an appropriate combination of production units. And because electricity market prices fluctuate over time, the planning and optimisation of production units, while observing the technical criteria and conditions in the electricity market, is all the more important.

HSE Group

In 2008 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,
- Hidroelektrarne na Spodnji Savi, d.o.o.,
- Termoelektrarna Šoštanj d.o.o. with an associate,
- Termoelektrarna Trbovlje d.o.o.,
- Premogovnik Velenje d.d. with five subsidiaries and five associates,
- Plinsko parna elektrarna d.o.o. Kidričevo as an associate,
- 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 AD,
- Hidro Moćnost Makedonija d.o.o. as an associate,
- HSE Prague branch office,
- HSE Bratislava branch office,
- HSE Belgrade representative office,
- HSE Bucharest representative office.

A more detailed organisational chart of the HSE Group is provided in the introduction.

Companies excluded from the consolidated financial statements

The HSE Group subsidiaries Elprom d.o.o., Golte d.o.o., Jama Škale v zapiranju d.o.o. and SAŠA Inkubator d.o.o. are dormant companies and have not been consolidated either at the level of their controlling companies or at the Group level due to their immateriality. These companies are not material for a true and fair presentation of the Group's operations.

In 2007 the controlling company purchased a 100% stake in the Bulgarian company Toplofikatsia-Ruse AD, selling 49% of it in the same year. The company still holds 51% of voting rights for the remaining 51% stake, but because a higher majority is required in order for general meeting decisions to be valid, the company cannot make strategic decisions without the approval of the other owner. The same decision-making conditions also apply to the other owner. The controlling company has already reached an agreement with the other partner to transfer its 51% stake by the end of 2010, meaning that the controlling company no longer has a right to receive its share of profit. Due to the above facts, the company Toplofikatsia-Ruse AD has not been included in the consolidated financial statements. Also, the equity method was not used in connection with the above company in the consolidated financial statements for the same reason.

Although the company DEM has a 50% interest in the company Eldom d.o.o., the controlling company did not consolidate Eldom due to its material insignificance and the lack of a controlling influence on its operations. In 2008 DEM established a private institution called Pomurje Development Institute Murska Sobota. This institution is not considered a company, and because it is not significant from the perspective of the HSE Group, it is not consolidated either at the level of the controlling company or at the Group level.

Hydro production

Dravske elektrarne Maribor d.o.o. (DEM) 100.0 %



The company DEM is the largest Slovene producer of electricity from renewable sources and a centre for operational control of the HSE Group's overall elec-

tricity production. Its average annual output amounts to 25% of total electricity produced in Slovenia.

With eight hydropower plants on the Drava River and two small hydropower plants, the company produces as much as 80% of Slovenia's electricity, which satisfies the criteria set out for 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. is a subsidiary of DEM. The company's main activity is property management, organisation of meals in restaurants and management of holiday facilities for Slovenia's electricity industry.

Soške elektrarne Nova Gorica d.o.o. (SENG) 100.0 %



The company SENG ensures that the water potential of the Soča River, its tributaries and other renewable sources are optimally exploited while considering the environmental conditions and demands of users in the area. At the level of the HSE Group, the control centre in Nova Gorica is responsible for ensuring optimal and high-quality production at all power plants on the Soča River.

Elprom d.o.o. is a subsidiary of SENG. It was established for the purpose of trading in electricity. This is a dormant company.

Hidroelektrarne na Spodnji Savi, d.o.o. (HESS) 51.0 %



In 2003 the companies HSE, DEM, SEL, SENG and TEB signed a joint venture agreement for the construction of HPPs on the lower Sava River. The joint venture operated successfully within the HSE Group. The first hydropower plant, HPP Boštanj, was constructed within the deadline, and the construction of HPP Blanca and HPP Krško began as planned. To improve the transparency of investments, the venturers decided to transform the joint venture into a separate legal entity whose priority would still be the construction of the remaining HPPs on the lower Sava River. In December 2007, the venturers (HSE, DEM, GEN energija (which

joined the joint venture on 1 January 2008 to replace SEL), SENG and TEB) signed a letter of intent to establish the company Hidroelektrarne na Spodnji Savi (HESS) and transfer the joint venture to the new company. HESS was entered into the Companies Register on 1 April 2008. Because the venturers set 31/12/2007 as the cut-off date, all economic effects of the joint venture's operations have been attributed to the company HESS since 1 January 2008. The transfer of the joint venture's in-kind contribution (previous investments in the joint venture) to the company HESS was carried out on 1 July 2008 in the form of a capital increase.

The company members are as follows:	STAKE
Holding Slovenske elektrarne d.o.o.	51.0 %
Dravske elektrarne Maribor d.o.o.	30.8 %
Soške elektrarne Nova Gorica d.o.o.	2.8 %
Termoelektrarna Brestanica d.o.o.	2.8 %
GEN energija, d.o.o.	12.6 %

Thermal production

Termoelektrarna Šoštanj d.o.o. (TEŠ) 100.0 %



TEŠ is the largest production facility in the HSE Group. It produces approximately a third of energy in the country, and in critical periods it can meet more than half of the national demand. Besides electricity, it also produces heat which is then supplied to the major part of the Šalek Valley. The power plant, which uses lignite from the nearby Velenje coal mine as the basic fuel, has four production units and two gas turbines. In terms of its output, the operation of TEŠ is comparable to similar thermal power plants in Europe, but it exceeds their operating unit availability.

Termoelektrarna Trbovlje d.o.o. (TET) 81.3 %



TERMoeLEKTRARNA TRBOVLJE

TET is one of the two power plants in Slovenia which 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. The thermal power plant has three production units: a steam turbine unit, which uses brown coal from Zasavje coal mines as fuel, and two gas turbine units, which use extra light heating oil and serve as a backup for the Slovene energy system.

Plinsko parna elektrarna d.o.o. Kidričevo (PPE) 45.0 %

The companies HSE, Verbund and Talum established PPE to construct an 800 MW gas and steam power plant in Kidričevo. The project is currently in the pre-investment stage. The power plant is to be fitted with the latest technology that would ensure low NO_x emissions. Because natural gas will be used as fuel, the plant would also emit low CO₂ emissions, which is in conformity with international criteria for environment friendly operation required by the Kyoto protocol.

Primary sources

Premogovnik Velenje d.d. (PV) 77.7 %



PV is a technologically advanced coal mine which ranks among the top mines in Europe as far as equipment and safety are concerned. Its particularity – the “Velenje long wall method” – is known all over the world. Owing to its productivity, this method is the most efficient for extraction of thick coal layers, but it also enables filling and consolidation of the extraction area.

The quantity of the coal extracted by PV depends on 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 for mining, machinery and electricity purposes, construction of all types of underground structures, drilling, geomechanical research, cave surveying, hydrogeological and technological services. Modern equipment and high technical expertise of staff ensure the safety of employees and high productivity, which serves as a basis for a competitive price of coal and, consequently,

for competitively priced TEŠ electricity and competitiveness of the entire HSE Group.

Subsidiaries and associates of PV

HTZ I.P. d.o.o. is the largest disability company in Slovenia. It is engaged 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 coal mining devices. The company plays an important role in the training and employment of disabled persons.

PLP d.o.o. supplies the coal mine with timber products. To ensure maximum safety, the products supplied have to meet the highest quality standards.

PUP PV d.o.o. is engaged in cleaning and landscaping.

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 is also establishing itself as a centre for clean coal technologies.

Jama Škale v zapiranju d.o.o. was established for the purpose of closing down the Škale pit.

PV Invest d.o.o. The company is engaged in two major lines of business: investment and property business, and construction engineering business. The investment and property business comprises leasing and selling of apartments, business premises and garages, and the facilitation and co-funding of implementation of business ideas and enterprise development with surplus cash flows from property sales and leasing. The construction engineering business consists of extraction area development, investment engineering, cave surveying and geodesy.

RGP d.o.o. is engaged in the construction of head-race tunnels, shafts, underground garages and underground excavation as well as 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. was initially engaged only in the restaurant business and catering but has gradually expanded its activities to the area of tourism.

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

TRC Jezero d.o.o. aims to establish recognisable tourist and recreational facilities within the thermal water park in the area of the recreational centre that is being established on the degraded land of the Šalek Valley.

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

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

Golte d.o.o. The company Golte d.o.o., a winter and summer resort, was established in 2003. Its main activity comprises ski resort services. The company consists of four divisions: the technical division, which is responsible for the operation and maintenance of cable car facilities, the hotel as an accommodation facility, the restaurant and the tourist agency.

SAŠA Inkubator d.o.o. SAŠA inkubator, d.o.o. is a business incubator based in Velenje and operating in the Savinja and Šalek region (SAŠA). It is aimed at facilitating the establishment of new and accelerating the development of existing innovative businesses. By providing excellent services, the incubator aims to support individuals with good business ideas and enable them to develop their business faster and in a more successful way.

International network

HSE Italia S.r.l.

100.0 %

The subsidiary company HSE Italia provides support to electricity trading activities in the Italian market and acts as a link between HSE and its partners to facilitate potential investments in Italy. Before Slovenia's entry

into the EU, the company served as a basis for the establishment of balancing groups in the EU.

HSE Balkan Energy d.o.o. 100.0 %

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. 100.0 %

The company HSE Hungary helps establish links with the markets of central and eastern Europe, mainly with Poland, the Czech Republic and Slovakia. It is engaged in electricity trading.

HSE Adria d.o.o. 100.0 %

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

HSE Bulgaria EOOD 100.0 %

The subsidiary HSE Bulgaria was established to trade in electricity produced by the company Toplofikatsia-Ruse AD and to expand business operations to the markets of Greece, Macedonia and Romania.

Toplofikatsia-Ruse AD 51.0 %

By acquiring the company Toplofikatsia-Ruse AD, HSE increased the assortment of its production sources by 400 MW. Having its own production source in Bulgaria facilitates a quicker expansion of electricity trading volume in this part of the region and the transmission of electricity to Slovenia. Toplofikatsia-Ruse produces electricity, industrial steam and heat.

HSE Prague branch office

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. It also makes it possible to participate in auctions for the allocation of cross-border transfer capacities.

HSE Bratislava branch office

The Slovak branch office was established to participate in auctions for the allocation of cross-border transfer capacities on the Slovak and Hungarian border.

HSE Belgrade representative office

HSE's own representative office in Belgrade is one of the bases for the expansion of activities to the markets of former Yugoslavia and the wider area of SE Europe.

HSE Bucharest representative office

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.

Investments

HSE Invest d.o.o. HSE, DEM, SENG each 25.0 %

The company's most important activity is the management of development projects in pre-investment stages, construction of new and refurbishment of existing power plants. The company plays an important role in the construction of the chain of hydropower plants on the lower Sava River, the construction of PSP Avče, refurbishment of HPP Zlatoličje and in other major projects of the HSE Group.

Hidro Moćnost Makedonija d.o.o. 33.3 %

The company was established in 2008 by a consortium of RWE Power from Germany and HSE, which jointly responded to the Macedonian government's call for tenders to construct HPP Čebren and HPP Galište on the Crna River in Macedonia. The call requires the selected tenderer to establish a company together with ELEM, the Macedonian electricity producer, to construct the above HPPs. In November 2008, the Macedonian government decided to cancel the call for tenders without any explanation. In December 2008, a prequalification call for tenders was again published, but it did not differ from the call published in June 2006.

Multi-utility

Stelkom d.o.o. 19.0 %

Stelkom is a provider of telecommunication and connection services, and offers its services using the telecommunication infrastructure of companies from the electricity industry. The infrastructure is based on a widely distributed optical network of more than 2,500 km in total length.

2.2.1 Management of the HSE Group

Management bodies

The majority of subsidiaries are run by a single-member management or management board. The subsidiary HSE Italia is run by a three-member board of directors, while the companies HSE Hungary, HSE Adria

and HSE Bulgaria are run by a two-member management. The company Toplofikatsia-Ruse AD has a seven-member board of directors. Most companies are supervised by a three-member supervisory board.

DRAVSKE ELEKTRARNE MARIBOR D.O.O.		
Managing director		Damijan Koletnik
	As at 01/01/2008	As at 31/12/2008
Supervisory Board composition	Boris Novak Žan J. Oplotnik, Ph.D. Bojan Majhenič	Viljem Pozeb, M.Sc. Ladislav Tomšič, M.Sc. Marjan Kirbiš
Main activity		Hydro electricity production
SOŠKE ELEKTRARNE NOVA GORICA D.O.O.		
Managing director		Vladimir Gabrijelčič
	As at 01/01/2008	As at 31/12/2008
Supervisory Board composition	Viljem Pozeb, M.Sc. Niko Jurca Silvester Medvešček	Tomaž Štokelj, Ph.D. Irena Stare Silvester Medvešček
Main activity		Hydro electricity production
HIDROELEKTRARNE NA SPODNJI SAVI, D.O.O.		
Managing director		Bogdan Barbič
Supervisory Board composition as at 31/12/2008		Damijan Koletnik Martin Novšak Vladimir Gabrijelčič Nikola Galeša Janez Keržan, M.Sc.
Main activity		Hydro electricity production
TERMoeLEKTRARNA ŠOŠTANJ D.O.O.		
Managing director		Uroš Rotnik, Ph.D.
	As at 01/01/2008	As at 31/12/2008
Supervisory Board composition	Djordje Žebeljan, M.Sc. Franc Sever Franc Rosec	Djordje Žebeljan, M.Sc. Jože Zagožen, Ph.D. Franc Rosec
Main activity		Thermal electricity production
TERMoeLEKTRARNA TRBOVLJE D.O.O.		
Managing director		Marko Agrež, M.Sc.
Supervisory Board composition as at 31/12/2008		Uroš Rotnik, Ph.D. Borut Dolanc, M.Sc. Janez Balog
Main activity		Thermal electricity production

PREMOGOVNIK VELENJE D.D.

Managing director	Milan Medved, Ph.D.
Supervisory Board composition as at 31/12/2008	Simon Tot Vida Lorber Branko Mlinšek
Main activity	Mining and agglomeration of lignite

PLINSKO PARNA ELEKTRARNA D.O.O., KIDRIČEVO

Managing director	Branko Kožuh
Supervisory Board composition as at 31/12/2008	Metod Podkrižnik, M.Sc. Anton Smolak Zlatko Čuš, Ph.D.
Main activity	Other electricity production (in pre-investment stage)

HSE ITALIA S.R.L.

Board of directors as at 31/12/2008	Tomaž Štokelj, Ph.D. Viljem Pozeb, M.Sc. Damjan Lipušček
Main activity	Electricity trading

HSE BALKAN ENERGY D.O.O.

Managing director of the company as at 31/12/2008	Boris Mezgec, M.Sc.
Main activity	Electricity trading

HSE HUNGARY KFT.

	As at 01/01/2008	As at 31/12/2008
Managing director	Tomaž Štokelj, Ph.D.	Tomaž Štokelj, Ph.D. Irena Stare
Main activity		Electricity trading

HSE ADRIA D.O.O.

	As at 01/01/2008	As at 31/12/2008
Managing director	Tomaž Štokelj, Ph.D.	Tomaž Štokelj, Ph.D. Irena Stare
Main activity		Electricity trading

HSE BULGARIA EOOD

	As at 01/01/2008	As at 31/12/2008
Managing director	Drago Skornšek	Viljem Pozeb, M.Sc. Drago Skornšek
Main activity		Electricity trading

TOPLOFIKATSIA-RUSE AD

Managing director	Andrey Nikolaev
Board of directors of the company as at 31/12/2008	Georgiy Kutovoy (president) Irena Stare Tomaž Štokelj, Ph.D. Alexey Ivanushkin Valeriy Ovseychuk Victor Tolokolnikov Andrey Nikolaev
Main activity	Production and cogeneration of electricity and heat, transmission of heat

HSE PRAGUE BRANCH OFFICE

Head of Branch office as at 31/12/2008	Tomaž Štokelj, Ph.D.
Main activity	Electricity trading

HSE BRATISLAVA BRANCH OFFICE

Head of Branch office as at 31/12/2008	Tomaž Štokelj, Ph.D.
Main activity	Electricity trading

HSE BELGRADE REPRESENTATIVE OFFICE

Head of Representative office as at 31/12/2008	Boris Mezgec, M.Sc.
Main activity	Internationalisation of HSE's operations (expansion of operations in SE Europe)

HSE BUCHAREST REPRESENTATIVE OFFICE

Head of Representative office as at 31/12/2008	Drago Skornšek
Main activity	Electricity trading

HSE INVEST D.O.O.

Managing director	Miran Žgajner
Supervisory Board composition as at 31/12/2008	Irena Šlemic Alida Rejec, M.Sc. Jožef Hebar Drago Polak
Main activity	Other project engineering and technical consulting

HIDRO MOĆNOST MAKEDONIJA D.O.O.

Managing director of the company as at 31/12/2008	Eberhard Bulling
Main activity	Other business activities

Trade union activities and workers' council activities

Employees exercise their rights through trade unions, workers' councils and representatives in the Supervisory Board.

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.

Trade union activities

Trade union activities at DEM, SENG, TET and TEŠ are co-ordinated by Sindikat delavcev dejavnosti energetske Slovenije (SDE – the Slovene Power Sector Union), one of the strongest within Zveza svobodnih sindikatov Slovenije (ZSSS – the Association of Free Trade Unions of Slovenia), while at the companies HSE and HSE Invest activities are currently underway to establish union representation.

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 HSE's management as well as with the managing directors 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.

Operating within the HSE Group there are also the trade unions Neodvisnost and Sindikat pridobivanja energijskih surovin Slovenije (SPESS – Union of Coalminers), which is operates within the PV Group.

The actions of the SDE Coordination and other trade unions operating within the HSE Group have a cohesive function.

HSE Joint Workers' Council

HSE Group employees exercise their statutory right to participate in management through the workers' councils of individual companies. Among other things, the councils elect staff representatives to the Supervisory Board.

In 2008 a new agreement for the establishment of the Joint Workers' Council (JWC) for related companies was signed, which takes into account the recent changes and governs the areas that are necessary for the functioning of the JWC within the HSE Group.

2.3 Business policy of the HSE Group

Mission

The HSE Group's mission is to maintain its leading position in the domestic market and take a leading role in the markets of SE Europe as well as 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 ensure long-term competitive advantage of the Group in the global energy market and expand its business operations to create additional synergy effects for the Group and Slovenia as a whole.

Values

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

- satisfaction of service users,
- building responsible, long-term partnerships with business partners,
- environment protection and RES,
- achieving professional competence,
- continuous training and establishment of a motivating working environment for employees,
- providing secure and stable jobs and creative working environment,
- efficient operation and creation of profit for the owners,
- continuous improvement of the management system.

2.4 Strategic orientations of the HSE Group

European energy policy

With the adoption of the climate and energy package, the future European energy policy was given a formal legal framework at the end of 2008. To ensure sustainable future, the EU set itself the following binding goals for the period of up to 2020:

- to decrease the envisaged energy consumption by 20%,
- to increase the share of RES in total energy consumption to 20%,
- to reduce greenhouse gas emissions by at least 20%,
- to increase the share of biofuels to at least 10% of total motor fuel consumption.

New energy production methods will decrease the EU's dependence on the imports of fossil fuels, but oil, natural gas and coal will probably remain an important part of the fuel mix for a few more decades. The EU supports this energy policy through additional investments, extensive research and development funding, and development and transfer of new technologies into general use.

HSE Group's orientations

The HSE Group is facing a period in which adjusting to the European energy policy will be a priority strategic area of business.

Its conduct of business will have to be adapted to the changed legislative framework, structural challenges and rapidly changing market conditions. The latter are mainly affected by changes in the markets of SE Europe, Slovenia's and EU's increasing energy dependence on imports, and the calls for improved environmental responsibility.

Ensuring the production of electricity from RES and lowering greenhouse emissions in the production of electricity from fossil fuels play an important role in meeting the requirements of a sustainable energy policy. Such orientation of the production capacities of the HSE Group has already been laid down in the development plan of the HSE Group for the period 2006-2015.

The conditions brought about by the global financial and economic crisis require the HSE Group to reconsider its

investments in the new production capacities in light of changed electricity prices and devote even more attention to obtaining sufficient funds for the implementation of HSE Group's development projects. The basic guidelines for the future development are expected to be defined at the 6th Strategic Conference of the HSE Group in the first half of 2009, when the bases for supplementing the already adopted development plans will also be known.

A balanced combination of production sources with emphasis on RES, use of domestic energy sources and integration of the European energy market laid down in the third energy legislation package represent a foundation for the future strategic orientation of HSE's operations.

In implementing its business policy, HSE will continue to strive for maintaining the leading position of the HSE Group within the Slovene energy system, thus responsibly ensuring secure and reliable electricity supply in Slovenia. It will maintain the planned growth of the company's and group's operations to the extent and at the speed at which growth and development were pursued until now, and achieve operating results that will benefit all our key stakeholders: the owner, employees, business partners, and the community into which it is integrated.

2.5 Quality management system policy

The quality management system policy combines quality, environmental management and occupational health and safety. The management system manual complies with the standards ISO 9001:2000, ISO 14001:2004 and OHSAS 18001:1999.

The overall system is based on the following principles:

- responsibility for the execution of specific tasks and the related clearly established authorisations,
- responsibility for the achievement of objectives concerning quality, environmental management and occupational safety,
- each individual, irrespective of their position, is responsible for the implementation of objectives concerning quality, environmental management, occupational safety and information security in accordance with their responsibilities and authorisations.

2.5.1 Achieving objectives regarding quality

Our permanent objectives regarding quality are as follows:

- to meet customer demands,
- to achieve the strategic and tactical business objectives,
- to attain an optimal organisation structure and transparency of business operations,
- to operate in accordance with applicable regulations, and
- to exercise permanent control over the economic aspects of business to ensure successful performance.

The objectives set for the year 2008 were achieved. System procedures were amended and supplemented. The management system documentation was integrated into the ODOS computerised document system. The training of employees in the field of quality and organisation of work continued.

In the previous year, internal and external recertification audits were carried out and successfully completed, as was the external audit of RES production at DEM and SENG HPP chains against the criteria of EE TÜV 08/02 and RECS.

2.5.2 Achieving environment management objectives

The HSE Group is an environmentally conscious group, which provides its employees with a pleasant and healthy working environment and fosters good relations with its neighbours. Intensive efforts towards sustainable development are being made on the local as well as national level. The Group strives for a continuous improvement of working and living conditions of employees and population residing in the vicinity of HSE companies. For this reason, our environmental policy was harmonised with the requirements of the ISO 14001:2004 standard. In 2008 an internal recertification audit of environment protection was carried out and successfully completed based on the ISO 14001 standard.

The key objective of the environmental policy is to establish a permanent balance, which is achieved by the HSE Group by implementing preventive measures, preventing any environmental contamination, sharing responsibility and by including environmental management in individual business processes.

2.5.3 Achieving occupational health and safety objectives

Caring for the improvement of occupational health and safety conditions in the working environment while taking into account the specifics of processes of 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 in which we live and operate. For the HSE Group, compliance with relevant legislation represents merely a minimum level which is observed and supplemented with the requirements of the OHSAS 18001 standard.

After the internal and external recertification audit was carried out and successfully completed, the auditors determined that the area of occupational health and safety is managed in accordance with the standard.

2.5.4 Achieving information security objectives

In 2008 the progressive implementation of information security management measures continued in accordance with the ISO 27001 standard as follows:

- a basic questionnaire was drawn up for the purpose of gap analysis, and the gap analysis was carried out at TEŠ, which served as a model company. Because of the shared IT, this also largely concerns HSE;
- the core methodology for assessing risks in the area of information security was also prepared;
- the final inventory count of information resources was performed within individual systems at TEŠ and HSE;
- the procedures for the monitoring of events in the area of information security and business IT were

prepared, as were the methods for their classification based on changes, possible incidents and actual incidents, and for their appropriate allocation and resolution.

Work was carried out on the information centre back-up location, and a trial operation of the centre was launched.

The procedure for verifying the methodology for the introduction of the ISO 27001 standard at TEŠ was continued and all workers received data protection training.

2.5.5 Certificates obtained by HSE Group production companies

Open market conditions in the Slovene electricity market and especially in foreign markets necessitates certified quality in terms of system and environmental management, as well as an appropriate 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 be penetrated if products have been appropriately certified.

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

- EE TÜV Organisation for technical control of RES
- RECS Renewable energy certificate system
- HACCP Hazard analysis and critical control points
- Measurement laboratory standard
- USP S10 USP Institute learning enterprise standard

13,705

GWh of electricity were sold by the HSE Group on the domestic and foreign markets. Of these, 7,771 GWh were produced in the HSE Group, meaning that the Group has preserved the leading position among electricity producers in Slovenia.

2.6 Market position

2.6.1 Characteristics of the economic environment in 2008¹

In 2008 the international financial crisis deepened, which led to the projected risk of a slowdown in economic growth becoming a reality. Data about domestic activity and mainly the indicators of expected trends reveal that the changes in the international environment were, through smaller demand and significantly more stringent financing conditions, transferred to the Slovene economy.

4.1% economic growth

Primarily on account of poorer conditions in the international environment, estimated economic growth in 2008 was 4.1%, which is 2.7% less than in 2007 (6.8%). GDP at current prices was € 37,403 million in 2007 or € 18,329 per capita.

Real growth in exports decreased and imports increased

Real growth in exports for 2008 is estimated at 5.8%, whereas in 2007 it stood at 13%. Real growth in exports decreased compared to 2007 due to a drop in foreign demand, resulting in a major impact on reduced car industry production and consequently vehicle export. On the other hand, imports in real terms increased by 6.5% in 2008. According to estimates, imports rose slightly more than exports in real terms, which is why the foreign trade balance had a negative influence on economic growth, i.e. -0.6 percentage points.

Slowdown in domestic banks' credit activity

While the credit activity of domestic banks gradually

slowed down in the first ten months of 2008, it nearly stopped in November on account of ever more stringent conditions on international inter-bank markets and reached the deepest trough since March 2005. Only loans to the state somewhat increased, as in November the state borrowed € 80 million net, whereas the corporate sector recorded a modest positive net credit flow, while the retail sector even repaid loans on a net basis. Banks partly compensated for the loss of funds from inter-bank markets with deposits made by domestic clients who at the end of 2008 withdrew funds from capital markets where negative trends persisted.

Growth in added value still the highest in the construction sector

Added value in 2008 again rose most in the construction sector, which was the fastest growing activity, contributing 15.5% to the total increase in added value. The high increase in added value was in 2008 seen only in financial intermediation (11.4%).

Increase in unemployment rate

The indicators on the labour market are gradually deteriorating, as in December 2008 the number of registered unemployed was for the third month in a row higher than the month before. According to SORS data, the unemployment rate climbed to 7.0% by the end of 2008, this being equal to 66,239 persons. The most apparent were the consequences of layoffs in sectors where production volume had to be reduced on account of fewer and cancelled orders. The greatest rise was recorded in the number of unemployed persons aged 30–50, predominantly men. Of the total 946,491 active population, 880,252 were employed at the end of 2008.

2.1% growth in consumer prices

At 2008 year-end, inflation was considerably lower than the year before. Year-on-year inflation further decreased in December (2.1%) and inflation in 2008 averaged 5.7%. Similarly as in the past five months,

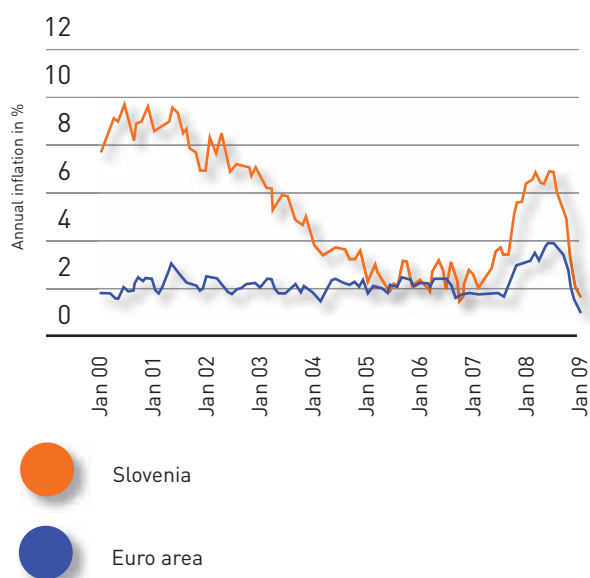
¹ Source: SORS, IMAD, MF

price movements were characterised chiefly by lower prices of liquid fuels resulting from a downward trend in oil prices on the global markets. In addition to the lower prices of raw materials, the decrease in inflation was also influenced by subsided economic activity and expectations. The same reasons lead to a continued slowdown in inflation in the entire euro area, where it equalled 1.6% in December.

Negative net balance of the national budget

At the end of 2008, the Slovene national budget recorded a negative net position compared to the EU budget in the amount of € 64.7 million. As a result of new statistical aggregate estimates, total payments to the EU budget in 2008 exceeded the funds allocated for this purpose in the scope of the 2008 budget by almost 10%, whereas less than half the funds were drawn (44.4%).

Inflation movement in Slovenia and the euro area in the 2000–2008 period²



The movements on the international financial markets had a strong impact also on domestic exchange movements, as the SBI20 index dropped by nearly 70%. The index thus reached the lowest level since 2003. According to the exchange rate as at 31 December 2008, 1 euro equalled 1.2591 US dollars.

Another significant event occurring in the energy sector in 2008 was without a doubt the gas crisis, origi-

nating from the dispute between Russia and Ukraine. The crisis demonstrated the importance of domestic energy products for energy supply.

In the past year, electricity production grew considerably (+9.7%), whereas consumption decreased (-5.4%). Net electricity export rose, accounting for 10.6% of total electricity consumption, which was the highest figure since 2001.

2.6.2 Market environment of the electricity industry

In the past year, the market environment of the electricity industry was hugely characterised by extensive electricity price changes. The major reasons for the situation at hand should be sought in the global economic conditions and the international financial crisis, which towards the end of the year evolved into a general economic crisis. The altered economic conditions were greatly reflected in the prices of primary energy products such as oil, coal and natural gas, and consequently also in the prices of electricity. Until mid 2008 we recorded high growth in the prices of energy products and thus in the prices of electricity, however, in the second half of the year the situation was substantially different. Prices started plummeting from the record levels, and still experienced a downward trend at the end of 2008.

According to the European directive on the cross-border transmission capacity allocation, the Slovene transmission network operator in 2008 continued allocating its cross-border transmission capacities at the Slovene borders on a market basis.

One of the major factors greatly influencing the electricity market is the emission coupon market. In 2008 we entered a new five-year Kyoto period, lasting until 2012, during which an even greater focus on the reduction of greenhouse gas emissions is projected. The number of emission coupons allocated for this period points to the fact that the protocol signatories are striving to prevent the pre-Kyoto situation from recurring. Namely, in the last year of the 2005–2007 period it became clear that there had been too many coupons distributed. This was reflected in their price. In 2008 the coupon price mimicked energy product prices – oil in particular, which means that prices slumped in the second half of 2008. Nevertheless, emission coupons remain at price levels which still greatly influence how

² Source: SORS, EUROSTAT

facilities that use fossil fuels as the primary source offer electricity. Currently, procedures are underway and regulatory frameworks are being formulated for the third trading period, which is projected to last from 2013 to 2020. In this period electricity producers in most European countries will have to purchase the entire volume of emission coupons at auctions. This will represent a high cost item to all of them.

2.6.3 Situation on electricity markets in 2008³

Slovenia

In 2008 the situation on the electricity market was characterised by a smaller energy price difference between SE European markets and continental markets. The reasons include the recovery of the economy and thus the consumption of electricity in SE Europe, which along with the lack of production units led to higher electricity prices. Still evident is the effect of the discontinued supply from the Bulgarian nuclear power plant, which represented an important production source for the entire region, before this country entered the EU. Due to the resulting situation, the energy flows from SE Europe to Continental Europe and Italy greatly decreased. The Hungarian market last year represented an important source of energy for Slovenia and SE Europe. The price of cross-border transmission capacities for transmitting energy from Croatia to Slovenia last year averaged a quarter of a euro.

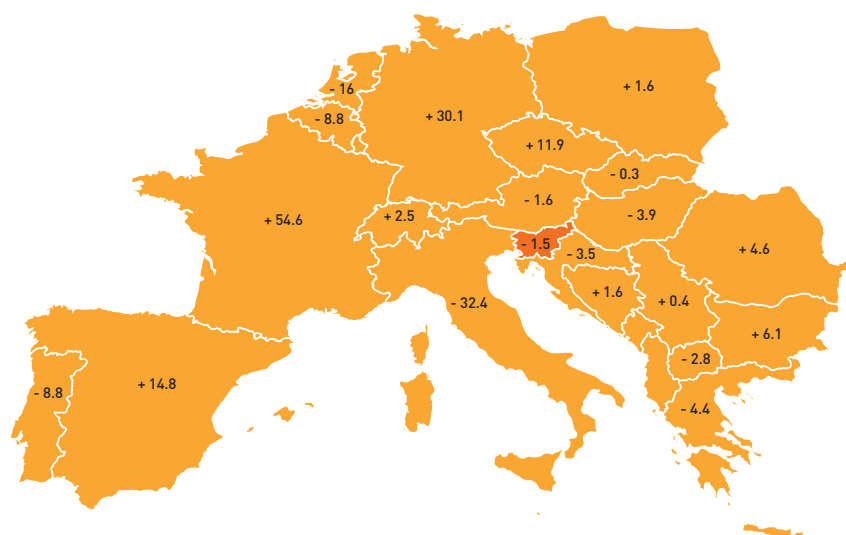
The Continental European market and partly the Italian market, from which Slovenia received electricity mostly during the night and at weekends, were significant import markets for Slovenia in 2008. The prices of cross-border transmission capacities for importing energy from Austria and Italy fluctuated accordingly, reaching the highest levels outside the peak period.

HPPs made a major contribution to the energy balance sheet of Slovenia in 2008. The hydrology in 2008 greatly exceeded the historical average, as HPPs produced a quarter more energy than in 2007. As production is flexible, the energy generated from hydro potential was mostly placed to more expensive peak hours.

Where so allowed by technical capacities, the price differences between peak and off-peak energy were also exploited in TPPs. Predominantly during the night, when the price of electricity and cross-border transmission capacities was lower than the variable TPP costs, the production units operated at a minimum or were shut off. When profitable, they operated at maximum capacity during peak hours. In 2008 TEŠ produced 2.5% more electricity than in 2007, whereas TET exceeded the 2007 level by 3.3%.

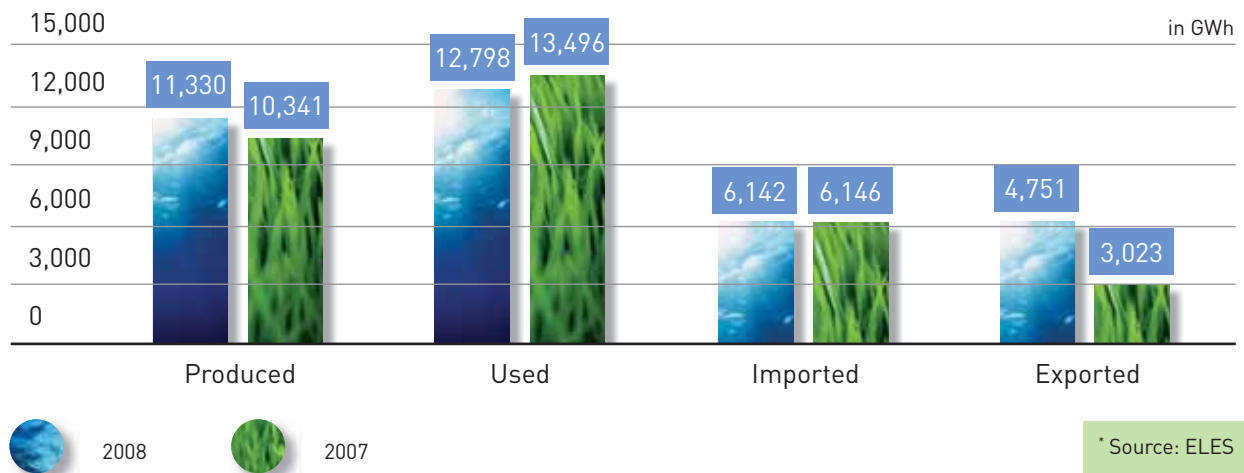
Consumption from the transmission network decreased by 722 GWh or 5.4%. The greatest fall was seen in consumption by direct consumers, which can be mostly attributed to a production cut in Talum and TDR-Metalurgija. Also, after many years' rise, consumption from the distribution network shrank, which was contrary to the projected energy balance.

Balance of European electricity markets in 2008 in TWh

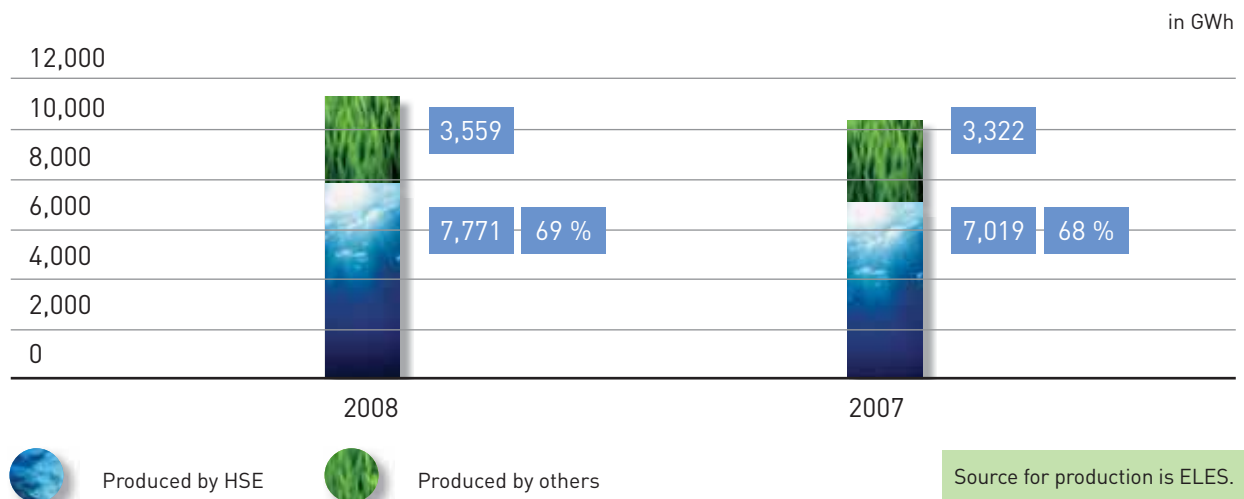


³ All data about electricity production in Slovenia include production only by the Slovene part of the Krško Nuclear Power Plant.

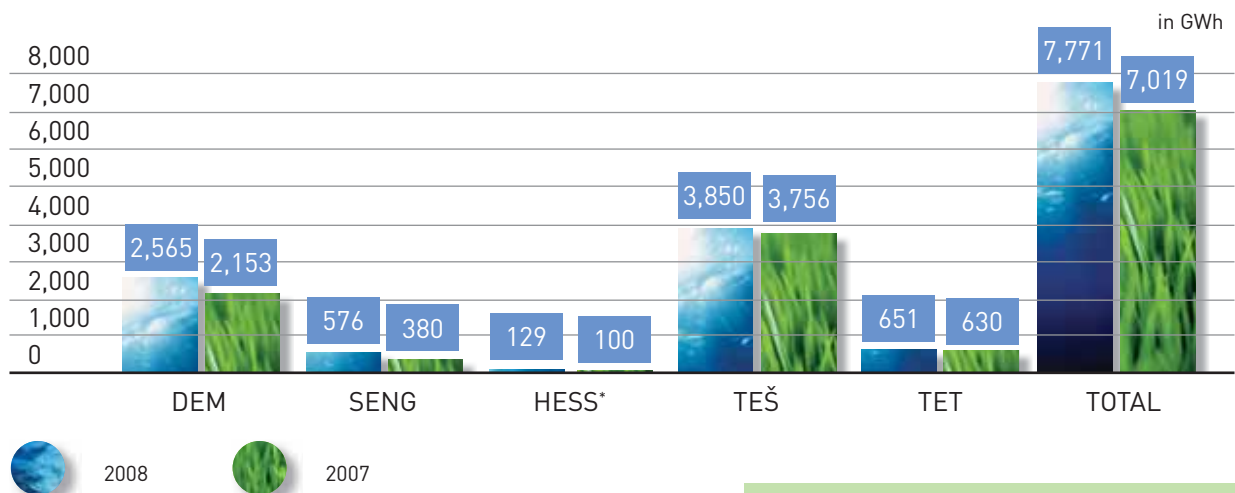
Slovene electricity market in 2008 and 2007*



Share of the HSE Group's production in total electricity production in Slovenia in 2008 and 2007



Production of threshold electricity in the HSE Group in 2008 and 2007



Note: * In 2007 the production of HPP Boštanj was presented within the joint venture.

Continental Europe

Characteristic of the year 2008 were extremely quickly growing prices of oil and other energy products in the first half of the year. The price of oil in July reached \$145 per barrel. Consequently, the prices of electricity and CO₂ coupons followed the upward trend.

In 2008 the transmission capacities between Slovenia and Italy were leased at extremely favourable conditions at the annual level. During the year, HSE also successfully participated in monthly auctions to secure transmission paths from the same direction, but was less successful in acquiring transmission capacities at other Italian borders, as the prices were extremely high. In December, trading on the French-Italian border opened.

In 2008 a significant novelty in Continental Europe was the foundation of a branch office in Slovakia. The main purpose of this foundation was to fill the gap between the Czech Republic and Hungary, thus enabling energy flow from the Czech Republic, which will remain a net exporter of electricity for a number of years, through Slovakia and Hungary to SE Europe, which is already a net importer of electricity.

Towards the end of 2008 it turned out that the decision to establish the HSE Bratislava Branch Office was the right one, as HSE exploited a number of trading opportunities.

In 2008 trading on the Czech market was more moderate on account of an unfavourable relationship between the Czech and German electricity prices. In February, the company became a member of the Prague power exchange PXE, thus gaining mainly the possibility to purchase and sell electricity for a longer period. The downside of the said exchange is the still relatively poor liquidity. However, the power exchange provided for the possibility of trading in the Slovakian market, which will become interesting once Slovakia cancels the export fee hindering a greater expansion of trading on this market.

SE Europe

In the past year both the prices of short-term and long-term electricity supply grew in SE Europe. Coinciding with the closure of two reactors at a Bulgarian nuclear plant at the end of 2006, Bulgaria cut electricity exports and in early 2008 prohibited the export of electricity to

the region, despite sufficient surplus production capacities, in order to maintain low prices in the domestic market. The ban on export lasted for two months, but introduced uncertainty about the source of cheap energy from Bulgaria, which was reflected in a rapid price increase of supply in other countries of the region.

In the past year HSE took part in auctions for cross-border transmission capacities in most SE European countries, which contributed to greater trading volume in those markets. The exception was Bosnia and Herzegovina, where a registered licensed company is now required for participation in auctions. This condition did not exist before. Trading in SE Europe in 2008 was influenced by the events in the Hungarian market. Trading in this market became more transparent and liquidity is rising, also due to the providers of trading via portals. The Hungarian market was still very important for HSE, however, trading volumes were below last year's level as a result of the inability to create a long-term electricity portfolio, restrictions on the sale of electricity placed by the Hungarian Energy Agency (MVM), and the introduction of an export fee in the amount of approximately €17/MWh.

The rise in trading volumes in this area at the start of 2008 was still impeded by various costs and restrictions of electricity transit, which were, contrary to the European practice, imposed by transmission network system operators on electricity traders. In mid 2007, most SE European countries signed the ITC mechanism, which abolished the majority of transit duties. Certain countries have maintained some of the duties, but have done so under different names and to a smaller extent. The trend to close the markets and restrict trading by means of duties and other instruments escalated further in the second half of 2008.

Owing to high economic growth in the region, far higher than in western Europe, consumption also grew faster in this area. The relatively old and poorly maintained production facilities, in which hydro production accounts for a large share, heighten the volatility of supply prices in this area. Accompanied by poor hydrology, the prices of long-term contracts in the SE markets last year 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 CO₂ trading scheme (only producers with their own production units in EU member states participate in the scheme).

2.7 Sales and customers

2.7.1 Electricity

Price of electricity

As in previous years, the consumptions of electricity in Slovenia was subject to numerous factors in 2008, of which the most important were the structure and size of economic growth, demographic changes, overall development of the society, the level of technological development, climate change, environmental awareness, sustainable development, changes in energy prices and the parity of energy prices.

In Slovenia, GDP is still the factor with the biggest impact on the amount of electricity consumption. In 2008 the companies belonging to the second energy pillar established their own balancing group, thus increasing their active participation in the market. This, however, did not give rise to an increase in the quantity of energy produced by these companies.

In 2008 HSE sought to ensure efficient and secure supply of electricity to its customers. To this end, it strengthened its activities to provide for efficient separation between trading, production and transmission of electricity.

In 2008 the price of electricity was again determined on the basis of market prices, with the margin price being determined based on the engagement of the most expensive unit at a specific moment.

To maximise the company's operating results at acceptable risk exposure, the HSE Group coordinated 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.

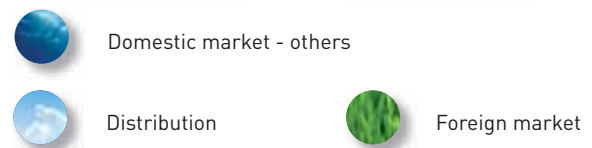
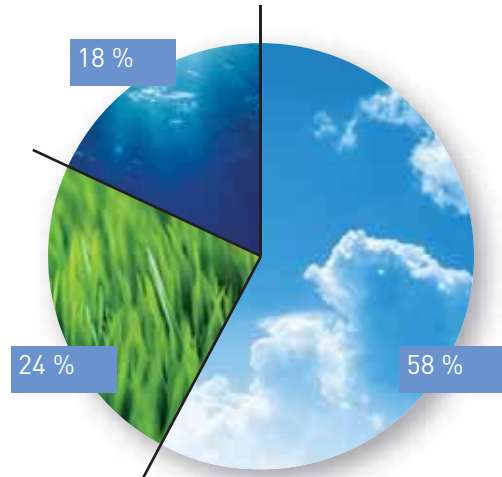
Sales volume and structure

In 2008 the HSE Group sold 13,705 GWh of electricity in both domestic and foreign markets. The most important was the domestic market, which accounted for 76% of total sales, of which 58% to five distribution companies and 15% to other direct consumers,

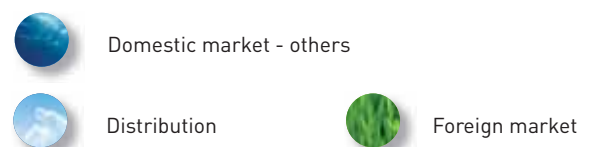
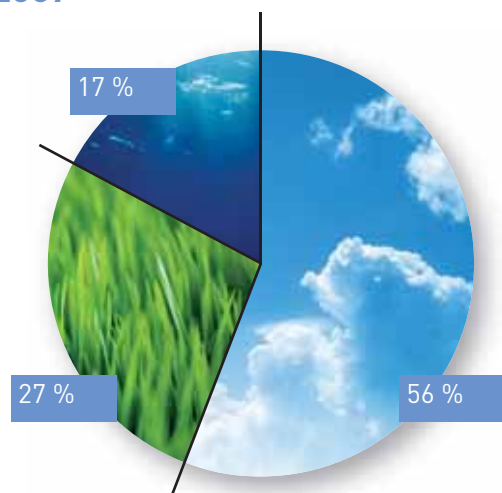
while 3% of domestic sales related to sales to other customers and ELES (tertiary and secondary control energy and deviations). Exports account for 24% of the sales.

Structure of electricity sales in 2008 and 2007 in MWh

2008



2007



Long-term contracts and day-ahead market

The bulk of the sales were generated through long-term contracts. The trading in day-ahead markets was carried out to match contractual obligations with the production capacities of HSE Group companies and to optimise the company's portfolio and take advantage of market opportunities. Electricity surpluses generated at the time of high water levels and availability of additional electricity produced during periods when market price exceeded the cost of extra production were sold in day-ahead markets.

Ancillary services

In addition to electricity, the following contractually required ancillary services were provided in 2008:

- secondary frequency control in the range of ± 77 MW,
- tertiary frequency control with the inclusion of non-spinning and spinning reserves of 92 MW,
- black start capability;
- reactive power support,
- secondary control services.

2.7.2 Other activities

Net sales revenue structure

The HSE Group generated more than € 872 million in net sales revenue in 2008. Accounting for 96%, 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 4%.

Other products and services

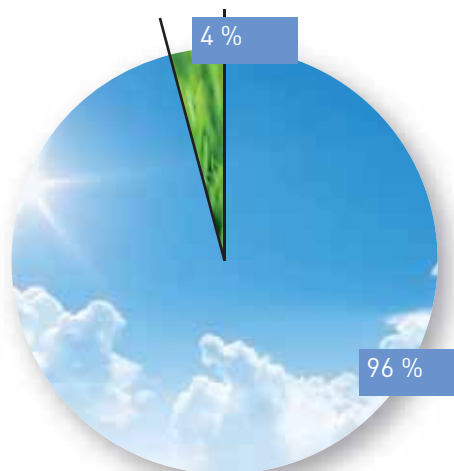
Other revenue from the sale of products and services includes revenue from the sale of apartments and rents, revenue from construction and hospitality services, revenue from repair and maintenance services, revenue from the sale of heat and revenue from services of disposing of powdered animal by-products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

Heat

In 2008 the sales of heat totalled 408.8 GWh, which is 13% more than planned.

Structure of net sales revenue in 2008 and 2007

2008

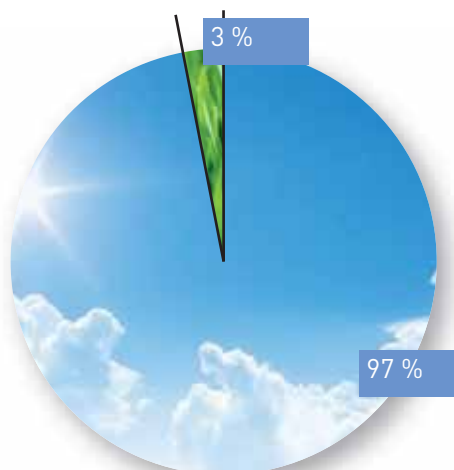


Revenue from the sale of electricity



Other revenue

2007



Revenue from the sale of electricity



Other revenue

2.8 Purchasing and suppliers

2.8.1 Electricity

Synergy

To maximise efficiency, HSE seeks to take advantage of synergies associated with a wide spectrum of production units within the Group. Because different production units have different operational and cost characteristics, a more cost-effective electricity production can be achieved through an appropriate combination of production schedules. And because electricity market prices fluctuate over time, the economical dispatching of production units, while observing technical criteria, is all the more important.

HSE Group's electricity production units in 2008

DEM		Dravograd	Vuzenica	Vuhred	Ožbalt	Fala	MB otok	Zlatoličje	Zlatoličje	Formin	Small HE	TOTAL
	Period							Jan-Jun	Jul-Dec			
	Turbines	3	3	3	3	1+2	3	2+1	2+1	2	1	
Net output	MW	26	56	72	73	58	60	114	120	116	0.7	576 / 582
Rated generation capacity	MVA	36	78	90	90	74	78	148	159	148	0.9	743 / 754
Gross head	m	8.9	13.7	17.4	17.4	14.6	14.2	33	33	29		105
Rated flow Qi	m³/s	405	550	550	550	505	550	463	463	500		

HESS			Boštanj	TOTAL
	Turbines		3	
Net output	MW		34	34
Rated generation capacity	MVA		43,5	43,5
Gross head	m		7.6	7.6
Rated flow Qi	m³/s		500	

SENG		Doblar I.	Doblar II.	Plave I.	Plave II.	Solkan	Zadlaščica	Small HE	TOTAL
	Turbines	3	1	2	1	3	2	26	
Net output	MW	30	40	15	19	32	8	11.4	155.4
Rated generation capacity	MVA	48	50	22	23	39	10	15.6	207.6
Gross head	m	47.2	48.5	27.5	27.5	23			173.7
Rated flow Qi	m³/s	90	105	75	105	180	2.2		

TEŠ		GT 51	GT 52	Unit 1	Unit 2	Unit 3	Unit 4	Unit 5	TOTAL
	Period	Apr-Dec	Sep-Dec		Jan-Oct				
Net output	MW	42	42	25	25	55	248	305	658 / 700 / 742 / 717
Rated generation capacity	MVA	56.25	56.25	37.5	37.5	94	324	377	870 / 926 / 982 / 945

TEŠ's Units 1 and 2: Available capacity was reduced to 25 MW due to wear of units.
 TEŠ's Unit 5: Generator output is 377 MVA at 3 bars of hydrogen pressure.
 TEŠ's Unit 2: No longer operational/used as a non-spinning reserve since 17/10/2008.

TET		GU I.	GU II.	Unit 4	TOTAL
Net output	MW	29	29	110	168
Rated generation capacity	MVA	34	34	156	224

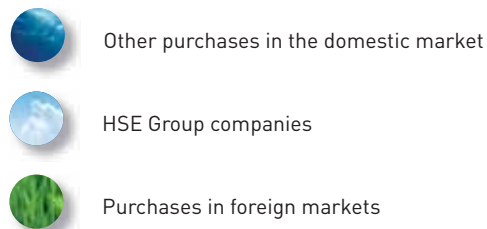
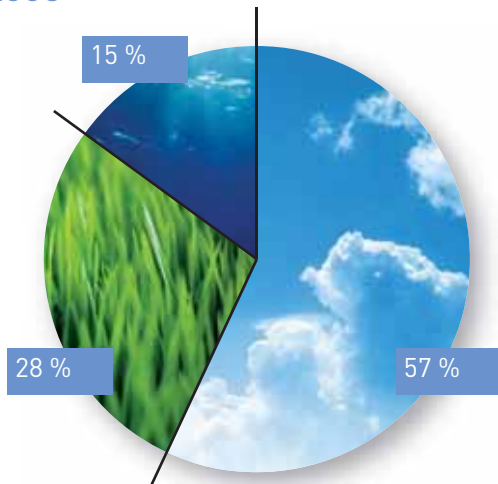
Structure of sources

The electricity supplied by the HSE Group to its customers in 2008 was mainly purchased from subsidiaries (57%) and in foreign markets (28%). A large part of the remaining electricity purchases in the domestic market (15%) relates to purchases from GEN energija.

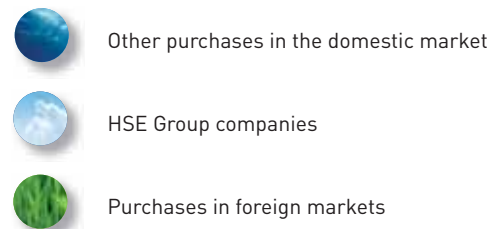
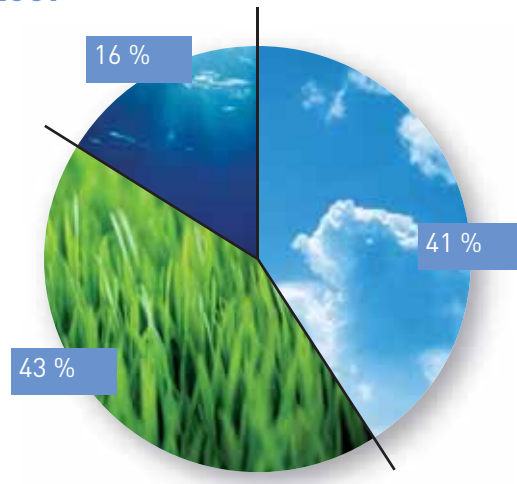
To offset shortfalls arising from supply failures or poor hydrology, HSE purchased electricity in the day-ahead electricity market.

Structure of electricity purchases in 2008 and 2007

2008



2007

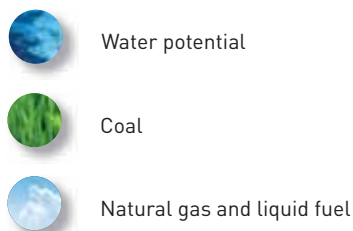
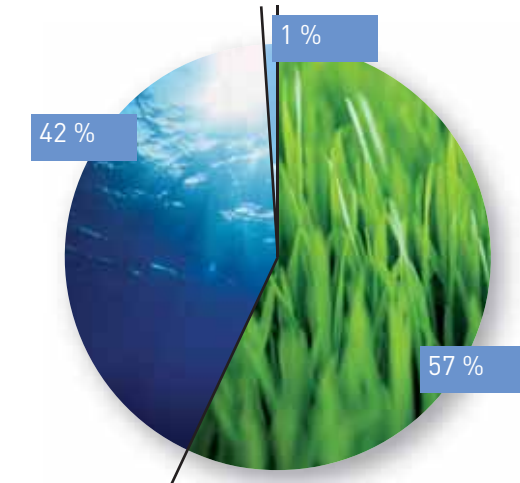


Primary raw materials

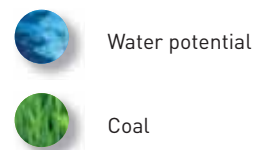
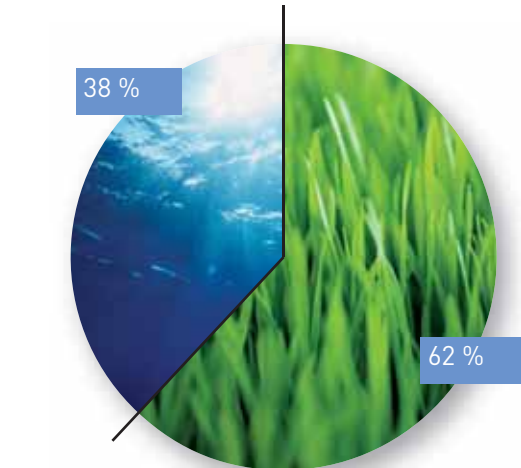
In 2008 primary raw materials used in the production of electricity included coal (57%), water potential (42%) and natural gas and extra light heating oil (1% each).

Primary raw materials used in electricity production in 2008 and 2007

2008



2007



Purchase price

In 2008 the purchase price of electricity was mostly affected by the following factors:

- favourable hydrology, which resulted in a production of cheaper hydropower by HSE Group companies and was 12.9% higher than planned,
- energy production at TEŠ, which was 4.3% higher than planned,
- energy production at TET, which was 3.3% higher than planned,
- conditions in the electricity market.

Coal

At TEŠ, 44,207 TJ of coal were used in the production of electricity and heat, while at TET, 6,802 TJ of coal were used in the production of electricity.

Coal stocks

On 31/12/2008, PV's coal stocks totalled 3,700 TJ while at TET they stood at 2,318 TJ.

176 million euros were invested by the end of 2008 in the HPP construction on the lower Sava River. Besides further additional electricity production of 721 GWh and the compliance with the EU guidelines, the project provides for better development of the local communities in the area of new hydro power plants, improved environmental protection and boosted regional development.

2.9 Investments

Electricity consumption has been constantly on the rise on the domestic and global level, which is why the HSE Group is seeking new, additional projects and investments to secure a safe, reliable, competitive and environmentally-friendly supply of electricity to Slovenia. Namely, the Group is aware that:

- its customers depend on the quality of electricity;
- in electricity production it is necessary to ensure optimal use of domestic sources, thus decreasing dependence on imports;
- operations have to be expanded and active participation is needed on the common European and international market, while at the same time it is necessary to look for sources, also outside Slovenia, to compensate for the gap in the domestic supply;
- great efficiency can only be achieved through efficient utilisation of primary sources, as a result of which the HSE Group constantly keeps up with the technological development and modernisation of its production facilities;
- a high degree of supply reliability can only be achieved through appropriate diversification of sources;
- new sources and know-how should be developed continuously.

The investments of the HSE Group are aimed at modernising the existing thermal power plants and hydro-electrical capacities, and constructing new power facilities. Thus, the HSE Group pursues the following major objectives:

- boosting the share of renewable energy sources;
- applying new technologies in fossil fuel utilisation;
- reducing greenhouse gas emissions;
- increasing energy efficiency;
- ensuring sustainable, environmentally-friendly use of sources; and
- searching for and exploiting investments abroad.

Below we present the major investments made by the HSE Group in 2008 in property, plant and equipment, and intangible assets.

HPPs on the lower Sava River

HPPs Boštanj, Blanca, Krško, Brežice and Mokrice will more than double the electricity production on the Sava River – a river with the least utilised energy potential. The electricity generated by the new power plants, which will be gradually constructed until 2015, will account for 21% of Slovene HPP production and is believed to cover 6% of the total electricity consumption of Slovenia.

In addition to 189 MW of additional installed power and 721 GWh of extra annual production, better development of the local communities in the area of the new HPPs, improved environmental protection and boosted regional development are enabled.

HPP Boštanj

The threshold power of HPP Boštanj is 34 MW and its mean annual production is 115 GWh. The HPP is in



trial operation, during which the equipment is being monitored.

HPP Blanca

HPP Blanca witnessed the following significant events in 2008:

- construction work on the dam facility was finalised;
- the Sava River was redirected to the spillways;
- the internal technical inspection for elevating the reservoir to an intermediate level was successfully conducted;
- turbine 1 was installed and synchronised, and is ready for a trial run;
- installation of electrical and other equipment at the HPP was carried out; and
- the 110 kV cable line was connected and hooked up.

In 2009 HPP Blanca will be put into trial operation.

HPP Krško

The following major events took place at HPP Krško in 2008:

- preparatory work was completed to protect the 1st construction pit;
- a bridge was constructed downstream from the HPP;
- the spillways were concreted;
- the installation and concreting of guides for hydro-mechanical spillway equipment commenced;
- the Agreement on By-Pass Financing was signed;
- the Protocol and Agreement on road deviation at HPP Krško were concluded.

HPP Brežice and HPP Mokrice

At HPP Brežice and HPP Mokrice, the following important events took place in 2008:

- the procedure and preparation of national spatial development plans were carried out (NSP);
- expert bases were produced for the NSP;
- technical and spatial documentation was prepared.

Project investors are HSE, DEM, SENG, TEB and GEN energija, financing the HPP construction on the lower Sava River in proportion to their equity stakes in HESS and in line with the investment payment plans. In September 2008, HSE drew a long-term loan from the EIB in the amount of € 74 million for financing the investments in HPP Blanca and HPP Krško.

PSP Avče

PSP Avče will be the first pumped storage hydro power plant, contributing to the higher production of peak electricity required by the Slovene energy system, and 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 economic sector, promoting the economic development of the area, and developing the Banjšice Plateau through the promotion of tourism at Kanalski Vrh.

In periods of low electricity prices (at night and on weekends), the 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. The facility's construction started when the building permit was obtained in September 2004. The developments on site commenced in December 2004.

Technical data of PSP Avče:

maximum gross head:	Hb = 521.00 m
useful water volume:	Vk = 2,170,000 m ³
rated flow (turbine regime):	Qi = 40 m ³ /s
rated flow (pumping regime):	Qč = 34 m ³ /s
rated turbine power:	Pi = 185 MW
rated pumping capacity:	Pč = 180 MW
annual electricity production:	El = 426 GWh
annual energy consumption for pumping:	Eč = 553 GWh

In 2008 the following important events took place at PSP Avče:

- the upper reservoir and the intake facility were constructed, work was carried out on the reflective and protective barrier next to the reservoir, and work involving landscaping of areas, biotope and info point facility construction commenced;



- the concrete lining was concreted, a 100 m steel lining was installed by concreting, which means that the surge facility, including the throttle, was finalised;
- the initial phase of the barrier chamber was completed and the connection between the chamber and the intake tunnel is being built;
- the pressure pipeline installation at section T1–T5 was completed and the route between T5 and T12 is undergoing intensive installation of a steel pressure pipeline by casting of encasing concrete;
- construction work ended on the machinery building and a 35 kV connection cable line was installed;
- electrical equipment and machinery was delivered and installed in line with the adopted operational plans; all elements were made for installing the pump-turbine into the free shaft; all stationary elements were installed, encased with concrete and machine-processed; the installation of moveable pump components (turbine) started; all elements were manufactured for auxiliary systems of the pump-turbine; the stator casing was produced, along with stator package and stator winding; rotor assembly commenced;
- February 2008 saw the start of work on the connecting 2 x 2 x 110 kV transmission line; the access roads and the excavation of the cable line route were completed; concreting was finalised at all standing positions, all earthings were laid, most pillars were assembled and installed, and the cable was partly filled in.

The investment is projected to be finalised in 2009. The project investor is SENG.

Refurbishment of HPP Zlatoličje

HPP Zlatoličje, the largest channel power plant in Slovenia, has been operating reliably since 1969, producing more than 5% of the total electricity in Slovenia



per year. Its renovation is urgent due to the deterioration of unit and turbine equipment. The renovation will also result in increased electricity production and increased safety for people and the environment.

Basic data about the renovation of HPP Zlatoličje:

- renovation completion scheduled for: 2009;
- power increase: +24 MW;
- higher total flow with which the run-of-river capacity of the power plant chain will be harmonised.

Work on the Melje dam and its direct surroundings:

- increased stability and strength of the Melje dam;
- restoration and additional arrangement of the protective and spillway wall;
- upgrade of the SHPP on the Melje dam;
- upgrade and replacement of electrical equipment and machinery of the dam.

Main events involved in the renovation of HPP Zlatoličje in 2008 were:

- work started on the assembly of the turbine unit equipment;
- activities were underway to assemble the stator and the collection system of the unit, including all pertaining equipment;
- systems were installed and equipment tested;
- functional tests of the unit and all pertaining equipment were conducted; turbine 2 was successfully synchronised, whereby the turbine was put into a primary network testing phase;
- the unit underwent an expert technical inspection; thus, the conditions of trial operation, which will start in 2009, were officially fulfilled;
- in early 2008, major construction work was for the most part completed on the Melje dam and the SHPP; turbine, unit and pertaining electrical equipment and machinery started being installed; final installation work was carried out on the dam for the 10 kV switchyard; an internal technical inspection was conducted along with an inspection based on which the 10 kV switchyard was put into regular operation; work was conducted on the primary and secondary equipment of the SHPP;
- all the necessary documentation has nearly been obtained, this being a condition for the technical inspection and further procedures to acquire an operating permit.

The project investor is DEM.

TEŠ's Unit 6, 600 MW

Considering the requirements for increasing electricity production due to ever greater consumption by end users, the existing units of TEŠ will be upgraded by additional production capacity – Unit 6 with projected power of 600 MW. Parallel to that, older units whose life span is nearing the end or which are technologically obsolete will be replaced.

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 tonnes of coal, TEŠ's annual electricity output, which now 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 the improved efficiency of modern plants is also significant.

The main advantage of new technology is better utilisation of the energy source. Unit 6 will instead of 4 use 3 million tonnes of lignite to produce the same quantity of electricity as generated by Units 1–5 in 2007. CO₂ emissions per unit of energy produced will be reduced from 1.2 kg/kWh to 0.85 kg/kWh. Owing to even more efficient flue gas desulphurisation devices, SO₂ emissions will be reduced by two thirds, amounting to less than 2,000 tonnes per year, whereas NO_x emissions will equal no more than one fourth of the current figure, also not exceeding 2,000 tonnes per year. The consumption of process water will almost halve, resulting in smaller fluctuation of the water level in Družmir Lake. Noise levels in the environment will go down by as much as 70%. Moreover, less ash will be generated per unit of electricity produced.

As the construction will be complex and extensive, it will be divided into several phases. The construction work is planned to start with the demolition of the cooling towers of Units 1–2 and 3 in 2010. Unit 6 is projected to start operating on a trial basis in 2014. Planned construction schedule:

- 2009 – construction of the new telecommunications centre;
- 2010 – demolition of cooling towers 1–2 and 3;
- 2010 – start of Unit 6 construction;
- 2012 – installation of equipment;
- 2014 – trial operation;
- 2015 – regular operation.

The construction of Unit 6 is planned to be financed from several sources. In September 2007, an agreement was signed with the EIB on a long-term loan of € 350 million.

The Official Journal of the EU in March 2008 published a tender for supply of a flue gas desulphurisation device and in September 2008 a tender for the supply and installation of a 400 kV GIS switchyard. Tender documentation for the supply of a cooling water system is being prepared – construction and preparatory work – for the purpose of setting up the cooling tower and implementing other preparatory work. In June 2008 an agreement was signed on the supply of the main technological equipment.

The project investor is TEŠ.



Upgrade of TEŠ's Units 4 and 5

The installation of two gas turbines at Units 4 and 5 increased the rated capacity of the units by a total of 84 MW. The investment resulted in higher electricity production, while consuming the entire planned quantity of coal, and a lower CO₂ emission factor per kWh.

Work on the project to upgrade Units 4 and 5 through the installation of gas turbines progressed as planned.

All project construction work was carried out. The drive facility was constructed and the machinery installation was finalised within this facility and the electricity equipment facility. The second gas turbine was supplied and the installation of machinery, electrical equipment and gas turbine control was completed. All the necessary equipment was delivered and installed, and all electrical installations were completed. The connecting pipeline was supplied and installed from the MDS to the gas turbines.

In mid July, a technical inspection was carried out for the issue of an operating permit for the gas turbine and the pipelines connected to Unit 4, and for start-up of a trial run. The operating permit for the two turbines is expected to be acquired in April 2009.

The project investor is TEŠ.

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 during periods of low electricity prices, and the generation of electricity during periods of higher electricity prices. The higher reliability of electricity supply will result in favourable economic effects for HSE and DEM.

In 2008 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 commissioned and prepared. Scientific bases required in connection with NSP-related documents have been finalised. Additional bases were prepared according to the requirements stated at the public presentation. Also drafted were impact assessments, an assessment of the plant's impact on the development of the environment, a traffic study, geomechanical conditions, and a study of the electricity market.

The investment programme, revised and approved by the Review Committee, was produced based on the supplemented preliminary design project.

The project investor is DEM.

Middle Sava River

HSE was appointed concessionaire for the construction of an HPP on the middle Sava River at the end of 2004.

Nine HPPs are planned to be constructed on the middle Sava River's section between Tacen and Suhadol with a total rated power of 304 MW. The purpose of the project is to boost the utilisation of the Sava River's hydro potential and increase the power and production of the HSE Group.

In 2008 the concession contract continued to be coordinated and further preparatory work was carried out for research, measurements and the necessary technical documentation.

The project investor is HSE.

Other investments of the HSE Group

Termoelektrarna Trbovlje

In June 2008 a contract was signed through a tender on the supply of equipment and services for a loading station for TET coal. The delivery date for the entire coal loading station based on the turn-key principle, including spare parts and successfully completed trial operation, is within 18 months of signing the contract. Technologically, this involves a double front-tipping device and the use of Eas series wagons allowing for the possibility of wagons fitted for bottom emptying, as the feeding chute will be covered by a steel grid.

The bulk of funds allocated in 2008 to investments in reliable operation went for increasing the power of the turbo aggregate, retrofitting of the low-pressure section, purchase of a Taprogge filter for water cooling, replacement of the electrical protection of the 125 MW unit, renovation of the ground foundations of the large-scale rotating excavator line, the acquisition of a dust distribution measurement device, and the purchase of the most needed machinery and tools for the mechanical and electrical service.

Among environmental investments, most funds were invested in the disposal of waste products – the programme for adaptation of the Prapretno non-hazard-

ous waste disposal site – to the northern disposal site and the start of the expansion of this disposal site due south. The 1st phase was completed, i.e. excavation at the disposal site, construction work, and drafting of a safety plan.

Premogovnik Velenje

The majority of funds were spent on excavation equipment, namely: excavation and directional chain conveyor, extraction machine, control excavation equipment, energy and other cables, and a high-pressure pumping site pump. Two diesel-powered rack-and-pinion locomotives were purchased, in addition to two pneumatic shunting trains, tracks and transport units.



2.10 Informatics

UPIS management information system

The system was upgraded to a new platform, which brings an updated user interface, shorter system response times and more of useful functions. The system captures all necessary production unit measurements, including the status of measurement reliability and point of measurement characteristics, which provides insight into the state of measurements before their completion.

ODOS document management system

The implementation of individual processes, optimisation and improvement of the existing processes, and general improvements to the system's functionality continued. These included the opening of the document management system to the external internet environment, subject to embedded restrictions. A training module was prepared for the purpose of employee training, and an INFOS services system was set up. The ODOS system also records all contracts dealing with electricity as well as contractor agreements, outsourcing agreements and other documents.

ISO processes

Within the framework ISO 9001 standard, all necessary procedures were prescribed in accordance with the ITIL standard.

System software

System capacities were upgraded, facilitating the installation of new servers, the capacity of which can be increased on-line if necessary. Among other things, domain servers were upgraded and secure internet e-mail access provided. A common access point was established for the reporting of hardware and software malfunctions. The management of changes, configurations and updates of the system software and applications is conducted using workflows in the ODOS environment.

The IT infrastructure management application was upgraded with the possibility of monitoring and reporting daily, monthly and yearly availability of inter-

net access, functioning of e-mail, access to databases and wireless network connections.

2.11 Financial operations

Main activities

In 2008 the financial operations of the HSE Group were primarily aimed at:

- ensuring solvency and optimising liquidity of the HSE Group,
- implementing financial policy in relation to banks and other financial institutions,
- managing related risks.

Ensuring solvency

The basic function of financial operations is to ensure solvency of the HSE Group and, consequently, undisturbed performance of other business activities. In 2008 short-term solvency of the HSE Group was ensured through the monitoring and optimisation of short-term cash surpluses and deficits of 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 matching of receivables and liabilities, and consistent collection of receivables.

Ensuring necessary financial sources

In 2008 both the controlling company and the entire HSE Group were very active in the field of financing, particularly as regards securing necessary financial sources under favourable terms for the implementation of investments, including the investments in the construction of HPPs on the lower Sava River. 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 reduces the amount of necessary investments and the costs of financing. In 2008 HSE and the

European Investment Bank (EIB) signed a € 74 million loan agreement for the financing of the construction of HPP Blanca and HPP Krško.

At the end of the financial year 2008, the HSE Group's financial liabilities totalled € 335.8 million, of which long-term financial liabilities accounted for 86% and short-term financial liabilities for 14%. The long-term financing to assets ratio of the HSE Group stood at 108%. Loans were taken out in the national currency and were thus not exposed to the currency risk. The majority of the loans have a variable interest rate.

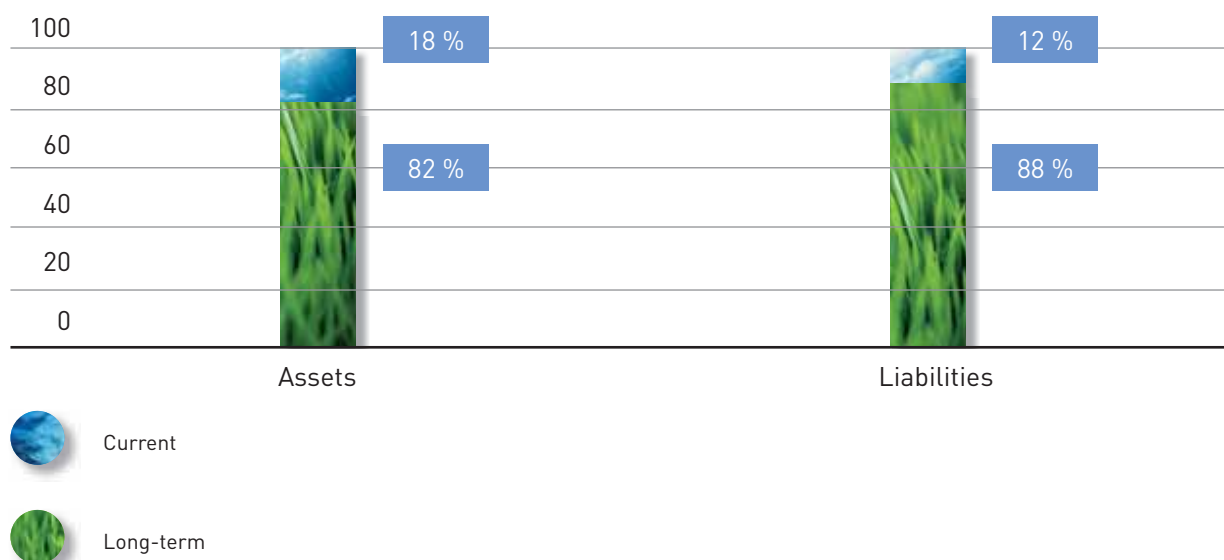
Management of financial risks

In the risk management process, particular attention was paid to the interest rate risk, credit risk, currency

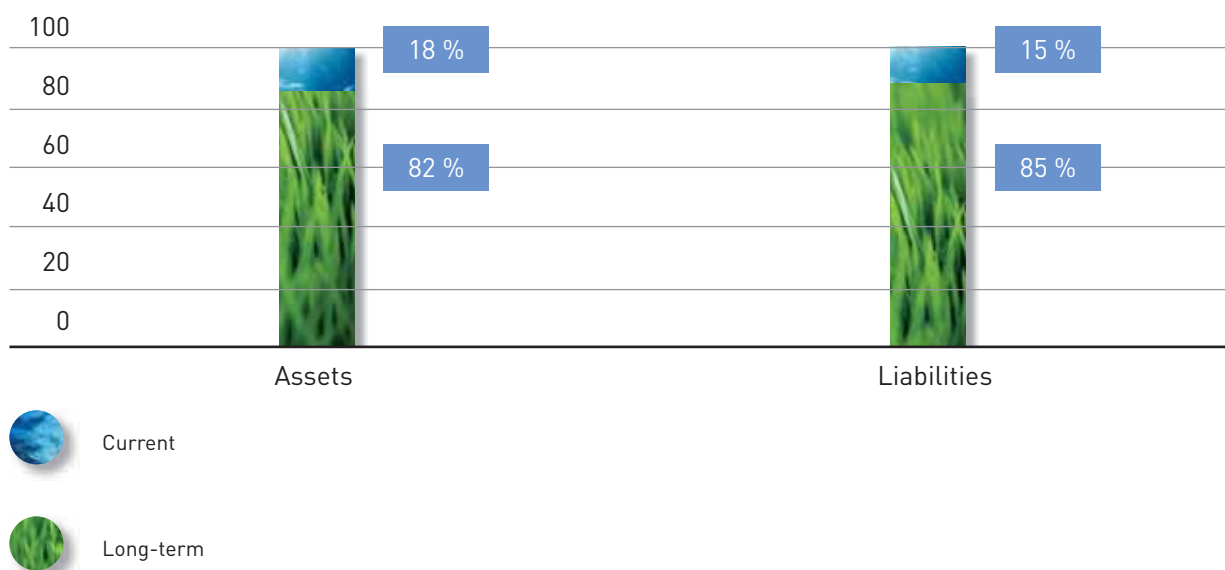
risk and solvency risk. Liquidity risk was effectively managed by monitoring and optimising short-term cash surpluses and deficits of HSE Group companies. As part of the interest rate risk management, derivative financial instruments offered by banks were used to change a portion of variable interest rates on long-term loans into fixed interest rates. Due to changes in the money market brought about by the global financial crisis, most interest rate hedging contracts were cancelled early in 2008. The company's largest net currency exposure is the exposure to the euro. The volume of transactions in other currencies is negligible, so the currency risk is very small. Interest rate and currency risk are also managed through the constant monitoring of developments in the European and global money market.

Balance sheet structure of the HSE Group and the controlling company as at 31/12/2008

HSE group



Controlling company



Capital adequacy

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

The HSE Group also acknowledges the fact that non-financial elements – the so-called soft factors, such as staff, information etc. – are increasingly being treated as part of companies' capital. This, in addition to financially responsible management, requires managers of HSE Group companies to pursue socially responsible management as far as capital adequacy is concerned.

Debt ratio

The debt ratio is an important indicator of the business and financial situation. The analysis of the fi-

ancial position of HSE Group companies reveals that from the perspective of debt the business and financial position of HSE Group companies is under control, with the debt ratios not exceeding the thresholds of safe operation.

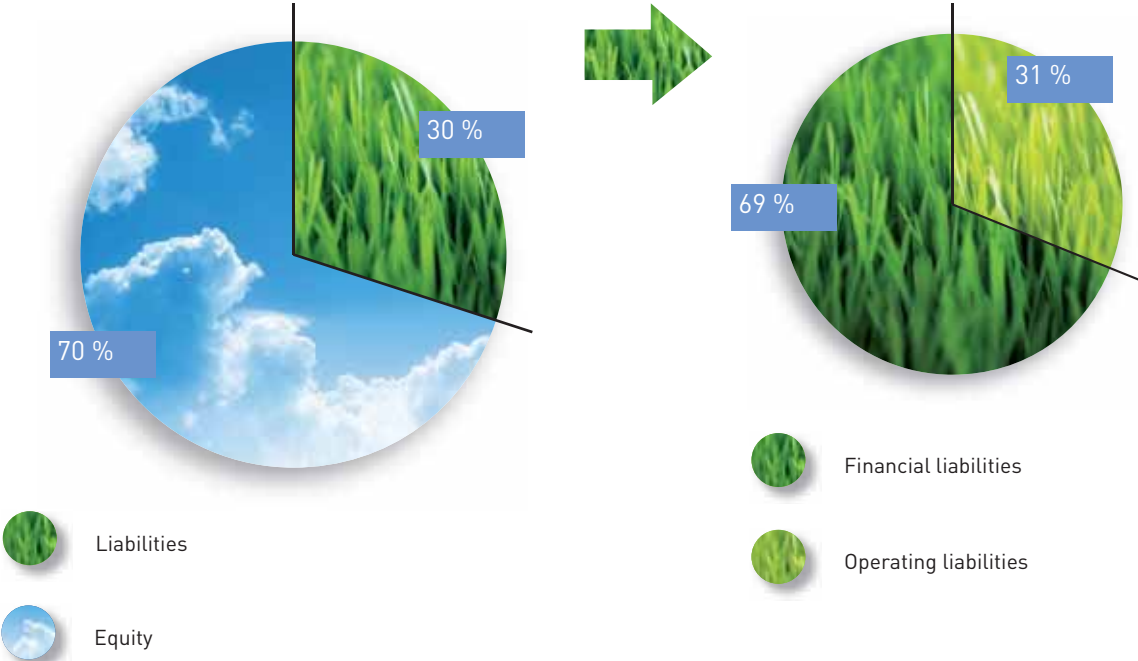
The share of debt (as per long-term and short-term liabilities presented in the balance sheet) in the parent company's and the Group's financing amounts to 30%. In the debt structure of the parent company and the Group, financial liabilities account for 51% and 69%, respectively. A more detailed structure of liabilities is presented in the financial report of the controlling company HSE and the HSE Group.

Goals achieved

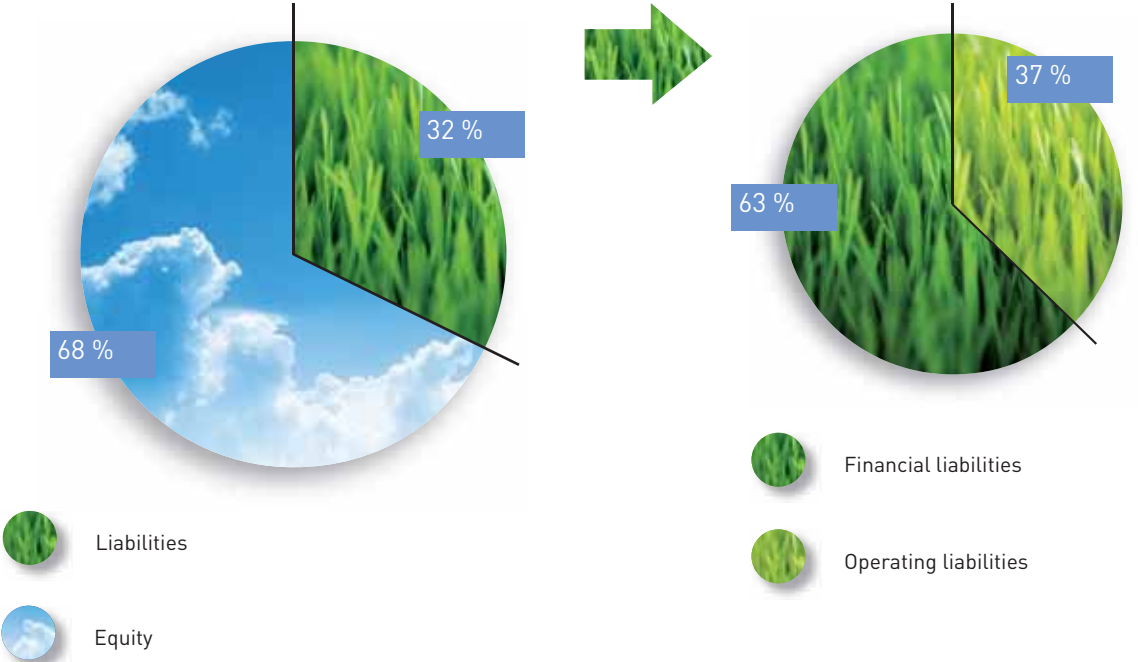
The analysis of financial operations of HSE Group companies in 2008 reveals that all goals were achieved as there were no problems with solvency and there were sufficient financial assets to implement the investments. What is more, surplus cash provided adequate return while the principles of safety and diversification were also observed.

HSE Group's equity-to-debt ratio

2008

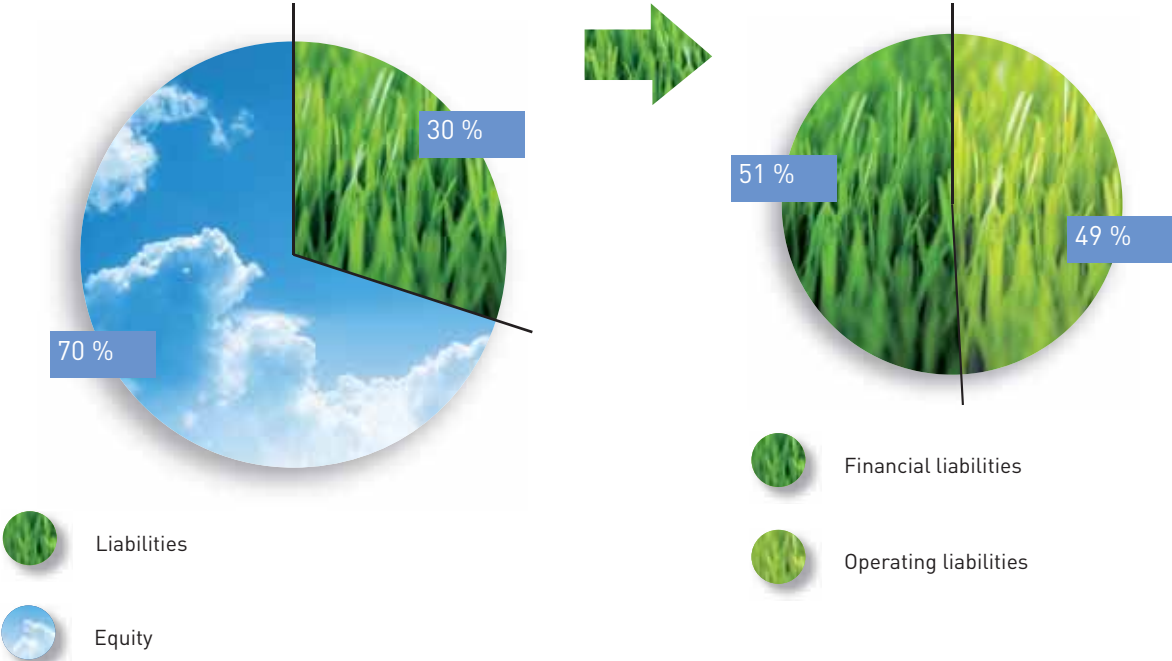


2007

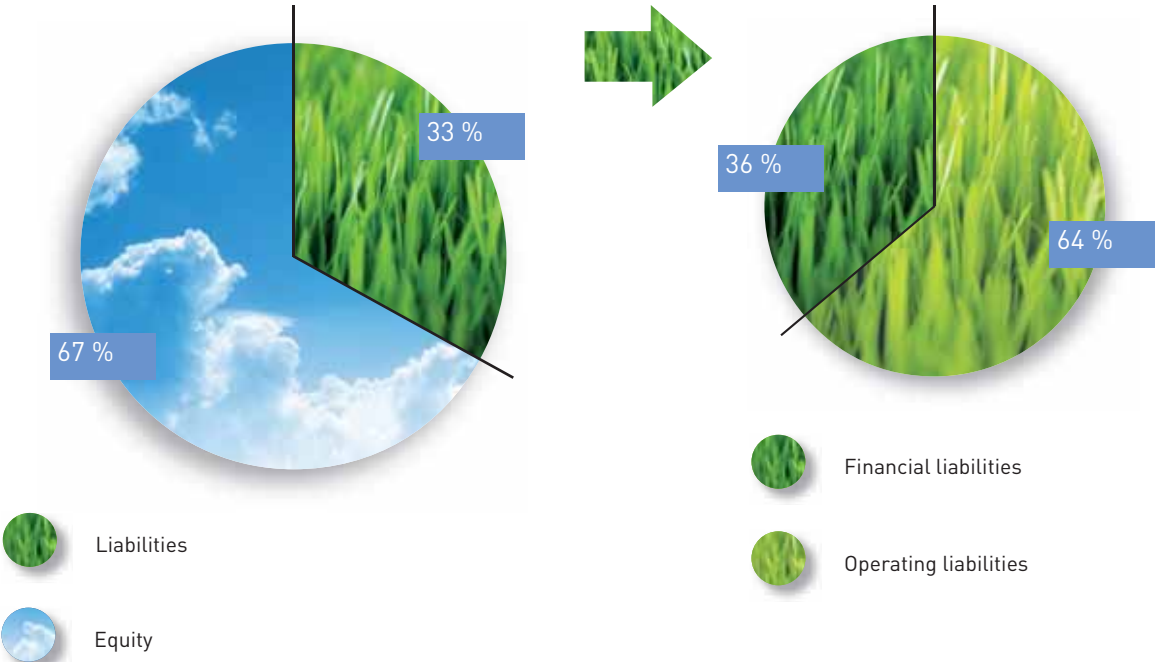


The controlling company's equity-to-debt ratio

2008



2007



The value of assets and total equity as at 31/12/2008 and operating results of HSE Group companies in 2008

HOLDING SLOVENSKE ELEKTRARNE d.o.o.	
Assets in €	1,158,781,276
Total equity in €	798,817,478
Net profit or loss in €	53,756,215

SLOVENIA					
DRAVSKE ELEKTRARNE MARIBOR d.o.o.		TERMoeLEKTRARNA ŠOŠTANJ d.o.o.		HSE INVEST d.o.o.	
HSE's stake	100%	HSE's stake	100%	Direct HSE's stake	25%
Assets in €	520,780,642	Assets in €	404,351,280	Indirect HSE's stake	75%
Total equity in €	502,691,265	Total equity in €	258,858,911	Assets in €	1,418,535
Net profit or loss in €	15,442,181	Net profit or loss in €	18,037,177	Total equity in €	530,205
				Net profit or loss in €	164,055
SOŠKE ELEKTRARNE NOVA GORICA d.o.o.		TERMoeLEKTRARNA TRBOVLJE d.o.o.		PPE d.o.o., KIDRIČEVO	
HSE's stake	100%	HSE's stake	81.33%	HSE's stake	45%
Assets in €	256,019,321	Assets in €	57,091,946	Assets in €	1,227,583
Total equity in €	162,448,132	Total equity in €	34,101,843	Total equity in €	1,223,482
Net profit or loss in €	10,079,588	Net profit or loss in €	2,169,256	Net profit or loss in €	14,840
HIDROELEKTRARNE NA SPODNJI SAVI, d.o.o.		PREMOGOVNIK VELENJE d.d.			
Direct HSE's stake	51%	HSE's stake	77.73%		
Indirect HSE's stake	84.6%	Assets in €	208,113,705		
Assets in €	205,185,396	Total equity in €	109,714,170		
Total equity in €	187,751,171	Net profit or loss in €	403,385		
Net profit or loss in €	939,971				
ABROAD					
HSE ITALIA S.r.l.		HSE HUNGARY Kft.		HSE BALKAN ENERGY d.o.o.	
HSE's stake	100%	HSE's stake	100%	HSE's stake	100%
Assets in €	52,690	Assets in €	8,100,934	Assets in €	989,485
Total equity in €	46,247	Total equity in €	5,466,448	Total equity in €	908,190
Net profit or loss in €	5,238	Total equity in HUF	1,457,901,661	Total equity in RSD	81,166,543
		Net profit or loss in €	506,220	Net profit or loss in €	1,637
		Net profit or loss in HUF	131,596,475	Net profit or loss in RSD	138,199
HSE ADRIA d.o.o.		HSE BULGARIA EOOD		HIDRO MOĆNOST MAKEDONIJA d.o.o.	
HSE's stake	100%	HSE's stake	100%	HSE's stake	33%
Assets in €	4,901,281	Assets in €	484,969	Assets in €	5,067
Total equity in €	684,919	Total equity in €	443,951	Total equity in €	5,067
Total equity in HRK	5,037,925	Total equity in BGN	868,280	Total equity in MKD	307,062
Net profit or loss in €	361,419	Net profit or loss in €*	-61,485	Net profit or loss in €**	-
Net profit or loss in HRK	2,654,934	Net profit or loss in BGN	-120,256	Net profit or loss in MKD	-
TOPLOFIKATSIA - RUSE AD					
HSE's stake	51%				
Assets in €	59,006,962				
Total equity in €	24,094,819				
Total equity in BGN	47,124,646				
Net profit or loss in €	1,313,316				
Net profit or loss in BGN	2,568,583				

* HSE Bulgaria EOOD was not operational in 2008.

** Hidro Moćnost Makedonija d.o.o. has only just been established and was not operational in 2008.

2.11.1 The controlling company's ratios

EQUITY FINANCING RATE	31/12/2008	31/12/2007
1. Liabilities in €	1,158,781,276	1,141,859,460
2. Equity in €	798,817,478	757,166,486
Equity financing rate = 2 / 1	68.94	66.31

At the end of 2008, the company's equity amounted to 69% of its total liabilities. Compared with the end of 2007, the equity financing rate increased mainly due to higher net profit for the year 2008.

LONG-TERM FINANCING RATE	31/12/2008	31/12/2007
1. Equity in €	798,817,478	757,166,486
2. Long-term liabilities in €	161,302,465	156,475,386
3. Provisions and Long-term accrued costs and deferred revenue in €	19,175,683	7,943,631
4. Total (1 + 2 + 3)	979,295,626	921,585,503
5. Liabilities in €	1,158,781,276	1,141,859,460
Long-term financing rate = 4 / 5	84.51	80.71

The company financed 85% of its assets from long-term sources and 15% from short-term sources. Compared with the end of 2007, the long-term financing rate increased by 4 percentage points due to an increase in equity and long-term liabilities and a decrease in short-term financial liabilities.

OPERATING FIXED ASSETS RATE	31/12/2008	31/12/2007
1. Property, plant and equipment in €	6,774,756	127,881,827
2. Intangible assets and Long-term accrued revenue and deferred costs in €	8,178,427	8,430,458
3. Total fixed assets at carrying amount in € (1 + 2)	14,953,183	136,312,285
4. Assets in €	1,158,781,276	1,141,859,460
Operating fixed assets rate = 3 / 4	1.29	11.94

The share of property, plant and equipment and intangible assets in the company's assets amounts to 1% and has decreased compared with the end of 2007 due to the transfer of the joint venture for the construction of HPPs on the lower Sava River to the new company HESS. All of the company's investments in the joint venture were transferred to long-term investments.

LONG-TERM ASSETS RATE	31/12/2008	31/12/2007
1. Property, plant and equipment in €	6,774,756	127,881,827
2. Intangible assets and Long-term accrued revenue and deferred costs in €	8,178,427	8,430,458
4. Long-term investments in €	929,662,269	819,063,439
5. Long-term operating receivables in €	2,715,058	125,188
6. Total (1 + 2 + 4 + 5)	947,330,510	955,500,912
7. Assets in €	1,158,781,276	1,141,859,460
Long-term assets rate = 6 / 7	81.75	83.68

The company's long-term assets account for 82% of its total assets. The ratio decreased compared with the end of 2007 mainly due to an increase in current assets.

EQUITY TO FIXED ASSETS RATIO	31/12/2008	31/12/2007
1. Equity in €	798,817,478	757,166,486
2. Property, plant and equipment in €	6,774,756	127,881,827
3. Intangible assets and Long-term accrued revenue and deferred costs in €	8,178,427	8,430,458
4. Total fixed assets at carrying amount in € (2 + 3)	14,953,183	136,312,285
Equity to operating fixed assets ratio = 1 / 4	53.42	5.55

The ratio represents the relationship between equity and fixed assets. The ratio stood at 53 at the end of 2008, meaning that all of the company's most illiquid assets were financed from equity. The ratio increased compared with 2007 due to the transfer of the joint venture for the construction of HPPs on the lower Sava River to the new company HESS.

ACID TEST RATIO	31/12/2008	31/12/2007
1. Cash in €	6,374,755	3,839,722
2. Short-term investments in €	68,242,000	16,909,850
3. Total liquid assets in € (1 + 2)	74,616,755	20,749,572
4. Short-term liabilities in €	173,979,273	214,764,190
Acid test ratio = 3 / 4	0.43	0.10

The acid test ratio describes the relationship between liquid assets and short-term liabilities. At the end of 2008, it stood at 0.4, meaning that almost half of the company's short-term liabilities were covered by liquid assets. The ratio improved considerably from 2007 thanks to an increase in short-term investments and decrease in short-term liabilities.

QUICK RATIO	31/12/2008	31/12/2007
1. Cash in €	6,374,755	3,839,722
2. Short-term investments in €	68,242,000	16,909,850
3. Short-term operating receivables in €	127,497,862	155,083,914
4. Total (1 + 2 + 3)	202,114,617	175,833,486
5. Short-term liabilities in €	173,979,273	214,764,190
Quick ratio = 4 / 5	1.16	0.82

The quick ratio stood at 1.2 at the end of 2008, meaning that the company finances a part of its current assets from long-term liabilities. The ratio improved compared with 2007.

CURRENT RATIO	31/12/2008	31/12/2007
1. Current assets in €	202,115,396	175,916,067
2. Short-term accrued revenue and deferred costs in €	5,146,178	6,082,027
3. Total (1 + 2)	207,261,574	181,998,094
4. Short-term liabilities in €	173,979,273	214,764,190
Current ratio = 3 / 4	1.19	0.85

The current ratio amounted to 1.2 at the end of 2008, which indicates the company's solvency as it was able to cover all its short-term liabilities by its current assets.

OPERATING EFFICIENCY RATIO	2008	2007
1. Operating revenue in €	820,305,717	923,302,179
2. Costs of goods, materials and services in €	766,089,817	895,889,987
3. Labour costs in €	6,545,268	5,950,139
4. Write-downs in value in €	1,493,117	16,985,578
5. Other operating expenses in €	11,050,720	1,993,478
6. Total operating expenses in € (2 + 3 + 4 + 5)	785,178,922	920,819,182
Operating efficiency ratio = 1 / 6	1.04	1.00

The company's operating revenue exceeded its operating expenses by 4% in 2008. The ratio has improved compared with 2007 as there was a bigger decrease in operating expenses than in operating revenue.

NET RETURN ON EQUITY	2008	2007
1. Net profit or loss for the accounting period in €	53,756,215	12,411,197
2. Average equity in €	777,991,982	736,094,110
Net return on equity = 1 / 2	0.07	0.02

In 2008 the company generated € 7 of net profit per € 100 of equity invested. The ratio increased by 5 percentage points from 2007, mostly due to an increase in the company's net profit or loss.

TOTAL FINANCIAL LIABILITIES / EBITDA	31/12/2008	31/12/2007
1. Long-term financial liabilities in €	161,267,186	96,929,963
2. Short-term financial liabilities in €	9,811,956	35,374,714
3. Total financial liabilities in € (1 + 2)	171,079,142	132,304,677
4. Operating profit or loss in €	35,126,795	2,482,997
5. Depreciation and amortisation in €	1,458,542	2,236,463
6. EBITDA in € (4 + 5)	36,585,337	4,719,460
Total financial liabilities / EBITDA = 3 / 6	4.68	28.03

The ratio shows the relationship between the company's debt and EBITDA. The ratio improved considerably compared with the end of 2007 due to higher operating profit or loss for the year 2008

TOTAL FINANCIAL LIABILITIES / EQUITY	31/12/2008	31/12/2007
1. Long-term financial liabilities in €	161,267,186	96,929,963
2. Short-term financial liabilities in €	9,811,956	35,374,714
3. Total financial liabilities in € (1 + 2)	171,079,142	132,304,677
4. Equity in €	798,817,478	757,166,486
Total financial liabilities / Equity = 3 / 4	0.21	0.17

The ratio shows the relationship between the company's debt and equity. The ratio increased compared with the end of 2007 due to a higher indebtedness of the company.

EBITDA / FINANCE EXPENSES FOR LOANS	2008	2007
1. Operating profit or loss in €	35,126,795	2,482,997
2. Depreciation and amortisation in €	1,458,542	2,236,463
3. EBITDA in € (1 + 2)	36,585,337	4,719,460
4. Finance expenses for loans in €	7,993,672	5,880,334
EBITDA / Finance expenses for loans = 3 / 4	4.58	0.80

The ratio increased from 2007 mainly thanks to the higher operating profit or loss of the company.

TOTAL FINANCIAL LIABILITIES / ASSETS	31/12/2008	31/12/2007
1. Long-term financial liabilities in €	161,267,186	96,929,963
2. Short-term financial liabilities in €	9,811,956	35,374,714
3. Total financial liabilities in € (1 + 2)	171,079,142	132,304,677
4. Assets in €	1,158,781,276	1,141,859,460
Total financial liabilities / Assets = 3 / 4	0.15	0.12

The total financial liabilities to assets ratio increased somewhat relative to the end of 2007 because the company took out an additional long-term loan of € 74 million in 2008.

2.11.2 The HSE Group's ratios

EQUITY FINANCING RATE	31/12/2008	31/12/2007
1. Liabilities in €	1,747,710,783	1,628,551,663
2. Equity in €	1,127,608,615	1,037,374,202
Equity financing rate = 2 / 1	64.52	63.70

At the end of 2008, the Group's equity amounted to 65% of its total liabilities. Compared with the end of 2007, the equity financing rate increased mainly due to higher net profit for the year 2008 and lower short-term liabilities to banks.

LONG-TERM FINANCING RATE	31/12/2008	31/12/2007
1. Equity in €	1,127,608,615	1,037,374,202
2. Long-term liabilities in €	292,685,262	244,554,162
3. Provisions and Long-term accrued costs and deferred revenue in €	118,046,869	95,148,216
4. Total (1 + 2 + 3)	1,538,340,746	1,377,076,580
5. Liabilities in €	1,747,710,783	1,628,551,663
Long-term financing rate = 4 / 5	88.02	84.56

The Group financed 88% of its assets from long-term sources and 12% from short-term sources. Compared with the end of 2007, the long-term financing rate increased by 4 percentage points. At the end of 2008, the Group improved the quality of financing sources, with short-term liabilities to banks decreasing by 45% and long-term liabilities to banks increasing by 29% compared with the end of 2007.

OPERATING FIXED ASSETS RATE	31/12/2008	31/12/2007
1. Property, plant and equipment in €	1,301,732,514	1,189,336,408
2. Intangible assets and Long-term accrued revenue and deferred costs in €	48,274,010	27,874,726
3. Total fixed assets at carrying amount in € (1 + 2)	1,350,006,524	1,217,211,134
4. Assets in €	1,747,710,783	1,628,551,663
Operating fixed assets rate = 3 / 4	77.24	74.74

The share of property, plant and equipment and intangible assets in the Group's total assets stood at 77% at the end of 2008. The operating fixed assets rate increased compared with the end of 2007 as a result of higher investments in property, plant and equipment, intangible assets and long-term investments.

LONG-TERM ASSETS RATE	31/12/2008	31/12/2007
1. Property, plant and equipment in €	1,301,732,514	1,189,336,408
2. Intangible assets and Long-term accrued revenue and deferred costs in €	48,274,010	27,874,726
3. Investment property in €	922,758	936,992
4. Long-term investments in €	51,541,008	49,870,537
5. Long-term operating receivables in €	3,131,217	692,280
6. Total (1 + 2 + 3 + 4 + 5)	1,405,601,507	1,268,710,943
7. Assets in €	1,747,710,783	1,628,551,663
Long-term assets rate = 6 / 7	80.43	77.90

The Group's total long-term assets account for 80% of its total assets. The rate increased relative to 2007, mainly due to an increase in property, plant and equipment, intangible assets and long-term investments.

EQUITY TO FIXED ASSETS RATIO	31/12/2008	31/12/2007
1. Equity in €	1,127,608,615	1,037,374,202
2. Property, plant and equipment in €	1,301,732,514	1,189,336,408
3. Intangible assets and Long-term accrued revenue and deferred costs in €	48,274,010	27,874,726
4. Total fixed assets at carrying amount in € (2 + 3)	1,350,006,524	1,217,211,134
Equity to operating fixed assets ratio = 1 / 4	0.84	0.85

The ratio represents the relationship between equity and fixed assets. The ratio stood at 0.8 at the end of 2008, meaning that the majority of the Group's most illiquid assets were financed from equity.

ACID TEST RATIO	31/12/2008	31/12/2007
1. Cash in €	13,453,168	15,297,292
2. Short-term investments in €	116,375,273	103,505,751
3. Total liquid assets in € (1 + 2)	129,828,441	118,803,043
4. Short-term liabilities in €	194,052,222	241,650,620
Acid test ratio = 3 / 4	0.67	0.49

The acid test ratio describes the relationship between liquid assets and short-term liabilities. At the end of 2008, it stood at 0.7, meaning that almost three quarters of the company's short-term liabilities were covered by liquid assets. The ratio improved compared with the end of 2007.

QUICK RATIO	31/12/2008	31/12/2007
1. Cash in €	13,453,168	15,297,292
2. Short-term investments in €	116,375,273	103,505,751
3. Short-term operating receivables in €	153,746,979	180,592,264
4. Total (1 + 2 + 3)	283,575,420	299,395,307
5. Short-term liabilities in €	194,052,222	241,650,620
Quick ratio = 4 / 5	1.46	1.24

The quick ratio stood at 1.5 at the end of 2008, meaning that in addition to inventories the Group also finances other current assets from long-term sources. The ratio improved compared with the end of 2007.

CURRENT RATIO	31/12/2008	31/12/2007
1. Current assets in €	316,850,737	328,928,916
2. Short-term accrued revenue and deferred costs in €	5,958,343	6,944,133
3. Total (1 + 2)	322,809,080	335,873,049
4. Short-term liabilities in €	194,052,222	241,650,620
Current ratio = 3 / 4	1.66	1.39

The current ratio amounted to 1.7 at the end of 2008, which is an indication of the Group's solvency considering that short-term liabilities were fully covered by current assets. The ratio improved compared with the end of 2007.

OPERATING EFFICIENCY RATIO	2008	2007
1. Operating revenue in €	903,420,050	1,011,617,008
2. Costs of goods, materials and services in €	508,120,674	681,696,549
3. Labour costs in €	137,687,403	123,900,511
4. Write-downs in value in €	79,680,448	96,561,644
5. Other operating expenses in €	61,159,605	42,958,501
6. Total operating expenses in € (2 + 3 + 4 + 5)	786,648,130	945,117,205
Operating efficiency ratio = 1 / 6	1.15	1.07

The Group's operating revenue exceeded its operating expenses by 15% in 2008. Because the decrease in expenses was higher than the decrease in revenue, the ratio increased.

NET RETURN ON EQUITY	2008	2007
1. Net profit or loss for the accounting period in €	74,515,214	84,071,741
2. Average equity in €	1,082,491,409	915,450,501
Net return on equity = 1 / 2	0.07	0.09

In 2008 the Group generated € 7 of net profit per € 100 of equity invested. The ratio increased relative to 2007, mostly due to an increase in the Group's average equity in 2008.

TOTAL FINANCIAL LIABILITIES / EBITDA	31/12/2008	31/12/2007
1. Long-term financial liabilities in €	290,364,661	224,606,377
2. Short-term financial liabilities in €	45,481,809	82,545,085
3. Total financial liabilities in € (1 + 2)	335,846,470	307,151,462
4. Operating profit or loss in €	116,771,920	66,499,803
5. Depreciation and amortisation in €	74,358,495	72,040,630
6. EBITDA in € (4 + 5)	191,130,415	138,540,433
Total financial liabilities / EBITDA = 3 / 6	1.76	2.22

The ratio shows the relationship between the Group's debt and EBITDA. The ratio improved compared with the end of 2007 due to higher operating profit or loss for the year 2008.

TOTAL FINANCIAL LIABILITIES / EQUITY	31/12/2008	31/12/2007
1. Long-term financial liabilities in €	290,364,661	224,606,377
2. Short-term financial liabilities in €	45,481,809	82,545,085
3. Total financial liabilities in € (1 + 2)	335,846,470	307,151,462
4. Equity in €	1,127,608,615	1,037,374,202
Total financial liabilities / Equity = 3 / 4	0.30	0.30

Although the Group's debt ratio was higher at the end of 2008, the share of total financial liabilities in equity was on a par with the previous year because the Group's equity also increased, mainly thanks to the net profit for the year 2008.

EBITDA / FINANCE EXPENSES FOR LOANS	2008	2007
1. Operating profit or loss in €	116,771,920	66,499,803
2. Depreciation and amortisation in €	74,358,495	72,040,630
3. EBITDA in € (1 + 2)	191,130,415	138,540,433
4. Finance expenses for loans in €	16,771,877	12,492,692
EBITDA / Finance expenses for loans = 3 / 4	11.40	11.09

The ratio increased compared with the end of 2007 mainly as a result of higher operating profit or loss.

TOTAL FINANCIAL LIABILITIES / ASSETS	31/12/2008	31/12/2007
1. Long-term financial liabilities in €	290,364,661	224,606,377
2. Short-term financial liabilities in €	45,481,809	82,545,085
3. Total financial liabilities in € (1 + 2)	335,846,470	307,151,462
4. Assets in €	1,747,710,783	1,628,551,663
Total financial liabilities / Assets = 3 / 4	0.19	0.19

Although the Group's debt ratio was higher at the end of 2008, the share of total financial liabilities in assets was similar to the one at the end of 2007.

The notes to the items constituting the ratios are explained in more detail in the financial report of the company HSE and the HSE Group.

3,700

was the volume of PV's lignite stocks in TJ as at 31/12/2008. At the HSE Group, we know that risk management is crucial to successful operation. One of the risks is associated with the extraction of lignite, which is used as a primary fuel in the production of electricity at TEŠ. To control the risk of lignite production failures, the HSE Group established appropriate stocks.

2.12 Risk management

In the time when both the banking and the real sector are dealing with the consequences of the financial crisis, the HSE Group devotes even more attention to risk management. In 2008 we therefore continued the process of comprehensive risk management by:

- appropriately managing all key risks identified,
- identifying new risks.

The HSE Group encounters risks in all areas of its operation, particularly in electricity production and trading and, consequently, in the area of finance. Risks can be classified into the following broad categories:

- market risks,
- quantity risk,
- financial risks,
- human resources risk,
- information system risks and
- regulatory risks.

Based on the analysis of the HSE Group's operations in 2008 we estimate that the risks were successfully managed.

Market risks

The HSE Group is mainly exposed to market risks, which mostly arise from uncertainties about changes in the prices of electricity, cross-border transmission capacities, CO₂ emission permits and natural gas.

In 2008 the controlling company HSE continued to develop its price and market risk management model. The all year round optimisation of the Group's production

units was carried out on a daily basis, and the Group's open position, the company's trading activities, price fluctuations and volatility in wholesale electricity markets, CO₂ 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-on-year changes in probability distribution of the portfolio's value were observed. The portfolio's sensitivity to price changes was monitored using the delta/gamma analysis.

In 2008 all models supporting the calculation of HSE's exposure were adjusted so that they could be used over a longer period. Production optimisation models, price curve models and the model for monitoring the exposure of the CO₂ emission coupon trading portfolio can now be used for periods in which the company's energy sales are conducted.

In the area of optimisation models, methodological improvements to their performance were carried out, which enabled a better-quality simulation of the actual operation of turbines, thus contributing to a more accurate picture of the company's exposure, especially at the level of daily and hourly time intervals. In the area of production, an optimisation model of the simulation of the PSP's operation was prepared. To be able to estimate Slovenia's exposure more accurately, a price optimisation model of the Slovene electricity market was prepared, which serves as a basis for the model of Slovenia's long-term price curve.

The company's exposure analysis was adjusted to reflect the updated structure of individual trading port-

folios. In addition, the scope of stress testing was expanded in 2008. 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.

In the previous year, price risks were also controlled by means of hedging a large share of the trading volume by a counter-transaction, by purchasing derivatives and by introducing new technologies, which were adopted as part of the development plan of the HSE Group and outline measures for improving environment protection and people's health.

Quantity risks

Quantity risk comprises the risks arising from production uncertainty, consumption uncertainty and energy supply uncertainty.

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

Consumption uncertainty arises from the impact of weather and temperature, load flexibility, seasonal cycles and impact of the recession.

Energy supply uncertainty arises from random failures of power lines and other equipment, or from interventions by the power transmission network operator due to transmission line overload.

Electricity production is exposed to the following risks of deviation from the planned supply:

- 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 power plants due to outages or technological and ecological limitations of production;
- the risk of non-supply of coal from the Velenje coal mine due to production hold-ups caused by outages, failures of technological systems, accidents or other disturbances;

- in periods of increased TPP production, economic limitations or any changes in the overall method of CO₂ tax payments and in trading in CO₂ emission coupons should also be considered.

In 2008 the production at hydropower plants within the HSE Group was 375 GWh higher than planned, whereas at TEŠ the plan was exceeded by 158 GWh and at TET by 21 GWh. The deviations of actual daily flow of water from daily forecasts are also reflected in deviations of hydropower production from the forecasted schedules. To the extent possible, the deviations were balanced out by adjusting production at TPP and by increasing sales and purchases.

At the thermal power plants, a 2 to 4% unexpected production outage has to be considered in addition to the planned shutdowns due to overhauls. This percentage corresponds to 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 re-allocating the use of HPP accumulation and purchasing electricity on the market. In 2008 TEŠ's unexpected production outage stood at 1%. This unfavourable outcome is primarily the result of Unit 3 breaking down. TET's outage rate stood at 2.4%.

Thanks to a less complex production process, HPPs are more reliable. The unexpected production outage at DEM stood at 1.2%, at SENG at 2.4% and at HPP Boštanj at 33.8%, in the latter case mainly due to the failure of generator 2.

Coal supply may be interrupted due to breakdowns of technological systems and accidents or other disturbances affecting the extraction of coal. According to an assessment of the coal mine's technical management, the majority of potential outages could be remedied without significant production interruptions, and 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 are as follows:

- to ensure minimum deviations of production and of the balancing group from schedules,
- to ensure an optimal distribution of power between available turbines,
- to promptly activate reserve capacities in emergency situations.

The quality of the management of the HSE balancing group is reflected in the minimisation of deviation costs thanks to the deviations of balancing group members being reduced through the adjustment of their production. In 2008 the HSE balancing group was comprised of the Group's production units, including small HPPs, PV and balancing subgroups of four distribution companies, Elektroprodaja and a few smaller consumers. The balancing group's deviations include all production and consumption deviations from forecasted schedules. The HSE Group estimates that the management of the HSE balancing group was successful in 2008.

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.

Solvency risk is the risk associated with insufficient financial sources and the resulting inability of the company to meet its commitments in due time. In the situation of the financial crisis, the solvency risk is a risk the management of which is one of the most important for the company. Short-term solvency is ensured by continuous matching and planning of cash flows. The HSE Group has established the monitoring and optimisation of short-term cash surpluses and deficits of group companies. The above system, the diversification of investments and liabilities, maturity matching of receivables and liabilities, consistent collection of receivables and a liquidity reserve in the form of credit lines granted by domestic and foreign banks facilitate the management of cash flows, which ensures the company's and the Group's payment capacity and a low level of short-term solvency risk. Moreover, good access to financing and markets, a high credit rating of the company thanks to its successful operations and the ability to keep generating cash flows from operating activities ensure that the solvency risk is estimated as moderate.

In light of the conditions in the financial markets, the company also began to manage the risks of financial indiscipline of banks and financial institutions arising from investing of surplus cash. The risk is managed by observing the principle of dispersing deposits with individual banks and by monitoring information on the current operations of banks with which the company occasionally deposits surplus cash.

The solvency risk is reduced by the high credit rating of the company which stems from its successful operations and by its ability to keep generating cash flows from operating activities.

Credit risk represents the possibility that receivables will be settled only in part or will not be settled at all. The HSE Group manages credit risk through a thorough verification of customers' credit ratings, setting of limits, monitoring and managing of the credit exposure of individual partners with regard to their limits, and control over outstanding receivables.

The controlling company has in place strategies and rules for the measurement and control of the company's exposure to credit risks. The need for collaterals in respect of individual partners is determined based on rules which, among other things, lay down the setting of limits and monitoring of their utilisation. The electricity transactions that are based on annual contracts are mostly secured through bills of exchange or bank guarantees, with issuing banks having to satisfy strict credit rating criteria. Transactions with some partners are regulated in detail using EFET agreements. Short-term electricity trading transactions that are carried out on power exchanges are already secured through the obligatory membership system.

Interest rate risk exposure comprises the possibility of an increase in the costs of variable interest rate financing at the source as a result of changing interest rates in the market. A portion of interest rates charged on long-term loans is hedged using appropriate derivatives through which a portion of variable interest rates is changed to fixed rates. The appropriateness and correctness of contracts aimed at hedging against interest rate risks is managed through the monitoring of developments in the European and global money market. Due to changes in the money market brought about by the global financial crisis, most interest rate hedging contracts were cancelled early in 2008. We estimate that thanks to the above measures regarding

interest rate risk management, large share of equity and low level of indebtedness (14.8% of the company's assets and 19% of the Group's assets) interest rate risk is low.

Currency risks associated with conducting business in foreign currencies are insignificant. The company's largest net currency exposure is the exposure to the euro, which arises both from domestic and foreign receivables. The volume of operations in other currencies is negligible, so the risk associated with these currencies is very small.

Human resources risk

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

The potential 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 motivation, and through stimulating working conditions and environment. The exposure to human resources risk is estimated as low.

Information system risks

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 were identified as having an impact on operations:

- internet access failure,
- e-mail failure,
- grid power supply interruption,
- failure of the Endur application,
- introduction of a virus.

The HSE Group estimates that IT risks were successfully managed in 2008.

Regulatory risks

Regulatory risks arise from changes in market rules or legislation in the Slovene and foreign electricity markets which affect business results. The HSE Group constantly monitors the development of the Slovene and foreign electricity markets and the accompanying regulations, and responds to changes by adjusting its trading strategies.

Due to constant legislative changes, the company ensures proper application of regulations through constant functional and professional training performed by authorised and qualified institutions.

Explanation of crisis management after 01/01/2009

In the first quarter of 2009, the financial crisis deepened and spread to the real sector. Despite that, HSE recorded good operating results, with electricity sales exceeding the plan by 34%, while production at HPP and TPP was almost 13% higher than planned.

The financial crisis began to manifest itself mostly in liquidity problems of some of our customers. In such conditions, liquidity management is of exceptional importance, which is why additional attention was devoted to bad debt insurance. HSE estimates that the risks are appropriately managed through suitable financial risk management measures also in the situation of the financial crisis.

The operations of the company HSE are adapted to the strategic orientations of the Government of the Republic of Slovenia aimed at alleviating the conditions caused by the global financial and economic crisis. Significant attention is still given to the management of all types of risks, to ensuring adequate short-term and long-term solvency of the HSE Group and to the continuation of procedures aimed at obtaining sufficient funding for the implementation of all vitally important development projects of the HSE Group.

Our short-term and long-term goals are being adapted to the new economic situation which indicates great challenges that the HSE Group will face in the future.

2.13 External communication

In 2008 external communication revolved around several key topics: electricity price rises, construction of new electricity production capacities, with the construction of TEŠ's Unit 6 and the related activities being the focus of attention, construction of HPPs on the lower Sava River, HPP projects on the middle Sava River, promotion of Blue Energy and efficient energy use, the "Energija si – be efficient" campaign, which are the first two projects of this kind in Slovenia.

The area of external communication activities was also marked by organisational and personnel changes within HSE. The HSE Group was joined by the new company Hidro Močnost Makedonija d.o.o. and the branch office HSE Bratislava, and a new managing director and management member was appointed.

Press releases and statements for the media, the company magazine Energija and the company's website served as the main communication tools through which internal and external public were informed of the above changes and other events and circumstances within the HSE Group that affected its performance.

3x20

is the most important energy guideline in the EU. As the HSE Group has been operating in a very volatile environment, it is necessary for it to adjust to the changes and follow the common EU guidelines. Being the largest electricity producer in Slovenia and aiming for expansion, we have to devote attention to research and development that will open new promising areas and indicate new directions for successful operation of the HSE Group in the future. The HSE Group operates proactively and therefore pays special attention to "3 x 20" R&D goals.

2.14 Research and development

The events in the European energy market nothing but underlined the critical points of European energy: too great a dependence on imports, insufficient production and transmission capacities, and the burden of solving issues related to climate change.

The HSE Group devotes a lot of attention to studying the direct impacts of presented legislative proposals on the Slovene energy sector and the HSE Group.

Action plan

In order to promote the use of energy obtained from renewable energy sources, HSE and its subsidiaries,

by signing an agreement, started producing an Action Plan to achieve the target share of renewable energy sources in total final consumption by 2020.

The Action Plan represents a voluntary commitment to implement measures aimed at realising the objectives imposed on Slovenia by the draft Directive of the European Parliament and Council on the promotion of the use of energy from renewable sources, which will be adopted by energy companies which are members of the EZS (Electrotechnical Association of Slovenia).

Formulation of sustainable criteria for the use of renewable energy sources

Through the Certification for Hydro: Improving Clean

Energy – CH₂OICE project, HSE is taking part in formulating sustainable criteria for the use of renewable energy sources. The project is co-financed via the Intelligent Energy Europe programme. Its goal is to set up a suitable HPP certification procedure aligned with the Water Directive and the Directive on the promotion of electricity produced from renewable sources in the internal electricity market. The formulated certification procedure will be tested on actual hydro power plants in Slovenia and Italy. The ultimate project objective is to formulate a certification procedure which could then be implemented at the EU level.

Technological development

Technological development plays an important role in further energy development. Research and development in the field of new technologies and new energy sources receive more attention and funds. The development policy focuses on closer integration of all European and global research potential and co-operation of industry. As a partner, HSE is involved in various research projects and strives to additionally consolidate the activities in this area, thus securing itself privileged access to important information about new technologies which would at a given moment represent a major competitive advantage. The development activities of the HSE Group are oriented towards monitoring the development of CO₂ capture, transport and storage technologies, the development of "clean" coal technologies, efforts to distribute the burden originating from greenhouse gas emission reductions, and the production of electricity from renewable energy sources.

Greenhouse gas emission reduction project

The project "Greenhouse gas emission reduction in the Slovene energy sector in the post-Kyoto period" is in the final phase. In addition to HSE, nearly all Slovene thermal energy companies joined the project, which enjoys the support of the Ministry of the Economy and the Ministry of the Environment and Spatial Planning. The project represents the basis for implementing the requirements of the climate-energy package in the Slovene thermal energy sector.

For HSE, the goal of participating in such projects is the transfer of new knowledge and technologies which the company can transpose into its operations. Also

significant are the strengthening of HSE's reputation as a company investing in knowledge, caring for the environment and implementing socially accountable actions, and establishing HSE's role as a responsible player solving the energy challenges of the future.

Energy Act

Important legislative amendments were also introduced in the Slovene energy legislation. The entry into force of the draft amendments and supplements to the Energy Act resulted in harmonisation of the Slovene energy legislation with its European counterpart.

The amended act stipulates a new method for providing and allocating support to qualified electricity producers and to producers of electricity from domestic energy sources, which affected the operations of HSE and its subsidiaries TET and TEŠ. Owing to the resulting changes, HSE carefully considered the planned investments to re-evaluate their justifiability.

Co-operation with expert associations

Through active participation in professional associations of electricity producers and consultative bodies of the EU, HSE takes part in the preparation of energy policy and, by presenting its proposals and views, influences the drawing up of energy legislation, which has an important impact on the operations of the HSE Group.

Future development activities

Company co-operation, joint investments in R&D, and other joint investments can strengthen the European energy industry and thus ensure the suitable competitiveness of the entire sector. That is why HSE assigns great importance to timely co-operation and entry into various forms of partnerships, both in technological research – involving mainly technologies related to the use of existing fuels in thermal power facilities – and investments in the production of electricity from renewable energy sources.

Development projects of the HSE Group

In order to optimally implement and prepare all development activities and individual projects, the HSE Group introduced a method of early identification of

potential development projects, including potential new investments and projects involving the renovation of existing facilities and devices. Timely identification of development projects will enable these projects to be incorporated in strategic national development programmes and other project schemes at an opportune time.

2.15 Plans for the future

Structure of development projects

The HSE Group will in the future pursue goals in the following areas:

- development of the European and Slovene electricity market;
- safe and reliable electricity production and construction of new capacities;
- consolidation and streamlining of operations;
- human resources management;
- financial resources management; and
- research and development.

Goals related to the development of the European and Slovene market

The main objectives pursued by the HSE Group in the development of the European and Slovene market are the following:

- to become the leading player in the electricity markets in SE Europe;
- to expand trading in geographical terms;
- to increase trading volumes in SE European markets; and
- to expand operations to other energy-related activities.

The HSE Group will continue with activities in SE Europe, to which the policy of investing, obtaining financial and other resources and concluding useful business partnerships has been adjusted.

The set energy-climate goals can also be achieved by the implementation of joint intercountry projects, which represents a special challenge for HSE specifi-

cally in SE Europe, where most countries are already in the EU accession phase.

Good knowledge of the conditions on these markets and previous co-operation are the advantages enabling HSE to participate in the realisation of such joint projects. The construction and purchase of new production capacities, along with international trade in electricity, significantly contribute to the sustainable supply of Slovenia, its reduced dependence on imports, lower exposure to geopolitical risks, and the generation of good business results. Last but not least, through its activities in this region HSE is constantly consolidating its market position and its reputation as a major regional player.

Safe and reliable production of electricity

Safe and secure production of electricity involves the following main goals:

- provision of optimal power distribution;
- optimisation of the stocks of coal, gas and water reservoirs;
- pursuit of an optimal and joint maintenance policy;
- reducing the environmental impact of energy production and consumption;
- implementing the joint environmental policy;
- saving energy and using it efficiently;
- increasing the production of clean forms of energy;
- boosting the utilisation rates of existing units;
- ensuring competitiveness by cutting maintenance and operating costs;
- rationally using the hydro energy potential of the SHPP;
- formulating and introducing the HPP maintenance standard already in 2009;
- caring for sustainable development;
- increasing the thermal power capacity by means of domestic energy products;
- obtaining concessions for using the hydro power potential; and
- carrying out the planned investments in new production capacities according to the schedule and within the budget.

The HSE Group will in the future continue planning and implementing projects that contribute to the achievement of the set goals to reduce greenhouse gas emissions and increase renewable sources, namely:

- HPP projects on the lower and central Sava River;
- the possibility of the Mura and Idrijca Rivers being used for generation of electricity;
- projects for using other renewable energy sources (biogas, solar energy, wind energy);
- modernising technologies at thermal facilities and realisation of investment in the construction of TEŠ's Unit 6;
- preserving of energy locations and activities in the Zasavje region, where HSE pursues a healthy economic, environmental, technical and human resources policy, at the same time complying with the RS's commitments to the EU and respecting the justified interests of the local community in which the TPP operates; and
- actively participating in technological development in the field of CSS (carbon capture and storage) and ZEPP (zero or very low greenhouse gas emission power plant); to this end HSE proposed to the Government of the RS to classify the TET location as one of the possible locations for pilot CCS technology projects.

By implementing these projects we could greatly reduce the import dependence of Slovenia in the future. Being aware that merely the increase of production capacities is not a sustainable solution in the long run, as the approach to safer and above all efficient use of electricity is also important, HSE will in the future conduct Pan-Slovene campaigns to promote efficient use of energy among industrial and household consumers.

Consolidation and streamlining of operations

The main goals in the consolidation and streamlining of operations are:

- providing competitiveness by reducing operating costs;
- reorganising the organisational structure of the HSE Group and individual companies;
- eliminating unnecessary assets and activities;
- consolidating supplier chains;
- redesigning business processes; and
- efficiently managing all types of risks.

Human resources management

In human resources management the HSE Group has chiefly been in pursuit of the following goals:

- providing training – investing in developing employee skills;
- competence, enthusiasm, satisfaction and motivation of employees;
- reducing the number of employees in electricity production, while creating jobs for complementary services within energy and environmental activities;
- ensuring continued (re)training; and
- providing a quality working life.

Financial resources management

In the area of financial resources management the major goals are:

- assurance of short and long-term liquidity;
- financial risk management;
- provision of optimal financing sources;
- managing an optimal financial policy; and
- optimal structure of financing sources and capital composition.

The fact is that investments in new capacities for electricity production are ever more demanding in terms of organisation and finance. The HSE Group is aware of that fact and through an active policy for searching for suitable financing sources and flexible organisation makes sure that the projects which are of strategic importance for it are carried out in due time and within the set framework in spite of changed circumstances.

Research and development

In research and development the HSE Group will provide for:

- acceleration of strategic projects in the fields of: creation of value for the Company, implementation of projects to avoid risks, increase performance and seize opportunities to expand the HSE Group and promote innovation and know-how, while complying with legal and other binding requirements of the RS and the EU; and
- monitoring and supervision of studies made by other research institutions.

The HSE Group strives to actively participate in the drafting of expert bases for the adoption of suitable implementation plans to meet the commitments with the RS also as regards energy policy.

2.16 Important events after the end of the period

On 14 January 2009 the Supervisory Board of HSE adopted the Business Plan of HSE for 2009. In February, the Supervisory Boards/General Meetings of subsidiaries adopted the 2009 business plans of DEM, SENG, TET, PV, HSE Invest and HESS.

DEM impaired a loan in the amount of € 18,600,000 based on the estimate of the recoverable principal amount arising from a mortgage-backed loan. The impaired value of the loan is thus € 2,400,000. The said change has already been considered in the financial statements of the HSE Group for 2008.



03 Social responsibility report

3,897

was the number of HSE Group employees at the end of 2008. We realise that the Group's strength derives from its employees, who are important promoters of knowledge and values, key "architects" of the organisational culture and, consequently, the source of competitive advantage, as well as our spokespersons both inwards and outwards.

3.1 Responsibility to employees

In 2008 we maintained the planned growth of the company's and the group's operations, achieving operating results that benefit all our key stakeholders: the owner, employees, business partners and the community into which we are integrated. We showed once again that we were successful in combining the policies and sources in individual areas and that we keep track of the present and play an active role in creating the future. We became partners with all major stakeholders in the society, and this is our source of strength, competitive edge and a catalyst for change which brings new challenges and opportunities and provides possibilities to progress and develop as planned.

We respond to global change by increasingly focusing on employees and by constantly raising awareness not only about our own but also broader social responsibility. We can boast that 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 our spokespersons both inwards and outwards.

HR policy

Our human resources policy can be briefly summarised as follows: "We have come to terms with change and adapted to it, which is why we are always ready to start fresh and share our knowledge and experience as this enables us to strengthen our advantages even further."

One of the sources of our advantage is also the creation and provision of conditions and environment which help our employees achieve their personal ambitions, and we also encourage taking reasonable risks, which is a precondition for further development and build up of strength in uncertain situations as well as for achieving the strategic goals of the HSE Group. Systematic human resources management and an orientation towards training and motivation ensure the satisfaction of employees, their confidence and commitment, and their loyalty to the Group, which in turn ensures our future development and success. We need individuals who are willing to fully commit to achieving noticeable and measurable operating results and who are dedicated to implementing business visions and strategies. We are aware that strategies alone do not lead to success. Success is achieved by people and the values guiding them.

The 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 to continue a programme for the protection and strengthening of health in the working and living environments.

3.1.1 Employees in the controlling company

The leading position of the HSE Group in the Slovene energy system, which also means being the main

promoter of secure and reliable electricity supply in Slovenia, makes us a very attractive employer: job applications are received both from applicants with established careers as well as those at the beginning of their careers. The recruitment policy is based on a combination of:

- recruitment from within the HSE Group or the internal labour market, which offers highly qualified experts of various profiles and with a wide range of general and specific competences; for staff being transferred to the parent company, such recruitment represents promotion, career prospects and a reward for successful performance;
- the external labour market, by means of which an inflow of fresh ideas, energy, different views and experience is ensured.

As regards executives and experts, the policy of training own staff prevailed.

All of the above is also reflected in recruitment. In the period from January to December 2008, the number of employees increased by three compared with 31/12/2007. The company thus had 112 employees as at 31/12/2008.

The actual number of employees is by 7% or 8 employees short of the number envisaged in the 2008 business plan, in particular due to the following reasons:

- three employees left the company;
- a call for applications was published in the last quarter of 2008 but the selection process was not completed before the beginning of 2009;
- employment of a scholarship recipient in January 2009;
- due to changed conditions, some of the calls for applications to fill positions in administration support, internal audit, marketing and sales, and production, and to hire an intern were not carried out.

The recruitment dynamics was spread evenly between both halves of the year, with three workers being employed in each half.

NUMBER OF HSE D.O.O. EMPLOYEES

01/01/2008	109
31/12/2008	112

Voluntary pension insurance

HSE has had its pension plan or a voluntary supplementary pension insurance programme in place since 2002 when the first workers were transferred to HSE from its subsidiaries. The programme is operated by Kapitalska družba d.d. and the majority of employees contribute to it. Offering a long-term form of saving in each individual's personal account, the company aims to provide its employees with an additional pension and a higher quality of life when they end their careers.

Employees and the 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 business, professional and sports associations.

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

Training

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 2008 the company allocated 0.01% of its net sales revenue to training and education. The breakdown of training by the number of hours reveals that 2,000 hours were allocated to professional training in 2008.

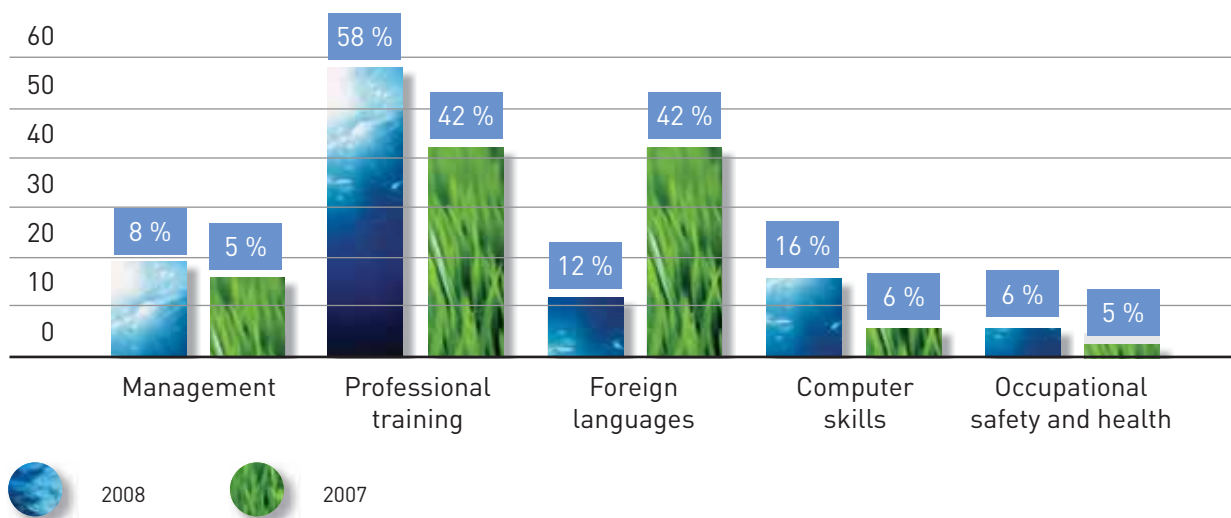
All types of training were attended by 80% of employees, and 3,477 hours were used for this purpose, which is 932 hours less than in 2007. On average, 31 hours of training were carried out per employee (part-time studies are not included in this figure). In some segments of education, employees already reached the highest possible level in the previous years.

In addition to the development 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 2008, 20 employees completed their part-time studies, of which 10 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

Breakdown of training in 2008 and 2007



for course type, electrical engineering and economics courses were the most common.

In accordance with education agreements, HSE currently co-finances the studies of 13 employees or 62% of all part-time students in the company. The company also keeps track of employees who are involved in education at their own initiative. In accordance with the collective labour agreement, HSE grants this last group 7 days of study leave per calendar year. Employees are only entitled to receive financial assistance once they have completed their first year of studies.

At the moment, 21 employees or slightly less than a fifth of all employees are involved in part-time studies. This figure includes employees who have an education agreement with HSE and those who are engaged in the studies at their own initiative. The structure of part-time studies shows that two employees are involved in postgraduate doctorate studies, nine 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 bachelor's degree in economics, and one takes part in undergraduate studies to become a business administrator.

In accordance with the business plan, education agreements were concluded with five employees in

2008, as follows:

- two education agreements for the acquisition of specialist knowledge following the university studies;
- two education agreements for the financing of masters studies under the Bologna system, specifically the course Sales and Marketing provided by the School of Commercial and Business Sciences Celje and the course Organisation and Management of Information Systems provided by the Faculty of Organisational Sciences Kranj;
- one education agreement for the financing of undergraduate higher education studies, specifically the Business School Programme, the course Management, provided by the Faculty of Economics in Ljubljana.

Scholarships

The students involved in development 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 2008 the company renewed a scholarship contract with a student engaged in university electrical engineering studies. The total number of scholarship-receiving students was two as at 31/12/2008.

3.1.2 Employees in the HSE Group

At the end of 2008, the HSE Group had 3,897 employees, which is 3% less than on 31/12/2007.

Education structure

The employee education structure of the HSE Group has been improving over the years.

Thematic workshops

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

In 2008 the seminars New Provisions in the Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act (ZFPPZIPP) and Management and Supervisory Bodies' Liability for Damages were organised for the HSE Group.

Number of HSE Group employees

COMPANY	31/12/2008	%	31/12/2007	%	IND 08 / 07
HSE	112	2.9	109	2.7	103
DEM	279	7.2	277	6.9	101
SENG	126	3.2	125	3.1	101
TEŠ	490	12.6	508	12.6	96
TET	220	5.6	225	5.6	98
PV Group	2,619	67.2	2,736	68.0	96
HSE Invest	49	1.3	42	1.0	117
HESS	0	0.0	0	0.0	0
HSE Italia	0	0.0	0	0.0	0
HSE Balkan Energy	1	0.0	2	0.0	50
HSE Hungary	0	0.0	0	0.0	0
HSE Adria	1	0.0	1	0.0	100
HSE Bulgaria	0	0.0	0	0.0	0
TOTAL	3,897	100.0	4,025	100.0	97

Number of employees as at 31/12/2008 and average number of employees in 2008 by education level

Education level	Number of employees as at 31/12/2008		Average number of employees in 2008	
	Controlling company	HSE Group	Controlling company	HSE Group
I.	0	285	0	304
II.	0	193	0	206
III.	0	16	0	16
IV.	1	1,587	1	1,637
V.	12	1,052	12	1,056
VI.	14	324	15	314
VII.	65	407	64	397
VIII. in IX.	20	33	20	34
TOTAL	112	3,897	111	3,962

3.2 Responsibility to the natural environment

Environment-friendly

Slovenia entered the EU with a comparatively well preserved natural environment and with the awareness that the environment is one of the pillars of future sustainable development.

The HSE Group designed its environmental policy at the very beginning of its operations. Its basic components can be summarised as follows:

- to produce electricity with a 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 promote the development of RES,
- to achieve a partnership with local communities and 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 and the controlling company have 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. Thanks to environmental rehabilitation and modernisation, both thermal power plants also introduced more environment-friendly technologies, while PV was among the first coalmines in the world to demonstrate comprehensive and responsible environmental management in compliance with the requirements of the respective standard.

Renewable energy sources

Following the example of European countries, the area of RES is developing quickly in Slovenia. Under the Slovene Energy Act, renewable energy sources are the sources that are entirely or predominantly renewable in the natural environment. These primarily include hydropower, wind, biomass, geothermal and unaccumu-

lated solar energy. The Act is based on guidelines from EU directives, and being an EU member state Slovenia is obliged to increase the use of E-RES from 29.9% in 1999 to 33.6% until 2010. In December 2008, the final text of the new EU directive on RES was adopted. The directive prescribes for each EU country a general goal regarding the share of RES in the ultimate energy consumption for the year 2020. For Slovenia, this share amounts to 25%.

In terms of volume, energy from hydropower plants is the most important source of electricity from renewable sources in Slovenia. The area of renewable energy sources is therefore highly important, both for the operation and the future external image of the Group. In the area of energy supply from renewable sources, activities were launched in the second half of 2004 in connection with the establishment of the domestic E-RES market (Blue Energy), participation in the drawing up of implementing regulations covering this area and international activities relating to the sale of renewable certificates abroad.



Modra energija (Blue Energy)

HSE set up the Modra energija (Blue Energy) project in 2004 in collaboration with distribution companies. The project is aimed at encouraging the development of energy production from renewable sources, establishing the market in such energy and selling this energy in Slovenia. The sales of Modra energija (Blue Energy) began in January 2005. Since 1 July 2007, i.e. from the full liberalisation of the electricity market onwards, Modra energija (Blue Energy) has become available to business as well household customers. In 2008 the number of customers and the volume of the Modra energija (Blue Energy) sold increased significantly – to 2,189 and 36 GWh, respectively.

In accordance with the contract entered into by Modra energija (Blue Energy) project partners, the majority of proceeds from the sale of Modra energija (Blue Energy) (60%) goes into the Modri sklad (Blue Fund), which

is intended to promote the production of E-RES, research aimed at accelerating the production of E-RES and development, and refurbishment and construction of E-RES facilities. All hydropower plants of the HSE Group holding the international RECS certificate take part in the Modra energija (Blue Energy) project. In Slovenia, HSE and distribution companies sell the energy produced from renewable sources under the Modra energija (Blue Energy). HSE guarantees the renewability of the energy to the project partners by realising an appropriate number of RECS certificates on their behalf. Modra energija (Blue Energy) is 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 of the promotion of Modra energija (Blue Energy). The brand and the logo that were designed as part of the project are protected.

3.3 Responsibility to the broader social community

The HSE Group operates and does business not only by observing the principles of good management but also by considering the lives and activities of people living in the environment in which the Group operates. The responsibility to the community is a guideline which directs us towards a society which is friendly in more than one way.

The HSE Group makes various contributions to the community in which it is situated. To some extent, it makes up for its activities by constructing buildings which use natural resources to produce electricity, thus supporting the development of tourism, and by introducing new and cleaner technologies, restoring roads and watercourses, and maintaining public infrastructure and facilities. The responsibility to the community is also demonstrated through compensation paid to the affected parties.

The successful implementation of environment protection measures in previous years enabled TEŠ to further reduce emissions from flue gases at most of its combustion plants. Thanks to the measures taken so far, it managed to keep annual and monthly averages of pollutants, such as NO_x, CO, SO₂ and dust, below

emission thresholds at all large combustion plants. All large combustion plants operated within the tolerance margin of 120 hours (the so-called purification plant shutdown status). In 2008 TEŠ also produced 3.3% of electricity from CO₂-neutral biomass. Owing to the use of gas and biomass in the production of electricity, CO₂ emissions were cut by 46,686 tons and 137,975 tons, respectively, in the period concerned. The overall decrease in CO₂ emissions thus stood at 184,661 tons. Further investments (upgrading of Units 4 and 5, construction of the 600 MW Unit 6) will help decrease the impact on the environment even further. This is explained in more detail in chapter 2.9 Investments.

In conformity with its vision, the company TET continuously monitors the appropriateness and efficiency of the quality and environment management system to ensure ongoing improvements. In addition to the automated measurement of flue gases, the quality of cooling water and the measurements at six immision sites, laboratory measurements were set up as part of TET's environmental information system. TET also set up precipitation collectors at all six immision sites. Based on monthly precipitation and sediment samples it then determines their acidity, electroconductivity and the content of sulphates, nitrates, chlorides, ammonia and the metals Na, K, MG and Ca. In accordance with its development strategy, TET has also provided for the restoration of the landscape, i.e. the greening of the south bank and of the flat part of the disposal site, and the greening of the north bank once the depositing has ended. The greening of ash-covered surfaces protects the soil against water and wind erosion. Ash and slag deposits are covered in their entirety with around 20 cm of soil. The surfaces are planted with trees, various types of grass and oat, which germinates and grows relatively quickly, thus providing shadow for slower growing plants. Thanks to the dampening and greening of ash deposits, dust emissions were reduced completely.

Over the last decade, DEM's environmental projects focused mainly on the clean-up of reservoirs and, through this, the revitalisation and maintenance of embankments. Appropriate maintenance of reservoirs and embankments is also the basis for the development of tourist and recreational activities.

In addition to energy exploitation planning, SENG

combines various interests in its area by seeking opportunities to exploit the area for multiple purposes, such as water management, water supply, fish farming, fishing, tourism and recreational activities. The combination and harmonisation of all interests not only brings improvement to the wider area but above all provides opportunities for a comprehensive demographic and environmental development. Local communities thus enjoy more opportunities to undertake additional activities, improved public infrastructure, better landscaping and stable slopes.



energija si **bodi učinkovit**

The number of supporters of the "Energija si – be efficient" campaign increased once again in the past year. The campaign is joined every day by established and

large Slovene companies that wish to contribute to raising awareness about electricity efficiency, which is a precondition for sustainable development and lower costs. The fact that we no longer have to encourage companies to take part in the campaign but instead the companies do so at their own initiative further demonstrates that we are on the right path, the path which, like a chain reaction, paves the way for a positive attitude towards the environment and people who live in it.

The HSE Group supports numerous associations and institutions which require additional funding to operate. The sponsoring of sports clubs and donations to educational, science, arts and humanitarian institutions, individuals and associations which are the most in need of support are an integral part of our social responsibility.

We are pleased and proud to be able to contribute to the development of Slovenia's messengers at home and abroad, and at the same time these activities certainly effectively contribute to HSE's promotion.



04 Financial report of the company HSE

5 Was HSE's ranking on Delo FT's list of the largest Slovene companies in terms of net profit, which stood at € 53,756,215. HSE was thus once again ranked as one of the most successful Slovene companies, improving its ranking by 41 places compared with 2007.

4.1 Introductory notes

Basis of preparation

The 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 2008) in the financial year 2008, which corresponds to the calendar year.

The financial statements have been presented in euros.

Significant accounting assumptions and qualitative characteristics of financial statements

The financial statements have been prepared by observing the following significant accounting assumptions:

- accrual basis,
- going concern,

and required qualitative characteristics:

- going concern,
- consistency of valuation methods,
- prudence,
- recognition of revenue and expenses irrespective of their payment,
- individual valuation of assets and liabilities.

Foreign exchange rate and method of conversion to the national currency

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

The balance of assets and liabilities expressed in a foreign currency was translated on 31/12/2008 at the exchange rate of the Bank of Slovenia. The resulting foreign exchange differences have been carried as finance income or finance expenses.

The following exchange rates were used for the conversion of assets and liabilities expressed in a foreign currency:

- € as at 31/12/2008 = USD 1.3917 (USA),
- € as at 31/12/2008 = CZK 26.875 (the Czech Republic),
- € as at 31/12/2008 = HRK 7.3555 (Croatia),
- € as at 31/12/2008 = HUF 266.70 (Hungary),
- € as at 31/12/2008 = CHF 1.485 (Switzerland),
- € as at 31/12/2008 = BGN 1.9558 (Bulgaria),
- € as in December 2008 = RSD 89.3718 (Serbia),
- € as in December 2008 = MKD 60.5996 (Macedonia),
- € as at 31/12/2008 = RON 4.0225 (Romania),
- € as at 31/12/2008 = SKK 30.126 (Slovakia).

Accounting policies

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

Transfer of project “Joint venture for the construction of HPPs on the lower Sava River” to the company HESS

The investment in the construction of HPPs on the lower Sava River, which had been part of the joint venture, i.e. the project of the construction of HPPs on the lower Sava River (hereinafter: the joint venture) and had been carried at its full amount in the company's books of account until 31/12/2007, was transferred to HESS as in-kind contribution in 2008 (for more details on the transfer of the joint venture for the construction of HPPs on the lower Sava River see chapter Presentation of the HSE Group).

The company HESS was entered in the Companies Register on 1 April 2008, with its initial capital amounting to € 200,000. The capital increase made by means of an in-kind contribution was entered in the Companies Register on 1 July 2008. This was accompanied by the transfer of the concession right to HESS. Given the agreed cut-off date on which the in-kind contribution to the company HESS (31/12/2007) was accounted for, all economic impacts of the joint venture's operations have been attributed to the company HESS since 01/01/2008. This was done in accordance with Interpretation 1 of SAS 22 (Management of books of account in mergers and divisions). Consequently, all revenue and expenses for 2008 were posted to the company HESS together with relevant assets and liabilities, while a long-term investments in the company HESS was recorded to reflect the net value of the joint venture's assets and liabilities attributable to HSE according to its books of account as at 31/12/2007. Like in the joint venture, HSE's interest in the company HESS amounts to 51%.

Company branch offices

The company has two foreign branch offices - in the Czech Republic and in Slovakia. The results of their operations have been included in the company's financial statements.

Intangible assets

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

An item of intangible fixed assets is initially carried at cost. The cost also includes import duties and non-refundable purchase taxes. The cost does not include interest incurred prior to the origination of an intangible asset.

After recognition, intangible assets are measured using the cost model.

Their value is subsequently lowered by the amount of amortisation recorded in the accumulated amortisation account. 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 assets is amortised individually using the straight-line amortisation method. Amortisation begins when an intangible asset is available for use. The amortisation rates applied to individual types of intangible assets are based on their envisaged useful lives.

Property, plant and equipment

Property, plant and equipment are part of 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, which comprises 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 an item of property, plant and equipment to bring the asset to its working condition. The cost does not include costs incurred upon the dismantling or removing of the items of property, plant and equipment.

The spare parts of higher value are recorded as property, plant and equipment and depreciated over the useful life of the related asset.

Following recognition, the items of property, plant and equipment are measured using the cost model.

In the bookkeeping records the cost and accumulated depreciation of items of property, plant and equip-

ment are recorded separately, 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.

Recognition of an item of property, plant and equipment in the bookkeeping records and the balance sheet is reversed if an asset is disposed of. The difference between the net selling price and the carrying amount of a disposed of item of property, plant and equipment is recorded as revaluation operating revenue or expense.

The depreciation of property, plant and equipment items begins on the first day of the month following the month in which an item becomes available for its intended use. Depreciation is accounted for individually on a straight-line basis. The depreciation rates applied to the individual types of property, plant and equipment are based on their envisaged useful lives.

Investments

Investments are considered as the company's assets, the return on which is used to increase the company's finance income. Upon initial recognition, investments are recorded at historical cost plus the costs attributable directly to the transaction (except for investments measured at fair value through profit and loss).

In the company's books of account, investments are recognised based on their settlement date (payment date).

After initial recognition, investments are carried at cost in the company's financial statements (which also includes investments in subsidiaries and associates) and are recorded as available-for-sale financial assets. Because their fair value cannot be determined (this is not the case with derivatives), they are not revalued and, consequently, do not affect revaluation surplus. Any indications of their impairment are determined on an annual basis.

Based on the envisaged settlement or the reason for

holding an investment, investments are recorded as long-term or current assets in the balance sheet.

Inventories

Inventories, being part of the company's current assets, are initially recognised at cost, which comprises their purchase price, import duties and other non-refundable purchase taxes, as well as direct costs of purchasing. The purchase price is decreased by the discounts obtained.

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

Receivables

The company's assets include receivables as the rights arising from property and other legal relationships to demand the settlement of a debt or delivery of items or services from a specific person. All receivables are initially recognised at amounts recorded in relevant documents on the assumption that they will be collected.

In the balance sheet, receivables are disclosed in their net amounts, meaning they are reduced by any allowances for disputed and doubtful receivables. The allowances for receivables are made on an individual basis. If receivables are not collected in a certain period, they are considered doubtful. If legal proceedings have been initiated in relation to them, they are considered disputed.

Receivables of smaller values are written off based on a management's decision if it is determined that the costs of collection of such overdue receivables exceed the amount of the receivables, making a further collection economically unviable.

Depending on their maturity, receivables are carried as long-term or current assets in the balance sheet.

Cash

Cash represents deposit money, i.e. cash in bank accounts that can be used for payments. 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 due to changes in foreign exchange rates if cash is denominated in foreign currencies.

Short-term accrued revenue and deferred costs

Short-term accrued revenue and deferred cost items comprise short-term deferred costs and short-term accrued revenue.

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

Short-term accrued revenue represents amounts that have been included in profit or loss but have not yet been charged.

Equity

Total equity is defined by the amounts invested by owners and the amounts generated during operation and belonging 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 decisions adopted by the Supervisory Board and the General Meeting.

Net profit or loss represents the undistributed portion of the company's net profit or loss for the current year.

Revaluation surplus includes the value of hedging derivatives.

Provisions and long-term accrued costs and deferred revenue

Provisions are created for obligations that are expected to arise from obligating past events in the coming periods and the value of which is based on the estimated present value of expenses that are expected to be required to settle such obligations. The amount of provisions for jubilee benefits and termination ben-

efits was estimated on the basis of an actuarial calculation. More detailed disclosures on the creation of provisions are available in the financial report of the HSE Group.

Long-term accrued cost and deferred revenue items relate to long-term accrued costs.

Long-term liabilities

Long-term liabilities are recognised obligations associated with the financing of own assets that need to be settled in cash in a period of more than one year. They are measured at cost.

The portion of long-term liabilities that is due to be settled within a year of the balance sheet date is recorded as a short-term liability.

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

Long-term operating liabilities arise from relations between the company and business partners based on the contracts concluded.

Short-term liabilities

Short-term liabilities are recognised obligations associated with the financing of own assets that need to be settled in cash in a period of less than a year. They are measured at cost.

Short-term financial liabilities include a portion of long-term financial liabilities that falls due within a year of the balance sheet date. Accounted for but not yet due interest on short-term financial liabilities is recorded as other short-term operating liabilities.

The carrying amount of short-term operating liabilities equals the amount recorded in relevant documents containing information about their inception.

Short-term accrued costs and deferred revenue

Short-term accrued cost and deferred revenue items comprise short-term accrued costs and value added tax on advance payments made. To be able to charge them evenly against profit or loss, the costs that have not yet occurred but are expected to arise are recorded as accrued costs.

Derivatives

Derivatives are financial instruments, the value of which changes in response to a change in an interest rate or commodity or security price and which require no initial net investment.

The company uses derivatives for trading (futures on electricity and CO₂ emission coupons) and hedging purposes (interest rate swaps, futures on electricity and CO₂ emission coupons).

The gains and losses on financial instruments held for trading are recognised directly in the income statement.

Hedging derivatives are used for cash flow hedging; hence a portion of the gain or loss on hedging that is considered as effective is recognised in equity, with the difference being recognised in profit or loss.

The gain or loss that is recognised in equity is transferred to profit or loss in the period in which the profit or loss is affected by the hedged item.

In the books of account, futures are recorded using the 'net' principle, which means that the value of futures is recorded as an off-balance sheet item.

Off-balance sheet records

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

Revenue

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

Revenue is recognised when it can be reasonably expected it will result in receipts, unless such receipts arose when the revenue was recorded.

Revenue from the sale of services and merchandise is measured at selling prices indicated in invoices and other documents.

Revaluation operating revenue is revenue arising from the disposal of property, plant and equipment, revenue from the reversal of provisions, and revenue from the reversed impairment of investments. It is recognised on the basis of issued invoices or other relevant documents.

Finance income arises in connection with long-term and short-term investments and in connection with receivables and short-term liabilities. Finance income is recognised upon the settlement of accounts irrespective of receipts, unless there is reasonable doubt as to their 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 is comprised of extraordinary items. They are disclosed in actual amounts.

Expenses

Expenses are recognised if decreases in economic benefits during an 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 the completion of services. Amortisation and depreciation are accounted for at agreed-upon rates based on the estimated use of intangible assets and property, plant and equipment.

Revaluation operating expenses comprise the excess of the carrying amount over the selling price of property, plant and equipment, write-off of property, plant and equipment, and write-off of doubtful receivables.

Finance expenses arise in connection with liabilities, intangible assets and short-term receivables. They are recognised when the statements of account are prepared, regardless of the payments associated with

them. Interest is recognised in proportion to the past year and based on the outstanding amount of the principal balance and an agreed-upon interest rate.

Other expenses are comprised of extraordinary items. They are disclosed in actual amounts.

Reporting by business and geographical segments

The company divides its net sales revenue by two geographical segments, i.e. domestic market and foreign market. Foreign markets and profits or losses on those markets have not been presented in more detail because the company estimates that the disclosure of such information might be detrimental to the company. As far as geographical segments are concerned, the company's assets and liabilities represent an indivisible unit.

Because operating conditions and risks of individual groups of products are similar, the company does not break down operations by business segment.

Taxation

The company is liable to pay tax under the Value Added Tax Act, the Excise Duty Act, and the Corporate Income Tax Act. The branch offices in the Czech Republic and in Slovakia are liable to pay corporate income tax and value added tax.

Deferred taxes

Deferred taxes are intended for covering temporary differences between the carrying amount and tax values of assets and liabilities. Deferred tax assets represent the assessed amount of corporate income tax and deductible temporary differences, which results 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 2008, the notes thereto, and the accounting policies applied.

We confirm that the accounting policies have been applied consistently during the preparation of the financial statements, that the accounting estimates were prepared on the principles of prudence and good management and that the annual report gives a true and fair view of the financial position of the company and the results of its operations in the year 2008.

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.



Viljem Pozeb, M.Sc.
Managing Director of HSE



Jože Zagožen, Ph.D.
Managing Director of HSE

Ljubljana, 31/03/2009

4.3 Auditor's report

Deloitte.

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

Report on the Financial Statements

We have audited the accompanying unconsolidated financial statements of the company Holding Slovenske elektrarne d.o.o., which comprise the balance sheet as at 31 December 2008, 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.

Ime Deloitte se nanaša na eno ali več družb članic švicarskega združenja Deloitte Touche Tohmatsu, od katerih je vsaka ločena in samostojna pravna oseba. Podroben opis pravne organiziranosti združenja Deloitte Touche Tohmatsu in njenih družb članic je na voljo na www.deloitte.com/si/nasa-druzba.

Member of Deloitte Touche Tohmatsu

Opinion

In our opinion, the unconsolidated financial statements present fairly, in all material respects, the financial position of the company Holding Slovenske elektrarne d.o.o. as of 31 December 2008, and its financial performance and its cash flows for the year then ended in accordance with Slovenian Accounting Standards.

The company Holding Slovenske elektrarne d.o.o. is the controlling company of the Group Holding Slovenske elektrarne and prepares consolidated financial statements in accordance with Slovene Accounting Standards. Consolidated financial statements of the Group Holding Slovenske elektrarne for the year ended 31 December 2008 will be presented separate.

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.

Barbara Žibret Kralj
Certified Auditor



Deloitte.
DELOITTE REVIZIJA D.O.O.
Ljubljana, Slovenija [†]

Yuri Sidorovich
President of the Board



Ljubljana, 22. maj 2009

TRANSLATION ONLY – SLOVENIAN ORIGINAL PREVAILS

4.4 Balance sheet

in €

ITEM	NOTE	31/12/08	31/12/07
ASSETS		1,158,781,276	1,141,859,460
A. LONG-TERM ASSETS		951,519,702	959,861,366
I. Intangible assets and long-term accrued revenue and deferred costs	1	8,178,427	8,430,458
1. Long-term property rights		8,178,427	8,430,458
II. Property, plant and equipment	2	6,774,756	127,881,827
1. Land and buildings		1,737,447	34,366,074
b) Buildings		1,737,447	34,366,074
2. Production plant and equipment		0	32,135,455
3. Other plant and equipment		2,613,773	2,978,545
4. Property, plant and equipment being acquired		2,423,536	58,401,753
a) Property, plant and equipment in the course of construction		2,423,536	50,225,843
b) Advances for acquisition of property, plant and equipment		0	8,175,910
IV. Long-term investments	3	929,662,269	819,063,439
1. Long-term investments, excluding loans		929,662,269	819,063,439
a) Shares and interests in group companies		885,578,229	774,510,519
b) Shares and interests in associates		545,500	543,850
c) Other shares and interests		43,536,871	43,536,871
d) Other long-term investments		1,669	472,199
V. Long-term operating receivables	4	2,715,058	125,188
3. Long-term operating receivables from others		2,715,058	125,188
VI. Deferred tax assets	5	4,189,192	4,360,454
B. CURRENT ASSETS		202,115,396	175,916,067
II. Inventories		779	82,581
1. Materials		779	1,897
4. Advances for inventories		0	80,684
III. Short-term investments	6	68,242,000	16,909,850
2. Short-term loans		68,242,000	16,909,850
a) Short-term loans to group companies		0	3,246,850
b) Short-term loans to others		68,242,000	13,663,000
IV. Short-term operating receivables	7	127,497,862	155,083,914
1. Short-term operating receivables from group companies		1,615,189	2,934,124
2. Short-term operating trade receivables		97,575,738	120,300,699
3. Short-term operating receivables from others		28,306,935	31,849,091
V. Cash	8	6,374,755	3,839,722
C. SHORT-TERM ACCRUED REVENUE AND DEFERRED COSTS	9	5,146,178	6,082,027
OFF-BALANCE SHEET RECORDS	15	238,366,872	225,623,904

BALANCE SHEET (continued)

in €

ITEM	NOTE	31/12/08	31/12/07
LIABILITIES		1,158,781,276	1,141,859,460
A. EQUITY	10	798,817,478	757,166,486
I. Called-up capital		29,558,789	29,558,789
1. Nominal capital		29,558,789	29,558,789
II. Capital surplus		561,243,185	561,243,185
III. Revenue reserves		169,502,829	138,319,123
5. Other revenue reserves		169,502,829	138,319,123
IV. Revaluation surplus		11,634,567	21,839,790
VI. Net profit or loss for the period		26,878,108	6,205,599
B. PROVISIONS AND LONG-TERM ACCRUED COSTS AND DEFERRED REVENUE	11	19,175,683	7,943,631
1. Provisions for pensions and similar liabilities		431,612	410,915
2. Other provisions		17,272,737	7,532,716
3. Long-term accrued costs and deferred revenue		1,471,334	0
C. LONG-TERM LIABILITIES	12	161,302,465	156,475,386
I. Long-term financial liabilities		161,267,186	96,929,963
2. Long-term financial liabilities to banks		161,118,007	96,929,963
4. Other long-term financial liabilities		149,179	0
II. Long-term operating liabilities		35,279	59,545,423
1. Long-term operating liabilities to group companies		0	39,960,823
2. Long-term operating trade liabilities		35,279	1,269,223
5. Other long-term operating liabilities		0	18,315,377
D. SHORT-TERM LIABILITIES	13	173,979,273	214,764,190
II. Short-term financial liabilities		9,811,956	35,374,714
2. Short-term financial liabilities to banks		9,811,956	35,374,714
III. Short-term operating liabilities		164,167,317	179,389,476
1. Short-term operating liabilities to group companies		130,737,900	103,187,424
2. Short-term operating trade liabilities		28,959,611	66,676,371
4. Short-term operating liabilities from advances		0	38,939
5. Other short-term operating liabilities		4,469,806	9,486,742
E. SHORT-TERM ACCRUED COSTS AND DEFERRED REVENUE	14	5,506,377	5,509,767
OFF-BALANCE SHEET RECORDS	15	238,366,872	225,623,904

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

4.5 Income statement

in €

ITEM	2008	2007
1. Net sales revenue	819,264,527	921,176,077
a) Domestic market	578,426,525	677,506,544
- from relations with group companies	4,827,794	3,854,709
- from relations with others	573,598,731	673,651,835
b) Foreign market	240,838,002	243,669,533
- from relations with group companies	5,022,245	6,365,151
- from relations with others	235,815,757	237,304,382
3. Capitalised own products and own services	0	151,341
4. Other operating revenue (including revaluation operating revenue)	1,041,190	1,974,761
GROSS RETURN ON OPERATIONS	820,305,717	923,302,179
5. Costs of goods, materials and services	766,089,817	895,889,987
a) Cost of goods and materials sold and costs of materials used	759,887,952	888,484,123
b) Costs of services	6,201,865	7,405,864
6. Labour costs	6,545,268	5,950,139
a) Payroll costs	4,884,574	4,332,453
b) Social security costs	981,354	870,592
- of which pension insurance costs	611,140	534,097
c) Other labour costs	679,340	747,094
7. Write-downs in value	1,493,117	16,985,578
a) Depreciation and amortisation	1,458,542	2,236,463
b) Revaluation operating expenses associated with IA and PPE	7,893	37,792
c) Revaluation operating expenses associated with operating current assets	26,682	14,711,323
8. Other operating expenses	11,050,720	1,993,478
TOTAL OPERATING EXPENSES	785,178,922	920,819,182
OPERATING PROFIT OR LOSS	35,126,795	2,482,997
9. Finance income from interests	28,017,618	17,852,896
a) Finance income from interests in group companies	27,800,000	8,502,104
c) Finance income from interests in other companies	0	6,129,694
d) Finance income from other investments	217,618	3,221,098
10. Finance income from loans given	2,037,012	1,673,799
a) Finance income from loans to group companies	12,260	278,603
b) Finance income from loans to others	2,024,752	1,395,196
11. Finance income from operating receivables	1,622,351	1,050,952
a) Finance income from operating receivables due from group companies	0	3,797
b) Finance income from operating receivables due from others	1,622,351	1,047,155
TOTAL FINANCE INCOME	31,676,981	20,577,647
13. Finance expenses for financial liabilities	9,088,733	5,885,832
b) Finance expenses for loans received from banks	7,993,672	5,880,334
d) Finance expenses for other financial liabilities	1,095,061	5,498
14. Finance expenses for operating liabilities	776,715	426,706
b) Finance expenses for trade liabilities and bills payable	71,577	6,732
c) Finance expenses for other operating liabilities	705,138	419,974
TOTAL FINANCE EXPENSES	9,865,448	6,312,538
PROFIT OR LOSS ON ORDINARY ACTIVITIES	56,938,328	16,748,106
15. Other revenue	4,670,086	81,787
16. Other expenses	3	234
PROFIT OR LOSS ON EXTRAORDINARY ACTIVITIES	4,670,083	81,553
TOTAL PROFIT OR LOSS	61,608,411	16,829,659
17. Corporate income tax	7,649,606	6,858,656
18. Deferred taxes	202,590	-2,440,194
19. NET PROFIT OR LOSS FOR THE ACCOUNTING PERIOD	53,756,215	12,411,197

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

4.6 Cash flow statement

in €

ITEMS	2008	2007
A. CASH FLOWS FROM OPERATING ACTIVITIES		
a) Items of income statement	36,072,591	24,112,591
Operating revenue (except from revaluation) and finance income from operating receivables	825,179,356	922,010,409
Operating expenses without depreciation or amortisation (except from revaluation) and finance expenses for operating liabilities	(782,819,664)	(888,847,981)
Income taxes and other taxes not included in operating expenses	(6,287,101)	(9,049,837)
b) Changes in net operating assets in balance sheet items (including accruals and deferrals, provisions and deferred tax assets and liabilities)	17,283,733	6,583,038
Opening less closing operating receivables	22,731,312	(50,367,368)
Opening less closing accrued revenue and deferred costs	935,849	(4,919,277)
Opening less closing deferred tax assets	202,590	(2,440,194)
Opening less closing inventories	81,802	(79,306)
Closing less opening operating liabilities	(8,008,971)	61,359,423
Closing less opening accrued costs and deferred revenue, and provisions	1,341,151	3,029,760
c) Net cash from operating activities (a + b)	53,356,324	30,695,629
B. CASH FLOWS FROM INVESTING ACTIVITIES		
a) Cash receipts from investing activities	857,726,055	1,622,429,706
Interest and dividends received from investing activities	30,054,630	19,486,880
Cash receipts from disposal of intangible assets	6,789,804	192,631
Cash receipts from disposal of property, plant and equipment	16,771	27,107
Cash receipts from disposal of short-term investments	820,864,850	1,602,723,088
b) Cash disbursements from investing activities	(938,112,626)	(1,728,586,504)
Cash disbursements to acquire intangible assets	(5,643,872)	(644,989)
Cash disbursements to acquire property, plant and equipment	(1,607,210)	(29,389,211)
Cash disbursements to acquire long-term investments	(50,414,544)	(112,169,375)
Cash disbursements to acquire short-term investments	(880,447,000)	(1,586,382,929)
c) Net cash from investing activities (a + b)	(80,386,571)	(106,156,798)
C. CASH FLOWS FROM FINANCING ACTIVITIES		
a) Cash receipts from financing activities	161,000,000	227,191,555
Cash proceeds from increase in long-term financial liabilities	74,000,000	64,091,555
Cash proceeds from increase in short-term financial liabilities	87,000,000	163,100,000
b) Cash disbursements from financing activities	(131,434,720)	(152,071,090)
Interest paid on financing activities	(7,160,006)	(4,855,133)
Cash repayments of long-term financial liabilities	(6,374,714)	0
Cash repayments of short-term financial liabilities	(116,000,000)	(138,265,103)
Dividends and other profit shares paid	(1,900,000)	(8,950,854)
c) Net cash from financing activities (a + b)	29,565,280	75,120,465
D. CLOSING BALANCE OF CASH		
x) Net cash flow for the period	2,535,033	(340,704)
y) Opening balance of cash	3,839,722	4,180,426

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

4.7 Statement of changes in equity

For the year 2008

ITEMS	Called-up capital		Revenue reserves		Revaluation surplus	Retained net profit or loss	Net profit or loss for the period	TOTAL
	Nominal capital	Capital surplus	Other revenue reserves					
						Net profit for the year		
A. As at 01/01/2008	29,558,789	561,243,185	138,319,123	0	21,839,790	6,205,599	0	757,166,486
B. Movements to equity	0	0	0	0	62,261,577	0	53,756,215	116,017,792
e) Net profit or loss for the period							53,756,215	53,756,215
g) Other increases in components of equity					62,261,577			62,261,577
C. Movements within equity	0	0	31,183,706	0	0	(4,305,599)	(26,878,107)	0
a) Allocation of net profit as a component of equity in accordance with a management and supervisory board decision			26,878,107				(26,878,107)	0
b) Allocation of net profit to additional reserves in accordance with a general meeting resolution			4,305,599			(4,305,599)		0
D. Movements from equity	0	0	0	0	(72,466,800)	(1,900,000)	0	(74,366,800)
a) Payment of dividends					0	(1,900,000)		(1,900,000)
d) Transfer of revaluation surplus (to operating revenue or finance income)					(3,153,071)			(3,153,071)
e) Other decreases in components of equity					(69,313,729)			(69,313,729)
E. Closing balance for the period	29,558,789	561,243,185	169,502,829	0	11,634,567	0	26,878,108	798,817,478
ACCUMULATED PROFIT	0	0	0	0	0	0	26,878,108	26,878,108

in €

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

For the year 2007

ITEMS	Called-up capital		Capital surplus	Revenue reserves		Revaluation surplus	Retained net profit or loss	Net profit or loss for the period	TOTAL
	Nominal capital	Other revenue reserves		Retained earnings	Net profit for the year				
As at 01/01/2007	4,824,807	123,162,670	692,999,922	7,908,714	17,901,709	0	846,797,822		
Spin-off on 01/01/2007	0	0	(131,756,737)	(19,352)	0	0	131,776,089		
A. As at 01/01/2007 after the spin-off	4,824,807	123,162,670	561,243,185	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		
g) Other increases in components of equity				26,836,141			26,836,141		
C. Movements within equity	0	15,156,453	0	0	(8,950,855)	(6,205,598)	0		
a) Allocation of net profit as a component of equity in accordance with a management and supervisory board decision		6,205,598				(6,205,598)	0		
b) Allocation of net profit to additional reserves in accordance with a 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 revenue or finance income)				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	138,319,123	561,243,185	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 the financial statements and should be read in conjunction with them.

4.8 Notes to the financial statements

4.8.1 Balance sheet

General

Information on the basis for the preparation of the balance sheet and on specific accounting policies and methods selected and applied to the company's significant transactions and other business events are presented in notes pertaining to individual assets and liabilities.

The company has no additional information that does not have to be disclosed in the balance sheet but is deemed significant for a true and fair presentation of the company's operations.

In accordance with HESS's contract of members, a capital increase was made by means of an in-kind contribution on 1 July 2008 (transfer of the project of joint venture for the construction of HPPs on the lower Sava River).

The value of the in-kind contribution is shown in the table below. In the balance sheet of the company HSE, the assets decreased by € 132,247,935, with liabilities decreasing by € 71,593,119. The difference of € 60,654,816 is the value of HSE's long-term investment in the company HESS. The transfer of the in-kind contribution did not affect the company's income statement.

Value of in-kind contribution

	in €
ASSETS	(132,247,935)
A. LONG-TERM ASSETS	(121,732,611)
II. Property, plant and equipment	(121,732,611)
1. Land and buildings	(32,586,595)
b) Buildings	(32,586,595)
2. Production plant and equipment	(32,135,455)
3. Other plant and equipment	(106,495)
4. Property, plant and equipment being acquired	(56,904,066)
a) Property, plant and equipment in the course of construction	(48,728,156)
b) Advances for acquisition of property, plant and equipment	(8,175,910)
B. CURRENT ASSETS	(10,515,324)
III. Short-term investments	(8,250,000)
2. Short-term loans	(8,250,000)
b) Short-term loans to others	(8,250,000)
IV. Short-term operating receivables	(2,263,067)
3. Short-term operating receivables from others	(2,263,067)
V. Cash	(2,257)
LIABILITIES	(71,593,119)
C. LONG-TERM LIABILITIES	(59,545,423)
II. Long-term operating liabilities	(59,545,423)
1. Long-term operating liabilities to group companies	(39,960,823)
2. Long-term operating trade liabilities	(1,269,223)
5. Other long-term operating liabilities	(18,315,377)
III. Deferred tax liabilities	0
D. SHORT-TERM LIABILITIES	(10,862,278)
III. Short-term operating liabilities	(10,862,278)
1. Short-term operating liabilities to group companies	(364,283)
2. Short-term operating trade liabilities	(10,497,995)
E. SHORT-TERM ACCRUED COSTS AND DEFERRED REVENUE	(1,185,418)

Exposure to risks associated with individual types of assets and liabilities and their management have been disclosed in the business report.

Assets and liabilities are carried at fair value unless the fair value of an asset or liability cannot be determined. In this case, they are carried at historical cost.

Below we provide the disclosures of individual balance sheet items as at 31/12/2008.

(1) Intangible assets € 8,178,427

Long-term property rights include the following intangible assets:

- software under development or in use,
- CO₂ emission coupons (for trading) and
- investments in other entities' fixed assets.

The software in use comprises various computer applications (ENDUR – for electricity trading, UPIS – management information system, etc.).

Software is amortised at rates ranging from 4.56 to 33.33%, depending on the envisaged useful life.

In 2008 the company reviewed the useful lives of important software items, determining that the useful lives were appropriate given the current expectations regarding the usability of these assets.

In 2008 the company transferred, for a consideration, a concession right associated with HPP Boštanj and HPP Blanca to HESS.

At the beginning of 2008, the company had 729,560 CO₂ emission coupons. In 2008 it purchased 489,338 and sold 843,898 CO₂ emission coupons. On the balance sheet date, the company's stock of CO₂ emission coupons (valid for the period 2008-2012) amounted to 375,000 coupons. During the year, the company used the moving average price method to reduce value of the stock, which was impaired by € 509,780 at the end of 2008 based on an agreement for the sale of the entire stock of coupons.

Cost and accumulated amortisation of intangible assets as at 31/12/2007

			in €
AS AT 31/12/2007	PROPERTY RIGHTS	CO ₂ EMISSION COUPONS	TOTAL
Cost	6,179,572	3,538,366	9,717,938
Accumulated amortisation	1,287,480	0	1,287,480
Carrying amount	4,892,092	3,538,366	8,430,458

Cost and accumulated amortisation of intangible assets as at 31/12/2008

			in €
AS AT 31/12/2008	PROPERTY RIGHTS	CO ₂ EMISSION COUPONS	TOTAL
Cost	4,081,609	6,457,280	10,538,889
Accumulated amortisation	1,850,682	509,780	2,360,462
Carrying amount	2,230,927	5,947,500	8,178,427

Changes in intangible assets

in €

INTANGIBLE ASSETS	LONG-TERM PROPERTY RIGHTS (excluding emission coupons)	CO ₂ EMISSION COUPONS	TOTAL
Carrying amount as at 31/12/2007	4,892,092	3,538,366	8,430,458
Acquisitions	90,683	7,081,428	7,172,111
*Transfers	99,482	0	99,482
Decreases	(2,208,167)	(4,162,514)	(6,370,681)
Amortisation	(643,163)	0	(643,163)
Revaluation	0	(509,780)	(509,780)
Carrying amount as at 31/12/2008	2,230,927	5,947,500	8,178,427

* Note to property, plant and equipment.

(2) Property, plant and equipment € 6,774,756

The value of **buildings** relates to business premises in Ljubljana and Sevnica.

The company's **other plant and equipment** include equipment for the collection of data about electricity production at the Group level, telecommunication network equipment, computer equipment, office equipment and means of transport.

Property, plant and equipment in the course of construction mainly include initial investments in HPPs on the middle Sava River.

In 2008 the software used in the balancing group control centre was transferred from property, plant and equipment in the course of construction to intangible assets in the amount of € 99,482.

The decrease in the value of property, plant and equipment arising from the in-kind contribution associated with the joint venture for the construction of HPPs on the lower Sava River totalled € 121,732,611.

The company does not have any items of property, plant and equipment held under finance lease or mortgage.

The company checked whether there were any reasons for the impairment of property, plant and equipment, determining there were none.

Property, plant and equipment depreciation categories

in €

CATEGORY OF PROPERTY, PLANT AND EQUIPMENT	DEPRECIATION RATE	USEFUL LIFE
Buildings	2% - 3%	33 - 50 years
Furniture	10% - 25%	4 - 10 years
Computer equipment	10% - 50%	2 - 10 years
Small tools	25% - 33.33%	3 - 4 years
Cars	12.5% - 20%	5 - 8 years
Other equipment	15% - 25%	4 - 6,7 years

Cost and accumulated depreciation of property, plant and equipment as at 31/12/2007

in €

AS AT 31/12/2007	BUILDINGS	PRODUCTION PLANT AND EQUIPMENT	OTHER PLANT AND EQUIPMENT	ADVANCES FOR PPE	PPE IN THE COURSE OF CONSTRUCTION	TOTAL
Cost	35,264,246	34,182,690	5,772,021	8,175,910	50,225,843	133,620,710
Accumulated depreciation	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

Cost and accumulated depreciation of property, plant and equipment as at 31/12/2008

in €

AS AT 31/12/2008	BUILDINGS	OTHER PLANT AND EQUIPMENT	PPE IN THE COURSE OF CONSTRUCTION	TOTAL
Cost	1,948,127	5,978,570	2,423,536	10,350,233
Accumulated depreciation	210,680	3,364,797	0	3,575,477
Carrying amount	1,737,447	2,613,773	2,423,536	6,774,756

Changes in property, plant and equipment

in €

PROPERTY, PLANT AND EQUIPMENT	BUILDINGS	PRODUCTION PLANT AND EQUIPMENT	OTHER PLANT AND EQUIPMENT	ADVANCES FOR PPE	PPE IN THE COURSE OF CONSTRUCTION	TOTAL
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
In-kind contribution to HESS	(32,586,595)	(32,135,455)	(106,495)	(8,175,910)	(48,728,156)	(121,732,611)
Acquisitions	0	0	528,592	0	1,553,923	2,082,515
Transfers*	0	0	0	0	(99,482)	(99,482)
Decreases, disposals	0	0	(13,522)	0	(528,592)	(542,114)
Depreciation	(42,032)	0	(773,347)	0	0	(815,379)
Carrying amount as at 31/12/2008	1,737,447	0	2,613,773	0	2,423,536	6,774,756

* Transfer to intangible assets

(3) Long-term investments € 929,662,269

Investments in shares and interests of group companies represent the value of long-term investments in companies in which HSE has a majority interest (whether direct or indirect through other owners) and for which it prepares consolidated financial statements.

In 2008 the company HESS was established in which HSE has a 51% interest. HSE's founding contribution totalled € 102,000. The value of the long-term investment in HESS was further increased in 2008 by:

- in-kind contribution in the form of the project of the

construction of HPPs on the lower Sava River, which totalled € 60,654,816,

- subsequent increases in HESS's capital in the amount of € 34,516,894.

In 2008 HSE increased the capital of TEŠ by € 15,794,000.

The **investments in the interests of associates** include:

- a 45% interest in the company PPE d.o.o. Kidričevo, which totals € 543,850, and
- a 33% interest in the company Hidro Moćnost Make-donija d.o.o., which totals € 1,650.

Other shares and interests include investments in the company Toplofikatsia-Ruse AD amounting to € 43,425,871 and in the company Stelkom (19% interest) amounting to € 111,000.

The company has a 51% interest in Toplofikatsia-Ruse AD and holds 51% of voting rights. But because a higher majority is required in order for general meeting decisions to be valid, HSE cannot make strategic decisions without the approval of the other owner. The same decision-making conditions also apply to the other owner. The company has already reached an agreement with the other partner to transfer its 51% interest by the end of 2010, meaning that the company no longer has a right to receive its share of profit. Due to the above facts, the company Toplofikatsia-Ruse AD has not been included in the consolidated financial statements of the HSE Group. The investment is valued at cost in the company's separate financial statements and the consolidated financial statements of the HSE Group. 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) amounting to € 1,669 was recorded as **other long-term investments**.

Due to a negative fair value of interest rate swaps, the company no longer recorded those as other long-term investments in 2008 but as other long-term financial liabilities.

None of the companies which are solely or partly owned by the company are listed. Consequently, it was not possible to determine the reasons for a potential impairment based on stock market prices as laid down in Interpretation 1 of SAS 3 Impairment of Investments issued by the Slovene Institute of Auditors. But the company did check potential reasons for impairment by comparing the difference between the carrying amount of the company's long-term investments with the proportionate share of the carrying amount of subsidiaries' and associates' total equity. No reasons for impairment were determined.

Cost and revaluation of long-term investments

in €

AS AT 31/12/2008	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
Cost	969,378,441	545,500	43,536,871	1,669	1,013,462,481
*Revaluation	83,800,212	0	0	0	83,800,212
Carrying amount	885,578,229	545,500	43,536,871	1,669	929,662,269

* Revaluation of investments relates to the impairment of investments in HSE Group companies in 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 31/12/2007	774,510,519	543,850	43,536,871	472,199	819,063,439
In-kind contribution to HESS	60,654,816	0	0	0	60,654,816
Acquisitions	0	1,650	0	0	1,650
Increase	50,412,894	0	0	0	50,412,894
Reversal of enhancement	0	0	0	(470,530)	(470,530)
Carrying amount as at 31/12/2008	885,578,229	545,500	43,536,871	1,669	929,662,269

Changes in long-term investments in group companies

	in €
GROUP COMPANIES	2008
Increase in investment in TEŠ	15,794,000
In-kind contribution to HESS	60,654,816
Increase in long-term investment in HESS	34,618,894
Total changes in long-term investments	111,067,710

Long-term investments in group companies

	in €	
GROUP COMPANIES	31/12/08	31/12/07
Dravske elektrarne Maribor d.o.o.	387,058,979	387,058,979
Soške elektrarne Nova Gorica d.o.o.	152,692,249	152,692,249
Termoelektrarna Šoštanj d.o.o.	130,658,977	114,864,977
Premogovnik Velenje d.d.	89,635,483	89,635,483
HSE Invest d.o.o.	80,000	80,000
HSE Italia S.r.l.	29,690	29,690
HSE Hungary Kft.	4,004,965	4,004,965
HSE Balkan Energy d.o.o.	1,025,063	1,025,063
HSE Adria d.o.o.	102,553	102,553
Termoelektrarna Trbovlje d.o.o.	24,503,340	24,503,340
HESS d.o.o.	95,273,710	0
HSE Bulgaria EOOD	513,220	513,220
Total long-term investments in group companies	885,578,229	774,510,519

Long-term investments in group companies

DRAVSKE ELEKTRARNE MARIBOR d.o.o.,

Obrežna ulica 170, 2000 Maribor, Slovenia

- HSE's interest: 100%
- total equity: 502,691,265 €
- net profit or loss for 2008: 15,442,181 €

SOŠKE ELEKTRARNE NOVA GORICA d.o.o.,

Erjavčeva 20, 5000 Nova Gorica, Slovenia

- HSE's interest: 100%
- total equity: 162,448,132 €
- net profit or loss for 2008: 10,079,588 €

TERMoeLEKTRARNA ŠOŠTANJ d.o.o.,

Cesta Lole Ribarja 18, 3325 Šoštanj, Slovenia

- HSE's interest: 100%
- total equity: 258,858,911 €
- net profit or loss for 2008: 18,037,177 €

PREMOGOVNIK VELENJE d.d.,

Partizanska cesta 78, 3320 Velenje, Slovenia

- HSE's interest: 77,73%
- total equity: 109,714,170 €
- net profit or loss for 2008: 403,385 €

HSE INVEST d.o.o.,

Obrežna ulica 170a, 2000 Maribor, Slovenia

- HSE's interest: 25% (direct); 75% (indirect)
- total equity: 530,205 €
- net profit or loss for 2008: 164,055 €

TERMoeLEKTRARNA TRBOVLJE d.o.o.,

Ob železnici 27, 1420 Trbovlje, Slovenia

- HSE's interest: 81,33%
- total equity: 34,101,844 €
- net profit or loss for 2008: 2,169,256 €

HIDROELEKTRARNE NA SPODNJI SAVI d.o.o.,

Cesta prvih borcev 18, 8250 Brežice, Slovenia

- HSE's interest: 51% (direct); 84,6% (indirect)

- total equity: 187,751,171 €
- net profit or loss for 2008: 939,971 €

HSE ITALIA S.r.l.,

Via Roma 20, Gorizia, Italy

- HSE's interest: 100%
- total equity: 46,247 €
- net profit or loss for 2008: 5,238 €

HSE HUNGARY Kft.,

Karolyi Mihaly u. 12, Budapest, Hungary

- HSE's interest: 100%
- total equity: HUF 1,457,901,661 or 5,466,448 €
- net profit or loss for 2008: HUF 131,596,475 or 506,220 €

HSE BALKAN ENERGY d.o.o.,

Bulevar Mihaila Pupina 117, Belgrade, Serbia

- HSE's interest: 100%
- total equity: RSD 81,166,543 or 908,190 €
- net profit or loss for 2008: RSD 138,199 or 1,637 €

HSE ADRIA d.o.o.,

Miramarska 24, Zagreb, Croatia

- HSE's interest: 100%
- total equity: HRK 5,037,925 or 684,919 €
- net profit or loss for 2008: HRK 2,654,934 or 361,419 €

HSE BULGARIA EOOD,

37 Fridtjof Nansen Street, Sofia, Bulgaria

- HSE's interest: 100%
- total equity: BGN 868,280 or 443,951 €
- net profit or loss for 2008: -BGN 120,256 or -61,485 €

PLINSKO PARNA ELEKTRARNA d.o.o., KIDRIČEVO,

Tovarniška 10, 2325 Kidričevo, Slovenia

- HSE's interest: 45%
- total equity: 1,223,482 €
- net profit or loss for 2008: 14,840 €

HIDRO MOĆNOST MAKEDONIJA D.O.O.,

Ul. Orce Nikolov br. 98, Skopje, Macedonia

- HSE's interest: 33%
- total equity: MKD 307,062 or 5,067 €
- net profit or loss for 2008: /

TOPLOFIKATSIA RUSE AD,

TEC IZTOK STR. 7009 Ruse, Bulgaria

- HSE's interest: 51%
- total equity: BGN 47,124,646 or 24,094,819 €
- net profit or loss for 2008: BGN 2,568,583 or 1,313,316 €

(4) Long-term operating receivables € 2,715,058

Long-term operating receivables from others relate to deposits made as collaterals in connection with electricity trading in Slovenia and on foreign exchanges. In 2008 collaterals of € 2,454,751 were transferred from short-term receivables from others as they related to trading in foreign exchanges, which is planned to be of a long-term nature. The difference of € 260,307 relates to an increase in collaterals in 2008.

(5) Deferred tax assets € 4,189,192

Deferred tax assets were created on the basis of expenses which influence the company's profit or loss for the current year but are not deductible for tax purposes in the current year and expenses arising from the revaluation of derivatives.

Deferred tax assets of € 202,590 have been recognised in the income statement, with deferred tax assets of € 31,326 being recognised in the balance sheet.

In 2008 the decrease in deferred tax assets was higher than the amount created. The changes were as follows:

- creation of deferred tax assets at 50% of tax non-deductible provisions for termination and jubilee benefits in 2008,
- creation of deferred tax assets for the depreciation of fixed assets in cases when operating depreciation exceeds the amount of tax deductible depreciation,
- creation of deferred tax assets in the amount of the negative fair value of interest rate swaps,
- use of deferred tax assets in connection with the use of provisions for termination and jubilee benefits,
- use of deferred tax assets in connection with the use of provisions relating to guarantees of origin,
- reversal of deferred tax assets to decrease provisions relating to guarantees of origin,
- use of deferred tax assets for the depreciation of fixed assets.

Changes in deferred tax assets

in €

DEFERRED TAX ASSETS	PROVISIONS	IMPAIRMENT	DEPRECIATION AND AMORTISATION	INTEREST RATE SWAPS	TOTAL
Value as at 31/12/2007	1,400,026	2,936,783	23,645	0	4,360,454
Creation, increase	3,634	0	67,692	31,326	102,652
Use, decrease	(273,494)	0	(420)	0	(273,914)
Value as at 31/12/2008	1,130,166	2,936,783	90,917	31,326	4,189,192

(6) Short-term investments € 68,242,000

At the end of 2008, the company's short-term investments included **short-term deposits** with Slovene banks and with maturity in January 2009. The deposits have not been secured. In accordance with its internal rules, the company observes the principle of deposit diversification between individual banks and monitors their credit ratings.

As part of transferring the joint venture for the construction of HPPs on the lower Sava River in the form of an in-kind contribution, the company also transferred the deposits of € 8,250,000, which had been recorded as short-term investments at the end of 2007.

The company estimates that the investments are not exposed to risk.

in €

TYPE OF SHORT-TERM INVESTMENT	31/12/08	31/12/07
Short-term loans to group companies	0	3,246,850
Short-term loans to others	0	200,000
Short-term deposits	68,242,000	13,463,000
Total short-term investments	68,242,000	16,909,850

(7) Short-term operating receivables € 127,497,862

Short-term operating receivables from group companies mainly relate to receivables arising from electricity sales and receivables arising from services of performing certain functions on behalf of subsidiaries.

Short-term trade receivables mainly comprise receivables from the sale of electricity in Slovenia and abroad.

Short-term operating receivables from others include:

- short-term advances made mainly in connection with electricity auctions,
- short-term receivables from operations for third party account relating to a receivable from the company TDR-Metalurgija d.d. - v stečaju,
- short-term operating receivables associated with finance income from interest on deposits, and receivables from default interest payable by customers,

- short-term receivables from the state, which mainly relate to an input VAT receivable,
- short-term operating receivables from others, which mainly relate to cash given over a short term in respect of a guarantee received abroad.

As part of transferring the joint venture for the construction of HPPs on the lower Sava River in the form of an in-kind contribution, the company also transferred the receivables of € 2,263,067, which had been recorded as short-term receivables from others at the end of 2007.

Trade receivables are mainly settled within deadlines or with minor delays. In the case of delays, the customers in Slovenia and abroad are charged default interest at the contractual rate. All overdue receivables (except the disputed ones), which stood at € 16,963,317, were collected up to the date of this report.

The disputed receivables include a receivable of € 14,683,915 for which a court collection was initiated

in March 2008 and which was recorded as disputed in 2007. The receivable in question relates to the provision system services.

The company had no receivables due from management and Supervisory Board members at the end of 2008.

Electricity-related trade receivables arising from annual contracts are mostly secured with bills of exchange or bank guarantees. Such are the receivables that exceed customer limits. Receivables from certain customers are regulated in detail using the EFET Agreements, whereas in other cases collateralisation is not required due to customers' strategic position and/or financial stability. For each customer, the decision whether a security is required is taken on the basis of System Credit Risk Management Instructions and System 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 exchanges (in this case receivables are already secured by the obligatory membership system), through trading portals and bilateral agreements. In the latter case, the EFET Agreements are concluded with most of the customers, except in the case of receivables for which collateralisation is not required due to customers' specific circumstances, as is the case with 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 measures.

Short-term operating receivables

TYPE OF RECEIVABLE	in €	
	31/12/08	31/12/07
Short-term trade receivables in Slovenia	66,625,301	92,913,776
Short-term foreign trade receivables	32,565,626	30,304,798
Short-term advances for services in Slovenia not yet provided	2,743,872	690,557
Short-term advances for services abroad not yet provided	7,500	0
Short-term receivables from operations for third party account	614,709	41,473
Short-term receivables associated with finance income	181,706	181,762
Short-term receivables from the state	24,046,748	28,110,024
Short-term receivables from others	712,400	2,841,524
Total short-term operating receivables	127,497,862	155,083,914

Short-term operating receivables from group companies

GROUP COMPANIES	in €	
	31/12/08	31/12/07
Dravske elektrarne Maribor d.o.o.	8,592	75,670
Soške elektrarne Nova Gorica d.o.o.	8,592	2,701
Premogovnik Velenje d.d.	852,737	481,319
HESS d.o.o.	59,956	0
HSE Balkan Energy d.o.o.	22,396	88,945
HSE Hungary Kft.	613,687	2,260,121
HSE Adria d.o.o.	27,993	17,917
HSE Bulgaria EOOD	19,785	6,000
HSE Italia S.r.l.	1,451	1,451
Total short-term operating receivables from group companies	1,615,189	2,934,124

Breakdown of receivables by maturity date

in €

MATURITY PERIOD	31/12/08	31/12/07
Receivables not yet due	110,534,545	139,916,028
Receivables overdue up to 3 months	16,963,317	24,499,490
Receivables overdue from 3 to 6 months	0	2,281,843
Receivables overdue for more than 6 months	14,683,915	3,070,988

(8) Cash € 6,374,755

Cash includes the cash in the company's accounts in Slovenia and abroad and deposits redeemable at notice in Slovenia and abroad.

At the end of 2008, the company had in place an automatic borrowing facility in the form of overdrafts on its transaction accounts with banks amounting to € 12,000,000, but did not use them.

As part of transferring the joint venture for the con-

struction of HPPs on the lower Sava River in the form of an in-kind contribution, the company also transferred € 2,257 in cash.

(9) Short-term accrued revenue and deferred costs € 5,146,178

The majority of short-term accrued revenue and deferred costs relates to transactions associated with electricity trading (auction costs, electricity deviations).

Short-term accrued revenue and deferred costs of the company

in €

TYPE OF SHORT-TERM ACCRUED REVENUE AND DEFERRED COSTS	31/12/08	31/12/07
Short-term deferred costs	1,947,320	5,495,431
Short-term accrued revenues	3,198,858	586,596
Total accrued revenue and deferred costs	5,146,178	6,082,027

(10) Equity € 798,817,478

The value of **nominal capital** and **capital surplus** remained unchanged in 2008.

Other revenue reserves increased by € 31,183,706 as follows:

- by a portion of accumulated profit for 2007 amounting to € 4,305,599 in accordance with a General Meeting resolution,
- by a portion of net profit for 2008 amounting to € 26,878,107 in accordance with a Supervisory Board decision taken on the management's proposal.

The company's **revaluation surplus** includes gains or losses on futures used for hedging and the fair value of interest rate swaps. Revaluation surplus decreased by € 10,205,223 as a result of completed futures and interest rate swap transactions as well as lower electricity prices and interest rates as compared with 2007.

Electricity futures are concerned with the closing of deals on the purchase of electricity in foreign exchanges in the future, thus securing the already concluded deals for the sale of electricity in the same period.

Revaluation surplus and the cost of goods sold were decreased in the income statement by the amounts of electricity purchases in 2008 that were hedged using futures, i.e. by € 4,379,971.

In 2008 the company also entered into futures on CO₂ emission coupons for the year 2008, thereby increasing the cost of coupons, which were recorded as intangible assets, by € 1,226,900.

The fair value of interest rate swaps totalled € 117,851 (including accounted for deferred taxes) at the end of 2008. Due to a drop in interest rates, the company sold the majority of interest rate swaps in December 2008.

Retained net profit or loss for the year 2007, which totalled € 6,205,599, was transferred to other revenue reserves (€ 4,305,599) and paid to the owner (€ 1,900,000), in accordance with a General Meeting resolution.

Net profit or loss for the year 2008, which totalled € 53,756,215, was allocated, in accordance with a Supervisory Board decision taken on the proposal of the company's management, to other revenue reserves (€ 26,878,107) while the difference (€ 26,878,108) represents the company's accumulated profit.

Consumer prices increased by 2.1% in 2008. Had the increase in consumer prices been taken into account, the total capital of the company would have increased by € 15,860,596. The restatement of equity does not include net profit or loss for the current period, distributed retained profit or loss, and changes in revaluation surplus in 2008.

Had the said restatement been taken into account, the company would have recorded a net profit or loss of € 37,895,619 in the current year.

in €		
TOTAL EQUITY	31/12/08	31/12/07
Nominal capital	29,558,789	29,558,789
Capital surplus	561,243,185	561,243,185
Other revenue reserves	169,502,829	138,319,123
Revaluation surplus	11,634,567	21,839,790
Net profit or loss for the period	26,878,108	6,205,599
Total equity	798,817,478	757,166,486

Changes in capital surplus

in €			
CAPITAL SURPLUS	PAID-IN CAPITAL SURPLUS	GENERAL EQUITY REVALUATION ADJUSTMENT	TOTAL
Value as at 31/12/2007	561,243,072	113	561,243,185
Increase	0	0	0
Decrease	0	0	0
Revaluation	0	0	0
Value as at 31/12/2008	561,243,072	113	561,243,185

in €	
PROFIT OR LOSS OF THE COMPANY AFTER EQUITY RESTATEMENT	31/12/08
Net profit or loss	53,756,215
Equity restatement result	(15,860,596)
Profit or loss after restatement based on consumer prices (2.1% growth)	37,895,619

Changes in revaluation surplus

in €				
REVALUATION SURPLUS	FUTURES	CO ₂ FORWARD CONTRACTS	INTEREST SWAPS	TOTAL
Value as at 31/12/2007	21,369,260	0	470,530	21,839,790
Increase	61,735,727	525,850	0	62,261,577
Decrease	(66,972,598)	(1,752,750)	(588,381)	(69,313,729)
Increase in operating expenses	68,618	0	0	68,618
Decrease in operating expenses	(4,448,589)	0	0	(4,448,589)
Increase in cost of CO ₂ coupons	0	1,226,900	0	1,226,900
Value as at 31/12/2008	11,752,418	0	(117,851)	11,634,567

(11) Provisions € 19,175,683

At the end of 2008, the company's provisions included:

- provisions for termination and jubilee benefits,
- provisions arising from the sales of electricity produced from renewable sources in 2006 and set aside due to the non-recognition by Italy of guarantees of origin; the company initiated an arbitration procedure with the European Commission and expects to receive a decision shortly,

- provisions for the payment of the fee for limited area use for 2007,
- provisions for lawsuits filed by the company TDR-Metalurgija d.d. - v stečaju and its related companies and employees.

Long-term accrued cost and deferred revenue items totalling € 1,471,334 include a liability arising from indirect electricity costs for 2002, which was transferred from short-term accrued cost and deferred revenue items in 2008.

Changes in provisions and long-term accrued costs and deferred revenue

in €

PROVISIONS AND LONG-TERM ACCRUED COSTS AND DEFERRED REVENUE	PROVISIONS FOR TERMINATION AND JUBILEE BENEFITS	OTHER PROVISIONS	LONG-TERM ACCRUED COSTS AND DEFERRED REVENUE	TOTAL
Value as at 31/12/2007	410,915	7,532,716	0	7,943,631
Creation, increases	36,328	10,740,021	0	10,776,349
*Transfers	0	0	1,471,334	1,471,334
Use	(15,631)	(12,176)	0	(27,807)
Reversal	0	(987,824)	0	(987,824)
Value as at 31/12/2008	431,612	17,272,737	1,471,334	19,175,683
Creation planned	521,838	6,356,062	0	6,877,900
Use planned	26,838	0	0	26,838

*Transfer from short-term accrued costs and deferred revenue.

(12) Long-term liabilities € 161,302,465

The company's long-term liabilities 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, and
- long-term financial loan taken out with the EIB in 2008 for the period of 20 years.

The values of loan principals due in 2009 are recorded as short-term liabilities to banks. Interest on the loans received is paid on a quarterly or annual basis, while the not yet due and accounted for portion payable in 2008 is recorded as a short-term operating liability.

The long-term loan taken out in 2003 will be fully repaid in October 2015. The principal is being repaid on a quarterly basis. The agreed-upon interest rate is a 3-month EURIBOR plus a minimum mark-up. The loan is secured with ten blank bills of exchange.

Due to changes in the money market brought about by the global financial crisis, two contracts for the interest rate hedging of this loan were cancelled in 2008. Only the interest cap operation, which closes on 4 January 2010, remained active.

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

The company entered into a 5-year interest rate swap contract effective 01/12/2006 to hedge against increasing interest rates in the future. The estimated

fair value of the interest rate swap, which totalled € -149,178 as at 31/12/2008, is recorded under other long-term liabilities and revaluation surplus.

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 a 6-month EURIBOR plus a minimum mark-up. The loan is secured with six blank bills of exchange.

Due to changes in the money market brought about by the global financial crisis, two contracts for the interest rate hedging were cancelled in 2008 also for this loan.

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 a 6-month EURIBOR plus a minimum mark-up. The loan is secured with five blank bills of exchange.

The long-term loan taken out in 2008 will be fully re-

paid in September 2028. The principal will be repaid on a semi-annual basis (the first repayment in September 2012). The agreed-upon interest rate is a 6-month EURIBOR plus a minimum mark-up. The loan is fully secured with a guarantee issued by a foreign bank for a seven-year period.

Long-term operating trade liabilities include a withheld payment to an equipment supplier.

As part of transferring the joint venture for the construction of HPPs on the lower Sava River in the form of an in-kind contribution, the company also transferred long-term operating liabilities of € 59,545,423, which had been recorded at the end of 2007 as:

- long-term operating liabilities to group companies (€ 39,960,823),
- long-term operating trade liabilities (€ 1,269,223), and
- other long-term operating liabilities (€ 18,315,377).

The carrying amount of long-term liabilities is estimated to equal their fair value.

Maturity dates of long-term liabilities

in €

LONG-TERM LIABILITIES	Maturity date			TOTAL
	before 31/12/2010	between 01/01/2011 and 31/12/2012	after 01/01/2013	
Long-term financial liabilities to banks	44,686,957	18,920,188	97,510,862	161,118,007
Long-term financial liabilities to others	149,179	0	0	149,179
Long-term operating trade liabilities	35,279	0	0	35,279
Total	44,871,415	18,920,188	97,510,862	161,302,465

(13) Short-term liabilities € 173,979,273

The value of short-term financial liabilities to banks relates to a portion of long-term loan principals falling due in 2009.

The company's short-term operating liabilities to group companies mainly relate to liabilities associated with the electricity purchased from subsidiaries.

The company's short-term operating trade liabilities mainly relate to liabilities associated with the electricity purchased in Slovenia and abroad.

The company's **other short-term operating liabilities** include:

- short-term liabilities to employees, which relate to a liability for December salaries and other employment-related income,
- short-term liabilities to the state, which mainly relate to an additional payment of corporate income tax for the year 2008,
- short-term interest liabilities associated with interest charged on long-term loans,
- other short-term operating liabilities, the majority of which relates to a liability arising from the last day of trading in futures.

As part of transferring the joint venture for the construction of HPPs on the lower Sava River in the form of an in-kind contribution, the company also transferred short-term operating liabilities of € 10,862,278, which had been recorded at the end of 2007 as:

- short-term operating liabilities to group companies (€ 364,283), and
- short-term operating trade liabilities (€ 10,497,995).

The company settles all its liabilities in due time.

Short-term operating liabilities

TYPE OF SHORT-TERM OPERATING LIABILITY	in €	
	31/12/08	31/12/07
Short-term trade liabilities in Slovenia	139,689,920	128,278,802
Short-term liabilities to suppliers abroad	20,007,591	41,557,329
Short-term advances received	0	38,939
Other short-term liabilities for operations for third party account	0	27,664
Short-term liabilities to employees	428,366	478,333
Short-term liabilities to state and other institutions	1,599,852	7,676,056
Short-term interest liabilities	1,800,293	1,155,970
Other short-term liabilities	641,295	176,383
Total short-term operating liabilities	164,167,317	179,389,476

Short-term operating liabilities to group companies

GROUP COMPANIES	COUNTRY	in €	
		31/12/08	31/12/07
Dravske elektrarne Maribor d.o.o.	Slovenia	35,981,072	38,515,401
Soške elektrarne Nova Gorica d.o.o.	Slovenia	14,526,600	3,128,111
Termoelektrarna Šoštanj d.o.o.	Slovenia	70,111,658	44,760,607
Premogovnik Velenje d.d.	Slovenia	8,927	17,144
Termoelektrarna Trbovlje d.o.o.	Slovenia	5,045,177	5,736,001
HSE Invest d.o.o.	Slovenia	78,807	279,074
HESS d.o.o.	Slovenia	640,196	0
HSE Italia S.r.l.	Italy	28,080	28,080
HSE Hungary Kft.	Hungary	286,023	137,268
HSE Balkan Energy d.o.o.	Serbia	69,050	482,904
HSE Adria d.o.o.	Croatia	3,941,554	10,100,187
Other group companies	Slovenia	20,756	2,647
Total short-term operating liabilities to group companies		130,737,900	103,187,424

(14) Short-term accrued costs and deferred revenue € 5,506,377

The company's short-term accrued cost and deferred revenue items include:

- contingent costs of electricity,
- electricity deviations,
- interest on loans received,
- liabilities arising from unutilised leave,
- VAT on advances given.

As part of transferring the joint venture for the construction of HPPs on the lower Sava River in the form of an in-kind contribution, the company also transferred € 1,185,418 in short-term accrued costs and deferred revenue.

Short-term accrued costs and deferred revenue

in €

TYPE OF SHORT-TERM ACCRUED COSTS AND DEFERRED REVENUE	31/12/08	31/12/07
Short-term accrued costs	5,049,329	4,261,147
Short-term deferred revenue	0	50,640
VAT on advances given	457,048	1,197,980
Total short-term accrued costs and deferred revenue	5,506,377	5,509,767

Changes in short-term accrued costs and deferred revenue

in €

ACCRUED COSTS AND DEFERRED REVENUE	SHORT-TERM ACCRUED COSTS	SHORT-TERM DEFERRED REVENUE	VAT	TOTAL
Value as at 31/12/2007	4,261,148	50,640	1,197,979	5,509,767
Transfer to HESS	0	(148)	(1,185,270)	(1,185,418)
Creation, increases	76,365,512	(94,176)	941,353	77,212,689
Use	(74,105,996)	43,684	(497,015)	(74,559,327)
*Transfers	(1,471,334)	0	0	(1,471,334)
Value as at 31/12/2008	5,049,330	0	457,047	5,506,377
Creation planned	0	0	0	1,617,403
Use planned	0	0	0	0

*Transfer from long-term accrued costs and deferred revenue.

(15) Off-balance sheet records € 238,366,872

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 were as follows as at 31/12/2008:

- a guarantee issued to Geoplin in relation to the fulfilment of cash and other obligations of TEŠ arising from a long-term natural gas supply agreement for the period until 2012; furthermore, an agreement was signed with TEŠ stipulating that in case a payment is made to Geoplin by HSE, the receivables arising from the payment shall be offset against HSE's liabilities to TEŠ,

- a guarantee issued under a guarantee contract entered into by HSE, SENG and Bank Austria Creditanstalt, as an agent, and the banks Bank Austria Creditanstalt, Bayerische Landesbank, NLB and NKBM, as original guarantors, stating that the company shall settle all overdue liabilities arising from the guarantee contract; an agreement was also signed with SENG stipulating that in case the liabilities arising from the guarantee contract are settled by HSE, the receivables shall be offset against HSE's liabilities to SENG,
- HSE's guarantee relating to sponsorship contracts.

The company also has blank bills of exchange received as security for electricity receivables in Slovenia.

in €

TYPE OF OFF-BALANCE SHEET RECORD	31/12/08	31/12/07
Bank guarantees received	69,278,954	101,140,703
Insurance policies received	0	328,675
Mutual fund (Modri sklad)	208,974	175,452
Bank guarantees issued	91,846,689	19,267,812
Futures used for hedging - purchase	76,998,736	104,261,505
Statement of a possibility to obtain cash (AE licence)	33,519	29,346
Lawsuits received	0	179,810
Liabilities associated with Toplofikatsia-Ruse	0	240,601
Total off-balance sheet records	238,366,872	225,623,904

4.8.2 Income statement

General

Information on the basis for the preparation of the income statement and on specific accounting policies selected and applied to the company's significant operations and other business events are presented in disclosures of individual significant revenue and expense items.

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

The amount of expenses is also subject to methods, accounting policies and estimates presented in balance sheet disclosures. The company did not change the methods and accounting policies, but it did change an accounting assessment by extending the useful life of a fixed asset recorded as equipment.

Revenue € 856,652,784

Revenue from the sale of electricity in Slovenia accounts for 99.7% of **the company's revenue**.

Revenue from services rendered was mostly generated through services associated with electricity and performance of certain functions on behalf of subsidiaries.

Revenue of the company

TYPE OF REVENUE	in €	
	2008	2007
Operating revenue	820,305,717	923,302,179
Finance income	31,676,981	20,577,647
Other revenue	4,670,086	81,787
Total revenue	856,652,784	943,961,613

Operating revenue

TYPE OF OPERATING REVENUE	in €	
	2008	2007
Revenue from the sale of electricity	816,625,234	920,157,116
Revenue from the sale of services	2,639,293	1,018,961
Capitalised own services	0	151,341
Revenue from reversal or use of provisions	987,824	600,000
Revaluation operating revenue	53,366	1,374,761
Total operating revenue	820,305,717	923,302,179

Revaluation operating revenue mainly comprises revenue from the reversal of provisions for guarantees of origin.

Finance income from interests mainly relates to the payment of profit by subsidiaries.

Finance income from loans given mainly relates to accounted for interest on deposits.

Finance income from operating receivables is mainly comprised of default interest and gains on trading in CO₂ emission coupons.

Other revenue mainly relates to the realisation of a bank guarantee under a contract for the sale of an interest in the company TDR-Metalurgija d.d.

The management estimates that there is doubt as to the collection of a receivable arising from market research services and electricity sales services performed in 2008 for the associate Toplofikatsia Ruse AD in the amount € 930 thousand because the legal basis has not yet been fully agreed. Until this doubt has been removed, the management estimates that there is a significant risk of this receivable not being collected within the meaning of SAS 5.24 and SAS 18.12. The receivable and revenue arising from it have therefore not been included in HSE's financial statements for the year 2008.

Geographical segments

	in €	
GEOGRAPHICAL SEGMENTS	2008	2007
Domestic market	578,426,525	677,506,544
Foreign market	240,838,002	243,669,533
Total domestic and foreign market	819,264,527	921,176,077

Expenses € 795,044,373

The cost of goods sold, which accounts for 96.8% of total operating expenses, comprises expenses for the purchase of electricity and contingent costs of electricity purchases.

Costs of materials, costs of services, labour cost, write-downs in value and other operating expenses represent 3.2% of total operating expenses.

Depreciation and amortisation charge was lower than in the previous year due to the transfer of the joint venture for the construction of HPPs on the lower Sava River to the company HESS.

The company did not receive any additional employee claims for payment on the basis of legal provisions, collective agreement or the company's governing documents. The majority of other operating expenses relates to the creation of provisions for lawsuits filed by the company TDR-Metalurgija d.d. - v stečaju and its related companies and employees.

Finance expenses for financial liabilities mainly relate to interest on loans and loss incurred due to the cancellation interest rate swap contracts.

Finance expenses for operating liabilities mainly relate to impairment, loss incurred in trading in CO₂ emission coupons and foreign exchange losses.

Expenses of the company

	in €	
TYPE OF EXPENSE	2008	2007
Operating expenses	785,178,922	920,819,182
Finance expenses	9,865,448	6,312,538
Other expenses	3	234
Total expenses	795,044,373	927,131,954

Operating expenses

	in €	
TYPE OF OPERATING EXPENSE	2008	2007
Cost of merchandise sold	727,676,137	857,289,282
Contingent costs of merchandise sold	31,947,600	30,945,960
Costs of materials	264,215	248,881
Costs of services	6,201,865	7,405,864
Labour costs	6,545,269	5,950,139
Depreciation and amortisation charge	1,458,542	2,236,463
Revaluation operating expenses	34,574	14,749,115
Other operating expenses	11,050,720	1,993,478
Total operating expenses	785,178,922	920,819,182

Costs by functional group

TYPE OF COST	in €	
	2008	2007
Cost of merchandise sold	761,805,403	906,358,345
Cost of sales	2,012,627	1,981,892
General and administrative costs	21,360,892	12,327,604
Total costs	785,178,922	920,667,841

Total profit or loss € 61,608,411

The company ended the year 2008 with total profit or loss of € 61,608,411.

Corporate income tax € 7,649,606

In accordance with the Corporate Income Tax Act, the tax for 2008 amounted to 22% of the taxable base reported in the company's tax assessment.

Based on the 2007 tax assessment, the company paid € 6,287,101 in advance income tax payments in 2008. Its income tax liability thus amounted to € 1,362,505 at the end of 2008.

Deferred taxes € 202,590

Deferred taxes are intended for covering temporary differences between the carrying amount and tax values of assets and liabilities. The values of deferred taxes created and used are presented in the table showing deferred tax assets. The company did not account for deferred tax liabilities in 2008.

Net profit or loss € 53,756,215

After taking into account corporate income tax and deferred tax assets, the net profit or loss for the accounting period totals € 53,756,215.

Profit or loss of the company

TYPE OF PROFIT OR LOSS	in €	
	2008	2007
Operating profit or loss	35,126,795	2,482,997
Profit or loss on ordinary activities	56,938,328	16,748,106
Profit or loss on extraordinary activities	4,670,083	81,553
Total profit or loss	61,608,411	16,829,659
Net profit or loss for the accounting period	53,756,215	12,411,197

4.8.3 Cash flow statement

General

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

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

The cash flow statement has been prepared using the indirect method (Format II as laid down in SAS (2006) 26.9).

The data presented in the cash flow statement has been obtained from balance sheets for the current and previous year (excluding the joint venture transfer) and the income statement for the current period. In order for the inflows to match the receipts and outflows to match the expenses as closely as possible, the following additional eliminations were made in the cash flow statement: in connection with the revaluation surplus, cash outflows from futures in the amount of € 9,616,862 have been recorded as outflows from operating activities.

Cash flows

TYPE OF CASH FLOW	in €	
	2008	2007
Cash flows from operating activities	53,356,324	30,695,629
Cash flows from investing activities	(80,386,571)	(106,156,798)
Cash flows from financing activities	29,565,280	75,120,465
Net cash flow for the period	2,535,033	(340,704)

4.8.4 Statement of changes in equity

General

The statement of changes in equity shows changes in equity components during a financial year.

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

Movements to equity

In the period under review, the company's equity increased by € 116,017,792 as follows:

- net profit or loss for the year (€ 53,756,215),
- revaluation surplus associated with other financial instruments – futures (€ 62,261,577).

Movements within equity

Movements within the company's equity, which amounted to € 31,183,706 during the year, relate to:

- allocation of a portion of the 2007 accumulated profit (in accordance with a General Meeting resolution) of

- € 4,305,599 to other revenue reserves, and
- allocation of half of the net profit or loss for the year, which totalled € 26,878,107, to other revenue reserves, in accordance with a Supervisory Board decision taken on the proposal of the company's management.

Movements from equity

In 2008 the company's equity decreased by € 74,366,800 as follows:

- payment of a portion of the 2007 accumulated profit (€ 1,900,000) to the owner,
- revaluation surplus associated with other financial instruments – futures (€ 72,466,800).

The value of the revaluation surplus created and used is presented under equity disclosures.

Accumulated profit

Accumulated profit for 2008 represents half of the net profit or loss for the period and totals € 26,878,108. The decision regarding the distribution of accumulated profit is made by the owner.

Accumulated profit

	in €	
COMPONENTS OF ACCUMULATED PROFIT	2008	2007
Net profit or loss for the current year	53,756,215	12,411,197
Increase in revenue reserves in accordance with a management board and SB decision (other revenue reserves)	(26,878,107)	(6,205,598)
Accumulated profit for the current year	26,878,108	6,205,599

4.8.5 Other notes

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

Remuneration of managers and employees who are not subject to the tariff part of the collective agreement comprises:

- gross remuneration included in the income tax return notice,
- other remuneration (meals, transportation, per diems, untaxed portion of jubilee benefits),
- premiums paid for voluntary supplementary pension insurance.

Remuneration of managers comprises the remuneration of all managers who acted as managers in 2008 (a member of the management was replaced during the year).

Remuneration of Supervisory Board members

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

No advances, loans or guarantees were extended to these groups of persons in 2008.

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

Remuneration of individual groups of persons

	in €	
REMUNERATION OF INDIVIDUAL GROUPS OF PERSONS	2008	2007
The management of the company	273,354	165,511
Employees who are not subject to the tariff part of the collective agreement	1,998,326	1,530,369
Supervisory Board members	181,753	82,279

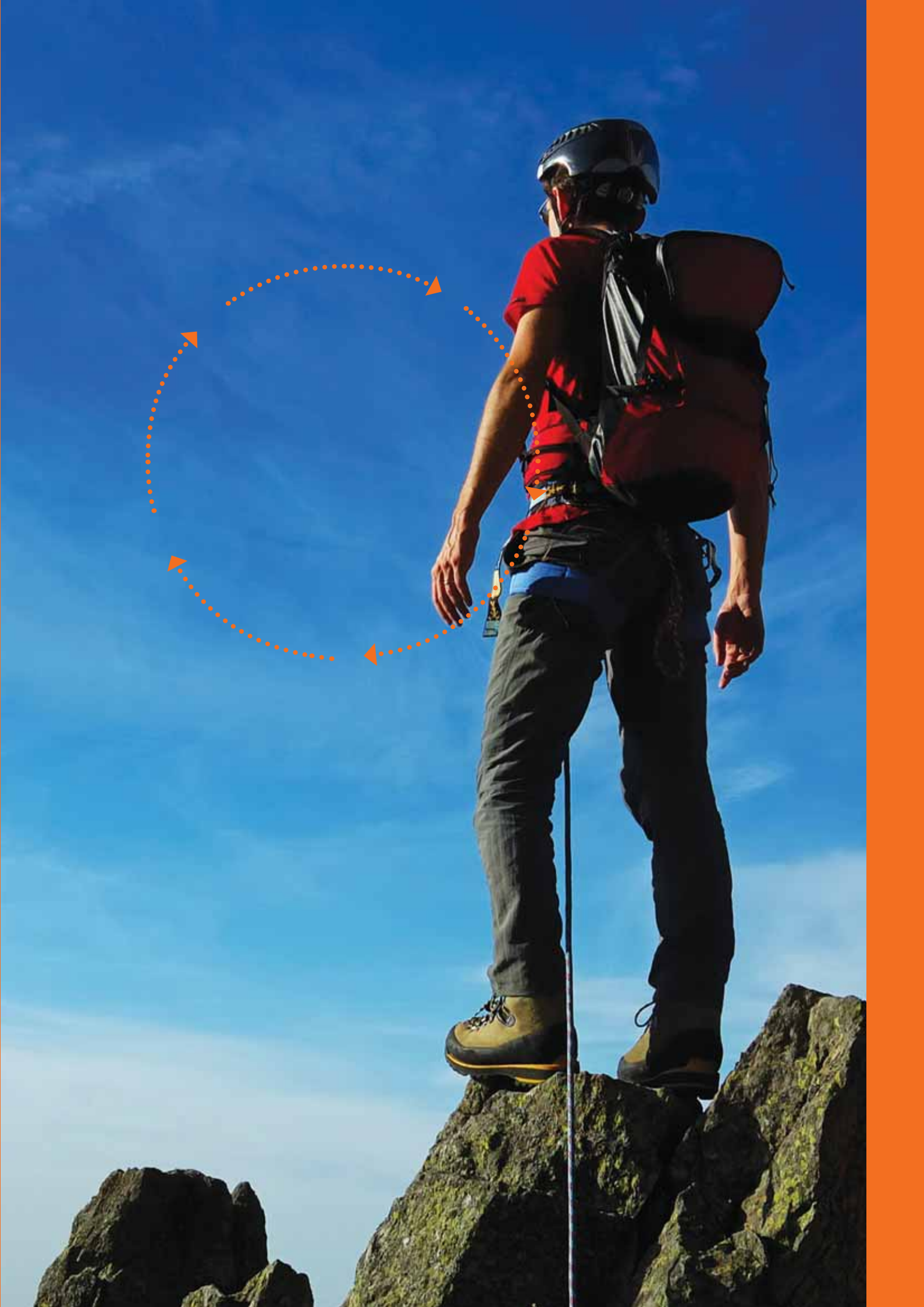
Costs of audit and other assurance engagements

The costs of audit and other assurance engagements broken down by individual type of service were as follows in 2008:

- the cost of audit of the annual report of the company HSE and the HSE Group amounted to € 24,986,
- the cost of other assurance engagements stood at € 500.

Business events after the balance sheet date

The business events after the balance sheet date are presented in the business report. There were not business events up to the date of the financial report that would affect the data presented.



05 Financial report of the HSE group

30 This is how much the HSE Group's debt ratio amounted to at the end of 2008. An analysis of the financial position of HSE Group companies shows that their business and financial position is manageable from the perspective of indebtedness as debt ratios are within safe operating margins.

5.1 Introductory notes

Basis of preparation

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 2008) for the financial year 2008, which corresponds to the calendar year.

The consolidated financial statements have been presented in euros. The financial statements of HSE Group companies based in Slovenia have also been presented in euros. The financial statements of HSE Group companies abroad have been presented in their respective national currencies.

A group of companies is an economic rather than legal entity, and as such not an independent holder of rights and obligations. The financial statements of a group of companies are presented as those of a single company, and are prepared based on the original financial statements of group companies, taking into account consolidation adjustments (eliminations).

The consolidated financial statements have been prepared by observing the following qualitative characteristics of accounting:

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

Companies included in the consolidated financial statements

Prior to the consolidation of the HSE Group, a consolidation of the Premogovnik Velenje Group was performed. In accordance with the consecutive consolidation method, consolidated financial statements are already prepared at the level of subsidiaries and are then included in the consolidated financial statements of the HSE Group.

The 2008 consolidated financial statements included for the first time the company HESS, to which the capital investment in the construction of HPPs on the lower Sava River, which had been managed as a joint venture project until 31/12/2007, was transferred. HESS was established in 2008, with HSE Group companies becoming its 84.6% owners.

More detailed disclosures regarding the transfer of the capital investment to the above company are provided in the financial report of the controlling company.

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.,
- Hidroelektrarne na Spodnji Savi 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 HSE Group companies that are included in the consolidated financial statements.

Companies excluded from the consolidated financial statements

Subsidiaries in the HSE Group: Elprom d.o.o., Golte d.o.o., Jama Škale v zapiranju d.o.o. and SAŠA Inkubator d.o.o. are dormant companies, and have not been consolidated either at the level of their controlling companies or at the Group level due to their insignificance. These companies are not significant in terms of true and fair presentation of the Group's operations.

In 2007 the controlling company purchased a 100% stake in the Bulgarian company Toplofikatsia-Ruse AD, selling 49% of it in the same year. The company still holds 51% of voting rights for the remaining 51% stake, but because a higher majority is required in order for general meeting decisions to be valid, the company cannot make strategic decisions without the approval of the other owner. The same decision-making conditions also apply to the other owner. The controlling company has already reached an agreement with the other partner to transfer its 51% stake by the end of 2010, meaning that the controlling company no longer has a right to receive its share of profit. Due to the above facts, the company Toplofikatsia-Ruse AD has not been included in the consolidated financial statements. Also, the equity method was not used in connection with the above company in the consolidated financial statements for the same reason.

Although the company DEM has a 50% interest in the company Eldom d.o.o., the controlling company did not consolidate Eldom due to its material insignificance and the lack of a controlling influence on its operations. In 2008 DEM established a private institution called Pomurje Development Institute Murska Sobota. This institution is not considered a company, and because it is not significant from the perspective of the HSE Group, it is not consolidated either at the level of the controlling company or at the Group level.

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 were merged item by item by adding up similar items of assets, liabilities, equity, revenue and expenses. In order to present the Group as a single company, the following eliminations were made:

- investments of controlling companies in subsidiaries and interests of controlling companies in the equity of subsidiaries,
- loans extended by subsidiaries and, consequently, loans received from subsidiaries,
- intangible assets of the controlling company and short-term accrued cost and deferred revenue items of subsidiaries,
- intra-group receivables and liabilities,
- intra-group revenue and expenses.

The consolidated income statement shows a minority owners' share of the Group's profit or loss, while the consolidated balance sheet and the consolidated statement of changes in equity present minority interests in the Group's equity.

Associates

Associates are the companies in which the Group exercises significant but not dominant control over business decisions.

Associates in the Group are as follows:

- Plinsko parna elektrarna d.o.o. Kidričevo,
- Hidro Moćnost Makedonija d.o.o.,
- ERICo d.o.o.,
- PLP d.o.o.,
- PUP PV d.o.o.,
- Robinoks d.o.o.,
- Sipoteh d.o.o.

Accounting policies

All accounting policies and rules regarding the valuation of material items were harmonised between companies for the purpose of preparing the consolidated financial statements.

Exchange rates used in conversion

COUNTRY	Currency	Closing rate in EUR for 2008	Average rate in EUR in 2008
Slovenia, Italy	EUR	-	-
Bulgaria	BGN	1.9558	1.9558
Croatia	HRK	7.3555	7.3459
Hungary	HUF	266.7000	259.9600
Serbia	RSD	89.3718	84.4845

Foreign exchange rate and method of conversion to the national currency

In separate income statements, items in the financial statements of individual group companies denominated in foreign currencies are translated into local currencies at the exchange rate of the Bank of Slovenia on the day of accrual or at the national exchange rate of the country in which the company is registered and where it operates.

The balances of assets and liabilities in the balance sheets of individual group companies denominated in foreign currencies are translated at the exchange rate of the Bank of Slovenia on 31/12/2008 or at the national exchange rate of the country in which the company is registered and where it operates.

The foreign exchange gains and losses resulting from conversions are recorded as finance income or finance expenses, respectively. The foreign exchange differences resulting from consolidation are recorded as a consolidation equity adjustment.

In translating the financial statements of foreign subsidiaries for the purpose of their incorporation into the consolidated financial statements:

- assets and liabilities are translated at the exchange rate of the Bank of Slovenia as at 31/12/2008,
- revenue and expenses are translated at the average exchange rate of the Bank of Slovenia for 2008.

Audit

The companies included in the consolidated financial statements have been audited or reviewed for audit purposes. All group companies were audited by Deloitte firms.

Intangible assets and long-term accrued revenue and deferred costs

Intangible assets represent a part of fixed assets enabling the performance of the companies' registered activities, while physically they do not exist.

Intangible assets are initially recognised at cost, which is also comprised of duties and all costs incurred while preparing an asset for its intended use. Interest on loans for the acquisition of intangible assets is not considered as 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 begins 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 accumulated amortisation of intangible assets are recorded separately, whereas in the consolidated 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 an acquired interest in a company that is higher than the value of this interest in the equity of such a company. Goodwill is not amortised. It is impaired if necessary.

Long-term accrued revenue and deferred cost items relate to long-term deferred 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 part of long-term assets owned by group companies and used for the performance of their 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 refurbishment of property, plant and equipment.

At one of the subsidiaries the cost is also increased by the amount of interest on loans 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 the 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 into individual items with different useful lives.

The spare parts of higher value are recorded as 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.

After initial recognition, the items of property, plant and equipment are measured using the cost model.

Grants and state aid provided for the acquisition of property, plant and equipment are not deducted from their cost but are instead carried as long-term accrued costs and deferred revenue and used 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.

Repairs or maintenance of property, plant and equipment carried out to restore or maintain future eco-

conomic benefits expected on the basis of the originally assessed standard of performance of the assets are recognised as expenses 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 items intended for sale are recorded as current assets intended for sale.

An item of property, plant and equipment is depreciated using the straight-line depreciation method over its expected useful life. Depreciation is accounted for individually since the first day of the following month after an item of property, plant and equipment has been available for use. The depreciation charge for the current year is recorded as an operating expense for the year. The residual value of property, plant and equipment has not been determined.

Property, plant and equipment items are revalued if the carrying amount exceeds the recoverable amount. The reasons underlying the revaluation of property, plant and equipment are checked individually in group companies.

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

Investment property

Investment property is part of companies' fixed assets which bring economic benefits through leasing and increasing of property value. In the books of account, it is carried at cost.

Long-term investments

Long-term investments are part of fixed assets, the returns on which should increase finance income and which are normally held by group companies for more than a year.

On initial recognition, long-term investments are re-

corded at their historical cost plus the costs directly attributable to the investment.

In the books of account of group companies, long-term investments are recognised based on their settlement date (payment date).

After initial recognition, long-term investments are carried at cost in companies' books of account (which also includes investments in subsidiaries and associates) and are recorded as available-for-sale financial assets. Because their fair value cannot be determined (this is not the case with derivatives), they are not enhanced and, consequently, do not affect profit or loss or revaluation surplus.

In the consolidated financial statements, investments in associates are valued using the equity method.

Any indications of impairment of long-term investments are determined on an annual basis.

Depending on the envisaged settlement or the reason for holding an investment, the investments are carried as long-term or current assets in the balance sheet.

Assets (disposal groups) held for sale

Assets included in a disposal group include assets for which it can be reasonably assumed that their carrying amount will be realised through the sale of these assets in the next year and not through their further use.

Inventories

Inventories are part of current assets that will either be used while making products and rendering services or sold.

Materials are initially recognised at cost comprising the purchase price, import duties and other taxes and direct costs of purchase.

The inventories of most end products are valued by production costs in the narrow sense.

The companies reduce the value of material and raw material inventories using the FIFO or the weighted average cost method.

A Group-level reconciliation has not been disclosed because the amount is immaterial.

Inventories are revalued if their carrying amount exceeds their net realisable value. If this is the case, inventories are impaired, with the value of the impairment increasing revaluation operating expenses for operating current assets.

Receivables

Receivables represent a right to demand from customers payment for the services provided or goods delivered and are part of the Group's assets. Depending on their due date, receivables can be long-term (due in more than one year) and short-term (due in less than one year).

A receivable is recognised as an asset if it is probable that the future economic benefits attributable to the asset will flow to the entity and the historical cost of the asset can be measured reliably. All receivables are initially recognised at amounts recorded in relevant documents on the assumption that they will be collected.

In the consolidated balance sheet, advances paid are recorded under assets for which they were provided.

If receivables are not collected within a reasonable time or court proceedings are initiated in connection with the collection, allowances are made and revaluation operating expenses are increased. The allowances for receivables are made on an individual basis. Receivables are written off when all legal remedies relating to their collection have been used and the receivables have still not been collected.

The part of long-term receivables due to be settled within a year of the balance sheet date is recorded as short-term receivables.

Short-term investments

Short-term investments are part of the Group's current assets that generate profit and thus increase finance income in a period of less than a year.

On initial recognition, they are recorded at their historical cost plus the costs directly attributable to the investment.

In the books of account of group companies, short-term investments are recognised according to their settlement date (payment date). After initial recognition, they are carried at cost.

Group companies carry short-term investments as investments available for sale.

Cash

Cash of the Group comprises cash on hand, cash in transaction accounts and deposits redeemable at notice and held with commercial banks.

The carrying amount of an item of cash equals its initial nominal value, which can change due to changes in foreign exchange rates if cash is denominated in foreign currencies.

Short-term accrued revenue and deferred costs

Short-term accrued revenue and deferred cost items comprise short-term deferred costs (expenses) and short-term accrued revenue.

Short-term deferred costs include the amounts incurred but not yet charged against the activities of group companies.

Short-term accrued revenue represents the amounts that have been included in revenue in the preparation of the consolidated financial statements but have not yet been 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 carried in euros. Nominal capital and capital surplus represent cash contributions and in-kind contributions made by the owner of the controlling company.

Other revenue reserves are set aside on the basis of decisions 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 of subsidiaries' net profit or loss.

Revaluation surplus includes the values of hedging derivatives (futures and interest rate swaps) and the value of increases in investments in associates accounted for using the equity method.

Consolidation equity adjustment comprises foreign exchange differences arising from conversions of accounting categories used by companies abroad.

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 that are expected to arise from obligating past events in a period of more than a year. If a liability can be reliably measured, they are carried as recognised costs of provisions.

The amounts of provisions for jubilee benefits and termination benefits were estimated on the basis of actuarial calculations. They were created based on an estimated amount of liabilities for termination and jubilee benefits discounted to the balance sheet date. Provisions are derecognised in the books of account when the events for which they were created occur or when it is determined that the reasons for their creation no longer exist. In this case their derecognition is recorded as operating revenue.

Long-term deferred cost and accrued revenue items comprise deferred revenue that is expected to arise in a period of more than a year. They also include the values of grants for the acquisition of property, plant and equipment provided to cover depreciation charge through progressive transfers to operating revenue.

Long-term liabilities

Long-term liabilities arise in connection with the financing of group companies and can either be financial or operating.

They refer to the liabilities of group companies which need to be settled over the period of more than a year.

Long-term financial liabilities relate to liabilities to lenders whereas operating liabilities relate to suppliers.

On initial recognition, long-term financial liabilities are recorded in the amount of cash received and are subsequently decreased by the amount of repayments made. They are measured at cost.

Short-term operating liabilities are initially valued on the basis of amounts indicated in relevant documents, which evidence the receipt of goods or services.

The portion of long-term liabilities that is due to be settled within a year of the balance sheet date is recorded as a short-term liability.

The carrying amount of long-term liabilities equals their amortised cost.

Short-term liabilities

Short-term liabilities need to be settled within one year at the latest. The Group records short-term financial and operating liabilities.

Short-term financial liabilities relate to liabilities to lenders whereas operating liabilities relate to suppliers.

On initial recognition, short-term financial liabilities are recorded in the amounts of cash received and are subsequently decreased on the basis of repayments made. They are measured at cost.

Long-term operating liabilities are initially valued on the basis of amounts indicated in relevant documents, which evidence the receipt of goods or services.

The portion of long-term liabilities that is due to be settled within a year of the balance sheet date is recorded as a short-term liability.

The carrying amount of short-term liabilities equals their amortised cost.

Short-term accrued costs and deferred revenue

Short-term accrued cost and deferred revenue items of the Group comprise short-term accrued costs (expenses) and short-term deferred revenue.

Short-term accrued costs include the costs that are expected but have not yet been incurred (not yet charged) although they relate to a period for which the financial statements have been prepared. Short-term deferred revenue relates to the services already charged but not yet rendered.

Revenue

Revenue represents increases in economic benefits during an 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 comprises sales revenue and other revenue associated with products and services.

Net sales revenue comprises the selling values of products, merchandise and materials sold and services rendered during an accounting period. It is measured based on selling prices stated in invoices less discounts and rebates.

Changes in the value of inventories relate to a difference between the opening and closing balance of inventories.

Capitalised own products and services are the products or services produced by the Group and recorded as intangible assets or property, plant and equipment.

Other operating revenue is associated with grants and reversal of provisions.

Revaluation operating revenue is recognised on the disposal of property, plant and equipment and intangible assets if their carrying amount is lower than their selling price, and on the reversal of impairment of trade receivables.

Finance income represents income from investing activities. It arises in relation to long-term and short-term investments as well as in connection with long-term and short-term receivables. It comprises accounted for

interest, shares of the profit of others, and revaluation finance income. It is recognised when accounted for, irrespective of receipts.

Other revenue comprises revenue that is neither operating revenue nor finance income. It is carried at actual amounts.

Expenses

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

Operating expenses equal the costs accrued over an accounting period plus the costs held in the opening inventories of products and work in progress and less 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 the 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, costs of materials, 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 represent the value of the impairment of property, plant and equipment, intangible assets and current operating assets. They are also recorded in the event of a sale of the above assets if the carrying amount exceeds the selling amount.

Finance expenses are expenses arising from financing and investing. They are mainly comprised of accounted for interest and revaluation finance expenses. They are recognised when accounted for, irrespective of payments associated with them.

Finance expenses also include foreign exchange losses on receivables and liabilities. Revaluation finance

expenses include losses on the disposal of investments.

Other expenses include expenses that are neither operating expenses nor finance expenses. They are carried at actual amounts.

Reporting by business and geographical segments

A segment is an identifiable component of the Group that is engaged in products or services (a business segment) or that is engaged in products and services in a particular economic environment (a geographical segment).

At the Group level, primary reporting is performed by business segment. Net sales revenue is therefore divided into two business segments: electricity and other activities.

Net sales revenue is also divided into two geographical segments: domestic market and foreign markets.

Taxation

Davek od dohodkov pravnih oseb je izračunan z Corporate income tax is calculated based on the tax rates prescribed in countries in which group companies operate. All group companies are liable to pay this tax. All group companies are also subject to the value added tax. The tax year of all group companies is the same as the calendar year.

Deferred taxes

Deferred taxes are intended for covering temporary differences between the carrying amount and tax values of assets and liabilities. They are accounted for using the balance sheet liability method. Deferred tax assets represent the assessed amount of corporate income tax, deductible temporary differences and unused tax losses, which results in a lower tax payable in future periods. Deferred tax liabilities represent the assessed amount of corporate income tax and taxable temporary differences, which results in a higher tax payable in the future.

5.2 Auditor's report

Deloitte.

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Group Holding Slovenske elektrarne, which comprise the balance sheet as at 31 December 2008, 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.

Ime Deloitte se nanaša na eno ali več družb članic švicarskega združenja Deloitte Touche Tohmatsu, od katerih je vsaka ločena in samostojna pravna oseba. Podroben opis pravne organiziranosti združenja Deloitte Touche Tohmatsu in njenih družb članic je na voljo na www.deloitte.com/si/nasa-druzba.

Member of Deloitte Touche Tohmatsu

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 2008, 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.

Barbara Žibret Kralj
Certified Auditor



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

Yuri Sidorovich
President of the Board



Ljubljana, 22. Maj 2009

TRANSLATION ONLY – SLOVENIAN ORIGINAL PREVAILS

5.3 Consolidated balance sheet

in €

ITEM	NOTE	31/12/08	31/12/07
ASSETS		1,747,710,783	1,628,551,663
A. LONG-TERM ASSETS		1,424,901,703	1,292,678,614
I. Intangible assets and long-term accrued revenue and deferred costs	1	48,274,010	27,874,726
1. Long-term property rights		33,724,261	12,832,029
2. Goodwill		12,387,056	12,304,714
4. Long-term deferred development costs		234,873	502,465
5. Other long-term accrued revenue and deferred costs		1,927,820	2,235,518
II. Property, plant and equipment	2	1,301,732,514	1,189,336,408
1. Land and buildings		509,532,410	517,030,848
a) Land		27,237,926	25,685,831
b) Buildings		482,294,484	491,345,017
2. Production plant and equipment		488,440,416	448,294,882
3. Other plant and equipment		8,855,996	7,053,361
4. Property, plant and equipment being acquired		294,903,692	216,957,317
a) Property, plant and equipment in the course of construction		278,013,609	198,433,778
b) Advances for acquisition of property, plant and equipment		16,890,083	18,523,539
III. Investment property		922,758	936,992
IV. Long-term investments	3	51,541,008	49,870,537
1. Long-term investments, excluding loans		51,103,118	49,426,321
a) Shares and interests in group companies		3,034,734	26,928
b) Shares and interests in associates		1,015,126	1,060,227
c) Other shares and interests		46,932,443	46,909,871
d) Other long-term investments		120,815	1,429,295
2. Long-term loans		437,890	444,216
b) Long-term loans to others		437,890	444,216
V. Long-term operating receivables	6	3,131,217	692,280
2. Long-term operating trade receivables		30,521	38,197
3. Long-term operating receivables from others		3,100,696	654,083
VI. Deferred tax assets	4	19,300,196	23,967,671
B. CURRENT ASSETS		316,850,737	328,928,916
I. Assets (disposal groups) held for sale		401,475	210,556
II. Inventories	5	32,873,842	29,323,053
1. Materials		26,151,811	21,414,365
2. Work in progress		43,658	68,173
3. Products and merchandise		6,258,077	7,754,105
4. Advances for inventories		420,296	86,410
III. Short-term investments	7	116,375,273	103,505,751
2. Short-term loans		116,375,273	103,505,751
b) Short-term loans to others		116,375,273	103,505,751
IV. Short-term operating receivables	6	153,746,979	180,592,264
2. Short-term operating trade receivables		114,631,808	131,032,731
3. Short-term operating receivables from others		39,115,171	49,559,533
V. Cash	8	13,453,168	15,297,292
C. SHORT-TERM ACCRUED REVENUE AND DEFERRED COSTS	9	5,958,343	6,944,133
OFF-BALANCE SHEET RECORDS	10	372,404,610	312,362,776

BALANCE SHEET (continued)

in €

ITEM	NOTE	31/12/08	31/12/07
LIABILITIES		1,747,710,783	1,628,551,663
A. EQUITY	11	1,127,608,615	1,037,374,202
I. Called-up capital		29,558,789	29,558,789
1. Nominal capital		29,558,789	29,558,789
II. Capital surplus		561,243,185	561,243,185
III. Revenue reserves		169,502,829	138,319,123
5. Other revenue reserves		169,502,829	138,319,123
IV. Revaluation surplus		10,561,050	22,670,400
V. Retained net profit or loss		250,720,796	178,559,130
VI. Net profit or loss for the period		46,923,175	77,255,420
VII. Consolidation equity adjustment		(903,981)	(433,309)
VIII. Equity of minority owners		60,002,772	30,201,464
B. PROVISIONS AND LONG-TERM ACCRUED COSTS AND DEFERRED REVENUE	12	118,046,869	95,148,216
1. Provisions for pensions and similar liabilities		12,079,249	11,587,925
2. Other provisions		73,233,791	70,728,491
3. Long-term accrued costs and deferred revenue		32,733,829	12,831,800
C. LONG-TERM LIABILITIES	13	292,685,262	244,554,162
I. Long-term financial liabilities		290,364,661	224,606,377
2. Long-term financial liabilities to banks		288,744,803	224,606,010
4. Other long-term financial liabilities		1,619,858	367
II. Long-term operating liabilities		2,317,962	19,947,785
2. Long-term operating trade liabilities		2,008,006	1,305,363
5. Other long-term operating liabilities		309,956	18,642,422
III. Deferred tax liabilities		2,639	0
D. SHORT-TERM LIABILITIES	14	194,052,222	241,650,620
II. Short-term financial liabilities		45,481,809	82,545,085
2. Short-term financial liabilities to banks		45,298,464	82,457,908
4. Other short-term financial liabilities		183,345	87,177
III. Short-term operating liabilities		148,570,413	159,105,535
2. Short-term operating trade liabilities		104,391,606	123,356,663
4. Short-term operating liabilities from advances		190,486	442,148
5. Other short-term operating liabilities		43,988,321	35,306,724
E. SHORT-TERM ACCRUED COSTS AND DEFERRED REVENUE	15	15,317,815	9,824,463
OFF-BALANCE SHEET RECORDS	10	372,404,610	312,362,776

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

5.4 Consolidated income statement

in €

ITEM	2008	2007
1. Net sales revenue	872,762,328	982,333,321
a) Domestic market	625,382,932	722,268,188
b) Foreign market	247,379,396	260,065,133
2. Changes in inventories of products and work in progress	-1,412,901	-1,132,343
3. Capitalised own products and own services	5,551,241	11,381,614
4. Other operating revenue (including revaluation operating revenue)	26,519,382	19,034,416
GROSS RETURN ON OPERATIONS	903,420,050	1,011,617,008
5. Costs of goods, materials and services	508,120,674	681,696,549
a) Cost of goods and materials sold and costs of materials used	446,843,322	629,285,523
b) Costs of services	61,277,352	52,411,026
6. Labour costs	137,687,403	123,900,511
a) Payroll costs	97,977,470	87,568,286
b) Social security costs	25,039,450	22,306,892
- of which pension insurance costs	18,104,296	15,624,512
c) Other labour costs	14,670,483	14,025,333
7. Write-downs in value	79,680,448	96,561,644
a) Depreciation and amortisation	74,358,495	72,040,630
b) Revaluation operating expenses associated with intangible assets and property, plant and equipment	4,927,577	9,469,391
c) Revaluation operating expenses associated with operating current assets	394,376	15,051,623
8. Other operating expenses	61,159,605	42,958,501
TOTAL OPERATING EXPENSES	786,648,130	945,117,205
OPERATING PROFIT OR LOSS	116,771,920	66,499,803
9. Finance income from interests	1,494,470	21,992,017
a) Finance income from interests in group companies	0	8,502,133
c) Finance income from interests in other companies	356,176	6,844,423
d) Finance income from other investments	1,138,294	6,645,461
10. Finance income from loans given	7,352,653	5,847,060
b) Finance income from loans to others	7,352,653	5,847,060
11. Finance income from operating receivables	2,621,987	4,462,773
b) Finance income from operating receivables due from others	2,621,987	4,462,773
TOTAL FINANCE INCOME	11,469,110	32,301,850
12. Finance expenses arising from impairment and write-downs of investments	18,962,851	80,193
13. Finance expenses for financial liabilities	18,259,988	12,516,639
b) Finance expenses for loans received from banks	16,771,877	12,492,692
d) Finance expenses for other financial liabilities	1,488,111	23,947
14. Finance expenses for operating liabilities	1,706,952	2,643,084
b) Finance expenses for trade liabilities and bills payable	775,300	1,979,740
c) Finance expenses for other operating liabilities	931,652	663,344
TOTAL FINANCE EXPENSES	38,929,791	15,239,916
PROFIT OR LOSS ON ORDINARY ACTIVITIES	89,311,239	83,561,737
15. Other revenue	5,816,120	804,588
16. Other expenses	1,596,431	1,141,529
PROFIT OR LOSS ON EXTRAORDINARY ACTIVITIES	4,219,689	-336,941
TOTAL PROFIT OR LOSS	93,530,928	83,224,796
17. Corporate income tax	14,022,776	8,749,121
18. Deferred taxes	4,992,938	-9,596,066
19. NET PROFIT OR LOSS FOR THE ACCOUNTING PERIOD	74,515,214	84,071,741
Net profit or loss of majority owner for the accounting year	73,801,282	83,461,018
Net profit or loss of minority owner for the accounting year	713,932	610,723

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

5.5 Consolidated cash flow statement

in €

ITEMS	2008	2007
A. CASH FLOWS FROM OPERATING ACTIVITIES		
a) Items of income statement	193,539,109	155,162,910
Operating revenue (except from revaluation) and finance income from operating receivables	904,614,858	1,001,790,115
Operating expenses without depreciation or amortisation (except from revaluation) and finance expenses for operating liabilities	(701,239,643)	(836,106,276)
Income taxes and other taxes not included in operating expenses	(9,836,106)	(10,520,929)
b) Changes in net operating assets in balance sheet items (including accruals and deferrals, provisions and deferred tax assets and liabilities)	7,925,206	(36,908,425)
Opening less closing operating receivables	24,692,459	(50,422,595)
Opening less closing accrued revenue and deferred costs	1,283,815	(2,550,054)
Opening less closing deferred tax assets	8,700,950	(9,561,983)
Opening less closing inventories	(3,594,707)	(609,806)
Closing less opening operating liabilities	(22,144,432)	24,784,325
Closing less opening accrued costs and deferred revenue, and provisions	(1,012,879)	1,451,688
c) Net cash from operating activities (a + b)	201,464,315	118,254,485
B. CASH FLOWS FROM INVESTING ACTIVITIES		
a) Cash receipts from investing activities	1,097,142,789	1,699,829,662
Interest and dividends received from investing activities	8,824,179	23,522,728
Cash receipts from disposal of intangible assets	5,224,704	197,350
Cash receipts from disposal of property, plant and equipment	309,254	9,422,237
Cash receipts from disposal of investment property	1,287,469	49,089
Cash receipts from disposal of long-term investments	173,727	2,009,442
Cash receipts from disposal of short-term investments	1,081,323,456	1,664,628,816
b) Cash disbursements from investing activities	(1,332,696,347)	(1,919,557,557)
Cash disbursements to acquire intangible assets	(11,402,735)	(2,344,218)
Cash disbursements to acquire property, plant and equipment	(193,443,912)	(163,341,825)
Cash disbursements to acquire long-term investments	(4,547,219)	(88,121,235)
Cash disbursements to acquire short-term investments	(1,123,302,481)	(1,665,750,279)
c) Net cash from investing activities (a + b)	(235,553,558)	(219,727,895)
C. CASH FLOWS FROM FINANCING ACTIVITIES		
a) Cash receipts from financing activities	334,533,248	449,873,139
Cash proceeds from paid-in capital	9,553,549	0
Cash proceeds from increase in long-term financial liabilities	99,155,847	128,671,555
Cash proceeds from increase in short-term financial liabilities	225,823,852	321,201,584
b) Cash disbursements from financing activities	(302,288,129)	(340,368,728)
Interest paid on financing activities	(14,803,124)	(10,851,660)
Cash repayments of long-term financial liabilities	(35,687,717)	(25,059,182)
Cash repayments of short-term financial liabilities	(249,897,288)	(295,507,032)
Dividends and other profit shares paid	(1,900,000)	(8,950,854)
c) Net cash from financing activities (a + b)	32,245,119	109,504,411
D. CLOSING BALANCE OF CASH		
x) Net cash flow for the period	(1,844,124)	8,031,001
y) Opening balance of cash	15,297,292	7,266,291

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

5.6 Consolidated statement of changes in equity

For the year 2008

ITEMS	Called-up capital		Capital surplus	Revenue reserves		Revaluation surplus	Retained net profit or loss	Net profit or loss for the period	Consolidation equity adjustment	Equity of minority owners	TOTAL
	Nominal capital				Other revenue reserves						
A. Balance at year start	29,558,789	561,243,185	138,319,123	0	22,670,400	255,814,550	0	(433,309)	30,201,464	1,037,374,202	
B. Movements to equity	0	0	0	0	60,357,450	1,111,845	73,801,282	(470,672)	29,801,308	166,601,213	
a) Subscription of called-up nominal capital									28,768,925	28,768,925	
e) Net profit or loss for the period							73,801,282	(158,664)	713,932	74,356,550	
f) Equity revaluation adjustments								(331,293)	(130)	(331,423)	
g) Other increases in components of equity					60,357,450	1,111,845		19,285	318,581	61,807,161	
C. Movements within equity	0	0	31,183,706	0	(4,305,599)	(4,305,599)	(26,878,107)			0	
a) Allocation of net profit as a component of equity in accordance with a management and supervisory board decision			26,878,107								
b) Allocation of net profit to additional reserves in accordance with a general meeting resolution			4,305,599			(4,305,599)				0	
D. Movements from equity	0	0	0	0	(72,466,800)	(1,900,000)	0	0	0	(74,366,800)	
a) Payment of dividends						(1,900,000)				(1,900,000)	
d) Transfer of revaluation surplus (to operating revenue or finance income)					(3,153,071)					(3,153,071)	
e) Other decreases in components of equity					(69,313,729)					(69,313,729)	
E. Closing balance for the period	29,558,789	561,243,185	169,502,829	10,561,050	250,720,796	46,923,175	(903,981)	60,002,772	1,127,608,615		

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

For the year 2007

ITEMS	Called-up capital		Capital surplus	Revenue reserves		Revaluation surplus	Retained net profit or loss	Net profit or loss for the period	Consolidation equity adjustment	Equity of minority owners	TOTAL
	Nominal capital	Other revenue reserves		Revenue reserves	Other revenue reserves						
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. As at 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
e) Net profit or loss for the period								83,461,018	(314,952)	610,723	83,756,789
f) Equity revaluation adjustments									(119,800)	19,548	(100,252)
g) 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 a management and supervisory board decision				6,205,598				(6,205,598)			0
b) Allocation of net profit to additional reserves in accordance with a 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) Repayment of capital										(31,406,697)	(31,406,697)
d) Transfer of revaluation surplus (to operating revenue or finance income)						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		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 the 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 on the basis for the preparation of the consolidated balance sheet and on specific accounting policies selected and applied to the Group's significant transactions and other business events are presented in the disclosures pertaining to individual significant assets and liabilities.

The Group has no additional information that does not have to be disclosed in the consolidated balance sheet 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.

Assets and liabilities are carried at fair value unless the fair value of an asset or liability cannot be determined. In this case, they are carried at historical cost.

(1) Intangible assets and long-term accrued revenue and deferred costs € 48,274,010

Long-term property rights mainly relate to software, transfer of a lower Sava River concession for a consideration, and CO₂ emission coupons.

Under the Environment Protection Act and the Ordinance on the National Plan for the Allocation of CO₂ Emission Coupons for the period 2008-2012, two subsidiaries received 24,911,220 CO₂ emission coupons in 2008. In accordance with Interpretation 1 of SAS 2 (2006) issued by the Slovene Institute of Auditors, these coupons are carried at € 1 per coupon. The value of the coupons received from the state represents the bulk of the increase in long-term property rights in 2008.

The controlling company also has CO₂ emission coupons that are held for trading purposes.

The Group's opening balance of CO₂ emission coupons amounted to 4,865,792. In 2008, 1,287,403 CO₂ emission coupons were purchased (of which 823,572 within the Group), 24,911,220 coupons were received from the state, while 6,454,274 coupons were sold or used. The Group thus had 24,610,141 CO₂ emission coupons at the end of 2008.

During consolidation, CO₂ emission coupons worth € 5,572,500 were eliminated on account of intra-Group sales.

Additional goodwill of € 82,342 was created due to the elimination of surplus arising from the revaluation of long-term investments in 2008 by a subsidiary in which the controlling company's ownership interest was changed after the creation of the revaluation surplus.

Amortisation rates for intangible assets with finite useful lives range from 2 to 50% p.a.

In 2008 CO₂ emission coupons were impaired within the Group, but no reasons for impairment were determined in connection with other intangible assets.

Cost and accumulated amortisation of intangible assets and long-term accrued revenue and deferred costs as at 31/12/2007

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
Accumulated amortisation	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

Cost and accumulated amortisation of intangible assets and long-term accrued revenue and deferred costs as at 31/12/2008

in €

AS AT 31/12/2008	LONG-TERM PROPERTY RIGHTS	GOODWILL	LONG-TERM DEFERRED DEVELOPMENT COSTS	OTHER LONG-TERM ACCRUED REVENUE AND DEFERRED COSTS	TOTAL
Cost	39,959,061	12,387,056	239,177	1,927,820	54,513,114
Accumulated amortisation	6,234,800	0	4,304	0	6,239,104
Carrying amount	33,724,261	12,387,056	234,873	1,927,820	48,274,010

Changes in intangible assets and long-term accrued revenue and deferred costs

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 31/12/2007	12,832,029	12,304,714	502,465	2,235,518	27,874,726
Acquisitions	31,920,263	82,342	5,271	94,009	32,101,885
Disposals	-9,298,312	0	-272,248	-396,611	-9,967,171
Amortisation	-1,747,330	0	-615	0	-1,747,945
Transfers	527,444	0	0	-5,096	522,348
Revaluation	-509,780	0	0	0	-509,780
Foreign exchange differences	-53	0	0	0	-53
Carrying amount as at 31/12/2008	33,724,261	12,387,056	234,873	1,927,820	48,274,010

(2) Property, plant and equipment € 1,301,732,514

The majority of group companies are engaged in the production of electricity or extraction of raw materials used for electricity production. This requires specialised equipment and buildings, where the equipment is located. Property, plant and equipment items thus account for a significant share of the Group's assets.

When the joint venture project was transferred to HESS in the form of an in-kind contribution, the value of prop-

erty, plant and equipment represented an important share of it, but the transfer itself did not affect the recording of the value of these assets within the Group.

At some group companies, parts of immovable and movable property were appraised in 2008, resulting in an impairment of the assets. The appraisals were prepared by the companies Dominus d.o.o. Ljubljana, Sveng d.o.o., Ljubljana and Dodoma d.o.o. Maribor.

Group companies do not have any items of property, plant and equipment held under finance lease or mortgage.

Cost and accumulated depreciation of property, plant and equipment as at 31/12/2007

in €

AS AT 31/12/2007	LAND	BUILDINGS	PRODUCTION 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
Accumulated depreciation	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

Cost and accumulated depreciation of property, plant and equipment as at 31/12/2008

in €

AS AT 31/12/2008	LAND	BUILDINGS	PRODUCTION PLANT AND EQUIPMENT	OTHER PLANT AND EQUIPMENT	PPE IN THE COURSE OF CONSTRUCTION	ADVANCES FOR ACQUISITION OF PPE	TOTAL
Cost	27,237,926	1,163,688,787	1,839,062,869	37,716,622	278,013,609	16,890,083	3,362,609,896
Accumulated depreciation	0	681,394,303	1,350,622,453	28,860,626	0	0	2,060,877,382
Carrying amount	27,237,926	482,294,484	488,440,416	8,855,996	278,013,609	16,890,083	1,301,732,514

Changes in property, plant and equipment

in €

PROPERTY, PLANT AND EQUIPMENT	LAND	BUILDINGS	PRODUCTION PLANT AND EQUIPMENT	OTHER PLANT AND EQUIPMENT	PPE IN THE COURSE OF CONSTRUCTION	ADVANCES FOR ACQUISITION OF PPE	TOTAL
Carrying amount as at 31/12/2007	25,685,831	491,345,017	448,294,882	7,053,361	198,433,778	18,523,539	1,189,336,408
Acquisitions	1,639,358	0	154,474	469,372	192,608,231	31,730,282	226,601,717
Disposals	-87,263	-493,455	-2,232,301	-91,578	-23,000	-22,835,799	-25,763,396
Transfers	0	13,534,791	93,960,075	3,634,694	-112,843,536	-10,527,939	-12,241,915
Depreciation	0	-19,495,685	-50,891,999	-2,208,635	0	0	-72,596,319
Revaluation	0	-2,596,184	-844,715	0	-161,864	0	-3,602,763
Foreign exchange differences	0	0	0	-1,218	0	0	-1,218
Carrying amount as at 31/12/2008	27,237,926	482,294,484	488,440,416	8,855,996	278,013,609	16,890,083	1,301,732,514

(3) Long-term investments € 51,541,008

During consolidation, € 948,506,794 of long-term investments in Group companies were eliminated.

During consolidation, the value of **investments in associates** accounted for using the equity method increased by € 93,960. The increase was recorded as revaluation surplus.

An investment in the subsidiary Golte, which is not consolidated, represents an important increase in interests in group companies.

In 2007 **other long-term investments** also included the fair value of derivatives. Due to a drop in interest rates, the fair value of these instruments was negative at the end of 2008 and was therefore recorded under other long-term financial liabilities.

Cost and revaluation of long-term investments other than loans

in €

AS AT 31/12/2008	INTERESTS AND SHARES IN GROUP COMPANIES	INTERESTS AND SHARES IN ASSOCIATES	OTHER INVESTMENTS IN SHARES AND INTERESTS	OTHER LONG-TERM INVESTMENTS	TOTAL
Cost	3,034,734	1,015,126	47,294,798	120,815	51,465,473
Revaluation	0	0	362,355		362,355
Carrying amount	3,034,734	1,015,126	46,932,443	120,815	51,103,118

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 INVESTMENTS	TOTAL
Carrying amount as at 31/12/2007	26,928	1,060,227	46,909,871	1,429,295	49,426,321
Acquisitions	3,016,569	74,919	1,044,117	36,664	4,172,269
Disposals	-8,763	-120,020	-659,571	-1,345,144	-2,133,498
Revaluation	0	0	-361,974	0	-361,974
Carrying amount as at 31/12/2008	3,034,734	1,015,126	46,932,443	120,815	51,103,118

(4) Deferred tax assets € 19,300,196

In 2008 deferred tax assets were created anew in connection with the following:

- creation of provisions for jubilee and termination benefits,
- impairment of long-term and short-term investments,
- differences between operating and tax depreciation and amortisation,
- unused tax losses at two companies and other.

Deferred tax assets are used in connection with:

- use of provisions for jubilee and termination benefits,

- reversal and use of other provisions,
- reconciliation of deferred tax assets to a lower tax rate.

In the consolidated income statement for the year 2008 created deferred tax assets amounted to € 4,135,437, with reversed deferred tax assets totalling € 9,128,374. In the consolidated balance sheet, the amount of created deferred tax assets stood at € 325,462.

The Group's deferred tax liabilities stood at € 2,639 at the end of 2008.

Changes in deferred tax assets

in €

DEFERRED TAX ASSETS	PROVISIONS	IMPAIRMENT	DEPRECIATION AND AMORTISATION	OTHER	TOTAL
Value as at 31/12/2007	9,630,803	2,936,784	23,645	11,376,439	23,967,671
Creation, increase	268,882	3,796,094	70,461	325,462	4,460,899
Use, decrease	-1,306,307	0	-420	-7,821,647	-9,128,374
Value as at 31/12/2008	8,593,378	6,732,878	93,686	3,880,254	19,300,196

(5) Inventories € 32,873,842

Inventories of the Group consist of materials, which also include small tools with a useful life of up to one year and value of not more than € 500, products, work in progress and advances for inventories. In the **inventories of materials**, the biggest amount relates to the inventories of maintenance materials, spare parts, coal and heating oil.

Inventories of products mostly relate to coal.

According to the inventory count, the surpluses of materials and products amounted to € 53,022 and € 36,372, respectively, while the shortages of materials amounted to € 28,871. At the end of the year inventories were revalued by € 130,406 to reflect a drastic drop in the market prices of materials. The value of materials after the revaluation totalled € 174,342.

The net realisable value of inventories is not lower than their carrying amount.

(6) Receivables € 156,878,196

Long-term trade receivables are not secured.

Other long-term operating receivables mainly comprise deposits given as collaterals for electricity trading by the controlling company.

Short-term trade receivables are mostly secured, while other short-term receivables are not due to their nature. Receivables mainly consist of receivables from the controlling company's electricity customers.

The Group's allowances for receivables totalled € 16,162,540, of which the majority relates to a written off receivable of the controlling company arising from the provisions of system services, which was made in 2007.

The amount of short-term receivables eliminated in consolidation totalled € 148,573,632.

Long-term operating receivables by maturity date

in €

LONG-TERM OPERATING RECEIVABLES	Maturity date			TOTAL
	before 31/12/2011	between 01/01/2012 and 31/12/2013	after 01/01/2014	
Trade receivables	0	30,521	0	30,521
Receivables from others	2,891,137	70,886	138,673	3,100,696
Total	2,891,137	101,407	138,673	3,131,217

Short-term operating receivables by maturity date

in €

SHORT-TERM OPERATING RECEIVABLES	Breakdown by maturity date						TOTAL
	Not yet due	Up to 3 months overdue	3 to 6 months overdue	6 to 9 months overdue	9 to 12 months overdue	More than 1 year overdue	
Trade receivables	96,555,165	17,743,867	270,705	9,573	8,412	16,203,487	130,791,209
Receivables from others	39,013,648	34,234	26,903	40,269	276	2,980	39,118,310
Total	135,568,813	17,778,101	297,608	49,842	8,688	16,206,467	169,909,519

(7) Short-term investments € 116,375,273

The largest share of the Group's short-term investments relates to deposits with Slovenia's major banks, hence the exposure to risks is minimum. Deposits with banks are not secured, but the loans given are.

One of the group companies impaired a loan by € 18,600,000 based on an estimated repayable value of the principal arising from a loan secured with a mortgage. The impaired value of the loan thus amounts to € 2,400,000.

TYPES OF SHORT-TERM INVESTMENTS	in €	
	31/12/08	31/12/07
Deposits with banks	113,231,694	81,741,383
Short-term loans to associates	0	50,075
Short-term loans to others	3,142,025	21,714,293
Other short-term investments	1,554	0
Total	116,375,273	103,505,751

(8) Cash € 13,453,168

At the balance sheet date, group companies had in place automatic borrowing facilities in the form of overdrafts on transaction accounts with banks, which amounted to € 13,101,030 but were not used as at 31/12/2008.

paid in advance, insurance premiums, maintenance costs, etc.).

The amount of short-term accrued revenue and deferred costs eliminated in consolidation totalled € 10,565,336.

(9) Short-term accrued revenue and deferred costs € 5,958,343

The bulk of the Group's accrued revenue and deferred cost items relates to short-term deferred costs (accrued contingent costs of electricity, concessions

(10) Off-balance sheet records € 372,404,610

The Group's off-balance sheet items comprise given and received instruments for the collateralisation of payments (bank guarantees, insurance policies), granted guarantees and the value of futures.

Off-balance sheet records

TYPE OF OFF-BALANCE SHEET RECORD	in €	
	31/12/08	31/12/07
Bank guarantees received and other collaterals	139,222,794	122,764,966
Bank guarantees issued and other collaterals	153,721,991	82,901,089
Futures used for hedging - purchase	76,998,736	104,261,505
Other	2,461,089	2,435,216
Total off-balance sheet records	372,404,610	312,362,776

(11) Equity € 1,127,608,615

The value of **nominal capital** and capital surplus remained unchanged in 2008.

Other revenue reserves total € 169,502,829 and were increased as follows in 2008:

- by a portion of accumulated profit for 2007 amounting to € 4,305,599, in accordance with a resolution adopted by the controlling company's General Meeting,
- by a portion of net profit for 2008 amounting to € 26,878,107, in accordance with a decision taken by the controlling company's Supervisory Board on the management's proposal.

Retained earnings of € 250,720,796 represent the controlling company's share of retained earnings of subsidiaries and the differences in consolidation from previous years.

Net profit for the financial year totals € 46,923,175 and comprises the accumulated profit of the controlling company in the amount of € 26,878,108, the 2008 profits or losses of subsidiaries attributable to the controlling company in the amount of € 47,484,324,

and a decrease by € 27,439,257 arising from consolidation, which represents the elimination of the controlling company's finance income from shares of profit of subsidiaries and other effects on the consolidated income statement.

Revaluation surplus, which totals € 10,561,050, stood at € 11,634,567 at the controlling company (hedging derivatives) but was reduced during consolidation by € 1,073,517, which represents the controlling company's share in the creation of revaluation surpluses in subsidiaries and its share of profit of associates.

Consolidation equity adjustment of € -903,981 represents foreign exchange differences that occurred in the translation of balance sheet items and income statement items of subsidiaries abroad and foreign exchange difference determined during consolidation.

Minority interest increased by € 29,801,308 in 2008, mainly due to incorporation of HESS in the consolidated financial statements, and totals € 60,002,772.

The amount of subsidiaries' equity eliminated during consolidation totalled € 935,554,785.

The Group's equity

	in €	
TOTAL EQUITY	31/12/08	31/12/07
Nominal capital	29,558,789	29,558,789
Capital surplus	561,243,185	561,243,185
Other revenue reserves	169,502,829	138,319,123
Revaluation surplus	10,561,050	22,670,400
Retained net profit or loss	250,720,796	178,559,130
Net profit or loss for the period	46,923,175	77,255,420
Consolidation equity adjustment	-903,981	-433,309
Equity of minority owners	60,002,772	30,201,464
Total	1,127,608,615	1,037,374,202

	in €
PROFIT OR LOSS OF THE GROUP AFTER EQUITY RESTATEMENT	31/12/08
Net profit or loss	73,801,282
Equity restatement result	-21,159,727
Profit or loss after restatement based on consumer prices (2.1% growth)	52,641,555

(12) Provisions and long-term accrued costs and deferred revenue

€ 118,046,869

Provisions include the provisions created and used in conformity with disability organisations legislation, provisions for obligations under sales agreements, provisions for closing down the Škale Pit and the remaining coalmining sites in Velenje, and provisions for pending claims arising from lawsuits.

Provisions for termination and jubilee benefits were created based on an actuarial calculation as at 31/12/2008 for all group companies in Slovenia.

The actuarial calculation was based on the following:

- number of employees within group companies as at 31/10/2008 (sex, age, years of services average net and gross salary in the period August to October 2008),
- method for calculating termination and jubilee benefits in a group company,
- 4.5% increase in average salary,
- staff turnover by age category.

Long-term accrued cost and deferred revenue items

include provisions for government grants received for the acquisition of fixed assets, which were used in 2008 to cover the accounted for depreciation. This category also includes provisions set aside in connection with CO₂ emission coupons obtained and in connection with exempted contributions for the disabled.

Changes in provisions and long-term accrued costs and deferred revenue

in €

ITEM	AS AT 31/12/2007	INCREASE (CREATION)	USE, RELEASE	AS AT 31/12/2008	CREATION PLANNED	USE PLANNED
Long-term provisions for termination and jubilee benefits	11,587,925	2,326,613	-1,835,289	12,079,249	0	0
Other long-term provisions	70,728,491	19,707,911	-17,202,611	73,233,791	13,366,500	2,726,838
Long-term accrued costs and deferred revenue	12,831,800	26,539,111	-6,637,082	32,733,829	60,000	5,440,824
Total	95,148,216	48,573,635	-25,674,982	118,046,869	13,426,500	8,167,662

(13) Long-term liabilities

€ 292,685,262

Long-term liabilities of group companies mainly relate to long-term bank loans.

Long-term loans are secured with bills of exchange, acceptance orders, guarantees, receivables or warranties issued by the Republic of Slovenia.

The loans were taken out with Slovene and foreign banks, with interest rates ranging from 2.8 to 6.6%, depending on the type of loan, maturity period and occasion of borrowing. They also include loans which fall due in a period of more than five years, but not later than in 2032.

Long-term loans are disclosed in greater detail in the annual reports of individual group companies.

Interest rate swaps have been entered into for some of the Group's long-term loans to lower the risk of increases in variable interest rates. Due to a drop in interest rates, their fair values have been recorded as part of other long-term financial liabilities and revaluation deficit.

All long-term loan liabilities are being settled within contractual deadlines.

Maturity dates of long-term liabilities

in €

LONG-TERM LIABILITIES	Maturity date			TOTAL
	before 31/12/2011	between 01/01/2012 and 31/12/2013	after 01/01/2014	
Long-term financial liabilities to banks	97,179,466	52,599,087	138,966,250	288,744,803
Long-term financial liabilities to others	1,470,679	149,179	0	1,619,858
Long-term operating trade liabilities	1,547,155	460,851	0	2,008,006
Long-term operating liabilities to others	9,821	6,987	293,148	309,956
Total	100,207,121	53,216,104	139,259,398	292,682,623

(14) Short-term liabilities € 194,052,222

None of the short-term financial liabilities were due yet and mostly relate to the portion of long-term loans falling due within one year of the balance sheet date. They are secured with bills of exchange, acceptance orders, guarantees, receivables or warranties issued by the Republic of Slovenia. Interest rates on short-

term loans range from 3.63 to 8%. Short-term loans are disclosed in greater detail in the annual reports of individual group companies. The amount of short-term operating trade liabilities due on the balance sheet date totalled € 72,608.

The amount of short-term operating liabilities eliminated in consolidation totalled € 159,158,253.

Types of short-term liabilities

in €

TYPES OF SHORT-TERM LIABILITIES	31/12/08	31/12/07
Short-term financial liabilities to banks	45,298,464	82,457,908
Short-term financial liabilities to others	183,345	87,177
Short-term operating trade liabilities	104,391,606	123,352,275
Short-term operating liabilities to associates	0	4,388
Short-term operating liabilities from advances	190,486	442,148
Short-term operating liabilities to others	43,988,321	35,306,724
Total	194,052,222	241,650,620

Maturity dates of short-term operating liabilities

in €

SHORT-TERM OPERATING LIABILITIES	Breakdown by maturity			TOTAL
	Not yet due	Up to 3 months overdue	More than 3 months overdue	
Short-term trade liabilities	104,318,998	64,445	8,163	104,391,606
Short-term liabilities from advances	190,486	0	0	190,486
Short-term liabilities to others	43,988,321	0	0	43,988,321
Total	148,497,805	64,445	8,163	148,570,413

(15) Short-term accrued costs and deferred revenue € 15,317,815

The majority of the Group's short-term accrued cost and deferred revenue items relate to accrued costs associated with contingent electricity costs, accrued

costs of unutilised leave, loan interest and VAT on advances paid.

The amount of short-term accrued cost and deferred revenue items relating to accrued costs of CO₂ emission coupons, which were eliminated during consolidation, stood at € 6,118,168.

Changes in short-term accrued costs and deferred revenue

in €

ITEM	As at 31/12/2007	Increase (creation)	Use, release	Foreign exchange differences	As at 31/12/2008
Short-term accrued costs	9,749,812	97,813,202	-92,249,107	-3,651	15,310,256
Short-term deferred revenue	74,651	8,686	-75,778	0	7,559
Total	9,824,463	97,821,888	-92,324,885	-3,651	15,317,815

5.7.2 Consolidated income statement

General

Information on the basis for the preparation of the consolidated income statement and on specific accounting policies selected and applied to the Group's significant operations and business events are presented in disclosures pertaining to individual revenue and expense items.

The consolidated income statement has been prepared using Format I as defined in SAS 25.

Revenue € 920,705,280

The Groups' revenue is comprised of operating revenue, finance income and other revenue.

in €

TYPES OF REVENUE	YEAR 2008	YEAR 2007
Operating revenue	903,420,050	1,011,617,008
Finance income	11,469,110	32,301,850
Other revenue	5,816,120	804,588
Total	920,705,280	1,044,723,446

Operating revenue € 903,420,050

The majority of net sales revenue relates to the revenue generated through the sale of electricity.

The amount of net sales revenue and other operating revenue eliminated during consolidation totals € 579,767,094 and € 37,440, respectively.

The value of **capitalised own products and services** increased by € 3,471,785 during consolidation, specifically due to the sale of property, plant and equipment within the Group.

Finance income € 11,469,110

Finance income mainly relates to interest on deposits and loans.

The amount of finance income eliminated during consolidation totals € 28,146,654. This mainly relates to the payment of a share of profit to the controlling company by two subsidiaries.

Other revenue € 5,816,120

The Group's other revenue includes the amounts of realised bank guarantees, compensation and subsidies.

Segments

in €		
NET SALES REVENUE BY BUSINESS SEGMENT	YEAR 2008	YEAR 2007
Electricity	840,340,453	953,578,530
Other	32,421,875	28,754,791
Total	872,762,328	982,333,321

in €		
NET SALES REVENUE BY GEOGRAPHICAL SEGMENT	YEAR 2008	YEAR 2007
Domestic market	625,382,932	722,268,188
Foreign market	247,379,396	260,065,133
Total	872,762,328	982,333,321

Expenses € 827,174,352

The Group's expenses are comprised of operating, finance and other expenses.

in €		
TYPES OF EXPENSES	YEAR 2008	YEAR 2007
Operating expenses	786,648,130	945,117,205
Finance expenses	38,929,791	15,239,916
Other expenses	1,596,431	1,141,529
Total	827,174,352	961,498,650

Operating expenses € 786,648,130

The **cost of goods sold** mainly relates to the cost of electricity.

The **costs of materials** mostly relate to the costs of energy, fuel, materials specific to each type of production, and spare parts.

The cost of goods and materials sold eliminated during consolidation totalled € 574,662,900.

The majority of **costs of services** relate to the costs of services associated with production, maintenance costs, transport costs and insurance premiums.

The costs of services eliminated during consolidation totalled € 1,808,041.

Labour costs comprise salaries and compensations, 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.

The majority of **write-downs in value** refer to the amortisation of intangible assets and depreciation of property, plant and equipment.

In relation to intangible assets and property, plant and equipment, the biggest part of revaluation operating expenses relates to the write-down of unusable and technologically or economically inefficient assets, whereas in operating current assets, it refers to the revaluation of materials inventories.

Types of operating expenses

in €

TYPES OF OPERATING EXPENSES	YEAR 2008	YEAR 2007
Cost of goods sold and costs of materials	446,843,322	629,285,523
Costs of services	61,277,352	52,411,026
Labour costs	137,687,403	123,900,511
Depreciation and amortisation	74,358,495	72,040,630
Revaluation operating expenses associated with intangible assets and property, plant and equipment	4,927,577	9,469,391
Revaluation operating expenses associated with operating current assets	394,376	15,051,623
Other operating expenses	61,159,605	42,958,501
Total	786,648,130	945,117,205

Group companies account for the amortisation of intangible assets and depreciation of property, plant and equipment using the straight-line method. Assets are depreciated/amortised individually based on anticipated useful lives.

The depreciation of property, plant and equipment acquired through government grants or free of charge is accounted for separately. For the amount of accumulated depreciation, long-term accrued cost and deferred revenue items are used and other operating revenue recorded.

Amortisation rates for intangible assets and depreciation rates for property, plant and equipment of the Group

in €

TYPE OF ASSET	DEPRECIATION/ AMORTISATION 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	2 - 50 %

The Group applies similar rates of depreciation to the property, plant and equipment of the same kind, whereas with manufacturing plant and equipment, individual companies apply depreciation rates that correspond to their activities.

Other operating expenses comprise a concession fee payable to the state, building site fees, fee for a limited area use, water charge, environmental charge, creation of provisions, scholarships and donations.

The amount of other intra-group operating expenses eliminated during consolidation totalled € 222,602.

Finance expenses € 38,929,791

Finance expenses mostly relate to a write-off of a short-term investments by one of HSE Group companies and to interest on long-term and short-term loans.

The amount of finance expenses for loan interest eliminated during consolidation totalled € 346,603.

Other expenses € 1,596,431

Other expenses mainly relate to fines and compensations paid.

Overview of costs by functional group

in €

FUNCTIONAL GROUPS	YEAR 2008	YEAR 2007
Cost of goods sold or production costs of quantities sold	693,637,238	844,851,228
Cost of sales	13,408,994	11,226,747
General and administrative costs	75,463,558	78,789,959

Corporate income tax € 14,022,776

In 2008 seven group companies in Slovenia and four out of five abroad were liable to pay corporate income tax. Owing to tax breaks or tax losses, the remaining companies did not calculate the basis for the payment of the tax.

At the end of 2008, the group companies' unused tax losses stood at € 35,583,792.

Deferred taxes € 4,992,938

Deferred taxes relate 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 € 4,992,938 relates to the creation and use of deferred tax assets by HSE Group companies in 2008.

Net profit or loss € 74,515,214

Net profit or loss relates to the net profit or loss of the controlling company (€ 53,756,215), the controlling company's share of profits or losses of its subsidiaries (€ 47,484,324), decrease in profit or loss as a result of the elimination of the controlling company's finance income associated with the payment of shares of profit of subsidiaries and other effects on the consolidated profit or loss during consolidation (€ -27,439,257), and net profit or loss of minority owners (€ 713,932).

Profit or loss of the Group

	in €	
TYPE OF PROFIT OR LOSS	YEAR 2008	YEAR 2007
Operating profit or loss	116,771,920	66,499,803
Profit or loss on ordinary activities	89,311,239	83,561,737
Profit or loss on extraordinary activities	4,219,689	-336,941
Total profit or loss	93,530,928	83,224,796
Net profit or loss for the accounting period	74,515,214	84,071,741
- of which majority owner	73,801,282	83,461,018
- of which minority owner	713,932	610,723

5.7.3 Consolidated cash flow statement

General

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

The Group's cash comprises cash on hand, deposit

money in transaction accounts, and deposits redeemable at notice.

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

The data presented in the consolidated cash flow statement has been obtained from the cash flow statements of group companies, taking into account consolidation eliminations.

Cash flows

TYPE OF CASH FLOW	in €	
	YEAR 2008	YEAR 2007
Cash flows from operating activities	201,464,315	118,254,485
Cash flows from investing activities	-235,553,558	-219,727,895
Cash flows from financing activities	32,245,119	109,504,411
Net cash flow for the period	-1,844,124	8,031,001

5.7.4 Consolidated statement of changes in equity

General

The consolidated statement of changes in equity shows all changes in equity components during a financial year.

Method

The consolidated statement of changes in equity has been prepared using Format I as defined in SAS 27.2. Accumulated profit is not determined at the Group level.

Movements to equity

In 2008 movements to equity amounted to € 164,601,213.

The equity of the Group (excluding minority interests) changed by € 134,799,905 as follows:

- it was increased by net profit or loss of the Group (€ 73,801,282),
- it was increased by retained profit or loss of the Group (€ 1,111,845) arising from consolidation at the level of a subsidiary,
- it was decreased by the amount of consolidation equity adjustment (€ -470,672) arising from foreign exchange differences in subsidiaries abroad,

- it was increased by the amount of revaluation surplus amounting to € 60,357,450, of which € 62,261,577 was recorded by a subsidiary (gain on futures used for hedging), € -1,911,221 represents the controlling company's share of revaluation surplus of subsidiaries and € 7,094 represents the controlling company's share of profits or losses of associates.

Minority interest changed by € 29,801,308 as follows:

- it was increased by € 28,768,925 due to the incorporation of a new company into the Group,
- it was increased by net profit or loss of group companies (€ 713,932),
- it was decreased by the amount of revaluation surplus of group companies (€ -130),
- it was increased by retained profit or loss of the Group (€ 318,581) arising from consolidation at the level of a subsidiary.

Movements within equity

Movements within equity, which amounted to € 31,183,706, comprise:

- allocation of a portion of the controlling company's accumulated profit for 2007 (in accordance with a General Meeting resolution) of € 4,305,599 to other revenue reserves,
- allocation of half of the controlling company's net profit for the current year (in accordance with a Supervisory Board decision taken on the management's proposal) of € 26,878,107 to other revenue reserves.

Movements from equity

Movements from equity amounted to € 74,366,800 and relate to the Group only:

- payment of a portion of the controlling company's accumulated profit for 2007 to the owner (€ 1,900,000),
- decrease in the controlling company's revaluation surplus arising from futures used for hedging by € 72,466,800 (losses on futures in the amount of € 69,313,729 and transfer of fulfilled futures contracts to operating expenses as a decrease of € 3,153,071).

5.7.5 Other notes

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

Remuneration of managers and employees who are not subject to the tariff part of the collective agreement includes:

- gross remuneration included in the income tax return notice,
- premiums paid for voluntary additional pension insurance,
- other remuneration.

Remuneration of Supervisory Board members

Remuneration of Supervisory Board members includes:

- gross attendance fees and travel expenses.

In 2008 managers, employees who are not subject to the tariff part of the collective agreement, and members of the Group's Supervisory Boards did not receive shares of profits under General Meeting resolutions, nor were they approved any advances, loans or guarantees by group companies.

At the end of 2008, 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	YEAR 2008
Members of management boards	1,386,821
Employees who are not subject to the tariff part of the collective agreement	4,503,940
Members of supervisory boards	350,289

Costs of audit and tax consulting

The cost of audit of the annual reports of HSE Group companies amounted to € 24,986. The cost of other audit services stood at € 1,500.

Business events after the consolidated balance sheet date

Business events after the consolidated balance sheet date have been disclosed in the business report.

There were no other important business events.



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ABBREVIATIONS

AHP	Austrian hydro power plants on the Drava River
GDP	Gross domestic product
BoS	Bank of Slovenia
CCS	Carbon capture and storage
CER	Certified emission reductions
CC	Control centre
PSP	Pumped storage plant
VAT	Value added tax
DEM	Dravske elektrarne Maribor d.o.o.
NDP	National detailed plan
NSP	National spatial plan
OPL	Overhead power line
EBIT	Operating profit or loss
EBITDA	Operating profit or loss plus amortisation and depreciation
EE	Electricity
EE TÜV	Organisation for technical control of RES
EEX	European electricity exchange in Leipzig
EFET	European Federation of Energy Traders
EIB	European Investment Bank
ELES	Elektro-Slovenija, d.o.o.
E-RES	Electricity from renewable energy sources
EU	European Union
EURIBOR	Euro interbank offered rate
EXAA	Austrian electricity exchange
EAS	Electrotechnical Association of Slovenia
€	The euro
HACCP	Hazard analysis and critical control points
HPP	Hydropower plant
HESS	Hidroelektrarne na Spodnji Savi, d.o.o.
HSE	Holding Slovenske elektrarne d.o.o.
INFOS	Information system
IPEX	Italian electricity exchange
IS	Information system
ISO	International Organisation for Standardisation
IT	Information technology
ITIL	Information technology infrastructure library (good practice of IT services management)
MoE	Ministry of the Economy
MoF	Ministry of Finance
SHPP	Small hydropower plants
MESP	Ministry of the Environment and Spatial Planning
MDS	Measurement and distribution station
HEA	Hungarian energy agency
NEK	Nuklearna elektrarna Krško d.o.o.
NKBM	Nova kreditna banka Maribor
NLB	Nova ljubljanska banka
SB	Supervisory Board
ODOS	Electronic document system
OHSAS	Occupational health and safety management system

PPE	Property, plant and equipment
OTE	Czech electricity market operator
RES	Renewable energy sources
BU	Business unit
DOBPP	Design for obtaining a building permit
GoO	Guarantee of origin
PPEK	Plinsko parna elektrarna d.o.o.
PXE	Prague electricity exchange
PV	Premogovnik Velenje d.d.
DD	Detailed design
TD	Tender documents
RECS	Renewable energy certificate system
RS	Republic of Slovenia
DTS	Distribution transformer station
SDE	Slovene Power Sector Trade Union
SEL	Savske elektrarne Ljubljana d.o.o.
SENG	Soške elektrarne Nova Gorica d.o.o.
SIR	Slovene Institute of Auditors
SPESS	Slovene Union of Coalminers
SAS	Slovene Accounting Standards
JWC	Joint workers' council
SORS	Statistical Office of the Republic of Slovenia
TPP	Thermal power plant
TEB	Termoelektrarna Brestanica d.o.o.
TEŠ	Termoelektrarna Šoštanj d.o.o.
TET	Termoelektrarna Trbovlje d.o.o.
GHG	Greenhouse gases
TC	Telecommunications
IMAD	Institute of Macroeconomic Analysis and Development
UPIS	Management information system
USP S10	USP Institute learning enterprise standard
ZEPP	Zero emission power plant
ZGD	Companies Act
ZFPZIPP	Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act
ZSSS	Association of Free Trade Unions of Slovenia

