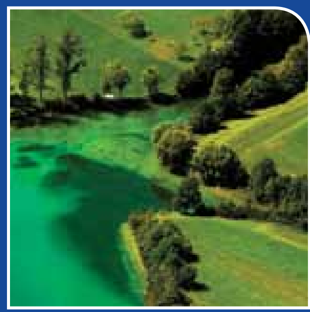


ANNUAL REPORT OF THE COMPANY HSE AND HSE GROUP 2009

Holding Slovenske elektrarne d.o.o.

ANNUAL REPORT OF THE COMPANY HSE AND HSE GROUP

2009

Holding Slovenske elektrarne d.o.o.

table of contents

We are driving the world forward!

The river
drives the world forward

by running its course down the river bed and flowing into the sea, over and over again.

Soča (Isonzo in Italian) is a 137 km long river, running through western Slovenia and northern Italy. This Alpine river springs in Julian Alps in the Trenta valley at the altitude of 1100 m.

8,408 GWh

A record annual production of electricity by the HSE Group

01 INTRODUCTION

1.1 FOREWORD BY THE MANAGING DIRECTOR

Looking back in order to move forward

In your hands you are holding the annual report of HSE and the HSE Group. It is full of numbers and data with which we wish to demonstrate our breakthroughs and achievements and, most of all, our persistence. The latter is namely one of the crucial prerequisites for survival in these challenging economic times and it is also the reason why we were, despite the recession in most countries with which we do business and a double-digit decrease in electricity consumption in Slovenia, able to record a number of superlative results. In fact, there are too many to list in this introduction; therefore, let me mention just a few that stand out the most.

The business and commercial success of HSE is made possible by close to four thousand of our employees. Without their commitment, responsible attitude and cooperation we would be unable to achieve the results presented in this annual report. In 2009, HSE Group achieved a record production of electricity, 8,408 GWh, and managed to increase its operating profit by 39 percent despite a lower volume of sales compared to the previous year. HSE Group thus generated € 114 million of net profit, which is 53 percent more than in 2008. Another remarkable achievement is € 112 million in value added of the parent company, which is 1.6 times higher than the previous year. This is mostly a result of an apt operating policy, expansion of our foreign business network and of revenue from sales in foreign markets reaching a 34 percent share. Continued capital investments in 2009 enabled an increase of output capacity in our production facilities of 84.5 MW. At Termoelektrarna Šoštanj, activities related to the investment in the replacement facility, Unit 6, began.

In 2009, we were able to maintain our superiority in a number of other areas: we remain the largest electricity producer, the largest electricity trader and the largest producer of electricity from renewable resources in Slovenia. All of this is possible due to a healthy financial foundation that also enables the growth of the Group, which had an almost 72 percent share of equity, reserves and provisions in liabilities; in the controlling company this share was even higher, namely, by an additional percentage point. High operating standards have been further improved through acquisition and attestation of various certificates; the last certificate we were awarded this year was the Family-friendly enterprise certificate.

HSE's development priority remains investment in renewable energy sources. Today, we are already the largest producer and proponent of renewable energy in Slovenia. We are sponsoring and overseeing the Modra energija (Blue energy) campaign, we promote education of children through the Modri Jan project, we remain one of the cornerstones of the national campaign "You are energy – Be efficient" that promotes efficient use of energy, and we also finance a number of other educational activities in this area. And although as much as 36 percent of Slovenian territory is covered by Natura 2000, this cannot prevent us from

8,408
record annual production (in GWh)

162
operating profit (in € million)

27
no. of group companies

34
sales revenue in foreign markets (in %)

30
lower consumption of coal for the same amount of electricity after the completion of unit 6 at TEŠ (in %)

36
territory of SLOVENIA covered by NATURA 2000 (in %)

3,836
number of employees in HSE group

112
value added of the company HSE (in € million)

114
net profit of the HSE group (in € million)

reaching our goals. These are not only ambitious – they are also crucial if we wish to decrease our dependency on imports on the one hand and be able to comply with ever stricter environmental requirements by the EU on the other. In doing so, we are constantly aware that placing energy producing facilities into the environment is a very delicate process and that coexistence between people and energy producing facilities is of vital importance. An energy project can namely be successful only when it is a result of successful cooperation among all the parties involved. Civil initiatives are increasingly becoming the society's conscience in Slovenia as well, and there is absolutely nothing wrong about it; therefore, we are trying to coordinate our actions and work together to find ideal solutions.

The area of renewable energy sources will, of course, still require a lot of efforts and investment and, most of all, better awareness in other economic sectors in order to direct attention to consumption. The latter namely generates production – and not vice versa. Therefore, it may be reasonable to question the latest European trends, which prioritise alternative energy sources but fail to address the issue of excessive consumerism and the related excessive use of energy. An additional factor is the deregulation of the European electricity market which resulted in a lesser dependence of electricity prices on production costs. It is also feared that the electricity market – with its liberalisation and trading system – can create the next potential bubble which will, when it bursts, push the economy in another crisis. We will have to join forces to prevent this from happening.

What, then, could be said at end of this foreword and the introduction to the remainder of the report? That a successful past is the best prospect for a successful future? No, that would be pretentious. Things are never that good for us not to be able to do even better. These are our ambitions for our future at the HSE Group and it is my wish that the attitude of all our stakeholders will be directed towards achieving solid performance, quality and success – and all superlatives related to these terms. Because, without you – our employees, business partners, owners – even the most favourable market conditions cannot bring about positive results. The future development of the HSE Group and its success in dealing with different challenges is in all of our hands. Thank you for making our success possible.

Borut Meh

Managing Director of HSE d.o.o.

Ljubljana, 23 April 2010

84.5
increase in capacity of production facilities (in MW)

1.2 THE REPORT OF THE SUPERVISORY BOARD

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

- the method and extent of the examination of the company's operations in the 2009 financial year,
- the examination and confirmation of the annual report of the company HSE and the HSE Group for 2009,
- the examination of the proposal for allocation of accumulated profit,
- the Supervisory Board's position on auditor's reports.

Until 19 July 2009, the Supervisory Board for the 2009 financial year comprised the following owner's representatives: Alojz Stana, MSc (president), Andrej Aplenc, MSc (vice-president), Franc Ervin Janežič, Viktorija Komavec, MSc, Silvester Jeršič and Janez Požar. Boštjan Jančar, Silvester Medveščček and Miran Božič served as employee representatives until 19 July 2009.

The Government of the Republic of Slovenia, as the company's founder, changed the Articles of Incorporation of the limited liability company Holding Slovenske elektrarne d.o.o on 4 June 2009, in accordance with which the company now has a Supervisory Board consisting of 6 members, of which 4 are owner's representatives and 2 are employee representatives. The Articles entered into force on 1 July 2009.

On 20 July 2009, the Government of the Republic of Slovenia, as the company's founder, appointed 4 new members of the Supervisory Board, while the number of employee representatives was reduced to 2 members.

Until the end of 2009, the Supervisory Board consisted of the following members:

- owner's representatives: Franc Žerdin, Ph.D. (president), Franc Žlahtič, Ph.D. (vice-president), Igor Tičar, prof. Ph.D. and Mojca Kert Kos;
- employee representatives: Boštjan Jančar and Silvester Medveščček.

Until 19 July 2009, the Supervisory Board's audit committee was comprised of the following Supervisory Board members: Franc Ervin Janežič (chairman), Alojz Stana, MSc, Andrej Aplenc, Boštjan Jančar and 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.

As their terms of office as Supervisory Board members ended on 19 July, so did the appointments to the audit committee of Franc Ervin Janežič, Alojz Stana, MSc, Andrej Aplenc and Boštjan Jančar. On the same day, Alenka Podbevšek's term of office ended as well.

On 1 December 2009, the company's supervisory board appointed the new audit committee which, until the end of 2009, consisted of:

- members of the Supervisory Board: Franc Žerdin, Ph.D. (president) and Boštjan Jančar;
- an independent expert in the field of accounting and taxes, Brane Podboršek.

Members of the management attended Supervisory Board meetings as follows:

- from 1 January to 30 June 2009 the management comprised two members with equal powers – Managing Directors: Jože Zagožen, Ph.D. and Viljem Pozeb, MSc;
- on 30 June 2009, the term of office of Jože Zagožen, Ph.D. ended, and in accordance with the new Articles of Incorporation of the company, which were changed on 4 June 2009, Viljem Pozeb, MSc, became Managing Director on 1 July 2009. His term of office ended on 14 September 2009;
- on 15 September 2009, Borut Meh started his four-year term of office as the company's Managing Director in accordance with the decision of the Supervisory Board.

1.2.1 MONITORING AND SUPERVISION OF THE COMPANY'S OPERATIONS

The company's Supervisory Board held sixteen meetings in 2009, of which twelve were regular meetings and four 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 HSE Group's development strategy and socially responsible improvement of its economic performance. Due to the global economic and financial crisis, the Supervisory Board devoted special attention to liquidity and provision of sufficient financial resources required for the Group's urgent development projects. In line with the government's position on attendance fees (meetings) and bonuses and in light of measures to mitigate the effects of the financial crisis as well as recommendations to RS representatives in supervisory bodies of companies that are majority owned by the Republic of Slovenia regarding employment contracts for management staff, the Supervisory Board adopted appropriate measures which further contributed to lower costs in 2009.

In accordance with Article 17 of the Articles of Incorporation, effective until 1 July 2009, the company's management had to seek preliminary approval from the Supervisory Board to enter into any legal transaction exceeding € 2,955,000 in value, which also included 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 without interruptions. On 1 July 2009, when the new Articles of Incorporation entered into force, electricity trading and related transactions were excluded from Article 17. The company's Supervisory Board and management have sought and will continue to seek to establish a comprehensive trading risk management model that will provide the same quality of control while decreasing the number of Supervisory Board meetings required. The comprehensive management model for all trading transactions of HSE d.o.o. was approved by the Supervisory Board on 18 February 2009.

Special attention was also devoted to active cooperation in the project for the construction of replacement Unit 6 at Termoelektrarna Šoštanj, the largest energy project in Slovenia. In relation to this project that will contribute significantly to increased competitiveness of the HSE Group and lower emission goals, the HSE Supervisory Board adopted, among others, the following decisions:

- it examined the Revised investment programme and agreed that it represents a sound basis for further cooperation of HSE in the Unit 6 project at TEŠ;
- it preliminary approved a decision for HSE d.o.o. to issue a parent guarantee;
- it preliminary approved the capital increase of Termoelektrarna Šoštanj in the amount of € 85,458,800.00;
- it delegated the company's management to establish an active monitoring system for the Unit 6 project in cooperation with TEŠ and other partners.

The HSE Supervisory Board regularly discussed information concerning the progress of the project for the construction of Unit 6 at TEŠ.

Other important matters and issues discussed by the company's Supervisory Board in 2009 are presented below:

- it discussed and adopted HSE's Business plan for 2009;
- it approved the Comprehensive trading risk management model of HSE d.o.o.;
- it discussed quarterly reports on operations of HSE Group companies;
- it was informed about the problem areas and control in subsidiaries with an emphasis on development, investments and investment policy;
- it reviewed and confirmed the Annual Report of the company HSE and the HSE Group for 2008;
- it carried out a call for applications and appointed a new Managing Director for the period of 4 years;
- it discussed the problems related to both energy pillars;
- it issued a preliminary approval for the sale of a 33% stake in the company Services Hydro Power Macedonia ltd.;

- it was acquainted with the sales strategy of the company HSE;
- it was informed on the starting points for the preparation of the new Development plan of HSE taking into consideration Slovenia's commitments for achievement of key objectives until 2020.

In 2009, the audit committee of the company's Supervisory Board held for regular meetings, at which it discussed various strategic and business related issues:

- it discussed and proposed to the Supervisory Board the adoption of HSE's Business plan for 2009;
- it was acquainted with and proposed to the Supervisory Board the adoption of the Comprehensive trading risk management model of HSE;
- it reviewed the financial report of the company HSE d.o.o. for 2008;
- it reviewed the report on operations of HSE d.o.o. and the HSE Group in the period I – III 2009;
- it was informed about the problem areas and supervision in controlled companies with an emphasis on development, investments and investment policy;
- it was acquainted with the CO_2 emission coupons trading strategy;
- it discussed the Annual Report of the company HSE and the HSE Group for 2008 along with the Auditor's Report and proposed to the HSE d.o.o. Supervisory Board its confirmation;

Due to the company's strategy to intensify its presence in the energy market and the changed operating conditions, the work of the Supervisory Board and Audit Committee was extensive in 2009. It is the Supervisory Board's estimate that the management prepared appropriate and accurate reports, information and analyses that were also further explained by the management, or occasionally by their authors, at the meetings. The Supervisory Board thus obtained the necessary insight into all important areas of operation, 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.

1.2.2 EXAMINATION OF THE ANNUAL REPORT AND POSITION ON AUDITOR'S REPORTS

From the independent auditor's reports on the 2009 Annual Report it is evident that the financial statements of the company and the Group present fairly, in all material respects, the financial position of the company and the Group and their financial performance and cash flows for the year 2009.

Taking into account the review of both audit reports, assessment of the Supervisory Board's audit committee and explanations given at Supervisory Board meetings, the HSE Supervisory Board has no objections to the audit reports. Based on the regular monitoring of HSE's operations, positive audit opinions, solid operating results of the company HSE and the HSE Group, and exceeded business plan for 2009, the Supervisory Board, in line with its competences, and after the final review, raises no objections to and approves the Annual Report of HSE d.o.o. and the HSE Group for the year 2009.

1.2.3 DETERMINATION AND PROPOSED ALLOCATION OF ACCUMULATED PROFIT

The company Holding Slovenske elektrarne d.o.o. ended the financial year 2009 with a net profit of € 60,234,897.76.

At its 8th regular meeting held on 31 March 2010, the Supervisory Board agreed with the management's proposal for half of the net profit of 2009 in the amount of € 30,117,448.88 to be allocated to other revenue reserves already during preparation of financial statements for the year 2009.

The remaining net profit represents the accumulated profit for 2009 and amounts to € 30,117,448.88.

In line with strategic objectives and the investment policy, the HSE Supervisory Board agrees with the management's proposal submitted to the founder for the accumulated profit for 2009, which represents the remainder of the net profit of 2009, in the amount of € 30,117,448.88 to be allocated to other revenue reserves.

Further on, the Supervisory Board proposes to the General Meeting that a discharge from liability be granted to the management and the Supervisory Board as regards the operations in the year 2009.

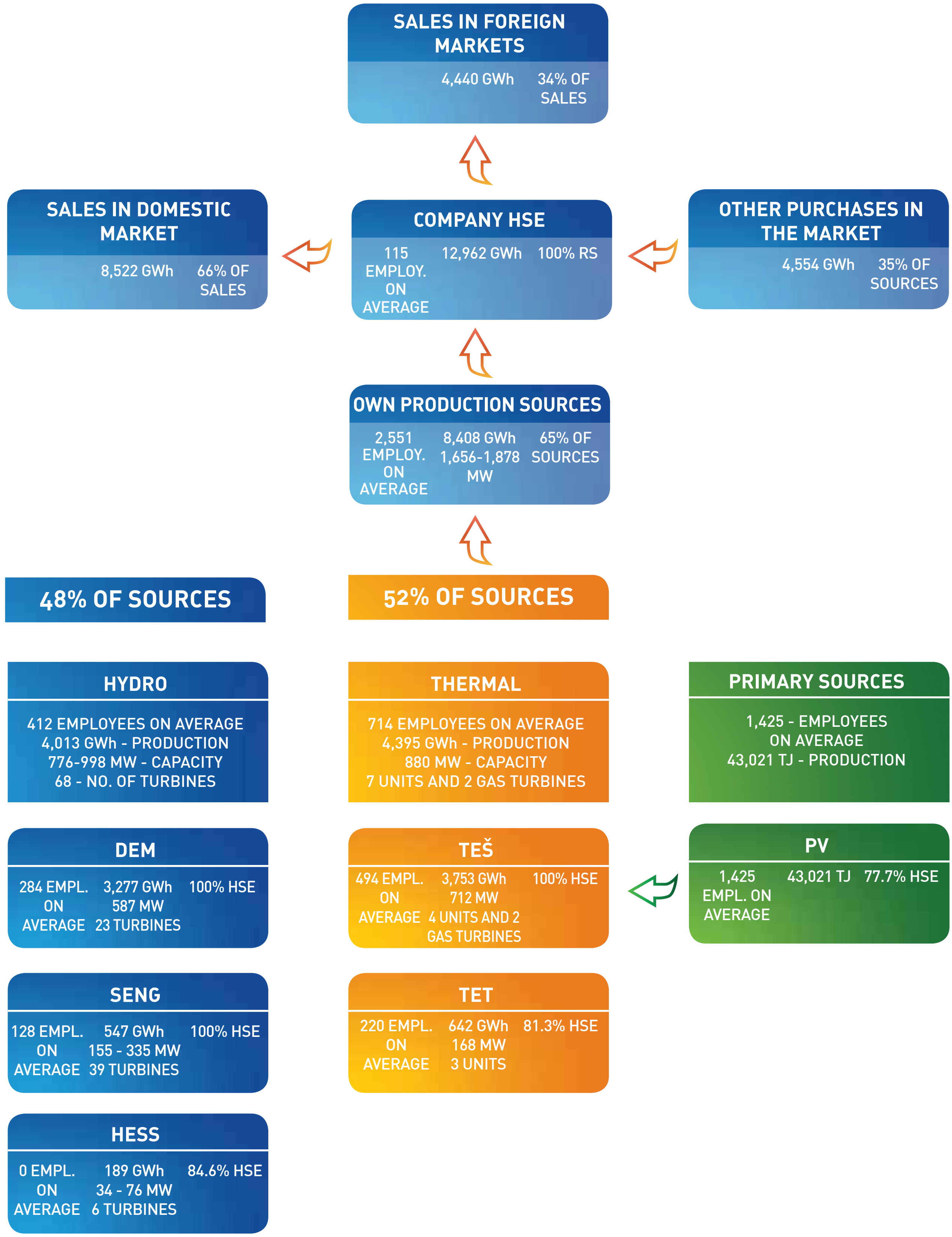
The Supervisory Board of the company prepared the report in accordance with Article 282 of the Companies Act. The report is intended for the company's General Meeting.

Franc Žerdin, Ph.D.

President of the Supervisory Board HSE d.o.o.

Ljubljana, 26 May 2010

1.3 ELECTRICITY PRODUCTION AND TRADING IN THE HSE GROUP IN 2009



1.4 OPERATING HIGHLIGHTS OF THE COMPANY AND THE GROUP

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. We are primarily engaged in the management of energy and the environment, and in the controlling of related processes and risks.

Despite the financial and economic crisis, the operations of HSE and HSE Group have been successful in 2009 as well.

Relative to 2008, HSE Group achieved:

- a 39% higher EBIT despite the fact that in 2009 net sales revenues were lower by 8% and the quantity of electricity sold was lower by 5%;
- a 53% higher net profit;
- an increase in assets of 7%;
- an increase in equity of 9% which is a result of a higher net profit for 2009;
- an increase of 14% in value added;
- an increase in production of 8%.

The companies of the HSE Group did not experience any solvency issues despite the deteriorating economic conditions and were at all times capable of settling liabilities as they fell due. Due to solid credit ratings and easy access to financial markets they were also able to obtain the necessary funds to carry out their investments. What is more, surplus cash provided adequate returns given the circumstances in financial markets. In this respect, principles of safety and diversification were observed to an even larger degree. Credit risks were managed through regular monitoring of customers' credit ratings; therefore, the group had no difficulties with collecting receivables.

The HSE Group continued its development as a major electricity producer and trader in the domestic and wider regional market and ensured efficient and safe supply of electricity despite the economic crisis. Through coordinated trade and sale of electricity produced by HSE Group companies, management of the group's production facilities and sale of electricity from other sources, the Group generated an operating profit of € 162.2 million which is 39% more than in 2008.

In 2009, the purchase price of electricity was significantly affected by favourable hydrologic conditions (in 2009, the HPPs produced 23% more electricity than in 2008), due to which the production of HSE Group companies was more cost-effective. The favourable trading result was further affected by large electricity exports to Italy, where the structure of production and high production costs maintain traditionally high electricity prices.

If in the previous years we were witnessing continuous growth in electricity consumption by households, the industry and the service sector, in 2009 this ceased to be the case. In Slovenia, both household as well as direct electricity consumption decreased. However, this is not a result of a more rational use

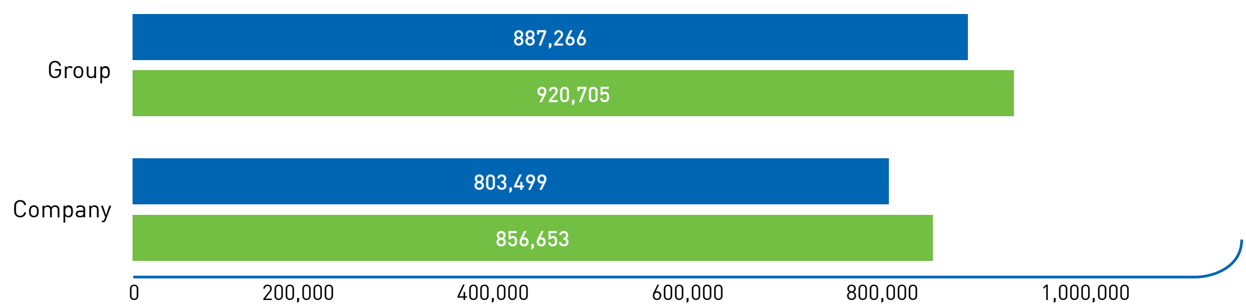
HSE Group	2009	2008	IND 09 / 08
Net sales revenue in €	804,287,077	872,762,328	92
Revenue in €	887,266,362	920,705,280	96
EBIT in €	162,194,535	116,771,920	139
EBITDA in €	241,369,192	191,130,415	126
Net profit or loss in €	113,841,273	74,515,214	153
Assets in €	1,874,355,148	1,747,710,783	107
Equity in €	1,234,004,990	1,127,608,615	109
Cash flows from operating activities in €	195,692,901	201,463,315	97
Added value in €	381,795,062	334,139,771	114
Electricity production in GWh	8,408	7,771	108
Electricity sales in GWh	13,001	13,705	95
Number of employees as at 31/12	3,836	3,897	98
Number of group companies as at 31/12	27	26	104

Company HSE d.o.o.	2009	2008	IND 09 / 08
Net sales revenue in €	764,485,829	819,264,527	93
Revenue in €	803,498,590	856,652,784	94
EBIT in €	102,535,519	35,126,795	292
EBITDA in €	103,800,202	36,585,337	284
Net profit or loss in €	60,234,898	53,756,215	112
Assets in €	1,176,889,598	1,158,781,276	102
Equity in €	845,844,637	798,817,478	106
Cash flows from operating activities in €	36,064,350	53,356,324	68
Added value in €	112,343,939	43,165,180	260
Electricity sales in GWh	12,962	13,712	95
Number of employees as at 31/12	116	112	104

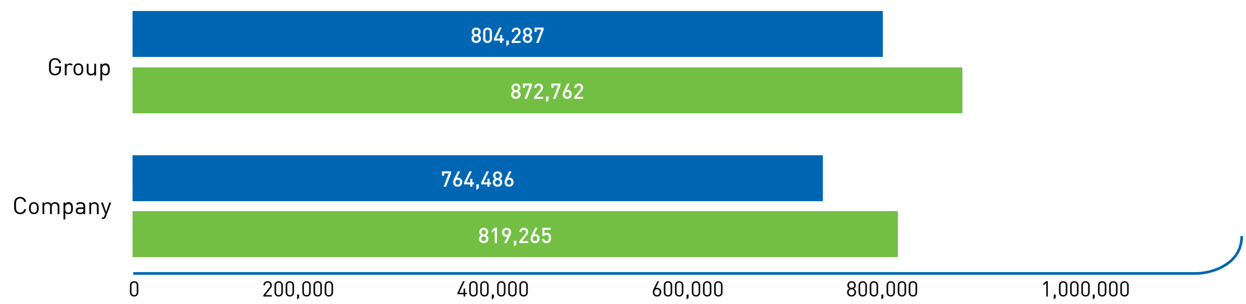
of electricity or more efficient and environment-friendly technology, but mostly of the economic crisis. These are the main reasons for lower quantities of electricity traded and smaller turnover compared to 2008.

Solid operating results aside, we are aware that we are still in the early stages of a number of ambitious long-term development plans and that the activities that are well underway have to be continued. In 2009, investments in the construction of HPPs on the lower Sava River continued, the activities related to the construction of the replacement Unit 6 intensified and finishing work at PSP Avče was carried out. In 2010 we will be facing a number of business challenges, for which we are well prepared. Our priorities remain socially responsible activities, management of all crucial risks to which the Group has been devoting even more attention due to the crisis, provision of financial resources for investments in development and their implementation, further streamlining of operations and increasing synergy effects within the Group.

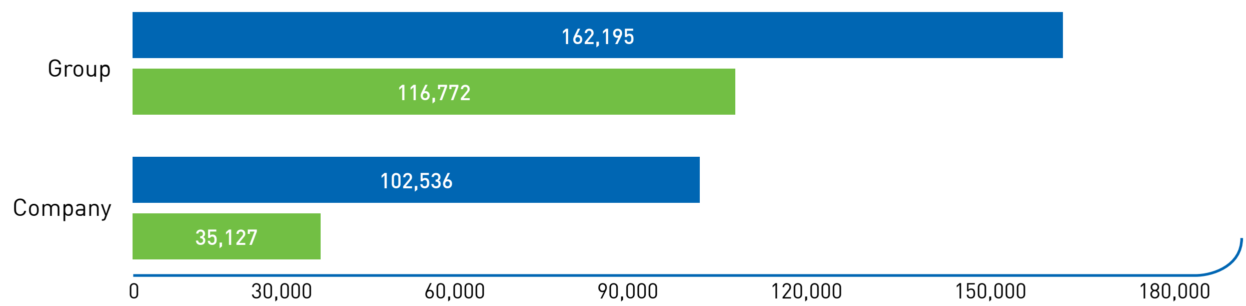
Total revenue in € thousand



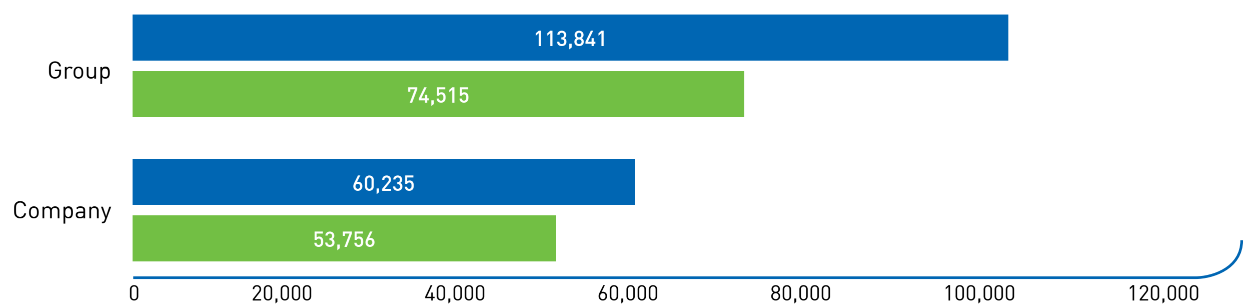
Net sales revenue in € thousand



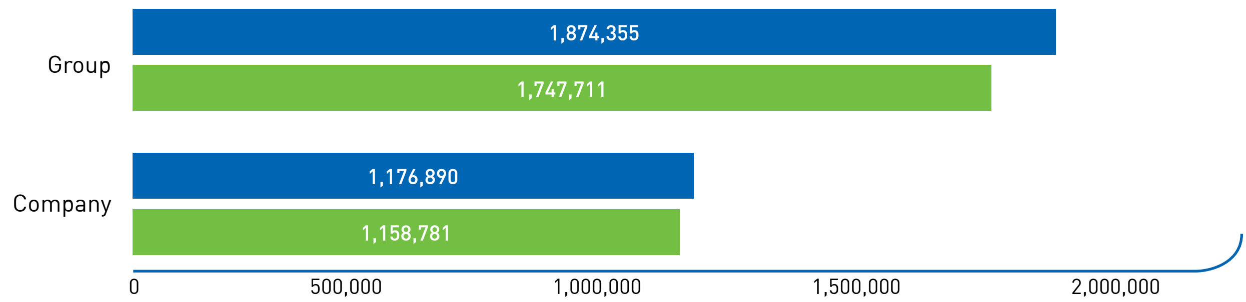
EBIT in € thousand



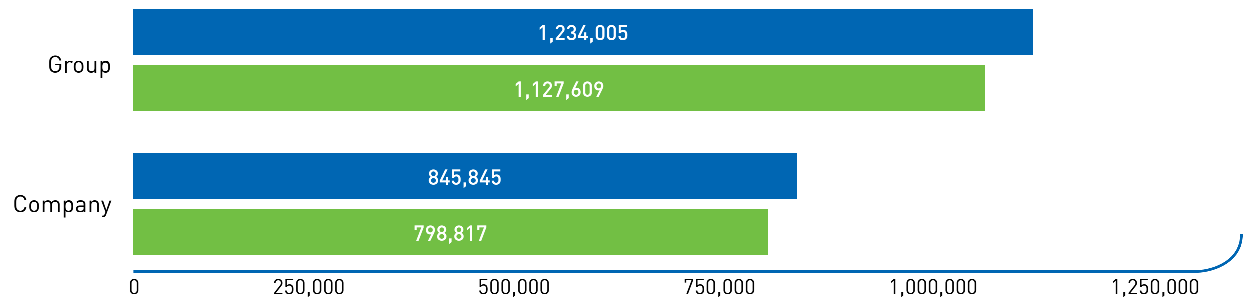
Net profit in € thousand



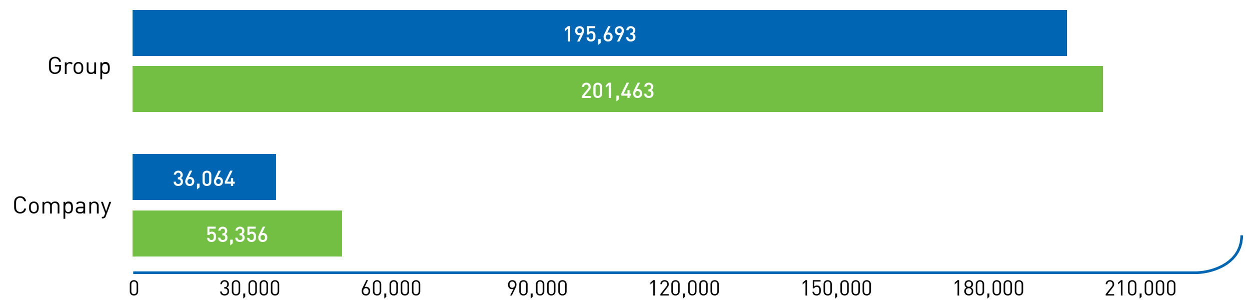
Assets in € thousand



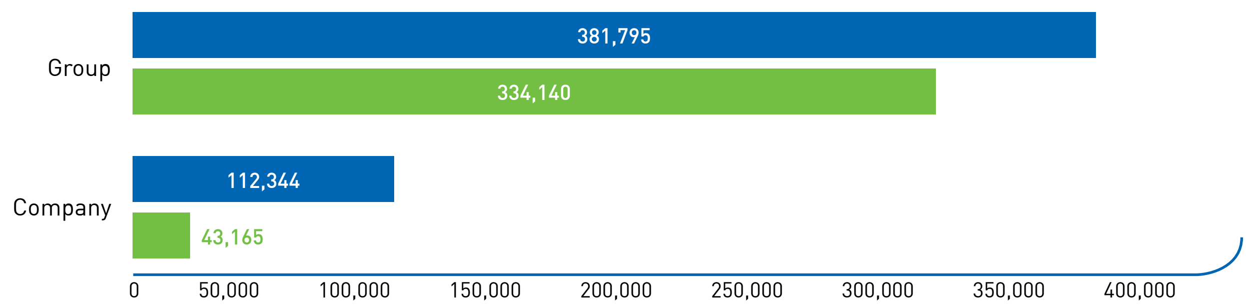
Equity in € thousand



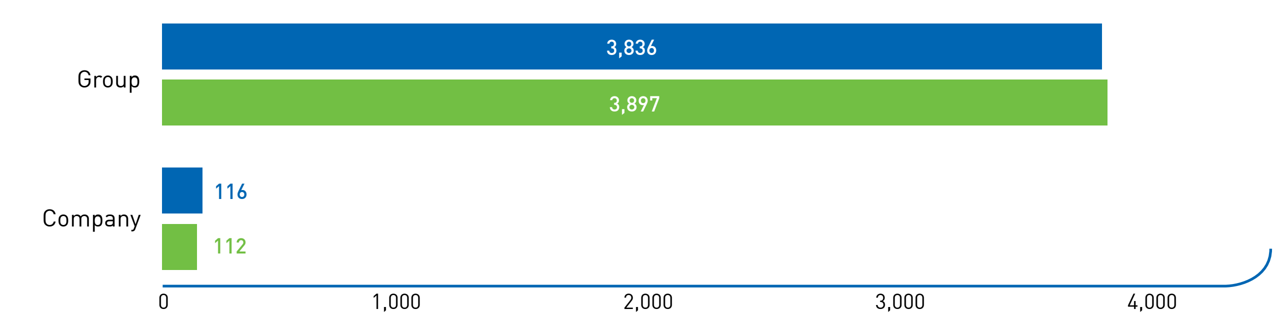
Cash flows from operating activities in € thousand



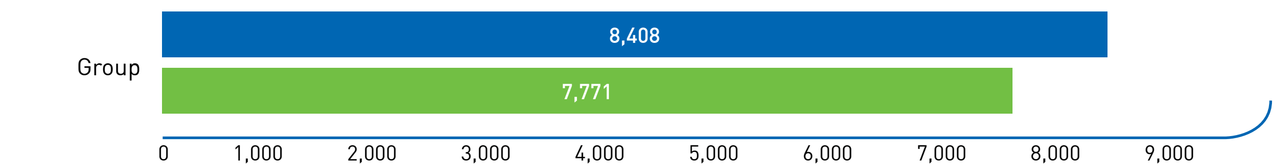
Value added in € thousand



Employees



Production of HSE Group companies in GWh



1.5 CHRONOLOGY OF MAJOR DEVELOPMENTS IN 2009

JANUARY

- On 14 January the Supervisory Board of HSE adopted the business plan of HSE for 2009.
- A trial run of the remote control system of HPP Boštanj from the CC began.
- At DEM, a revision of additional studies on cable laying on the PSP Kozjak project took place.

FEBRUARY

- SENG signed a contract for the reconstruction of the hydro-mechanical equipment at the Podselo dam.
- In September 2008, PV successfully launched the first mechanised coal extraction process at the Mramor mine at Kreka mines in Tuzla, BiH. On 13 February, a record daily extraction of 2,200 tons of coal was achieved at one of the sites, and at the same time the whole of the Mramor mine recorded one of the best results in its history, extracting 3,700 tons of coal. With nine and a half cuts, the road header made a daily advance of 7.5 metres which is also a record achievement.
- The company HSE Invest signed a contract for the production of design and investment documentation for a HPP on the middle Sava River.
- At DEM, a project involving the analysis of possible energy exploitation of the Mura River was carried out.

MARCH

- SENG completed the overhaul of generating unit 1 at HPP Hubelj and installed a gate in the valve chamber at PSP Avče, which will enable loading of the intake tunnel and reservoir with rainwater.
- At DEM, the previous director Damijan Koletnik resigned from the post of Managing Director.
- The 12th strategic conference of the PV Group took place.

APRIL

- On 16 and 17 April, the VI. strategic conference of the HSE Group took place. The representatives of Group companies presented their strategies and tactics for dealing with current economic events and developments in European electricity markets, and their strategic development plans. The conference was also attended by Janez Kopač, MSc, Director of the Energy Directorate of the MoE.
- PV received a special award for being an energy efficient enterprise in 2009.
- SENG carried out installation of the first part of the 230 tonne motor-generator (stator) into the 80 m deep powerhouse shaft at PSP Avče.
- DEM achieved a record daily production of electricity of 13,984 MWh.
- On 23 April 2009, HSE Invest acquired the OHSAS 18001:2007 certificate.

MAY

- HSE established a new company, HSE Mak Energy, in Macedonia.
- HSE launched the Modri Jan competition for children.
- SENG carried out installation of the second part of the 250 tonne motor-generator (rotor) into the 80 m deep powerhouse shaft at PSP Avče.
- TET was issued a building permit by MESP for the construction of the Coal transhipment station.

JUNE

- A technical inspection of the double dual-system high-voltage 110 kV connecting transmission line/cable was carried out at the SENG PSP Avče facility.
- The HSE Managing Director Jože Zagožen's, Ph.D. 4-year term ended; the management of the company was taken over by Viljem Pozeb, MSc.
- The changed Articles of Incorporation of HSE introduced a one-member management – Managing Director – and a decrease in number of SB members from 9 to 6.
- On 10 June, the SB confirmed the annual report of the company HSE and the HSE Group for 2008.
- HSE successfully completed the transition to the new version of ISO 9001, renewed the ISO 14001 certificate, carried out a transition to the new version of BS OHSAS 18001 and was successful in acquiring certification for the information security system under ISO 27001; this ranks HSE among only a handful of Slovene companies with such a comprehensive certification of its systems that are so successfully incorporated into an integrated system of management.
- Renovation of the small HPP Melje at DEM, which was part of the renovation project of HPP Zlatoličje, entered the final stage.
- PV was visited by the President of the Republic of Slovenia, Danilo Türk, Ph.D., who also visited the site at the Pesje mine and the control centre.

JULY

- At the 39th regular meeting, the Government of the Republic of Slovenia as the founder and the sole company member examined and discussed the Annual Report of the company HSE and the HSE Group for the year 2008 and adopted a decision to use the 2008 accumulated profit of the company HSE in the amount of € 26,878,108 for creation of other revenue reserves. The government granted a discharge to the management and the SB of the company HSE for the 2008 business year.
- At the inaugural session of the new HSE Supervisory Board, Franc Žerdin, Ph.D. was appointed the new President and Franc Žlahtič, Ph.D. the Vice President of the Supervisory Board. The other SB members are the owner's representatives Mojca Kert Kos and Igor Tičar, prof. Ph.D., and HSE employee representatives Boštjan Jančar and Silvester Medveščček. The SB accepted the resignation of the previous HSE Managing Director Viljem Pozeb, MSc, who was appointed Managing Director of DEM by the DEM's SB at the 2nd regular session on 14 July.
- SENG received a favourable decision authorising the test run of the 110 kV connecting transmission line/cable for the PSP Avče facility.
- Works at the 1st construction pit at HPP Krško ended and works at the 2nd construction pit began.
- PV organised the 49th "Jump over the Skin" event, where, in line with tradition, 58 novices were accepted into the mining profession. The honorary jump was made by the President of the Republic of Slovenia, Danilo Türk, Ph.D.

AUGUST

- The HSE Supervisory Board appointed Borut Meh as the new Managing Director of HSE for the period of 4 years.
- As the sole member of DEM, HSE adopted a decision on distribution of accumulated profit in the amount of € 15.4 million.
- At TEŠ, an extensive overhaul of Unit 4 and its purification plant and smaller overhauls of Units 3 and 1 began. Although additional work was required, the 8-week overhaul was completed successfully and on time.
- Loading of the system at SENG's PSP Avče began.
- The Ministry of the Economy issued an energy permit for the construction of the gas and steam power plant Kidričevo.

SEPTEMBER

- On 14 September, Viljem Pozeb, MSc, ended his term as the Managing Director of HSE; on 15 September, Borut Meh took over the management of the company.
- On 15 September, Viljam Pozeb, MSc, took over the management of DEM.
- SENG signed a contract for manufacture, delivery and installation of the turbine, inlet butterfly valve and ancillary mechanical equipment, generator and the excitation system for the reconstruction of HPP Doblar I.
- The first rotation test (dry run) of the turbine unit/pump was carried out and the first kWhs of electricity were produced at PSP Avče.
- On 15 September, DEM recorded the biggest daily production of electricity. 14,108 MWh of electricity were produced.

OCTOBER

- HSE launched the campaign "Being a Good Example in 2010" that was based on the character of Modri Jan.
- At its 5th regular meeting, the HSE's Supervisory Board discussed the third version of the Revised investment programme for the construction of the replacement Unit 6 at TEŠ.
- The managing directors of HSE, TEŠ and PV signed a long-term contract for the purchase of coal, lease of capacity and purchase of electricity that regulates the operating conditions of TEŠ after the completion of Unit 6.
- At DEM, expert assessments have been made in relation to the sustainable development study.
- A technical inspection of the whole PSP Avče facility at SENG and the first-time water pumping to the upper reservoir to water level of 602 m were carried out.

NOVEMBER

- HSE increased the capital of TEŠ by € 85.4 million.
- HSE and TEŠ signed an agreement on performance of active supervision of the project for the replacement Unit 6.
- An environmental permit was obtained for the replacement Unit 6.
- A decision authorising a trial run of HPP Blanca was issued.

DECEMBER

- SENG was awarded a decision of the administrative body authorising the trial run of PSP Avče.
- HPP Blanca started its trial run. The first generating unit at HPP Blanca was synchronised with the electrical grid as early as November 2008; the second and third followed in March and April 2009, respectively.
- On 2 December, TEŠ paid the first instalment (€ 80.3 million) to the supplier of the main technological equipment for the replacement Unit 6, which means that on 3 December all conditions were meet in order for the start date for the Unit 6 project to become effective.
- TET was awarded an environmental permit by the Environmental Agency of the Republic of Slovenia with a validity of 10 years and acquired the OHSAS 18001 certificate.

The hand drives the world forward

with its strength as well as its gentle touch.

For centuries, working hands have been bringing food to the table, enabling progress and taking care of the new generation and the relationships that connect us all.

39

Is the percentage by which the HSE Group's operating profit increased in 2009, totalling

€ 162 million

02 BUSINESS REPORT

2.1 THE CONTROLLING COMPANY

2.1.1 PROFILE OF THE CONTROLLING COMPANY

Company profile of Holding Slovenske elektrarne d.o.o.	
Full company name	Holding Slovenske elektrarne d.o.o.
Abbreviated name	HSE d.o.o.
Legal form	Limited liability company
Address	Koprska ulica 92, 1000 Ljubljana, Slovenia
Telephone	01 470 41 00
Fax	01 470 41 01
Entry No.	1/35036/00, registered with the District Court in Ljubljana
Nominal capital in €	29,558,789
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
	ABANKA VIPA: SI56 0510 0801 2931 935
	BANKA CELJE: SI56 0600 0090 9426 127
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
Managing Director	Borut Meh
President of the Supervisory Board	Franc Žerdin, Ph.D.

Holding Slovenske elektrarne d.o.o. is a limited liability company, entered into the Companies Register with the District Court of Ljubljana.

At the 38th meeting on 26 July 2001, the Government of the Republic of Slovenia adopted the Articles of Incorporation of the limited liability company HSE, which is 100% owned by the Republic of Slovenia.

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

2.1.2 ORGANISATIONAL STRUCTURE OF THE CONTROLLING COMPANY

MANAGING DIRECTOR

- Secretariat
- Communications department
- Internal audit department
- Legal department

- Management consultant
- Foreign representative
- Controlling department
- Accounting department
- Finance department
- Quality and environment manager

SALES AND MARKETING DIVISION

- Market analysis department
- Trading department
- Accounts department

PRODUCTION DIVISION

- Operations department
- Electrical engineering department
- Maintenance department

RESEARCH AND DEVELOPMENT DIVISION

- Development department
- Research department
- International relations department
- Project management and evaluation department

GENERAL DIVISION

- Human resources department
- IT department
- Purchasing department
- Investment monitoring department

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 as well as through the Supervisory Board and the Managing Director.

GOVERNING BODIES OF THE CONTROLLING COMPANY AS AT 01/01/2009

GENERAL MEETING	SUPERVISORY BOARD	AUDIT COMMITTEE	MANAGEMENT
Company members RS - 100 % stake	**Owner's representatives** Alojz Stana, MSc - President Andrej Aplenc, MSc - Vice-President Silvester Jeršič Viktorija Komavec, MSc Franc Ervin Janežič Janez Požar **Employee representatives** Silvester Medveščček Miran Božič Boštjan Jančar	Franc Ervin Janežič - Chairman Alojz Stana, MSc Andrej Aplenc, MSc Boštjan Jančar Alenka Podbevšek (External member)	Jože Zagožen, Ph.D. Viljem Pozeb, MSc

GOVERNING BODIES OF THE CONTROLLING COMPANY AS AT 31/12/2009

GENERAL MEETING	SUPERVISORY BOARD	AUDIT COMMITTEE	MANAGEMENT
Company members RS - 100 % stake	**Owner's representatives** Franc Žerdin, Ph.D. - President Franc Žlahtič, Ph.D. - Vice-President Mojca Kert Kos Igor Tičar, prof. Ph.D. **Employee representatives** Silvester Medveščček Boštjan Jančar	Franc Žerdin, Ph.D. - Chairman Brane Podboršek (External member) Boštjan Jančar	Borut Meh

2.1.4 CORPORATE GOVERNANCE STATEMENT

Pursuant to the provisions of Article 70(5) of the Companies Act (ZGD-1), I declare that the company has been managed in accordance with applicable legal standards and Articles of Incorporation of HSE which the Republic of Slovenia as the founder and sole member of HSE adopted on 4 June 2009, and in conformity with good business practices.

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 Managing Director.

The founder decides independently on the following:

- amendments to the Articles of Association;
- adoption of the fundamentals of business policy and the company development plan;
- adoption of the annual report when the Supervisory Board has not confirmed it and when the Managing Director 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 Managing Director and the Supervisory Board;
- allocation and termination of interests;
- changes in the company's nominal capital;
- changes to the status and dissolution of the company;
- election and dismissal of members of the company's Supervisory Board;
- appointment of the company's auditor;
- appointment of the company's procurator and other authorised persons; and
- other matters in accordance with regulations and the Articles of Association.

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

The Supervisory Board consists of six members, of which four members represent the interests of the owner and are appointed and dismissed by the owner, while two members represent the interests of employees and are appointed and dismissed in accordance with 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 foundations of business policy and the 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 Managing Director in connection with the decisions to be accepted by the founder,
- it appoints and dismisses the company's Managing Director,
- it concludes employment contracts with the Managing Director,
- it authorises the Managing Director to take decisions at the general meetings of subsidiaries in the event of 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, and
- it issues preliminary approvals for legal transactions such as acquiring, disposing of and pledging the shares and interests in subsidiary and other companies; establishing or winding up other companies, branch offices and plants; acquiring, exchanging or pledging real estate property owned by the company; and any legal transactions exceeding 10% of the company's nominal capital or € 2,955,000.00 other than electricity trading and related transactions.

The Supervisory Board may also carry out other tasks laid down in regulations and company's governing documents, or authorised by the decisions of the founder.

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

The company is managed and represented by the Managing Director, who is appointed and dismissed by the Supervisory Board. When his or her term of office expires, the Managing Director may be reappointed. In accordance with provisions of the Articles of Association, the Managing Director represents and runs the company on his/her own responsibility in line with the objectives, strategy and guidelines of the company.

The company HSE follows no particular code in its operations.

Borut Meh
Managing Director of HSE d.o.o.
Ljubljana, 23 April 2010

27

Is the number of companies in the HSE Group that kept expanding its operations to foreign markets in 2009, establishing a new company in Macedonia and acquiring an electricity trading licence in Greece.

2.2 PROFILE OF THE HSE GROUP

The uniform market appearance of HSE Group companies ensures greater competitiveness in the market, optimum use of production capacities given the existing market conditions, mitigation of negative financial effects of production shortfalls, a more comprehensive supply of all types of electricity, fewer risks when entering into long-term contracts and better chances for penetrating foreign markets.

The group's activity

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

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

Its main activities are electricity production and trading, which is why the HSE Group seeks to take advantage of synergies associated with the wide spectrum of production capacities in order to maximise its operating efficiency. Because different 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 market prices of electricity vary over time, the planning and optimisation of production units, while observing technical criteria and conditions in electricity markets, are all the more important.

Related companies of the HSE Group

hse Group

In 2009 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 seven 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,
- HSE MAK Energy DOOEL,
- 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.

HSE GROUP IN WESTERN, CENTRAL AND SOUTH-EASTERN EUROPEAN MARKETS

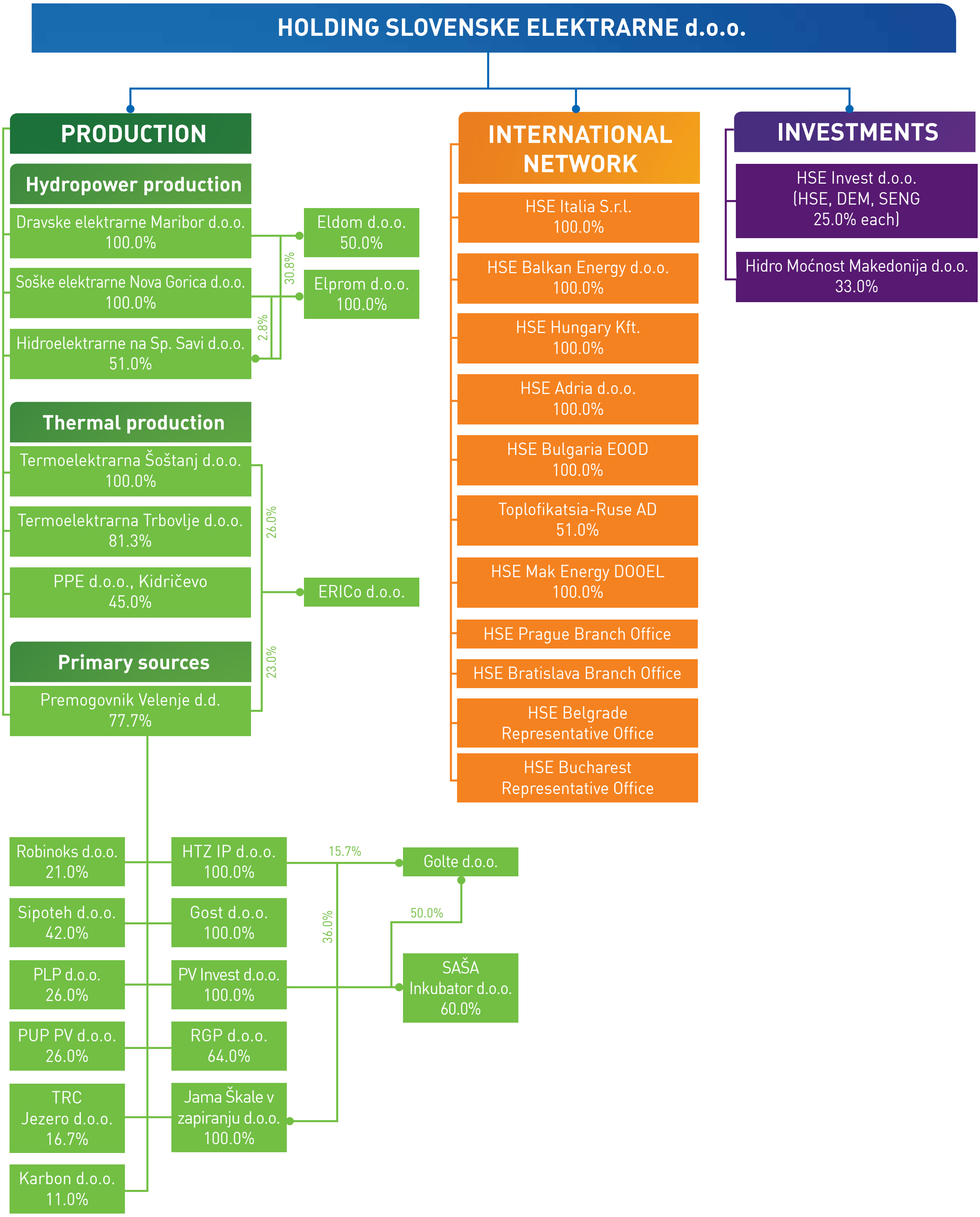
* member of the exchange

HSE has companies, branches and representative offices in Slovenia, Croatia, Serbia, Italy, Hungary, Bulgaria, Czech Republic, Slovakia, Romania and Macedonia. It 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, the Prague-based energy exchange PXE and the regional energy exchange Southpool. In Greece, HSE obtained an electricity trading licence on behalf of the controlling company. At the end of the year, it also obtained an electricity trading licence in Hungary where it established a balancing group on behalf of the controlling company.

The HSE Group's other trading markets include:

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

RELATED COMPANIES OF THE HSE GROUP AS AT 31/12/2009



HYDRO PRODUCTION

DRAVSKE ELEKTRARNE MARIBOR D.O.O. (DEM)

DEM is one of the most important financial pillars of national investment in energy and electricity production in Slovenia. DEM's production covers as much as a quarter of all national electricity requirements and is the largest producer of electricity from renewable sources in the country. Its net output is 587 MW. Each year, DEM's eight HPPs on the Drava River and two small HPPs, one of which on the Mura River, produce 2,646 million kWh, or 80% of Slovene electricity, which conforms with the criteria of renewable energy sources and standards of the internationally recognised RECS certificate. High-quality hydropower is provided in an environment friendly way and in line with the principles of sustainable development. The future of DEM will be characterised by further development, which will involve further renovation of existing facilities, searching for new development possibilities and market opportunities and construction of new facilities on other tributaries. The company, which is already participating as a 30.8% co-investor in the construction of HPPs on the lower Sava River, sees its development opportunities mostly in two larger projects, i.e. the construction of PSP Kozjak and exploitation of Mura River for electricity production.

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.

Dravske elektrarne Maribor d.o.o.	
Managing Director as at 1/1/2009	Damijan Koletnik
Managing Director as at 31/12/2009	Viljem Pozeb, MSc
Main activity	Production of electricity in HE generation facilities
Supervisory Board composition as at 01/01/2009	Viljem Pozeb, MSc - President Ladislav Tomšič, MSc Marjan Kirbiš
Supervisory Board composition as at 31/12/2009	Stanislava Boban - President Simon Tot, MSc Marjan Kirbiš

SOŠKE ELEKTRARNE NOVA GORICA D.O.O. (SENG)

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. On the level of the HSE Group, the control centre in Nova Gorica is responsible for ensuring optimal and high-quality production of all power plants on the Soča River.

ELPROM D.O.O. is a subsidiary of SENG. It was established for the purposes of electricity trading. Elprom d.o.o. is a dormant company.

Soške elektrarne Nova Gorica d.o.o.	
Managing Director	Vladimir Gabrijelčič
Main activity	Production of electricity in HE generation facilities
Supervisory Board composition as at 31/12/2009	Tomaž Štokelj, Ph.D. - President Irena Stare Silvester Medveščček

HIDROELEKTRARNE NA SPODNJI SAVI D.O.O. (HESS)

HESS was established with a contract of members signed on 12 February 2008; on the same day, the company's Supervisory Board was appointed. Its founders are HSE (51.0% stake), DEM (30.8% stake), SENG (2.8% stake), TEB (2.8% stake) and GEN energija (12.6% stake). HESS's main project is the construction of HPPs on the lower Sava River which is of great significance both for the owners as well as the country in terms of securing new renewable sources for electricity production. The construction of the first two power plants, HPP Boštanj and HPP Blanca, has been completed; both HPPs are currently undergoing a trial run. The construction of HPP Krško is in full swing, while HPP Brežice and HPP Mokrice are currently in the process of placement into the environment.

Hidroelektrarne na Spodnji Savi d.o.o.	
Managing Director	Bogdan Barbič
Main activity	Production of electricity in HE generation facilities
Supervisory Board composition as at 01/01/2009	Damijan Koletnik - President Martin Novšak Vladimir Gabrijelčič Nikola Galeša Janez Keržan, MSc
Supervisory Board composition as at 31/12/2009	Janez Keržan, MSc - President Jožef Hebar Tomislav Malgaj Nikola Galeša Vladimir Gabrijelčič

THERMAL PRODUCTION

TERMOELEKTRARNA ŠOŠTANJ D.O.O (TEŠ)

TEŠ is the largest production facility in the HSE Group. Its main activity is the production of electricity and thermal energy for the purposes of district heating. With a net output of 712 MW, TEŠ produces approximately a third of energy in the country, and in critical periods it can meet more than half of the national demand. The average annual electricity production ranges between 3,500 GWh and 3,800 GWh. The average annual production of thermal energy for district heating of Šalek Valley amounts to 400-450 GWh. In terms of output, TEŠ is comparable to similar thermal power plants in Europe, while it exceeds their operating unit availability. The construction of the replacement Unit 6, a 600 MW production facility, will further contribute to TEŠ's efficiency.

Termoelektrarna Šoštanj d.o.o.	
Managing Director	Uroš Rotnik, Ph.D.
Main activity	Production of electricity in thermal power plants
Supervisory Board composition as at 01/01/2009	Djordje Žebeljan, MSc - President Franc Rosec Jože Zagožen, Ph.D.
Supervisory Board composition as at 31/12/2009	Djordje Žebeljan, MSc - President Franc Rosec Janez Keržan, MSc

TERMOELEKTRARNA TRBOVLJE D.O.O. (TET)

TET is one of the two power plants in Slovenia that produces electricity from locally mined coal. It has a long tradition and experience with the first kilowatt hours of electricity produced as early as 1906. TET is the largest energy production facility in the Zasavje region. The thermal power plant has three production units: a steam turbine unit, which burns brown coal from Zasavje coal mines, and two gas turbine units, which use extra light heating oil and serve as a backup for the Slovene energy system.

Termoelektrarna Trbovlje d.o.o.	
Managing Director	Marko Agrež, MSc
Main activity	Production of electricity in thermal power plants
Supervisory Board composition as at 01/01/2009	Uroš Rotnik, Ph.D. - President Borut Dolanc, MSc Janez Balog
Supervisory Board composition as at 31/12/2009	Drago Skornšek - President Jaroslav Vrtačnik, MSc Janez Balog

PLINSKO PARNA ELEKTRARNA D.O.O. (PPE KIDRIČEVO)

The companies HSE, Verbund and Talum established PPE Kidričevo 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 NOX emissions. Because natural gas will be used as fuel, the plant will also emit low CO_2 emissions, which is in conformity with international criteria for environment friendly operation required by the Kyoto protocol.

PPE d.o.o.	
Managing Director	Branko Kožuh
Main activity	Other production of electricity (in pre-investment stage)
Supervisory Board composition as at 01/01/2009	Metod Podkrižnik, MSc - President Anton Smolak Zlatko Čuš, Ph.D.
Supervisory Board composition as at 31/12/2009	Ana Zaljetelj - President Zlatko Čuš, Ph.D. Thomas Reitböck

PRIMARY SOURCES

PREMOGOVNIK VELENJE D.D. (PV)

The company's core activity is mining of lignite. In addition to coal extraction, PV is engaged in numerous other activities, such as underground and aboveground extraction planning for mining, machinery and electricity purposes, construction of all types of underground structures, drilling, geo-mechanical research, cave surveying, hydro-geological and technological services, and educational services. Modern equipment and high technical expertise of staff ensure the safety of employees and high productivity, which serves as a basis for the competitive price of coal and, subsequently, for competitive price of TEŠ's electricity and competitiveness of the entire HSE Group. As part of the Horus project, the company received an award for being a socially responsible enterprise in 2009, since it exhibits a sense for sustainable development, environment and people through numerous projects and activities.

Premogovnik Velenje d.d.	
Managing Director	Milan Medved, Ph.D.
Main activity	Mining and agglomeration of lignite
Supervisory Board composition as at 01/01/2009	Simon Tot, MSc - President Vida Lorber Branko Mlinšek
Supervisory Board composition as at 31/12/2009	Simon Tot, MSc - President Irena Stare Miran Božič

SUBSIDIARIES AND ASSOCIATES OF PV

HTZ I.P. D.O.O. is the largest disability company in Slovenia with almost 1,000 employees and also the largest subsidiary of the PV Group. It is particularly distinguished by its rich expertise in maintenance and servicing of various devices and equipment for which it provides project designs, production, installation and automation. It cooperates with Western European producers of electrical, mechanical and protection equipment in the areas of mining, construction and manufacturing.

PV INVEST D.O.O. is a young, fast growing company in the area of spatial planning, construction engineering, cave surveying, geodesy and civil engineering surveying. Spatial planning, civil engineering and geodesy services are oriented towards markets outside the PV Group. The company is also engaged in the sale of real estate and the sale of apartments to lessees.

GOST D.O.O. is, next to its core activities, i.e. restaurant business and tourism, also engaged in entertainment activity. The company organises events in the area of the tourist-recreational centre Jezero, entertainment for various occasions, banquets, and is successfully developing its catering activity. Its activities also include hotels.

JAMA ŠKALE V ZAPIRANJU D.O.O. was established for the purposes of closing down the Škale pit.

RGP D.O.O. provides services in the area of mining construction and produces stone aggregates and concrete mixtures. The core activity of stone aggregate production is based on the extraction and processing of rock into sand for construction. The company has its own concrete mixing plant that produces dry and wet concrete mixtures.

ROBINOKS D.O.O. is engaged in the production of stainless steel products.

SIPOTEH D.O.O. is engaged in the machinery and production equipment business and in the production of metal structures and their components.

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.

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 developed on the degraded land of the Šalek Valley.

KARBON D.O.O. 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.

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, and services related to environmental issues and problems, sustainable development, and other services.

GOLTE D.O.O. is a winter and summer resort. Its main activity involves ski resort services comprising: 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. 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 enterprises. By providing superior services, the incubator aims to support individuals with good business ideas and enable them to develop their businesses faster and in a more successful way.

INTERNATIONAL NETWORK

HSE ITALIA S.R.L.

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

HSE Italia S.r.l.	
Board of directors of the company as at 01/01/2009	Tomaž Štokelj, Ph.D. - President Viljem Pozeb, MSc Damjan Lipušček
Board of directors of the company as at 31/12/2009	Tomaž Štokelj, Ph.D. - President Ana Zaljetelj Damjan Lipušček
Main activity	Electricity trading

HSE BALKAN ENERGY D.O.O.

The company HSE Balkan Energy, which is based in Belgrade, was established as a 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 Balkan Energy d.o.o.	
Managing Director	Boris Mezgec, MSc
Main activity	Electricity trading

HSE HUNGARY KFT.

The company HSE Hungary facilitates connections with the markets of Central and Eastern Europe, mainly with Poland, the Czech Republic and Slovakia. The company is engaged in electricity trading.

HSE Hungary Kft.	
Managing Director	Tomaž Štokelj, Ph.D. Irena Stare
Main activity	Electricity trading

HSE ADRIA D.O.O.

The company is engaged in cross-border electricity trade, entering electricity sales and purchase contracts, and technical consulting.

HSE Adria d.o.o.	
Managing Director	Tomaž Štokelj, Ph.D. Irena Stare
Main activity	Electricity trading

HSE BULGARIA EOOD

The HSE Bulgaria subsidiary was established with the purpose of expanding electricity trading operations to SE European markets.

HSE Bulgaria EOOD	
Managing Directors as at 01/01/2009	Viljem Pozeb, MSc Drago Skornšek
Managing Directors as at 31/12/2009	Drago Skornšek Irena Šlemic
Main activity	Electricity trading

TOPLOFIKATSIA–RUSE AD

By acquiring the company Toplofikatsia-Ruse AD, HSE increased the assortment of its production sources by 400 MW. The company produces electricity, industrial steam and thermal energy.

Toplofikatsia-Ruse AD	
Managing Director	Andrey Nikolaev
Main activity	Production and cogeneration of electricity and heat, and heat transmission
Board of directors of the company as at 01/01/2009	Georgiy Kutovoy - President Irena Stare Tomaž Štokelj, Ph.D. Alexey Ivanushkin Valeriy Ovseychuk Victor Tolokolnikov Andrey Nikolaev
Board of directors of the company as at 31/12/2009	Victor Gvozdev - President Irena Stare Tomaž Štokelj, Ph.D. Dmitry Melnikov Arkadiy Germanskiy Victor Tolokolnikov Andrey Nikolaev

HSE MAK ENERGY DOOEL

In May 2009, the company HSE MAK Energy DOOEL was established in Macedonia for the purposes of entering the Macedonian electricity market and increasing trading opportunities in the area from the Balkans to Greece. The company is currently in the process of acquiring electricity trading licences for the Macedonian market.

HSE MAK Energy DOOEL	
Managing Directors	Tomaž Štokelj, Ph.D. Drago Skornšek
Main activity	Electricity trading

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 enables participation in auctions for the allocation of cross-border transfer capacities.

HSE Prague branch office	
Manager	Tomaž Štokelj, Ph.D.
Main activity	Electricity trading

HSE BRATISLAVA BRANCH OFFICE

Slovakia, where a branch office was opened in 2008, has recently become an appealing source of supply for export of electricity to Hungary, which is a net importer of electricity and where electricity prices have risen significantly above the level of German prices.

HSE Bratislava branch office	
Manager	Tomaž Štokelj, Ph.D.
Main activity	Electricity trading

HSE BELGRADE REPRESENTATIVE OFFICE

HSE's own representative office in Belgrade is one of the bases for expansion of activities to the markets of former Yugoslavia and the wider area of SE Europe. The representative office's purpose is both electricity trading in the area as well as establishing contacts and creating opportunities for lease or purchase of production capacities, and provision of advisory and other services.

HSE Belgrade representative office	
Manager	Boris Mezgec, MSc
Main activity	Internationalisation of HSE's operations

HSE BUCHAREST REPRESENTATIVE OFFICE

After Bulgaria joined the EU and two reactors at NPP Kozloduy were shut down, Romania became the main electricity exporter in the region. Romania also has the largest power exchange in SE Europe and a liberalised market.

HSE Bucharest representative office	
Manager	Drago Skornšek
Main activity	Electricity trading

11 companies, branches and representative offices in the international market

INVESTMENTS

HSE INVEST D.O.O.

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 a particularly important role in construction of a HPP chain on the lower Sava River, construction of PSP Avče, renovation of HPP Zlatoličje, Unit 6 project and in other major projects of the HSE Group.

HSE Invest d.o.o.	
Managing Director	Miran Žgajner, MSc
Main activity	Other project engineering and technical consulting
Supervisory Board composition as at 31/12/2009	Irena Šlemic - President Alida Rejec, MSc Jožef Hebar Drago Polak

HIDRO MOĆNOST MAKEDONIJA D.O.O.

The company was established in 2008 by a consortium of RWE Power AG 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 in accordance with its requirements.

In November 2008, the Macedonian government decided to repeal the call for tenders without any explanation. HSE decided not to participate in any subsequent call for tenders; therefore, it sold its 33% interest in the company Hidro Moćnost to RWE Power AG on the basis of an equity interest transfer agreement signed in January 2010.

Hidro Moćnost Makedonija d.o.o.	
Managing Director	Eberhard Bulling
Main activity	Other business activities

2.2.1 MANAGEMENT OF THE HSE GROUP

In itself, the establishment of HSE had two principal objectives: coordination of main activities and utilisation of synergy effects in all companies within the HSE Group. The main purpose behind the establishment of HSE was to found, finance and manage companies in which it holds a majority stake. In the course of HSE Group's development, the desire for further integration and exploitation of mutual synergies grew intensively. Therefore, the activities related to active management of the HSE Group companies are going to intensify further.

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, HSE Bulgaria and HSE MAK Energy 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.

HSE manages the companies of the HSE Group through representatives in Supervisory Boards of subsidiaries as well as through committees responsible for supervision of major investments.

Worker participation in management

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 along with the establishment of the HSE Group. Such method of cooperation ensures a balance of various interests and, consequently, a broad consensus regarding both the Group's development plans as well as provision of social security for employees.

Trade union activities

Trade union activities at DEM, SENG, TET, TEŠ and PV are co-ordinated under the auspices of Sindikat delavcev dejavnosti energetike Slovenije (SDE – the Slovene Power Sector Union), Sindikat pridobivanja energetskih surovin

Slovenije (SPESS – the Slovene Union of Coalminers) and Neodvisnost trade union (KNSS).

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 issues are addressed in a timely manner.

The SDE Coordination and other trade unions operating within the HSE Group act in a cohesive manner and cooperate with the Joint Workers' Council of the HSE Group.

Joint workers' council of the HSE Group

HSE Group employees exercise their right to participate in management through workers' councils of individual companies. Among other things, the councils elect employee representatives to the company's Supervisory Board. On the basis of the Agreement on the establishment of a Joint Workers' Council for related companies, the workers' councils of the HSE Group established the Joint Workers' Council of the HSE Group (JWC).

The JWC is responsible for addressing issues concerning employees in all related companies, which include: the annual report of HSE and HSE Group, development strategy and business policy, changes in activities and status changes within the HSE Group, sale of individual companies and significant changes in ownership, common platforms for resolving individual issues, and status and rights of workers, such as: a common methodological approach for classification and evaluation of work, use of common resources of the workers' standard, education policy and occupational health and safety.

In addition, the JWC's task is to supervise implementation of the Worker Participation in Management Act. The JWC thus acts as a facilitator between all employees of the HSE Group, cooperates with (and in) management in a manner laid down by the law and the Participation agreement and, together with the union, represents the interests of employees. An important contribution of the JWC to the successful business policy of the HSE Group is the unanimous support of common projects defined in the development plans of 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 adopt 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 provide for optimum utilisation of Slovene energy sources and expert 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 its 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 use of RES,
- achieving professional competence,
- continuous training and establishment of a motivational 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 POLICIES OF THE HSE GROUP

There are two things we believe in at any given time: we can always grow larger and do better. Full of creative working energy, we re-embark each and every day on our mission to create additional, surplus value for the widest range of users, acting strenuously in our activities and plans.

The HSE Group is facing a period during which it will have to adapt its operations to the guidelines and requirements of the new European climate and energy policy and proceed with the implementation of the planned investments projects. Ensuring uninterrupted electricity production is not a goal, but a prerequisite for safe and reliable supply to end users, while the continued growth of operations requires ongoing growth of production capacities and increases in the volume of quantities traded as well as expansion to new business areas.

The HSE Group is implementing its development programme on a continuous basis. The company's operations are being adjusted to the strategic policies of the Government of the Republic of Slovenia. In addition, HSE actively cooperates in preparation of national strategic documents (the Green book, National Energy Programme, National Action Plan for Renewable Energy 2010-2010…). Our short-term and long-term goals are being adapted to the new economic situation which indicates great challenges for the HSE Group the future. These days, timely identification and interpretation of influential factors and a prompt, but deliberate, reaction are strategically important in order to maintain a leading role in the country and strengthen our position in foreign markets (SE Europe). Important implications of the ongoing global economic crisis are a lower demand for electricity and, in turn, lower electricity prices.

Changed circumstances

The financial crisis, which turned into a general global economic crisis, severely affected operations of business enterprises throughout the world, with Slovenia being no exception. The lower volume of investments in production and infrastructure projects as a consequence of the financial crisis can compromise the reliability of electricity supply in Europe. A shortage of financial resources can severely affect the investment cycle in a time, when extensive resources are required for construction of urgently needed power plants and electricity and gas transmission networks, and for ensuring compliance with the requirements of the climate and energy package. Experts in Europe predict that the unfinished investments in the European electricity market will be very difficult to resume once the recession is over. It is very likely that RES projects and certain investments in nuclear power will slow down, which will, in turn, raise the level of CO_2 emissions due to greater production of electricity from fossil fuels.

Other factors, which are and will keep affecting the developments in the Slovene electricity market, are mostly the following:

- electricity prices remain low mostly due to lower consumption. The volatility of future economic trends implies great uncertainty with regard to future prices of electricity;
- lower prices of emission coupons;
- individual countries are able to auction off emission coupons in a certain amount, with which they also affect their price; it is expected that the price of emission coupons in the second trading period (2008-2012) will be more stable than in the first (2005-2007), since in the second trading period it will be possible to transfer emission coupons to the next trading period 2013-2020;
- lower electricity consumption due to decreased industrial activity;
- lower prices of primary energy products;
- at the end of October 2009, the European Commission accepted the Regulation on support to electricity produced from RES and the Regulation on support to electricity produced from cogeneration with high efficiency, which means that the new support scheme can actually start being implemented.

Short-term and long-term goals and strategies of the HSE Group are being adapted to the new economic situation which indicates that the Group will face enormous challenges in the future.

European framework

At the international climate conference in Copenhagen in December 2009, country leaders were unable to gather enough political willpower to reach an ambitious climate agreement. Both USA and China proved to be relentless negotiators, with another obstacle being the G77 (developing) countries, which were far from uniform in their positions. The Copenhagen agreement should determine worldwide targets for decreases in emissions and provide grounds for increasing the capability of countries to adapt to climate changes. The EU is supposedly developing potential innovative sources of international financing that would be based on the "polluter pays" principle and their ability to pay.

Slovenia has, given the criteria (GDP per capita, share of electricity from one type fossil fuel etc.), been classified under those developed EU members that will have to purchase all emission coupons on auctions after 2012, which will constitute a great burden for Slovene electricity producers and will lead to higher prices of electricity. Therefore, HSE has started actively monitoring the development of technologies and areas of zero greenhouse gas emissions and capturing and storage of carbon.

We must invest in those development projects that will represent the smallest burden for the environment, provide safe energy supply and contribute to the best operating results in the HSE Group.

Development projects of the HSE Group in light of the energy and climate package

A timely adjustment to the requirements introduced by the energy-climate and third legislative package is also important for the successful operation of the HSE Group companies. On the national level, a revised National Energy Programme of the Republic of Slovenia is being prepared, which will determine the strategic policies in the area of energy supply in Slovenia for the next twenty years. All the aforementioned changes in the energy policy and legislation and the subsequent changes in energy markets will also have a significant effect on the implementation of the future development policy of HSE and its subsidiaries. Ensuring the production of electricity from RES and lowering greenhouse gas emissions in the production of electricity from fossil fuels play an important role in meeting the requirements of a sustainable energy policy. Such an approach with regard to investments in new production capacities of the HSE Group has already been laid down in the Development plan of the HSE Group, which is nevertheless being adapted to fit the requirements of the ambitious energy and climate package and the resulting binding requirements for Slovenia. In the HSE Group we are trying to actively cooperate in preparation of expert foundations for adoption of appropriate implementation plans to fulfil Slovenia's commitments in other areas of energy policy.

The HSE Group takes its commitments seriously; therefore, all of its projects are planned and implemented with the objective of fulfilling these commitments. In light of European commitments made by Slovenia in connection with the lowering of greenhouse gas emissions and increasing of the share of renewable sources, the Group devoted a lot of attention to development of projects which contribute to meeting these goals, such as:

- the project for construction of a HPP on the lower Sava River and planned HPPs on the middle Sava River, Mura River, Idrijca River and other watercourses;
- project for exploitation of other RES (biogas, solar and wind energy etc.), which will contribute to a higher share of electricity produced from renewable energy sources;
- modernisation of technology on thermal energy facilities and an investment in the construction of the replacement Unit 6 at TEŠ which will decrease specific emissions of greenhouse gases per unit of electricity produced;
- HSE will endeavour to preserve the energy producing locations as well as activities in the Zasavje region in line with sound economic, environmental, technical and HR policies;
- with regard to research and development, an important area of activity, next to new projects and technologies for the use of RES, is active cooperation in development of technologies for capturing and storage of carbon and achieving zero greenhouse gas emissions.

From a national-economic standpoint as well as security of supply, the use of available domestic resources (with the coal stocks of Velenje coalmine being an important source) would be reasonable. Of these, more than 124 million tons of coal can be used with the current technology, which would be sufficient for the operation of the replacement Unit 6 at TEŠ until the end of its useful life. In order to achieve optimum coal production it will be crucial to continue activities related to key development projects: provision of modern technological equipment for the production process and construction of the new shaft collar for the transport of coal. All development activities will be directed towards reaching the target price of coal of € 2.25/GJ by 2015.

At HSE Group we are aware of the strategic importance of hydropower as a clean and renewable resource in Slovenia, as well as the use of domestic coal in production of almost a third of Slovene electricity production. Compared to the existing units, the replacement Unit 6 at TEŠ will enable substantially higher energy efficiency (43% as compared to 32% today). One of the key issues in projects for the construction of energy producing facilities is the placement of these facilities in the environment; therefore, at HSE a lot of attention is devoted to building good relations with local communities.

The HSE Group has currently several investment projects underway in different stages of the investment cycle, which in particular require uninterrupted implementation and timely completion. Delays in implementation of these projects will subsequently mean delays in generating the expected revenue, a part of which could be used for new projects.

Financing of development projects

One of the management's key responsibilities with regard to the implementation of development projects is securing sufficient and optimum funding sources. The complexity and size of projects envisioned by HSE Group demand not only additional external sources of financing, but also additional internal sources. Despite constant streamlining of operations, lowering of costs, searching for synergies within the Group and the Group-level consolidation of operating processes, increasing of productivity, transfer of expertise and know-how between generations and risk management, which remain an important guideline in our operations, we have not forgotten about social security of our employees.

When searching for financial sources, a stable economic and political climate in the country is of utmost importance, since it ensures reliable operation of the HSE Group which, in turn, attracts potential investors. In order to carry out its development programme, the HSE Group will require substantial funds; therefore, a lot of efforts will be needed in this area.

Foreign investments

A stable electricity supply in Slovenia and an adequate growth of HSE require appropriate strategic goals. These most certainly include an increase in the volume of trade, particularly in SE Europe, which is why HSE wants to become one of the leading energy companies in the area of electricity trading in this region. This, however, means that it will be necessary to intensify activities, not only in trade, but also with respect to expanding production capacities. HSE will namely find it difficult to ensure long-term competitiveness in the regional market without expanding its own production capacities that can lead to a corresponding increase in the volume of trade. Therefore, in 2010, activities related to investment in production facilities in SE Europe will intensify.

In order to achieve these goals, analyses, information and data obtained in the course of previous activities in the regions, as well as know-how and experience of HSE Group employees will be utilised. The important aspects that have to be considered when adopting decisions on investments are feasibility of the project, management of risks related to the investment, environmental sustainability and the project's economic performance.

In today's changing market conditions, both at home and abroad, HSE is aware of potential drawbacks of foreign investments (particularly in SE Europe) and is extremely careful when engaging in such investments. Despite all the possibilities abroad, investments in Slovenia remain a priority of the HSE Group. At home, we have much more expertise and experience at our disposal, and, in particular, more stable political and regulatory conditions, which are necessary for successful outcome of energy projects.

2.5 MANAGEMENT SYSTEM POLICY

In the HSE Group we are trying to establish a comprehensive quality policy and meet the basic quality and business policy objectives of the group in the area of quality, environmental management, occupational safety and health, information security and know-how.

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

The overall system is based on the following principles:

- responsibility for the execution of specific tasks and the related unambiguously established competencies,
- 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 competencies.

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 optimal organisational 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 2009 have been achieved. System procedures were amended and supplemented. The management system documentation was integrated into the ODOS computerised document system. Training of employees in the field of quality standard and organisation of work continued. We made a transition to the new version of the ISO 9001/2008 standard.

Internal and external recertification audits of the quality standard 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 ENVIRONMENTAL 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. The principle of sustainable development is being implemented on a local and national level. The Group strives for a continuous improvement of working and living conditions of employees and people residing in the vicinity of its companies. The company's environmental policy has been harmonised with the requirements of the ISO 14001:2004 standard. In 2009 an internal and external recertification audit of environment protection was carried out and successfully completed based on the ISO 14001 standard. The key objective of the HSE Group's environmental policy is to establish a permanent balance, which is achieved by implementing preventive measures, avoiding any environmental contamination, sharing responsibility and including environmental management in individual operating 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. In 2009, we also carried out the transition to the new version of the OHSAS 18001/2007 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 2009, progressive implementation of information security management measures continued in accordance with the ISO 27001 standard.

In July, we acquired the ISO/IEC 27001 certificate.

2.5.5 CERTIFICATES OBTAINED BY HSE GROUP PRODUCTION COMPANIES

Open market conditions in the Slovene electricity market and foreign markets in particular require certified quality in terms of system and environmental management, as well as appropriate approach to the production of electricity and other energy products. Appropriately certified products result in improved sales, and sometimes certain markets can only be penetrated if products have been appropriately certified.

	HSE	DEM	SENG	TEŠ	TET	PV
ISO 9001	●	●	●	●	●	●
ISO 14001	●	●	●	●	●	●
ISO 27001	●			●		
OHSAS 18001	●	●	●	●	●	●
EE TÜV	●	●	●			
RECS	●	●	●			
HACCP				●	●	
GO		●	●			

EE TÜV	Organisation for technical control of RES	HACCP	Hazard analysis and critical control points
RECS	Renewable energy certificate system		Measurement laboratory standard
		GO	Guarantee of origin

2.6 MARKET POSITION

2.6.1 CHARACTERISTICS OF THE ECONOMIC ENVIRONMENT IN 2009

Although it is still facing difficulties, the European economy is slowly recovering. Extraordinary crisis measures adopted by the EU played an important part in the economic recovery. However, after the effect of certain temporary measures subsided, growth slowed down in the last quarter of the year.

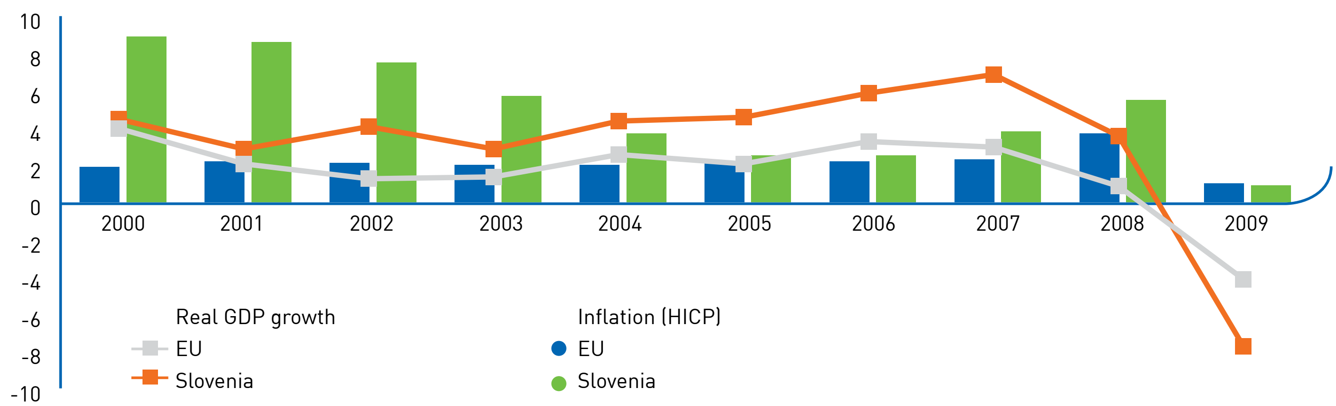
Real decrease in GDP of 7.8%

In the last quarter of 2009, the GDP in the Euro zone stagnated, while on a year-on-year basis, the decrease was significantly lower than in previous quarters. According to initial estimates by Eurostat, the GDP in the Euro zone in the last quarter of 2009 increased by 0.1% compared to the previous quarter, while on a year-on-year basis it was lower by 2.1%. In Slovenia, GDP for 2009 decreased by 7.8% in real terms, which means the decrease was twice as high as the average in the Euro zone. Investments decreased the most (21.6%), with all segments being equally affected. In addition to deteriorating conditions in the labour market, private consumption decreased (-1.4%), while government is the only segment to increase consumption (3.1%). Similar to other countries, changes in inventories contributed significantly to the lower GDP (3.5 p.p.) in 2009. Next to a substantial decline in foreign and domestic demand, the decrease in value added was the highest in manufacturing, construction and commerce, while the decrease in other market services was lower. In 2009, value added increased only in financial intermediation and public services sectors.

Inflation of 0.9%

A strong decline in economic activity resulted in a substantially lower inflation in 2009. The average inflation rate measured by HICP stood at 0.9% which is 4.6 percentage points less than the average of 2008. The annual average core inflation, excluding energy products, food, alcohol and tobacco, also decreased, by 2.1 p.p. to 1.7% due to the stagnation in prices of industrial products and slower growth in prices of services.

INFLATION AND GDP TRENDS IN SLOVENIA



34

This is the share of HSE Group's sales in foreign markets, which is constantly growing.

A decrease in the number of employed of 2.4%

The average number of formally employed persons in 2009 (858,171) was 2.4% (21,086) lower than in 2008. The number of employed (persons in an employment relationship) was lower by 2.8%, while the number of self-employed was higher by 1.6%.

The number of unemployed higher by 36.6%

In 2009, the average number of registered unemployed persons was 86,354, which is 36.6% more than in 2008. 70.7% of the increase is due to people who lost their jobs. The average unemployment rate in 2009 was 9.1%, which is 2.4 p.p. higher than in 2008 (6.7%).

Conditions in financial markets

The conditions in financial markets in Slovenia deteriorated further in the last quarter of 2009, when the most intensive slow-down of credit activities was recorded. Only households kept borrowing, while companies and non-financial institutions were net repayers of loans for the fourth consecutive quarter. In 2009, companies and non-financial institutions borrowed only € 24.6 million from domestic banks, which is less than 1% of the amount borrowed in 2008. However, the dependence of companies and non-financial institutions on foreign creditors increased, accounting for 80% of all borrowing despite a nominal decrease. In light of the above, the government attempted to increase the availability of loans through a guarantee scheme.

Deterioration in price competitiveness

In the last quarter of 2009, Slovenia was among Euro zone countries with a moderate decline in price competitiveness. However, on average for 2009 it belongs to the third of countries which recorded the biggest decline. In the last quarter, price competitiveness deteriorated in all members of the Euro zone; on average for 2009, it deteriorated in half of members. In 2009, price competitiveness remained on 2008 levels in a quarter of Euro zone members, and in a quarter of members it improved.

Slower growth of the overall gross external debt

The growth of the total gross external debt slowed in 2009 and its structure changed significantly. At the end of 2009, Slovenia's gross external debt reached € 40.0 billion (111.5% of the estimated GDP), while gross debt receivables reached € 29.7 billion (82.8% of the estimated GDP). Net external debt thus reached € 10.4 billion (28.8% of the estimated GDP) and increased by 2.2 p.p. compared to the end of 2008. Following Malta, Slovenia had the lowest gross external debt in the Euro zone, where according to IMAD estimates the external debt averaged 199.4% of GDP.

Increased insolvency of legal entities

In 2009, insolvency of legal entities increased drastically, since in December 2009, relative to December 2008, the number of legal entities with overdue outstanding liabilities for more than 5 days per month increased by more than fifty percent. The average daily amount of overdue outstanding liabilities increased by more than three quarters. Almost a half of the increase in the amount of liabilities is related to legal entities from the construction sector.

The most efficient drawing of funds after 2006

In 2009, the Slovene national budget again reached a positive net position relative to the EU budget and the 73% efficiency in drawing planned funds was the best result since 2006. Drawing of funds improved the most in the area of cohesion as well as structural policy.

2.6.2 MARKET ENVIRONMENT OF THE ELECTRICITY INDUSTRY

In 2009, the strong connection between the market environment of the electricity industry and the global economic climate became obvious again, since both areas experienced drastic and at the same time fairly consistent changes. The global financial and economic crisis that started in 2008 turned into a recession last year that affected practically all developed economies of the world. Throughout the year, the energy products and emission coupons markets were subjected to high price volatility which was also reflected in costs of production units and subsequently in price of electricity. In the first three months of the year, the general decline in prices continued; due to one of the worst credit crunches after WW2, the prices reached their lowest level in March. Later on, the global economic conditions enabled a renewed increase in prices, both in raw materials as well as energy products markets, which was also evident in the prices of electricity.

After the bursting of the American housing and stock market bubbles, the values of stock exchange indexes dropped substantially in almost all developed economies. This was accompanied by a decline in prices of raw materials and energy products. As a consequence, the price of electricity decreased and reached its lowest value on 25 February, when the price of an annual contract for the supply of electricity in 2010 at the EEX energy exchange reached € 42.65/MWh. The main causes of this situation are the already mentioned decreases in prices of energy products, liquidity issues throughout Europe, lower consumption of end users and subsequently lower production in practically all economic sectors. The lower consumption of end products also resulted in lower electricity consumption. A decline in electricity consumption was also detected in Slovenia, where lower consumption by industrial consumers accounted for a significant share which, along with the highest production of hydroelectricity in several years, contributed to the positive energy balance. Due to a substantial decrease in economic activity in the whole European area, a number of governments resorted to state interventionism and various forms of help to economic subjects, an example of which are indirect subsidies of the German government to automakers which probably significantly contributed to the improved economic situation in 2009. However, the question remains what can be expected in major European industries after the effects of such protective measures have subsided.

With regard to the transfer of electricity across Slovene borders, the Slovene transfer network operator, ELES, in accordance with the European directive concerning the allocation of cross-border transfer capacities, continued with market-based allocation of cross-border transfer capacities.

2.6.3 SITUATION IN ELECTRICITY MARKETS IN 2009

Slovenia

The decline of electricity prices in the developed markets of continental Europe was accompanied by a similar decline in SE Europe. The Hungarian wholesale market, which is strongly connected to German electricity prices, served as an important indicator of electricity prices in former Yugoslav countries. Negative economic developments that also affected this part of Europe, resulted in lower economic activity and, in turn, lower consumption of electricity. Despite the fact that the countries of former Yugoslavia are not a part of the emission coupon trading system and are therefore exempt from payment of this environmental tax, electricity prices were formed on levels similar to those in the neighbouring countries that signed the Kyoto protocol. As in previous years, a lot of energy entered the Slovenian electricity market from Hungarian and Croatian electricity markets, which raised the average price of cross-border transfer capacities on the Slovene-Croatian border to € 0.72/MWh.

A decline in economic activity and changed circumstances in the Slovene energy sector resulted in low prices of cross-border transfer capacities from Austria to Slovenia, which amounted to no more than € 1.15/MWh on a daily level. Given the fact that the price of annual cross-border transfer capacity on the same border reached the price of € 8.25/MWh, it is obvious that no one could expect such a drastic change. Italy was again the most important export market of Slovenia in 2009. Although the prices there have dropped, they are still relatively high compared to other countries.

While in previous years we were witnessing continuous growth in electricity consumption by households, the industry and the service sector, in 2009 this ceased to be the case. In Slovenia, both household as well as direct electricity consumption decreased. However, this is not a result of a more rational use of electricity or more efficient and environment-friendly technology, but mostly of the recession.

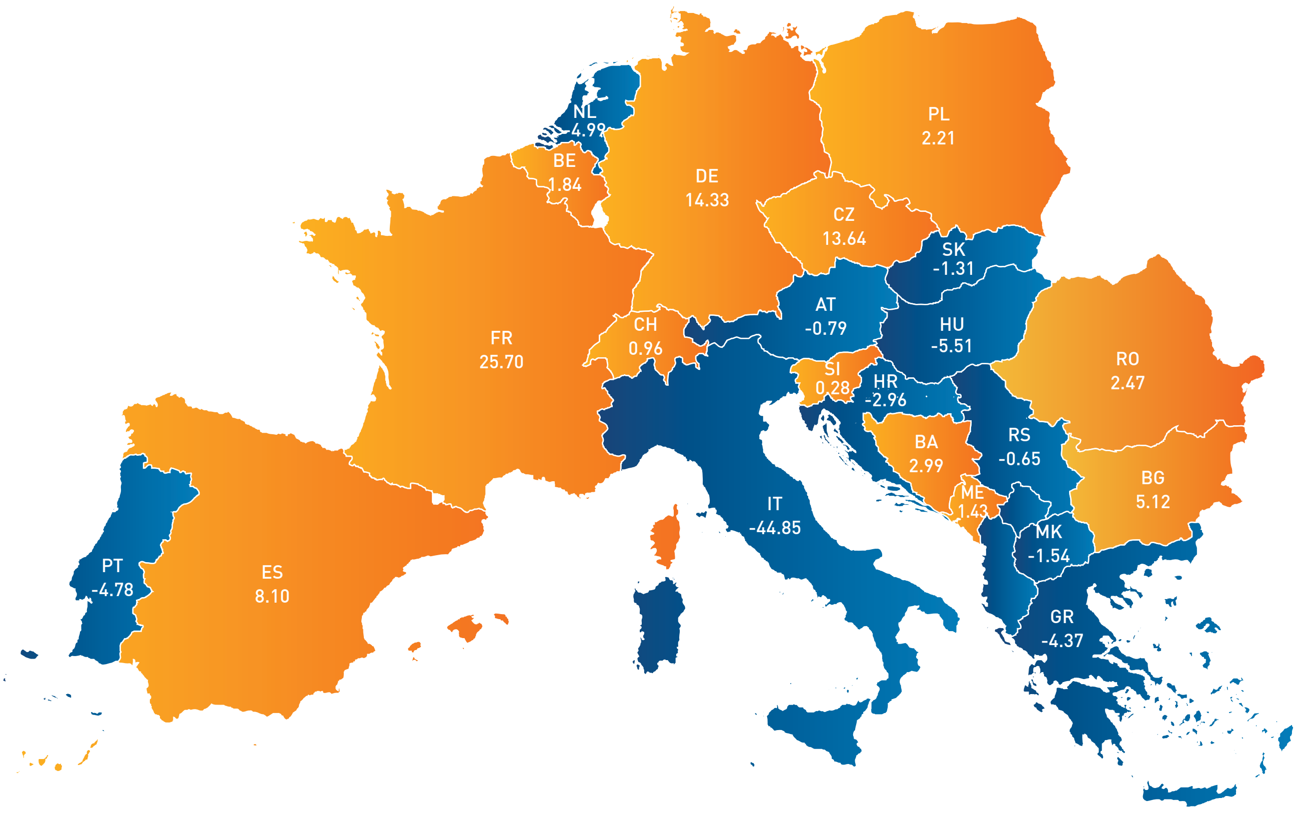
The lower electricity consumption in Slovenia can be mostly attributed to lower consumption by direct consumers; in this context the company Talum should be mentioned, where electricity consumption decreased practically by half, and all three ironworks which also decreased their consumption. Consumption also fell in the distribution network, the cause of which is lower consumption by industrial customers.

HSE

The solid energy balance is largely a result of excellent hydrology conditions, since the production of HPPs substantially exceeded the plans. For example, DEM produced more than 3 TWh of electricity in the past year and reached their annual production plan as early as September. We used the flexibility of HPP production to our advantage by placing a significant portion of energy in the more expensive peak hours and, depending on the price levels or economic purpose, sold on it the liquid Italian and German markets.

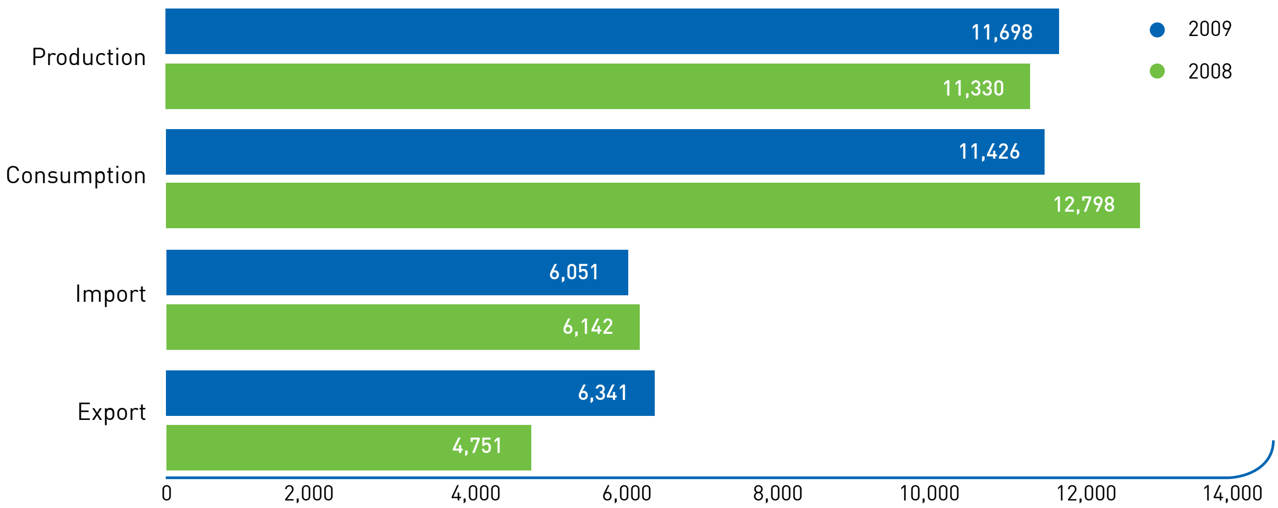
Production was also being optimised at thermal power plants, where, while observing technical limitations, we exploited the differences in prices in individual hours. During nights, weekends and bank holidays, when the price of electricity and cross-border transfer capacities was lower than the variable costs of coal-fired power plants, production units operated at minimum levels or were shut off. During the more expensive peak hours, the units, when economically viable, were operating at their technical maximum.

BALANCE OF EUROPEAN ELECTRICITY MARKETS IN 2009 (IN TWh)



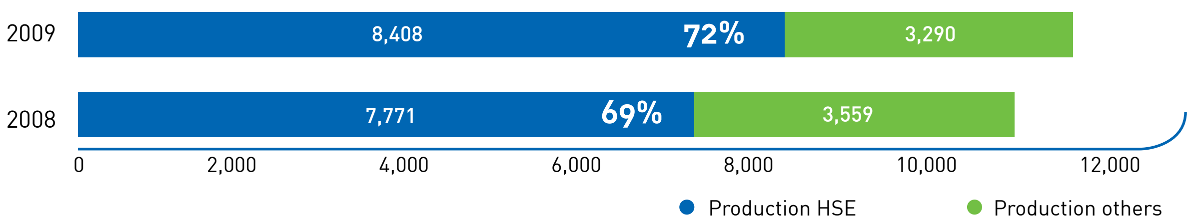
- Markets with a positive energy balance
- Markets with a negative energy balance

Slovene electricity market in 2009 and 2008 (IN GWh)*

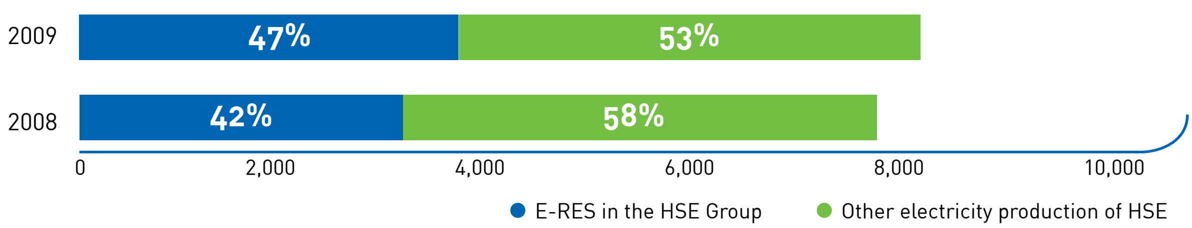


* Source: ELES

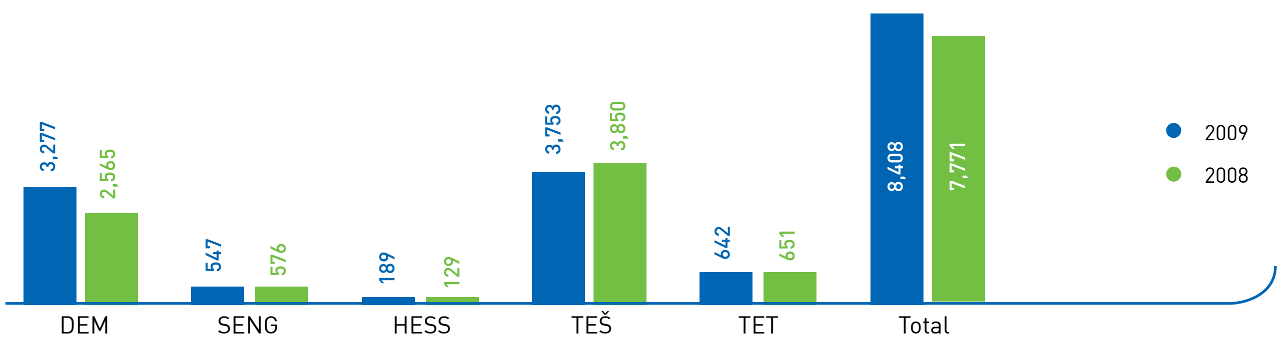
Share of HSE Group's production in total electricity production in Slovenia in 2009 and 2008 (in GWh)



Share of electricity produced from E-RES in the production of HSE Group



Net electricity production of the HSE Group in 2009 and 2008 (in GWh)



Continental Europe

2009 was marked by three crucial developments that characterised trading activities in the Czech and Slovak electricity market. Trading in Slovakia was significantly affected by abolishment of the export duty on 1 April 2009, which reintroduced normal trading conditions to this market.

The long anticipated merger of the Czech and Slovak electricity market took place at the beginning of September. Following the merger, these markets engaged in the so-called »market coupling«[1], which levelled the prices in both markets.

In this past year, the Czech as well as Slovak markets were interesting mostly in terms of purchases, since electricity prices remained lower than in other markets despite a general decline in the broader region.

HSE

The changes in Slovak tax legislation were important mostly for the operations of the Slovak branch office. They made it possible for us to do business in Slovakia directly with the controlling company, i.e. HSE.

Italy, France

The extraordinary rise in prices of energy products in 2008 was followed by a crash, an economic crisis and a severe decline in prices. The most pessimistic predictions on future economic developments were published at the end of February and in March of 2009, which resulted in an extraordinary decline in prices of electricity and emission coupons.

After March, the situation started improving slightly. However, the economic condition of our primary export market (Italy) unfortunately remained poor throughout 2009.

HSE

HSE was correct in predicting future developments and was, on an annual level, able to sell – predominantly in the Italian, but also in the French market – greater quantities of energy at a fixed price than previously planned. It participated successfully in monthly auctions for cross-border capacities and managed to substantially increase sales of energy (that was intended for Italy) in France.

In 2009, HSE started trading operations between France and Germany.

SE Europe

SE Europe was affected by the global economic recession as much as other parts of the world. The decreases in electricity prices in SE Europe followed the European trends with a slight delay. Due to a major decline mostly in industrial consumption, certain countries reduced their electricity purchases in the market. As a consequence, SE European markets experienced lower liquidity which resulted in lower trading quantities of electricity. At the same time, due to insufficient financial liquidity of companies, operating risks increased which led to stricter monitoring of credit ratings of all business partners and increased trading in organised electricity markets and lower number of bilateral deals.

Despite this, Bulgaria increased its duties for electricity exports in the middle of the year, which made trading in the whole area of SE Europe even more difficult.

HSE

In 2009, HSE participated – directly or through its subsidiaries – in most auctions for cross-border capacities in SE Europe. Hungary, where a little less than a half of the whole SE Europe portfolio was realised, remained the most important market of HSE. At the end of the year, HSE obtained an electricity trading licence in Hungary and established a balancing group on behalf of the controlling company.

In Romania, trading with electricity on behalf of the controlling company HSE also began at the end of the year, initially on daily levels.

In Macedonia, a new company, HSE MAK Energy, was established and in Greece, HSE obtained a licence for trading on behalf of the controlling company. HSE Bulgaria already concluded its first deals despite unfavourable conditions in the Bulgarian market. After the privatisation of the Albanian distributor (OSSH), which is currently majority owned by CEZ, we have established contacts and realised several successful monthly sales transaction during the last period of the year.

1. Market Coupling – a mechanism for coordination of orders at the energy exchange and simultaneously an implicit mechanism for allocation of cross-border transfer capacities.

2.7 SALES AND CUSTOMERS

2.7.1 ELECTRICITY

Despite the recession, the HSE Group achieved good results with regard to production, which can be attributed mostly to favourable hydrology conditions. In 2009, the net electricity production of the group's HPPs alone exceeded the production in 2008 by 743 GWh, and the planned production for 2009 by 844 GWh.

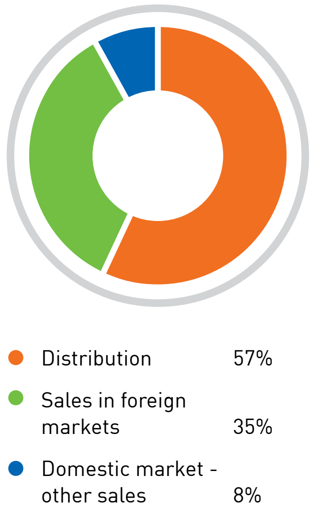
Despite adverse economic conditions, HSE endeavoured to ensure efficient and secure supply of electricity to its customers in 2009 as well. Coordinated trading, sale of electricity produced by HSE Group companies, management of the group's production units and sale of electricity from other sources maximised our performance in 2009.

Sales volume and structure

The HSE Group sold 13,001 GWh of electricity in 2009. Domestic sales accounted for 65%, while 35% of energy was exported.

In the domestic market, 87% of electricity was sold to distributors, large customers bought 10% of all energy, and 3% was sold to other customers in Slovenia.

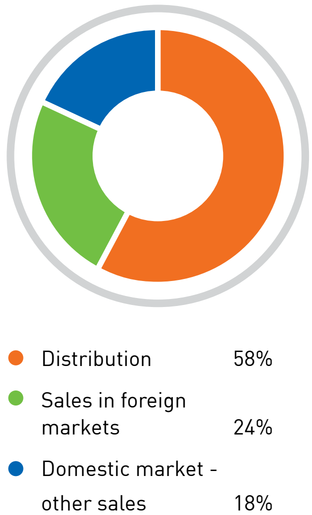
Structure of electricity sales in 2009 in terms of volume



Long-term contracts and day-ahead market

The bulk of the company's 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 additional electricity produced during periods when market price exceeded the cost of extra production were sold in day-ahead markets.

Structure of electricity sales in 2008 in terms of volume



Ancillary services

In addition to electricity, the following contractually required ancillary services were provided in 2009:

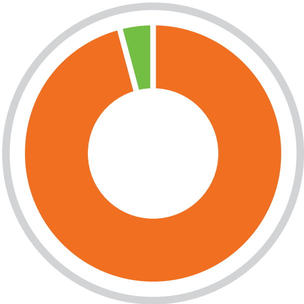
- secondary frequency control in the range of ± 77 MW,
- tertiary frequency control with the inclusion of non-spinning and spinning reserves of 40 MW,
- black start capability,
- reactive power support,
- secondary control services.

2.7.2 OTHER ACTIVITIES

Net sales revenue structure

The HSE Group generated more than € 804 million in net sales revenue in 2009. 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%.

Structure of net sales revenue in 2009



Revenue from sale of electricity	96%
Other revenue	4%

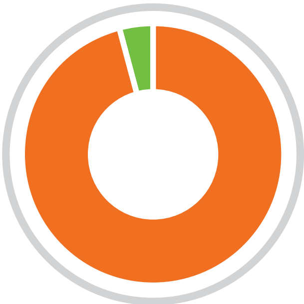
Other products and services

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 disposal 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 2009 the sales of heat totalled 389 GWh, which was 5% less than planned.

Structure of net sales revenue in 2008



Revenue from sale of electricity	96%
Other revenue	4%

13,001

GWh of electricity were sold by the HSE Group in 2009

2.8 PURCHASING AND SUPPLIERS

2.8.1 ELECTRICITY

Synergy

To maximise efficiency, HSE Group seeks to take advantage of synergies associated with a wide spectrum of production capacities. Because the operating and cost-related characteristics of individual production plants differ, the cost-effective production of electricity can be achieved through appropriate production scheduling. And because electricity market prices fluctuate over time, dispatching of production units, while observing technical criteria, is all the more important. All of the above could practically be achieved at any time if we had enough production capacities at our disposal.

HSE GROUP'S ELECTRICITY PRODUCTION UNITS IN 2009

DEM		Dravograd	Vuzenica	Vuhred	Ožbalt	Fala	MB otok	Zlatoličje	Formin	Small HPPs	TOTAL
	Turbines	3	3	3	3	1+2	3	2	2	1	
Net output	MW	26	56	72	73	58	60	125	116	0.7	586.7
Rated generation capacity	MVA	36	78	90	90	74	78	159	148	0.9	753.9
Gross head	m	8.9	13.7	17.4	17.4	14.6	14.2	33	29		148.2
Rated flow Qi	m^3/s	405	550	550	550	505	550	463	500		

HESS		Boštanj	Blanca	TOTAL
	Period		May-Dec	
	Turbines	3	3	
Net output	MW	34	42	34 / 76
Rated generation capacity	MVA	43.5	50	43.5 / 93.5
Gross head	m	7.6	8.8	7.6 / 16.4
Rated flow Qi	m^3/s	500	500	

SENG		Doblar I.	Doblar II.	Plave I.	Plave II.	Solkan	PSP Avče	Zadlaščica	Small HPPs	TOTAL
	Period						Nov-Dec			
	Turbines	3	1	2	1	3	1	2	26	
Net output	MW	30	40	15	19	32	180	8	11.4	155.4 / 335.4
Rated generation capacity	MVA	48	50	22	23	39	200	10	15.6	207.6 / 407.6
Gross head	m	47.2	48.5	27.5	27.5	23	521	440		613.7 / 1134.7
Rated flow Qi	m^3/s	90	105	75	105	180	40	2.2		

PSP Avče: From 31/10/09, PSP Avče operated periodically - trial operation.

TEŠ		GT 51	GT 52	Unit 1	Unit 2	Unit 3	Unit 4	Unit 5	TOTAL
Net output	MW	42	42	25		50	248	305	712
Rated generation capacity	MVA	56.25	56.25	37.5		94	324	377	945

TEŠ Unit 1: Available capacity reduced to 25 MW due to wear of the unit.
TEŠ Unit 5: Unit power is 377 MVA (at 3 bars of hydrogen pressure).
TEŠ 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 2009 was mainly purchased from subsidiaries (64%) and in foreign markets (27%). The remaining 9% were purchased from suppliers in the Slovene market.

Structure of electricity purchases in 2009 and 2008

2009

Group companies	64%
Purchases in foreign markets	27%
Other purchases in the domestic market	9%

2008

Group companies	57%
Purchases in foreign markets	28%
Other purchases in the domestic market	15%

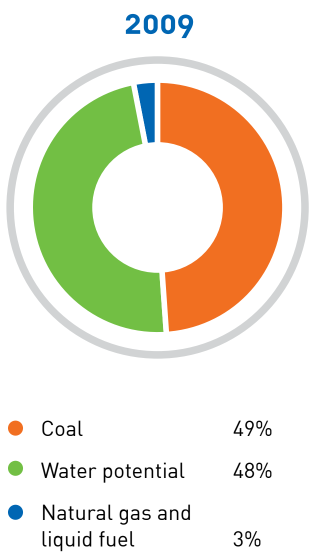
Optimising purchases

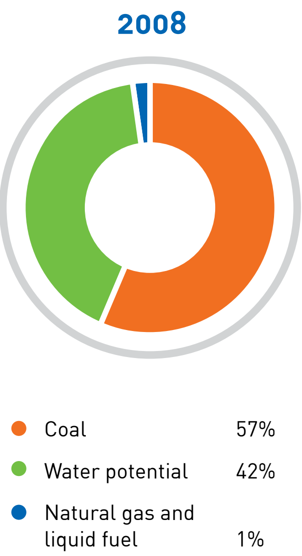
In order to offset shortfalls arising from supply failures or unfavourable hydrology, as well as optimise production and trading, HSE purchased electricity in the day-ahead electricity market.

Primary raw materials

In 2009, primary raw materials used in the production of electricity included coal (49%), water potential (48%) and natural gas and extra liquid fuel (3% each).

Primary raw materials used in electricity production in 2009 and 2008





Purchase price

In 2009, the purchase price of electricity was mostly affected by the following factors:

- favourable hydrology conditions that resulted in production of cheaper hydropower at HSE Group companies which was 27% higher than planned,
- electricity production from coal at TEŠ that was 0.5% higher than planned,
- electricity production from gas at TEŠ that was 3.2% lower than planned due to reductions in gas supply by Geoplin,
- electricity production at TET that was 1.9% higher than planned, and
- the impact of conditions in the electricity market.

Coal

At TEŠ, 41,645 TJ of coal were used in the production of electricity and heat. At TET, 7,268 TJ of coal were used for the production of electricity.

Coal stocks

On 31 December 2009, PV's coal stocks totalled 4,543 TJ while at TET they stood at 2,503 TJ.

2.9 INVESTMENTS

Despite the fact that electricity consumption fluctuates locally and globally, the HSE Group keeps searching for new, additional projects and investments in order to ensure secure, reliable, competitive and environment-friendly long-term supply of electricity in Slovenia. We are namely aware that:

- our customers depend on 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 in the common European and international market in order to look for sources, also outside Slovenia, to compensate for the gap in the domestic supply;
- efficiency can only be achieved through proper utilisation of primary sources; therefore we are constantly following technological developments and modernising our production facilities;
- highly reliable supply can only be achieved through appropriate diversification of sources;
- new sources and know-how should be developed continuously.

84.5

Is the increase in output of new production capacities in the HSE Group. In 2009, a new 42 MW gas turbine at TEŠ and HPP Blanca with a total net output of 42.5 MW were put into operation. The total net output at the end of 2009 amounted to 1,679 MW.

The investments of the HSE Group are aimed at modernisation of existing thermal power plants and hydro-electrical capacities, and construction of new energy producing facilities. In this respect, the HSE Group pursues the following major objectives:

- increasing the share of renewable energy sources;
- applying new technologies in exploitation of fossil fuels;
- reducing greenhouse gas emissions;
- increasing energy efficiency;
- ensuring sustainable, environment-friendly use of sources; and
- identifying and taking advantage of investment opportunities abroad.

The major investments of the HSE Group in 2009 are presented below.

Unit 6

The replacement Unit 6 will produce 3,500 GWh of electricity, for which it will require 2.9 million tons of coal and emit a total of 3.1 million tons of CO_2, which is almost a million and a half tons less than Units 1, 3, 4 and 5 that are currently in operation. Therefore, this is a more acceptable production unit in terms of energy efficiency and environment, since it will require 30% less coal for the same amount of electricity. The construction of the replacement Unit 6 at TEŠ will enable a 35% reduction in specific CO_2 emissions for the same amount of electricity produced. Namely, the new replacement Unit 6 will emit 0.87 kg/kWh of specific CO_2 emissions, while the existing facilities emit 1.25 kg/kWh.

Unit 6 in numbers:	
output	600 MW
specific net consumption	8,451 kJ/kWh
price of coal	€ 23.18/t (€ 2.25/GJ)
hours of operation at full power	6,500 hrs/year
number of employees	200
useful life	40 years
CO_2 emissions	0.87 kg/kWh

Due to its complexity and size, the construction of Unit 6 will be divided into several stages. The trial operation of the new facility is planned in 2014. The projected course of construction is as follows:

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

In 2009, an annex to the contract for the supply and installation of main technological equipment was signed, with which a lower price and a shorter delivery period were agreed. This was followed by a revision of the investment programme for replacement Unit 6. In November 2009, an environmental permit was obtained for Unit 6. In order to secure an even greater transparency, HSE and TEŠ signed a contract on active supervision of the project.

The project investor is the company TEŠ.

PSP Avče

PSP Avče is the first pumped storage hydro power plant which will contribute to the higher production of peak electricity that is required by the Slovene energy system. In addition to the above advantages, PSP Avče plays an important role in the regional and urban development of the area, and in ensuring higher employment rates in the local economic sector, promoting economic development of the area, and developing the Banjšice Plateau through promotion of tourism at Kanalski Vrh.

In periods of low electricity prices (at night and on weekends), a PSP uses electricity to pump water to the reservoir, whereas in periods of high electricity prices (work-day peaks), the accumulated water is used for electricity production. The investment started in 2003, and in 2009 PSP Avče started trial operation.

Technical data of PSP Avče:	
maximum gross head	521 m
rated flow (turbine regime)	40 m^3/s
rated flow (pumping regime)	34 m^3/s
rated turbine power	185 MW
rated pumping capacity	180 MW
annual electricity production	426 GWh
annual energy consumption for pumping	553 GWh
PP's utilisation rate	0.77

In 2009, finishing construction works took place and a successful technical inspection of the complete facility was performed. A decision of the administrative body authorising trial operation followed in December.

The project investor is the company SENG.

HPPS on the lower Sava river

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

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

HPP Boštanj

The HPP is undergoing trial operation, the objective of which is testing of the plant's equipment. At the beginning of 2009, testing of remote controlled operation from the control centre started.

HPP Blanca

Next to HPP Boštanj, which is already in operation, first kWhs of electricity have also been produced at HPP Blanca.

In 2009, HPP Blanca underwent a technical inspection of facilities (dam facility and reservoir) in accordance with the issued building permit, and a positive decision regarding trial operation was awarded.

HPP Krško

At HPP Krško, finishing works on the first construction pit with four spillways were performed, and the Sava River was redirected to spillways, while on the second construction pit an enclosure wall was constructed and majority of excavating works were finished. Concreting of massive concretes in the powerhouse and assembly work on the generator began. The majority of electrical equipment was delivered. Activities related to the project design of HPP Krško reservoir were also underway, and a call for tenders for construction of the reservoir was cancelled.

HPP Brežice and HPP Mokrice

At HPP Brežice and HPP Mokrice, the procedure for preparation of national spatial development plans (NSP) was carried out, and technical bases for the NSP, as well as studies and investment and design documents were prepared.

The project investor is the company HESS. The companies HSE, DEM, SENG, TEB and GEN energija are financing the HPP construction on the lower Sava River in proportion to their equity stakes in HESS and in accordance with the investment payment plans.

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.

The reconstruction will also include reconstruction of the Melje Dam and the required construction works on the supply channel.

At the Melje dam, works related to the renovation of spillways 1 through 6 were carried out. At the beginning of 2009, spillways 5 and 6 were renovated and tested. A successful trial operation followed and works continued on spillways 3 and 4, which were also successfully tested and put into regular operation at the end of 2009. All works on the gantry crane have been completed, and it was successfully handed over before the end of 2009.

The project investor is the company DEM.

The coal transhipment station

Investment in the construction of a coal transhipment station in Trbovlje has been underway since 2007. The construction is going according to the time schedule.

In 2009, the contractor prepared the project documentation for the DOBP stage, which was subsequently amended on the basis of audit reports. The MESP issued a building permit for the construction of

the coal transhipment station on 18 May 2009, based on which the contractor began with preparatory works. The time schedule for construction works and supply and installation of equipment, agreed between the investor and both contractors, projects the completion of the coal transhipment facility at the end of June 2010.

The project investor is the company TET.

HPPS on the middle Sava river

HSE was awarded a concession for the construction of HPPs on the middle Sava River at the end of 2004.

In the section of Sava River between Tacen and Suhadol, construction of nine HPPs with a total installed capacity of 304 MW is envisaged. The purpose of the project is to improve the utilisation of the Sava River's water potential and increase the capacity and production in the Group. The construction of the HPP chain is envisaged in stages in the period between 2009 and 2025. The planned annual production of the proposed version of the HPP chain will total a little over 1,029 GWh.

In March 2009, MoE confirmed the decision on appointment of a concessionaire and thus facilitated procedures for signature of the concession agreement and implementation of the HPP project on the middle Sava River. Due to a letter of complaint by the company SEL and the required harmonisation of rights grants for the exploitation of the energy potential with the EU legislation, the already effective decree had to be amended. The revised decree is currently in the process of government approval, which will represent a basis for conclusion of the concession agreement.

The project investor is the company HSE.

2.10 INFORMATICS

Consolidation of IT support

The primary process of the HSE Group involves electricity production and trading, for which the Group requires a good, reliable and, most of all, safe IT support. Without information systems that collect and process data, on the basis of which the management always has access to relevant information regardless of time and place, the company's operations would be impaired.

At the end of 2008 and beginning of 2009, all IT systems users of the companies HSE, TEŠ and PV were transferred to the new, high availability computer centre which was added an additional backup computer centre at the end of 2009. Both computer centres serve as each other's backup. In addition, we upgraded all IT processes with certain procedures in line with recommendations of good practice and obtained the ISO 27001 certificate. All of the above resulted in high reliability of IT systems – no failures or security breaches occurred in 2009.

In 2009, PV and TEŠ signed an agreement on establishing a common support system for CONSOLIDATED IT SERVICES. Project teams performed an inventory of services and appointed administrators and substitute administrators for the companies HSE, TEŠ and PV.

ISO processes

All these changes and upgrades of IT services management procedures have been made formal through the amendment of the system process (ISO 9001) – management of changes in application and system software, login/logout of users, reporting of errors, modifications, service centre.

New system instructions for safe and correct use of information systems and a system procedure SP 30-04 Business IT have been prepared. A successful external assessment was performed regarding compliance with the ISO 27001 standard that also required a procedure to be prepared for a complete system recovery in the event of a disaster. Finally, we successfully performed testing of the plan for uninterrupted operation of IT system.

ODOS

In 2009, the IT document and business process management system ODOS that HSE has been using since 2006 and TEŠ since 2007 was more or less implemented at PV. Implementation also started at DEM and TET with introduction of incoming and outgoing mail modules and internal electronic forms. Other processes will be introduced in 2010, when system implementation is expected to start at SENG.

In order to facilitate acquisition of the ISO 27001 certificate at HSE and TEŠ, we supplemented the ODOS system with an IT services management module in 2009. At HSE, TEŠ and PV, ODOS supports procedures and management of changes in consolidated system services irrespective of which company the IT services administrators are employed at.

IT control and management

IT control was implemented in a gradual, multi-stage process and is based on Microsoft software. During the first stage, tools for monitoring of workstations and servers were implemented. The core of the control centre was set up. Afterwards, change management processes were implemented (application and system software, processes for opening and closing of accounts, monitoring of configurations) and a concept for management of incidents and errors in the Zenas environment (error reporting system) was prepared. An interface was designed for control and management of VPN access (switch-on/off) performed by the service centre.

The "SYSTEM CENTRE" for central supervision of functioning of IT services and IT infrastructure is being updated and upgraded. Workflows for the use of IT services have been supplemented in connection with the owners of information systems, which have been clearly defined by a management resolution. For all users, the initial state of utilisation of information systems or their components was recorded.

2.11 BUSINESS PERFORMANCE ANALYSIS

Main activities

In 2009 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,
- monitoring financial products and conditions and developments in domestic as well as foreign money and equity markets, and
- managing related risks.

Ensuring solvency

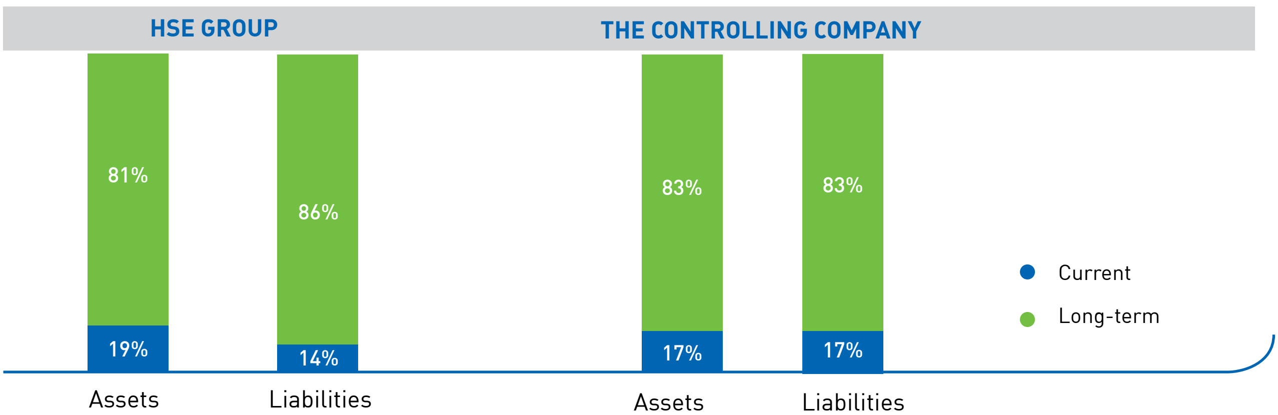
The basic function of financial operations is to ensure solvency of the HSE Group and, consequently, undisturbed performance of other business activities. In 2009, short-term solvency of the Group and management of solvency risk was, despite the financial crisis in Slovene and global markets, successfully ensured through a centralised system of up-to-date coordination and planning of cash-flows, and monitoring of short-term cash surpluses and deficits of HSE Group companies. In addition, management of cash flows and liquidity risk was ensured 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. In this manner, the group preserved the highest credit rating with its domestic business partners and financial institutions in Slovenia and abroad.

Ensuring necessary financial sources

In 2009, both the controlling company and the HSE Group as a whole were very active in the field of financing, particularly in ensuring the required financial resources for their investments under favourable terms. HSE Group companies borrow funds independently in accordance with the conditions and procedures laid down in the Decree on the terms, conditions and methods of borrowing under Article 87 of the Public Finance Act. The HSE Group is carefully examining various financing options, and by choosing the most favourable financial sources it is able to reduce the value of required investments and the costs of financing.

At the end of the 2009 financial year, the Group's financial liabilities totalled € 374.6 million, of which long-term financial liabilities accounted for 71% and short-term financial liabilities for 29%. The long-term financing to assets ratio of the HSE Group stood at 106%. Loans were taken out in the national currency and were therefore not exposed to the currency risk. Most loans have been taken out at a variable interest rate (Euribor), which brings about exposure to interest rate risk that is, in our estimate, properly managed. Additional information on risk management can be found in section "2.12 Risk management".

Balance sheet structure of the HSE Group and the controlling company as at 31/12/2009



Capital adequacy

Ensuring capital adequacy is one the most important responsibilities of HSE Group managers. 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.

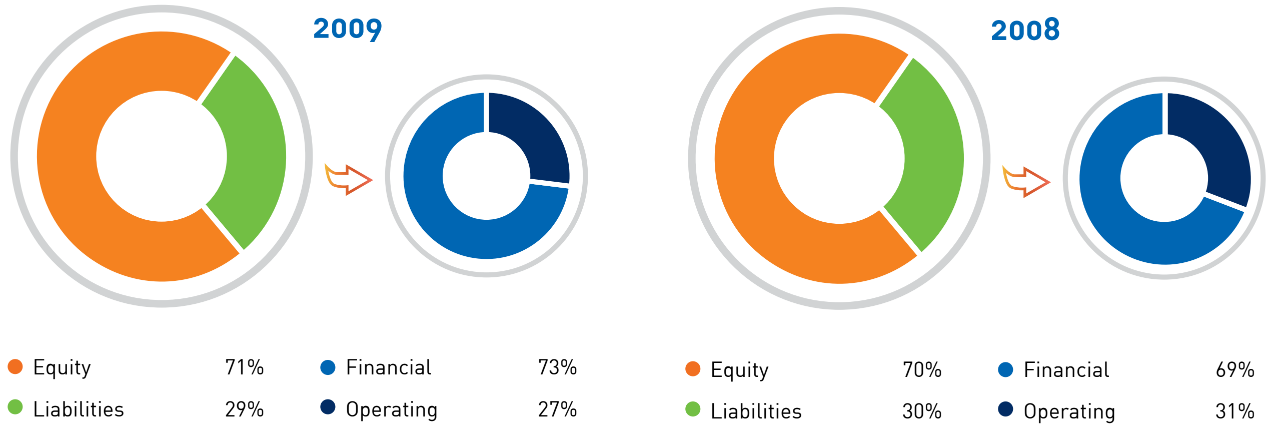
The HSE Group also acknowledges the fact that non-financial elements – the so-called soft factors, such as staff, information etc. – are increasingly being treated as part of companies' capital. This, in addition to financially responsible management, requires managers of HSE Group companies to pursue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

Debt ratio

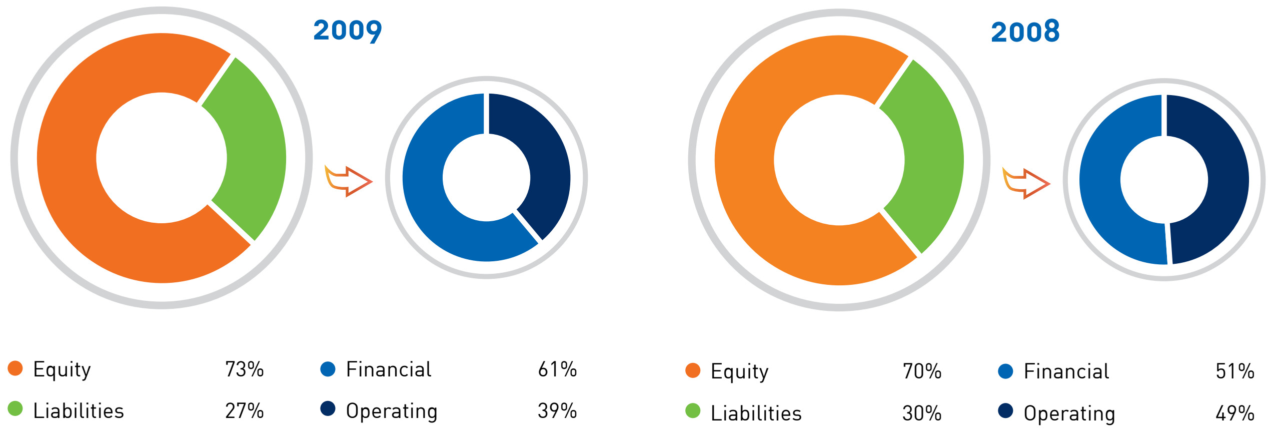
The debt ratio is an important indicator of the business and financial situation. The analysis of the financial position of HSE Group companies reveals that from the perspective of debt the business and financial position of HSE Group companies is under control, with the debt ratios not exceeding the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

The share of debt (as per long-term and short-term liabilities presented in the balance sheet) in the controlling company's financing is 27%, whereas in the case of the Group it is 29%. In the debt structure of the parent company and the Group, financial liabilities account for 61% and 73%, respectively. A more detailed structure of liabilities is presented in the financial report of the controlling company HSE and the HSE Group.

HSE GROUP'S EQUITY-TO-DEBT RATIO



THE CONTROLLING COMPANY'S EQUITY-TO-DEBT RATIO



THE VALUE OF ASSETS AND TOTAL EQUITY AS AT 31/12/2009 AND OPERATING RESULTS OF HSE GROUP COMPANIES IN 2009

HOLDING SLOVENSKE ELEKTRARNE d.o.o.

Assets in €	1,176,889,598
Total equity in €	845,844,637
Net profit or loss in €	60,234,898

SLOVENIA

DRAVSKE ELEKTRARNE d.o.o.

HSE's stake	100.0%
Assets in €	536,309,150
Total equity in €	515,440,404
Net profit or loss in €	28,191,320

TERMOELEKTRARNA ŠOŠTANJ d.o.o.

HSE's stake	100.0%
Assets in €	468,171,073
Total equity in €	344,372,708
Net profit or loss in €	54,997

HSE INVEST d.o.o.

Direct HSE's stake	25.0%
Indirect HSE's stake	75.0%
Assets in €	1,612,153
Total equity in €	701,496
Net profit or loss in €	171,291

SOŠKE ELEKTRARNE NOVA GORICA d.o.o.

HSE's stake	100.0%
Assets in €	267,664,105
Total equity in €	167,381,606
Net profit or loss in €	4,784,220

TERMOELEKTRARNA TRBOVLJE d.o.o.

HSE's stake	81.3%
Assets in €	64,046,411
Total equity in €	35,078,228
Net profit or loss in €	719,170

PPE d.o.o., KIDRIČEVO

HSE's stake	45.0%
Assets in €	1,270,367
Total equity in €	1,233,243
Net profit or loss in €	9,761

HIDROELEKTRARNE NA SPODNJI SAVI d.o.o.

Direct HSE's stake	51.0%
Indirect HSE's stake	84.6%
Assets in €	230,178,236
Total equity in €	219,078,170
Net profit or loss in €	1,260,651

PREMOGOVNIK VELENJE d.d.

HSE's stake	77.7%
Assets in €	209,580,964
Total equity in €	109,974,369
Net profit or loss in €	260,199

ABROAD

HSE ITALIA S.r.l.

HSE's stake	100.0%
Assets in €	1,089,227
Total equity in €	80,549
Net profit or loss in €	33,702

HSE HUNGARY Kft.

HSE's stake	100.0%
Assets in €	7,565,713
Total equity in €	5,495,112
Net profit or loss in €	103,862

HSE BALKAN ENERGY d.o.o.

HSE's stake	100.0%
Assets in €	1,495,784
Total equity in €	941,408
Net profit or loss in €	87,248

HSE ADRIA d.o.o.

HSE's stake	100.0%
Assets in €	2,430,324
Total equity in €	872,067
Net profit or loss in €	181,940

HSE BULGARIA EOOD

HSE's stake	100.0%
Assets in €	424,673
Total equity in €	418,062
Net profit or loss in €*	-25,889

HIDRO MOĆNOST MAKEDONIJA d.o.o.

HSE's stake	33.0%
Assets in €	5,067
Total equity in €	5,067
Net profit or loss in €	-

TOPLOFIKATSIA - RUSE AD

HSE's stake	51.0%
Assets in €	54,228,960
Total equity in €	24,341,957
Net profit or loss in €	374,271

HSE MAK ENERGY DOOEL

HSE's stake	100.0%
Assets in €	22,802
Total equity in €	22,649
Net profit or loss in €**	-2,074

* HSE Bulgaria EOOD only began operating in 2009.
** HSE MAK Energy DOOEL was only established in 2009 and is not yet operational.

2.11.1 THE CONTROLLING COMPANY'S RATIOS

Equity financing rate	31/12/2009	31/12/2008
1. Liabilities in €	1,176,889,598	1,158,781,276
2. Equity in €	845,844,637	798,817,478
Equity financing rate = 2 / 1	**71.87**	**68.94**

At the end of 2009, the company's equity constitutes almost 72% of its total liabilities. Compared to the end of 2008, the equity financing rate increased mainly due to the net profit realised in 2009.

Long-term financing rate	31/12/2009	31/12/2008
1. Equity in €	845,844,637	798,817,478
2. Long-term liabilities in €	116,595,562	161,302,465
3. Provisions and long-term accrued costs and deferred revenue in €	15,866,215	19,175,683
4. Total (1+2+3)	978,306,414	979,295,626
5. Liabilities in €	1,176,889,598	1,158,781,276
Long-term financing rate = 4 / 5	**83.13**	**84.51**

The company financed 83% of its assets from long-term sources and 17% from short-term sources. Compared to the end of 2008, the long-term financing rate is lower by 1.38 percentage points, mostly due to a decrease in long-term financial liabilities to banks.

Operating fixed assets rate	31/12/2009	31/12/2008
1. Property, plant and equipment in €	8,520,693	6,774,756
2. Intangible assets and long-term accrued revenue and deferred costs in €	4,168,833	8,178,427
3. Total fixed assets at carrying amount in € (1+2)	12,689,526	14,953,183
4. Assets in €	1,176,889,598	1,158,781,276
Operating fixed assets rate = 3 / 4	**1.08**	**1.29**

The share of property, plant and equipment and intangible assets in the company's assets amounts to 1% and has decreased compared to the end of 2008, mostly due to the lower stocks of emission coupons.

Long-term assets rate	31/12/2009	31/12/2008
1. Property, plant and equipment in €	8,520,693	6,774,756
2. Intangible assets and long-term accrued revenue and deferred costs in €	4,168,833	8,178,427
4. Long-term investments in €	957,826,055	929,662,269
5. Long-term operating receivables in €	2,872,054	2,715,058
6. Total (1+2+3+4+5)	973,387,635	947,330,510
7. Assets in €	1,176,889,598	1,158,781,276
Long-term assets rate = 6 / 7	**82.71**	**81.75**

The company's long-term assets account for almost 83% of its total assets. The ratio increased compared to the end of 2008 mainly due to an increase in the long-term investment in TEŠ.

Equity to fixed assets ratio	31/12/2009	31/12/2008
1. Equity in €	845,844,637	798,817,478
2. Property, plant and equipment in €	8,520,693	6,774,756
3. Intangible assets and long-term accrued revenue and deferred costs in €	4,168,833	8,178,427
4. Total fixed assets at carrying amount (2+3)	12,689,526	14,953,183
Equity to fixed assets ratio = 1 / 4	**66.66**	**53.42**

The ratio stood at 67 at the end of 2009, meaning that all of the company's most illiquid assets were financed from equity. The ratio increased relative to 2008 because of an increase in equity due to allocation of net profit of 2009 and lower stocks of emission coupons.

Acid test ratio	31/12/2009	31/12/2008
1. Cash in €	2,179,286	6,374,755
2. Short-term investments in €	71,467,521	68,242,000
3. Total liquid assets in € (1+2)	73,646,807	74,616,755
4. Short-term liabilities in €	197,220,693	173,979,273
Acid test ratio = 3 / 4	**0.37**	**0.43**

The acid test ratio describes the relationship between liquid assets and short-term liabilities. At the end of 2009, it stood at 0.4, meaning that almost half of the company's short-term liabilities were covered by liquid assets. The ratio is equal to that of 2008.

Quick ratio	31/12/2009	31/12/2008
1. Cash in €	2,179,286	6,374,755
2. Short-term investments in €	71,467,521	68,242,000
3. Short-term operating receivables in €	119,439,143	127,497,862
4. Total (1+2+3)	193,085,950	202,114,617
5. Short-term liabilities in €	197,220,693	173,979,273
Quick ratio = 4 / 5	**0.98**	**1.16**

The quick ratio stood at close to 1 at the end of 2009, meaning that the company finances a part of its current assets from long-term liabilities. The ratio is slightly lower compared to the end of 2008 mostly due to higher short-term liabilities to banks, since a portion of long-term financial liabilities to banks fell due in 2010 and new short-term loans were taken out.

Current ratio	31/12/2009	31/12/2008
1. Current assets in €	193,086,513	202,115,396
2. Short-term accrued revenue and deferred costs in €	7,166,001	5,146,178
3. Total (1+2)	200,252,514	207,261,574
4. Short-term liabilities in €	197,220,693	173,979,273
Current ratio = 3 / 4	**1.02**	**1.19**

The current ratio amounted to 1.02 at the end of 2009, which indicates the company is solvent as it was able to cover all its short-term liabilities with current assets. The ratio is slightly lower compared to the end of 2008 mostly due to higher short-term liabilities to banks, since a portion of long-term financial liabilities to banks fell due in 2010 and new short-term loans were taken out.

Operating efficiency ratio	2009	2008
1. Operating revenue in €	784,183,075	820,305,717
2. Costs of goods, materials and services in €	669,795,404	766,089,817
3. Labour costs in €	7,113,750	6,545,268
4. Write-downs in value in €	2,694,670	1,493,117
5. Other operating expenses in €	2,043,732	11,050,720
6. Other operating expenses in € (2+3+4+5)	681,647,556	785,178,922
Operating efficiency ratio = 1 / 6	**1.15**	**1.04**

The company's operating revenue exceeded its operating expenses by 15% in 2009. The ratio increased relative to 2008 mainly due to better trading results.

Net return on equity ratio	2009	2008
1. Net profit for the period in €	60,234,898	53,756,215
2. Average equity in €	822,331,057	777,991,982
Net return on equity ratio = 1 / 2	**0.07**	**0.07**

In 2009 the company generated € 7 of net profit per € 100 of equity invested. The ratio is equal to that of 2008.

Total financial liabilities / EBITDA	31/12/2009	31/12/2008
1. Long-term financial liabilities in €	116,595,562	161,267,186
2. Short-term financial liabilities in €	74,686,957	9,811,956
3. Total financial liabilities in € (1+2)	191,282,519	171,079,142
4. Operating profit or loss in €	102,535,519	35,126,795
5. Depreciation and amortisation in €	1,264,683	1,458,542
6. EBITDA in € (4+5)	103,800,202	36,585,337
Total financial liabilities / EBITDA	**1.84**	**4.68**

The ratio shows the relationship between the company's debt and EBITDA. The ratio improved considerably compared to the end of 2008 due to a higher operating profit in 2009.

Total financial liabilities / Equity	31/12/2009	31/12/2008
1. Long-term financial liabilities in €	116,595,562	161,267,186
2. Short-term financial liabilities in €	74,686,957	9,811,956
3. Total financial liabilities in € (1+2)	191,282,519	171,079,142
4. Equity in €	845,844,637	798,817,478
Total financial liabilities / Equity	**0.23**	**0.21**

The ratio shows the relationship between the company's debt and equity and is on the level from end of 2008.

EBITDA / Finance expenses for loans	2009	2008
1. Operating profit or loss in €	102,535,519	35,126,795
2. Depreciation and amortisation in €	1,264,683	1,458,542
3. EBITDA in € (1+2)	103,800,202	36,585,337
4. Finance expenses for loans in €	4,136,258	7,993,672
EBITDA / Finance expenses for loans	**25.10**	**4.58**

The ratio increased relative to 2008 mainly as a result of higher operating profit and lower interest rates.

Total financial liabilities / Assets	31/12/2009	31/12/2008
1. Long-term financial liabilities in €	116,595,562	161,267,186
2. Short-term financial liabilities in €	74,686,957	9,811,956
3. Total financial liabilities in € (1+2)	191,282,519	171,079,142
4. Assets in €	1,176,889,598	1,158,781,276
Total financial liabilities / Assets	**0.16**	**0.15**

The total financial liabilities to assets ratio increased somewhat relative to the end of 2008. As at 31/12/2009, the company had more short-term liabilities to banks than at the end of 2008.

2.11.2 THE HSE GROUP'S RATIOS

Equity financing rate	31/12/2009	31/12/2008
1. Liabilities in €	1,874,355,148	1,747,710,783
2. Equity in €	1,234,004,990	1,127,608,615
Equity financing rate = 2 / 1	**65.84**	**64.52**

At the end of 2009, the Group's equity amounted to 66% of its total liabilities. Compared to the end of 2008, the equity financing rate increased mainly due to the net profit of the Group realised in 2009.

Long-term financing rate	31/12/2009	31/12/2008
1. Equity in €	1,234,004,990	1,127,608,615
2. Long-term liabilities in €	268,461,575	292,685,262
3. Provisions and long-term accrued costs and deferred revenue in €	112,410,723	118,046,869
4. Total (1 + 2 + 3)	1,614,877,288	1,538,340,746
5. Liabilities in €	1,874,355,148	1,747,710,783
Long-term financing rate = 4 / 5	**86.16**	**88.02**

The Group financed 86% of its assets from long-term sources and 14% from short-term sources. Compared to the end of 2008, the long-term financing rate has decreased, mostly due to a decrease in long-term financial liabilities to banks and long-term provisions.

Operating fixed assets rate	31/12/2009	31/12/2008
1. Property, plant and equipment in €	1,456,811,910	1,301,732,514
2. Intangible assets and long-term accrued revenue and deferred costs in €	41,943,429	48,274,010
3. Total fixed assets at carrying amount in € (1 + 2)	1,498,755,339	1,350,006,524
4. Assets in €	1,874,355,148	1,747,710,783
Operating fixed assets rate = 3 / 4	**79.96**	**77.24**

The share of property, plant and equipment and intangible assets in the Group's total assets stood at 80% at the end of 2009. The operating fixed assets rate increased compared to the end of 2008 as a result of higher investments in property, plant and equipment.

Long-term assets rate	31/12/2009	31/12/2008
1. Property, plant and equipment in €	1,456,811,910	1,301,732,514
2. Intangible assets and long-term accrued revenue and deferred costs in €	41,943,429	48,274,010
3. Investment property in €	1,065,418	922,758
4. Long-term investments in €	7,899,955	51,541,008
5. Long-term operating receivables in €	4,043,837	3,131,217
6. Total (1 + 2 + 3 + 4 + 5)	1,511,764,549	1,405,601,507
7. Assets in €	1,874,355,148	1,747,710,783
Long-term assets rate = 6 / 7	**80.66**	**80.43**

The Group's total long-term assets account for almost 81% of its total assets. Compared to the end of 2008, the ratio is on the same level.

Equity to fixed assets ratio	31/12/2009	31/12/2008
1. Equity in €	1,234,004,990	1,127,608,615
2. Property, plant and equipment in €	1,456,811,910	1,301,732,514
3. Intangible assets and long-term accrued revenue and deferred costs in €	41,943,429	48,274,010
4. Total fixed assets at carrying amount in € (2 + 3)	1,498,755,339	1,350,006,524
Equity to fixed assets ratio = 1 / 4	**0.82**	**0.84**

The ratio represents the relationship between equity and fixed assets. The ratio stood at 0.8 at the end of 2009, meaning that the majority of the Group's most illiquid assets were financed from equity. The ratio is on the same level as at the end of 2008.

Acid test ratio	31/12/2009	31/12/2008
1. Cash in €	10,281,115	13,453,168
2. Short-term investments in €	150,074,101	116,375,273
3. Total liquid assets in € (1 + 2)	160,355,216	129,828,441
4. Short-term liabilities in €	245,988,475	194,052,222
Acid test ratio = 3 / 4	**0.65**	**0.67**

The acid test ratio describes the relationship between liquid assets and short-term liabilities. At the end of 2009, it stood at 0.7, meaning that almost three quarters of the Group's short-term liabilities were covered by liquid assets. Compared to the end of 2008, the ratio is on the same level.

Quick ratio	31/12/2009	31/12/2008
1. Cash in €	10,281,115	13,453,168
2. Short-term investments in €	150,074,101	116,375,273
3. Short-term operating receivables in €	145,756,684	153,746,979
4. Total (1 + 2 + 3)	306,111,900	283,575,420
5. Short-term liabilities in €	245,988,475	194,052,222
Quick ratio = 4 / 5	**1.24**	**1.46**

The quick ratio stood at 1.3 at the end of 2009, meaning that in addition to inventories the Group also finances other current assets from long-term sources. The ratio decreased compared to the end of 2008 mainly as a result of higher short-term financial liabilities to banks.

Current ratio	31/12/2009	31/12/2008
1. Current assets in €	344,191,822	316,850,737
2. Short-term accrued revenue and deferred costs in €	7,554,436	5,958,343
3. Total (1 + 2)	351,746,258	322,809,080
4. Short-term liabilities in €	245,988,475	194,052,222
Current ratio = 3 / 4	**1.43**	**1.66**

The current ratio amounted to 1.4 at the end of 2009, which is an indication of the Group's solvency considering that short-term liabilities were fully covered by current assets. The ratio decreased compared to the end of 2008 mainly as a result of higher short-term financial liabilities.

Operating efficiency ratio	2009	2008
1. Operating revenue in €	877,157,587	903,420,050
2. Costs of goods, materials and services in €	435,431,748	508,120,674
3. Labour costs in €	136,863,751	137,687,403
4. Write-downs in value in €	82,736,776	79,680,448
5. Other operating expenses in €	59,930,777	61,159,605
6. Other operating expenses in € (2+3+4+5)	714,963,052	786,648,130
Operating efficiency ratio = 1 / 6	**1.23**	**1.15**

The Group's operating revenue exceeded its operating expenses by 23% in 2009. The ratio increased relative to 2008 mainly due to better trading results.

Net return on equity ratio	2009	2008
1. Net profit or loss for the accounting period in €	113,841,273	74,515,214
2. Average equity in €	1,180,806,803	1,082,491,409
Net return on equity ratio = 1 / 2	**0.10**	**0.07**

In 2009 the Group generated € 10 of net profit per € 100 of equity invested. The ratio increased relative to 2008, mostly due to an increase in average equity and net profit in 2009.

Total financial liabilities / EBITDA	31/12/2009	31/12/2008
1. Long-term financial liabilities in €	265,817,089	290,364,661
2. Short-term financial liabilities in €	108,817,376	45,481,809
3. Total financial liabilities in € (1 + 2)	374,634,465	335,846,470
4. Operating profit or loss in €	162,194,535	116,771,920
5. Depreciation and amortisation in €	79,174,657	74,358,495
6. EBITDA in € (4 + 5)	241,369,192	191,130,415
Total financial liabilities / EBITDA = 3 / 6	**1.55**	**1.76**

The ratio shows the relationship between the Group's debt and EBITDA. The ratio decreased compared to the end of 2008 mainly as a result of higher operating profit.

Total financial liabilities / Equity	31/12/2009	31/12/2008
1. Long-term financial liabilities in €	265,817,089	290,364,661
2. Short-term financial liabilities in €	108,817,376	45,481,809
3. Total financial liabilities in € (1 + 2)	374,634,465	335,846,470
4. Equity in €	1,234,004,990	1,127,608,615
Total financial liabilities / Equity = 3 / 4	**0.30**	**0.30**

The ratio shows the relationship between the Group's leverage and equity. Despite a slightly higher leverage of the Group compared to the end of 2008, the ratio is on the same level due to an increase in Group's equity.

EBITDA / Finance expenses for loans	2009	2008
1. Operating profit or loss in €	162,194,535	116,771,920
2. Depreciation and amortisation in €	79,174,657	74,358,495
3. EBITDA in € (1 + 2)	241,369,192	191,130,415
4. Finance expenses for loans in €	9,629,326	16,771,877
EBITDA / Finance expenses for loans = 3 / 4	**25.07**	**11.40**

The ratio shows the relationship between EBITDA and financial expenses for loans. Relative to 2008, it has increased due to a higher operating profit and lower finance expenses for interest followed by a decline in interest rates.

Total financial liabilities / Assets	31/12/2009	31/12/2008
1. Long-term financial liabilities in €	265,817,089	290,364,661
2. Short-term financial liabilities in €	108,817,376	45,481,809
3. Total financial liabilities in € (1 + 2)	374,634,465	335,846,470
4. Assets in €	1,874,355,148	1,747,710,783
Total financial liabilities / Assets = 3 / 4	**0.20**	**0.19**

The ratio shows the relationship between the Group's leverage and assets. Despite the fact that the Group's leverage increased somewhat, so did the Group's assets, therefore, the ratio remained practically unchanged compared to 2008.

The fruits of the earth
drive the world forward

as an invaluable source of energy. Coal mining in Slovenia is on a high technological level and complies with the principles of sustainable development.

30

This is the percentage of coal we will save while producing the same amount of electricity after Unit 6 at TEŠ is completed. In 2009, the environmental permit was obtained.

2.12 RISK MANAGEMENT

In a time when both the banking and the real sector are dealing with the implications of the financial crisis, with individual companies facing excessive leverage, solvency issues, payment delays, inability to acquire new sources of financing or extend existing loans, and urgent financial reorganisation, the HSE Group has been acting with due diligence of the business and financial profession and devoting its efforts to ensuring short-term and long-term solvency and capital adequacy of the Group.

In its operations, the group considers all risks to which it is exposed, in particular market, operational, liquidity and credit risk. Risk management involves identification, measurement or assessment, controlling and monitoring of risks the group is or might be exposed to.

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 broadly classified into the following categories:

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

Based on the analysis of HSE Group's operations in 2009 it is our estimate that 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, emission coupons and natural gas.

In 2009, the controlling company HSE continued regular development of the price and market risk management model. In the area of input data, the all year round optimisation of the Group's production units was carried out on a daily basis, as well as the calculation of price curve models for the observed period. In terms of value and quantity, we monitored the Group's open position, the company's trading activities, price fluctuations and volatility, correlations in wholesale electricity markets, emission coupons, other energy products and the exposure of the company's trading portfolio to market risks. To measure the exposure of the company's trading portfolio to market risks, standard risk assessments methods, such as the VaR method, are used. The values used by these methods for the purposes of measuring market exposure are calculated considering a 95% confidence level for a 5-day period. The portfolio's sensitivity to price changes was monitored using the delta/gamma analysis.

In 2009, all models supporting the calculation of HSE's exposure were adjusted so that they could be used over a period consistent with the timetable of the company's strategy. Production optimisation model, price curve models and the model for monitoring the exposure of the emission coupon trading portfolio have been upgraded in such a manner that they have no theoretical limitations with regard to the period length of the approved strategy.

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 2009, we have also upgraded the substance of the model for monitoring the position in Slovenia in a sense that, now, a separate modelling of consumption by large, medium and small customers is possible.

The company's exposure analysis was adjusted to reflect the strategy adopted by the company. In addition, the scope of stress testing was adjusted in 2009. Stress testing is a risk management tool which is used in particular to analyse a potential negative impact of a certain extreme change in the value of a variable or group of variables on the company's operations.

In the previous year, price risks were also controlled by hedging the predominant share of the trading volume with a counter-transaction, and by purchasing derivatives.

Quantity risks

Quantity risk comprises 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 by hydropower plants.

844 GWh

higher than planned was the production of HSE Group hydropower plants in 2009, while TEŠ and TET exceeded their plans by

8 GWh and 12 GWh, respectively.

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 (absence of) supply of electricity from hydropower plants due to hydrological and meteorological conditions;
- the risk of (absence of) supply of electricity from thermal power plants due to outages or technological and ecological limitations of production;
- the risk of (absence of) 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 CO_2 tax payments and emission coupon trading must also be considered.

In 2009 the production at hydropower plants within the HSE Group was 844 GWh higher than planned, whereas at TEŠ the plan was exceeded by 8 GWh and at TET by 12 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 TPPs and by increasing sales and purchases.

At thermal power plants, a 2-4% unexpected production outage has to be considered in addition to the planned shutdowns due to overhauls. This percentage corresponds to 10 to 20 daily production outages, which can be offset by starting up gas-fired power plants, but only for shorter periods. Alternatively, to the extent possible, outages can be offset by reallocating the use of HPP accumulation and purchasing electricity on the market. In 2009, TEŠ's unexpected production outage amounted to 2.0%, and TET's to 3.3%. Thanks to a less complex production process, HPPs are more reliable. The unexpected production outage at DEM stood at 0.2%, at SENG at 1.6% and at HPP Boštanj at 36.3%, 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 coalmine's technical management, the majority of potential outages could be remedied without significant production interruptions, and rarely would such breakdowns result in 14-20 days of interrupted supply. There is a 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 deviation of production and the HSE balancing group from schedules,
- to ensure an optimal distribution of power between available turbines,
- to promptly activate back-up capacities in emergency situations.

The quality of the management of the HSE balancing group is evident in minimised deviation costs thanks to the deviations of balancing group members being reduced through production adjustment. In 2009, the HSE balancing group was comprised of the Group's production units, including small HPPs, PV and balancing subgroups of four distribution companies, as well as a few smaller consumers. The balancing group's deviations include all production and consumption deviations from forecast schedules. The HSE Group estimates that the management of the HSE balancing group was successful in 2009.

Financial risks

Following September 2008, when the American investment bank Lehman Brothers collapsed, the world economy faced the largest global financial crisis since 1929. Initially, the crisis affected the financial sector, but eventually spread quickly to the real sector as well. The implications of the financial crisis are mostly evident in excessive leverage of companies, solvency issues, payment delays, inability to acquire new sources of financing or extend existing loans, and urgently needed financial reorganisation. Therefore the Group must act with due diligence of the business and financial profession and devote its efforts to ensuring short-term and long-term solvency and capital adequacy. Managing and controlling financial risks in such conditions becomes crucial for ensuring stable operations and development and, consequently, stable growth and value of the company. Therefore, the HSE Group devotes special attention to financial risks it is exposed to in the course of its operation and adopts appropriate measures in order to manage these risks.

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 as well as foreign receivables. The volume of operations in other currencies is negligible, so the risk associated with these currencies is very small.

Solvency risk is the risk associated with insufficient financial sources and the subsequent inability of the company to meet its commitments in due time. In a financial crisis, the management of the solvency risk is of utmost importance, which is why our efforts to maintain short-term solvency have significantly increased. The HSE Group has established a centralised system of up to date coordination and planning of cash flows and monitoring of short-term cash surpluses and deficits among its companies. The above system, the liquidity reserve in the form of credit lines granted by domestic and foreign banks, diversification of investments and liabilities, maturity matching of receivables and liabilities, and consistent collection of receivables facilitate the management of cash flows, which ensures the company's and the Group's payment capacity and low level of short-term liquidity risk. Furthermore, good access to financing and markets despite the financial crisis, 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 and well managed.

In light of the conditions in the financial markets, the Group also started **Managing 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 deposit diversification between individual banks. In order to ensure additional risk management due to negative developments in global banking markets and issues faced by banks, when investing surplus cash the Group also monitors information on the current operations of banks with which it is depositing the surplus cash.

Exposure to **interest rate risk** involves 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. The majority of the Group's long-term loans are tied to Euribor variable interest rate; therefore the Group is exposed to interest rate risk.

In 2009, the controlling company did not take out any additional long-term loans, therefore, the exposure to interest rate risk has not increased. The company hedged a portion of interest rates of long-term loans using relevant derivatives through which a portion of variable interest rates was changed to fixed rates. The appropriateness and correctness of contracts aimed at hedging against interest rate risks is managed by way of monitoring developments in the European and global money market. In 2009, the European Central Bank lowered the key interest rate to the lowest level ever; as a consequence, the Euribor market interest rates decreased to the lowest levels as well. Given the projections of financial institutions on trends in medium term interest rates, new decisions concerning interest rates hedges have been adopted. Due to the fact that interest rates are not expected to increase before the end of 2010, no new hedging transactions were entered into in 2009.

Other companies of the HSE Group also manage interest rate risk through use of interest rate hedging instruments, replacement of existing loans with loans taken out under more favourable terms and monitoring of changes in market interest rates.

It is our estimate that thanks to the aforementioned measures regarding interest rate risk management, large share of equity and low level of leverage (in the company, liabilities to banks account for 16.3% of assets and in the group 20.0%) interest rate risk is low.

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 in the area of trading through thorough verification of customers' credit ratings, setting of trading limits, monitoring and managing of the credit exposure of individual partners with regard to their limits, and control of outstanding receivables.

The controlling company has in place strategies and rules for measuring and managing the company's exposure to credit risks. The details of collaterals in respect of individual partners are 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 a growing number of partners are regulated in detail using the international EFET agreements.

Human resources risk

The company's activities, its intensive growth and the implementation of strategic plans require its employees to constantly 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 to be 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 primary process of the Group involves electricity production and trading, for which the Group requires a good, reliable and, most of all, safe IT support. Without information systems that collect and process data, on the basis of which the management always has access to relevant information regardless of time and place, the Group's operations would be completely paralysed.

The results of non-functioning or failures in information systems are inability to trade on exchanges, disturbed communications, unavailability of e-mail, disturbed payment transactions, disabled production control and inability to trade.

The operational risk of the information system in electricity trading, which involves the risk of failures or interruptions in the information system for recording and automatic processing of concluded transactions and the risk of incorrect recording of transactions or market information, was properly managed in 2009.

At the end of 2008, all information system users were transferred to the new, high availability computer centre which was added an additional backup computer centre at the end of 2009. Both computer centres serve as each other's backup. In addition, we upgraded all IT processes with certain procedures in line with recommendations of good practice and obtained the ISO 27001 certificate. All of the above resulted in high reliability of IT systems – no failures or security breaches occurred in 2009.

Regulatory risks

Regulatory risks arise from changes in legislation or trading rules in Slovenian as well as all foreign electricity markets which affect the company's business results. Regulatory risks are smaller in markets within the EU and significant in countries outside the EU, mostly in the Balkans. HSE regularly monitors the developments and changes in individual electricity markets, and responds by adjusting its trading strategies and operating methods in individual countries.

Due to constant legislative changes, the company ensures proper application of regulations through constant functional and professional training.

2.13 EXTERNAL COMMUNICATION

In 2009, HSE's PR activities were characterised by numerous business decisions, developments and their implications. The HSE Group's priority investments, particularly the replacement Unit 6 at TEŠ, were at the forefront. HSE also actively publicised the construction of other production facilities (HPPs on the lower Sava River, PSP Avče) as well as other strategically importnant projects and decisions of the controlling company and the HSE Group.

For the wider Slovene and foreign public, HSE published a **promotional brochure,** and for the purposes of communication with internal public of the HSE Group five issues of the **Energija publication** which is being increasingly read by external target public as well. Other PR activities involved an upgrade and update of www.hse.si, www.modra-energija.si and www.modri-jan.si **websites** and **informing the media** on all crucial projects of the HSE Group through press releases as well as press conferences.

HSE devoted special attention to raising awareness among the youth about efficient management of the environment. We carried out two competitions: **"POBARVANKE IN STRIPI MODRI JAN"** (Modri Jan colouring books and comics) in spring of 2009 and **"SKRIVNOSTNI ZVEZEK"** (the Mysterious notebook) at the end of 2009, through which the children were guided by the Modri Jan mascot.

In order to inform the public on RES, the www.modra-energija.si website was redesigned. The redesign ended with the **"Slovene rivers" photography competition,** which will be completed in 2010. In addition, a **"THE WISE ARE ALWAYS LOOKING INTO THE FUTURE"** brochure was published that includes comprehensive information on environmental protection in connection with the Modra energija (Blue energy) campaign.

36%

Is the area covered by Natura 2000, which is the highest share in the EU. Therefore, we are constantly searching for compromise between the energy industry and the environment.

2.14 RESEARCH AND DEVELOPMENT

In the area of energy policy and functioning of energy markets, 2009 was a groundbreaking year in the EU. Two legislative packages were adopted: the climate-energy package and the third legislative package on liberalisation of the energy market that will both affect the strategic and development policies of every single energy company. The fundamental objectives of the adopted energy policy are sustainable energy use, reliable and safe supply and competitiveness in energy markets.

In 2009, the HSE Group devoted its attention to implementation of planned investment projects, examination of the new legislative framework, the impact of the financial crisis on the energy industry and operation of HSE Group companies. HSE Group participated in preparation of new investment projects for electricity production from renewable resources, the priority being the planned HPPs. The other area of major significance was represented by activities related to lowering greenhouse gas emissions and other environmental impacts of fossil fuel based electricity production. In order to find a comprehensive solution for this problem, HSE has initiated cooperation within the consortium of Slovene thermal energy producers.

Development activities on the level of the HSE Group

In order to optimise the preparation and implementation of all development activities and individual projects in the HSE Group, a development committee was established the purpose of which is to monitor and coordinate R&D activities within the HSE Group. In this manner, we will set up a system for early identification of potential development projects and synergies of development activities, which will enable optimal use of resources allocated for R&D activities. A timely identification of development projects is also important for these projects to be incorporated in strategic national development programmes and other project schemes at an opportune time. The preparation and implementation of development projects also requires the essential coordination of priorities and objectives within the HSE Group. Therefore, special attention has been devoted to introducing a process for identification of the content of projects of group-level significance, and projects that are important on the level of an individual subsidiary.

In the second half of the year, activities were underway to obtain a permit from the European Commission to extend the operation of RTH, which were coordinated by MoF and MoE. Since the extension of coal mining operations at RTH is directly connected to thermal energy production and economic operation of TET, these efforts were also joined by HSE. The latter prepared a substantiation and the position with regard to operation of TET in connection with the use of brown coal from RTH at least until 2012.

The CH2OICE project

Since September 2008, HSE has been participating in the CH2OICE project[2] the purpose of which is to prepare the methodology for a higher level of sustainability criteria in the process of certification of electricity production at HPPs. The project is being financed within the scope of the Intelligent Energy Europe project. The project's objective is to develop and prepare a draft for an appropriate process for environmental certification of HPPs that would comply with the Water Framework Directive (2000/60/EC) in connection with the Directive on Electricity Production from Renewable Energy Resources (2001/77/EC). Activities are also underway for trial evaluation and certification of test HPP facilities, which will be made available by HSE, specifically by our subsidiary SENG.

Future R&D plans

The HSE Group is also engaged in preparation of expert groundwork and documentation for Slovenia to meet its commitments towards the EU and to establish conditions for implementation of investments, and in other areas of energy policy. It will also cooperate in the preparation of the new National Energy Programme, which is being prepared in 2010, and will, in accordance with commitments in the area of electricity production, pursue the following objectives: lower level of pollution, increasing the share of RES and appropriate quality and reliability of electricity supply. The changes in the energy policy and legislation and the subsequent changes in energy markets will namely also have a significant effect on the implementation of the future development policy of the HSE Group.

In the forefront of the planned, already started or almost realised projects of the HSE Group remain projects aimed at reducing greenhouse gas emissions and increasing the share of renewable resources in the production portfolio. They include the construction of HPPs on the lower and middle Sava River, and the Mura and Idrijca River and other watercourses; projects for the construction of other RES facilities (biogas, solar energy, wind energy etc.); modernising the technology at other thermal energy production facilities and an investment in the construction of the replacement Unit 6 at TEŠ. The HSE Group will endeavour to preserve the energy producing locations as well as activities in the Zasavje region in line with sound economic, environmental, and technical and HR policies. Among the group companies PV is becoming increasingly active in the area of RES, predominantly geothermal energy, solar energy and biomass, and cooperates with HSE and certain domestic and foreign institutions in the implementation of the project for clean coal technologies.

2 CH2OICE - Certification for HydrO: Improving Clean Energy

2.15 PLANS FOR THE FUTURE

The VII. strategic conference – Joining forces to achieve synergies

The economic and financial crisis still affects the economic activity in all economic sectors, with the energy industry being no exception. The HSE Group's efforts in the future will be devoted to competitive operation that will be based on adapting to rapidly changing market conditions. Of course, the HSE Group will continue to pursue its mission, i.e. ensuring safe and reliable electricity supply. At the same time, it will also keep investing in development projects that will, in accordance with the binding objectives of the EU, burden the environment to the lowest extent possible, and ensure safe supply of electricity and solid operating results. Ensuring the production of electricity from RES, promoting efficient use of energy as the priority of economic development, suspending the growth in electricity consumption and lowering greenhouse gas emissions in the fossil-fuel based electricity production play an important part in meeting the requirements of a sustainable energy policy. The project for the replacement Unit 6 at TEŠ is already underway. The next development period is devoted to RES.

The structure of development projects

The principle objectives that the HSE Group will pursue in the future in the area of development of the European and Slovene electricity markets are:

- increasing the share of quantities sold in foreign markets;
- geographic expansion of trading activities;
- using our understanding of and experience with SE European markets, the strategic position and standing as a reliable business partner among western European electricity traders and serve as a bridge for trading activities in different regions;
- expanding our operations to other energy-related activities.

Electricity trading opportunities in wholesale markets can only be exploited through presence in various national markets. In order to increase trading volumes and the presence in foreign markets, HSE will continue establishing enterprises, acquiring trading licences and strengthening its trade network.

The achievement of energy and climate objectives is also possible through joint international projects, which represents a special challenge for HSE in the area of SE Europe where the majority of countries are already in the process of EU accession.

The HSE Group will remain active in the area of SE Europe, to which we will appropriately adjust our investment policy, acquisition of financial and other resources and the policy of entering into beneficial business partnerships.

A good understanding of conditions in these markets and previous cooperation are the advantages that allow the HSE Group to take part in such joint projects. The construction and acquisition of new production capacities and international trade in electricity contribute significantly to ensuring sustainable supply of Slovenia, reducing its long-term dependence on imports and exposure to geopolitical risks, as well as achieving solid operating results. Finally, through its activities in the region, HSE keeps consolidating its market position and reputation as an important regional player.

2.16 IMPORTANT EVENTS AFTER THE END OF THE PERIOD

On 25 January 2010, the Supervisory Board of HSE adopted the business plan of HSE for 2010.

In February and March 2010, the competent bodies also adopted the business plans of HSE Group companies that are based in Slovenia.

At its 73rd meeting on 18 March 2010, the Government of the Republic of Slovenia was briefed on the activities completed in the course of the construction of the replacement Unit 6 at TEŠ.

At the same meeting, the Government of the Republic of Slovenia adopted a statement expressing that it is not opposed to a potential € 200 million increase of the European Investment Bank's loan for the project for the construction of the replacement Unit 6 at TEŠ, i.e. an overall loan of € 550 million.

On 30 March 2010, the Prime Minister Borut Pahor ceremoniously opened the first Slovene pumped storage hydropower plant Avče which will double electricity production in the Soča river basin and increase the competitiveness of the whole HSE Group.

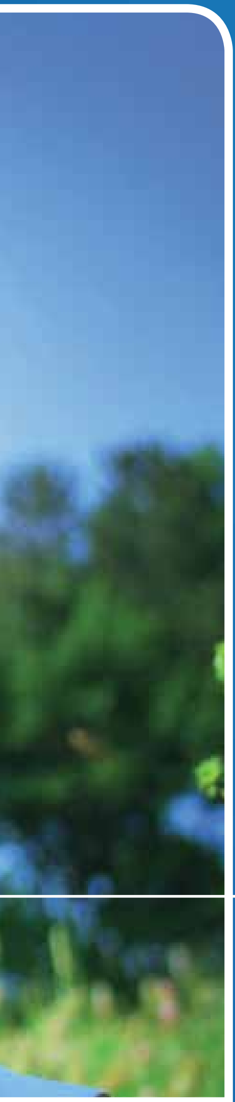
The following day, on 31 March 2010 at 1 PM, we permanently shut down Unit 1 at TEŠ because it was worn and environmentally, economically and technologically unacceptable for further operation. This was another step in the process of gradual closure of the power plant's worn out units.

In April 2010, the company Zvon Ena Holding d.d. settled in full its outstanding financial liabilities to DEM. The company DEM impaired the loan in the amount of € 18.6 million as early as 2008 due to doubts as to its repayment. A partial payment was received in 2009, while the remaining portion was repaid in 2010.

On 15 and 16 April 2010, the VII. strategic conference of the HSE Group took place in Fiesa.

The children drive the world forward

with their playfulness and eagerness to learn and explore.



3,836

Is the number of HSE Group employees at the end of 2009. We are aware that the strength of the HSE Group lies in its employees – they are the vehicle of knowledge and values, the key "architects" of the organisational culture and thus the source of competitive advantage, and our spokespersons both inside as well as outside the Group.

03 SOCIAL RESPONSIBILITY REPORT

3.1 RESPONSIBILITY TO EMPLOYEES

In 2009 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 a part of which we are. We are successful in combining the policies and sources in individual areas, keep track of the present and play an active role in creating the future. We became partners with all major stakeholders in the company, which is our source of strength and competitive advantage and a catalyst for changes that bring about new challenges and opportunities and provide possibilities for progress and development in accordance with our plans.

We respond to global changes by focusing on our employees and by constantly raising awareness not only about our own but also wider social responsibility. We are proud of the fact that the HSE Group is distinguished by employees with a broad range of expertise, interests and skills. They are namely important "architects" of our organisational culture and our spokespersons both inside and outside the Group.

HR policy

One of the sources of our advantage is our ability to create and ensure proper conditions and an atmosphere that help our employees achieve their personal goals and encourage taking reasonable risks, which is a precondition for being able to develop further and build up strength in uncertain situations as well as to achieve the strategic goals of the HSE Group. We are focused on constant development of our employees on all levels with an emphasis on training and motivation, through which we are able to ensure their satisfaction, confidence and commitment, and their loyalty to the Group, which in turn ensures our future development, synergies and successful performance. We need individuals who are willing to commit to achieving noticeable and measurable operating results and who are dedicated to implementing our 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. People are the ones who create a vision, determine the mission, foster culture, set values and choose strategies in order to make them a reality. It is important to be capable of recognising new business opportunities and design relevant products and services. If we are successful in doing so, the possibility of our Group remaining successful will increase.

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 and transfer of knowledge and competences of employees, focusing on the development of our own expertise 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 the 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 vehicle 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 whose careers are only just beginning. 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 with a wide range of general and specific competences; for staff being transferred to the controlling company, such recruitment represents promotion, a reward for successful performance and a prospective career opportunity; and
- 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 our own staff prevailed.

All of the above is also reflected in recruitment. In the period from January to December 2009, the number of employees increased by 4 compared to 31/12/2008. The company thus had 116 employees as at 31/12/2009.

The recruitment dynamics was even, since new employees were being recruited throughout the year.

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 managed by Kapitalska družba d.d. and includes most of the employees. Offering a long-term form of saving in each individual's personal account, we aim to provide our 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. Since it cares for their health and wellbeing, HSE promotes and financially supports sport and recreational activities of its employees through the HSE sports club.

Training

Developments in the business environment and our ambition to create new, added value for the widest range of users, as well as the need to react quickly to the environment, be flexible and innovative, require us to engage in systematic training activities and our employees to continuously participate in education and training, to demonstrate new ways of thinking and to ensure transfer of knowledge.

Given the fact that training, in the widest sense possible, is positively linked to performance, the company does not perceive it merely as cost or an expenditure item; rather, training represents a long-term investment or capital. In 2009, we allocated 0.01% of net sales revenue to training and education. In addition, a record 2,487 hours were allocated to professional training in 2009.

94% of employees participated in training, which is 14% more than the previous year; overall, 3,648 hours of training or 117 more than in 2008 were carried out. On average, 32 hours of training were carried out per employee (part-time studies are not included in this figure), which is on average 1 hour per employee more than in 2008. 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 2009, 21 employees completed their part-time studies, of which 12 obtained a master's degree, 4 a university degree, 4 completed a 3-year undergraduate programme, and 1 completed a 2-year undergraduate programme. As for course type, electrical engineering and economics courses prevailed.

In accordance with education agreements, HSE currently co-finances the studies of 16 employees or 70% 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 successfully completed their first year of studies.

At the moment, 23 employees or slightly less than a fifth of all employees are involved in part-time studies. The number includes employees who concluded an education agreement with HSE and those who are engaged in studies at their own initiative. The structure of part-time studies shows that 3 employees are involved in postgraduate doctorate studies, 7 are involved in postgraduate masters studies, 7 are engaged in masters studies under the Bologna system, 4 are engaged in 3-year professional undergraduate studies, and 2 participate in 2-year professional undergraduate studies.

In accordance with the business plan, the following education agreements were concluded in 2009:

- one education agreement for the financing of masters studies in the field of management;
- three education agreements for the financing of masters studies under the Bologna system, specifically, one for the course "Energy technology" provided by the Faculty of Energy Technology, one for the course "Organisation and Management of HR and Education Systems" provided by the Faculty of Organisational Sciences Kranj, and one for the course "Management" provided by the Faculty of Economics Ljubljana;
- one education agreement for the financing of a 2-year professional undergraduate programme, course "business administrator", provided by the Center of Higher Vocational Studies at the Gea College.

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. The number of scholarship-receiving students as at 31/12/2009 was 2.

3.1.2 EMPLOYEES IN THE HSE GROUP

At the end of 2009, the HSE Group had 3,836 employees, which is 2% less than on 31/12/2008.

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 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 component of the HSE Group's training system.

Four seminars were organised for the HSE Group in 2009 covering the following topics: Value added tax; Property, plant and equipment; Annual reports; and Coordination of planning and allocation of operational maintenance engagements using the intelligent mobile system IPS-ENERGY.

NUMBER OF HSE GROUP EMPLOYEES

COMPANY	31/12/2009	%	31/12/2008	%	IND 09/08
HSE	116	3	112	2.9	104
DEM	288	8	279	7.2	103
SENG	130	3	126	3.2	103
TEŠ	498	13	490	12.6	102
TET	220	6	220	5.6	100
PV Group	2,527	66	2,619	67.2	96
HSE Invest	55	1	49	1.3	112
HESS	0	0	0	0.0	0
HSE Italia	0	0	0	0.0	0
HSE Balkan Energy	1	0	1	0.0	100
HSE Hungary	0	0	0	0.0	0
HSE Adria	1	0	1	0.0	100
HSE Bulgaria	0	0	0	0.0	0
TOTAL	3,836	100	3,897	100.0	98

NUMBER OF EMPLOYEES AS AT 31/12/2009 AND AVERAGE NUMBER OF EMPLOYEES IN 2009 BY EDUCATION LEVEL

EDUCATION LEVEL	NUMBER OF EMPLOYEES AS AT 31/12/2009		AVERAGE NUMBER OF EMPLOYEES IN 2009	
	Controlling company	HSE Group	Controlling company	HSE Group
I.	0	254	0	270
II.	0	178	0	186
III.	0	15	0	16
IV.	1	1,495	1	1,541
V.	15	1,063	14	1,058
VI.	13	344	14	334
VII.	66	448	67	429
VIII. and IX.	21	39	20	36
TOTAL	116	3,836	115	3,867

3.2 RESPONSIBILITY TO THE NATURAL ENVIRONMENT

Environment-friendly

Slovenia entered the EU with relatively well preserved nature and with the awareness that the environment is one of the pillars of sustainable development in the future.

The HSE Group designed its environmental policy at the very beginning of its operation. 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 establish a partnership with local communities and collaborate in solving environmental issues,
- to plan for the sustainable development of electricity production, and
- 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

The HSE Group is aware of its responsibility to the environment in which it operates; therefore, it aims to produce electricity from RES and to use it rationally. The Group is the largest producer of RES-based electricity – in 2009, it produced as much as 92% of all RES-based electricity in Slovenia.

Following the example of European countries, the area of RES is developing quickly in Slovenia. The amendment to the Slovene Energy Act (2008) is therefore predominantly devoted to RES-based electricity and in this context also to guarantees of origin. The new European directive 2009/28/EC prescribes for each EU country a general goal regarding the share of RES in the end consumption of energy 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 Modra energija (Blue Energy), participation in the drawing up of implementing regulations covering this area and international activities relating to the sale of renewable certificates at home and abroad.

Modra energija
Obnovljivi viri sedanjosti in prihodnosti

Modra energija (Blue Energy)

HSE set up Modra energija (Blue Energy) project in 2004 in collaboration with distribution companies. Blue energy stands for electricity produced from environment-friendly, renewable sources. The project is aimed at encouraging the development of energy production from RES, establishing the market in such energy and selling it in Slovenia. Modra energija (Blue Energy) project enabled the Slovene electricity users on the whole territory of Slovenia to choose by themselves from which sources the energy they use will be produced. 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.

All hydropower plants of the HSE Group holding the international RECS certificate participate in Modra energija (Blue Energy) project. In Slovenia, HSE and distribution companies sell the energy produced from renewable sources under Modra energija (Blue Energy) brand. 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.

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 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. The collected funds were used for several high-quality education projects, research papers, studies and a number of summer education camps in the area of E-RES and EEU. In addition, three solar powers plant are currently under construction at three Slovene secondary schools which will serve as promotional and educational instruments.

Modri Jan

Behavioural patterns acquired in the early years remain a part of us even when we grow up. Therefore, the importance of responsible behaviour towards the environment has to be taught to children. Only this will enable us to preserve our beautiful nature for our descendants. We have thus created a project called Modri Jan (a play on words; translated literally Modri Jan means Blue Ian, when read together as a single word it would translate to Wise man) accompanied by a website www.modri-jan.si. On the website, children can learn about energy and environment-related topics through entertaining content. They can also learn that they themselves are able to contribute to the protection of the environment by choosing RES and saving energy. The project also includes various competitions and contests, by which the children are encouraged to think about the importance of RES and EEU.

The distributed production of E-RES and cogeneration

In the area of efficient energy use and cogeneration of electricity with a high utilisation rate, HSE joined the project Planina Cogeneration as a partner. The goal of the project is to replace the existing gas heating facilities with two cogeneration engines, which will ensure a more efficient use of gas.

Rational energy use

Since its establishment, HSE has been promoting the use of RES and the protection of environment in which it operates. A part of these activities are also efforts to educate the public on economical use of energy, the purpose of which is not only more rational management of the environment but also prevention of extreme circumstances that can be caused by unreasonable use of electricity (e.g. blackouts, system collapse...).

Since September 2006, HSE has been carrying out an information campaign Energija.si that educates on the efficient use of energy in an innovative way. By promoting environmental protection and rational use of energy, HSE is recognisable in the Slovene and international public as a conscious and socially responsible company.

60%

of all proceeds from the sale of Modra energija (Blue Energy) go to Modri sklad (Blue Fund)

3.3 RESPONSIBILITY TO THE BROADER SOCIAL COMMUNITY

HSE is aware of its responsibility towards the environment and the community. As in previous years we have supported the project "YOU ARE ENERGY, BE EFFICIENT", the first part of which was based on the campaign "SAVE UP TO 50% ON YOUR ELECTRICITY BILL". The campaign encouraged consumers to lower electricity consumption, and subsequently their costs, with useful advice accompanied by calculations of possible savings. In April, the project continued with the "CALCULATE YOUR CARBON FOOTPRINT" campaign with an online calculator. Carbon (CO_2) namely accounts for the largest share (appr. 80%) of greenhouse gas emissions that contribute the most to climate change.

In the summer months we used Modri sklad (Blue Fund) to support the E-forum campaign which is an innovative project for training young people to promote a low carbon society. At the end of the year we decided to offer a helping hand to children from socially disadvantaged families. The campaign entitled "BE A GOOD EXAMPLE IN 2010" took place between 20 October and 20 November. Through a form on the website www.modri-jan.si, the children sent a letter to the "Good Fairy". HSE "turned" the 1,616 letters received into a donation which was, in cooperation with the Žogica association, given to children in need.

The year 2009 was marked by the economic and financial crisis. At the HSE Group we did our best to support organisations, associations and individuals that particularly needed help in the form of targeted sponsorships as well as donations.

CO_2 (app 80%)

accounts for the largest share of greenhouse gas emissions that contribute the most to climate change

The people drive the world forward

into the future. Today, there are over 6.6 billion people in the world and each and every one of us is responsible for how our future will turn out.

Added value by the company HSE

€ 112 million
2009

+160%

€ 43 million
2008

04 FINANCIAL REPORT OF THE COMPANY HSE

4.1 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 2009, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the 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 2009, 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 2009 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 1

Yuri Sidorovich
President of the Board

Ljubljana, 23. April 2010

TRANSLATION ONLY – SLOVENIAN ORIGINAL PREVAILS

4.2 STATEMENT BY THE MANAGING DIRECTOR

As the Managing Director of HSE, I hereby confirm the financial statements of the company HSE d.o.o. for the financial year 2009, the notes thereto and the accounting policies applied.

I 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 2009.

I 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 have been prepared on the going concern basis.

Borut Meh
Managing Director of HSE d.o.o.

Ljubljana, 23 April 2010

4.3 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 2006) for the financial year 2009, which corresponds to the calendar year.

Financial statements are 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:

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

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 cash, receivables and liabilities expressed in a foreign currency has been translated at the exchange rate of the Bank of Slovenia as at 31/12/2009.

The resulting exchange gains and losses are carried as financial revenue or financial expenses, respectively.

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

- € as at 31/12/2009 = USD 1.4406 (USA);
- € as at 31/12/2009 = CZK 26.473 (the Czech Republic);
- € as at 31/12/2009 = HRK 7.3 (Croatia);
- € as at 31/12/2009 = HUF 270.42 (Hungary);
- € as at 31/12/2009 = CHF 1.4836 (Switzerland);
- € as at 31/12/2009 = BGN 1.9558 (Bulgaria);
- € as at 31/12/2009 = NOK 8.3 (Norway);
- € as at 31/12/2009 = RON 4.2363 (Romania);
- € as at 31/12/2009 = GBP 0.8881 (Great Britain);
- € as at December 2009 = RSD 95.025 (Serbia);
- € as at December 2009 = MKD 62.100 (Macedonia).

Accounting policies

In 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.

Branches and representative offices

The company has two foreign branch offices in Czech Republic and Slovakia and two representative offices - in Serbia and Romania. 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, whereas physically they do not exist. The company's intangible assets comprise property rights with finite useful lives and emission coupons.

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

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

Their value is subsequently decreased by the amount of the amortisation charge recorded in the accumulated amortisation account. In the balance sheet, intangible assets are disclosed at 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.

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

Property, plant and equipment

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

An item of property, plant and equipment is initially recognised at cost, which comprises its purchase price, import duties and non-refundable purchase taxes, as well as directly attributable costs of bringing the asset to condition necessary for it to be capable of operating in the manner intended by management. 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 the costs incurred upon the dismantling or removal of 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, as well as accumulated depreciation, are recorded separately for items of property, plant and equipment, whereas in the balance sheet they are recorded at carrying amount i.e. as a difference between the cost and accumulated depreciation.

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

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 sales value 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.

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

Financial assets

Financial assets are considered as company assets, the returns on which are used to increase the company's revenue.

Upon initial recognition, financial assets are recorded at their historical cost, increased by the costs directly attributable to the investment (except for financial assets at fair value through profit and loss).

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

After initial recognition, financial assets are carried at cost in the company's financial statements (the same goes for investments in subsidiaries and associates) and are recorded in the fourth category of 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 impairment of financial assets are determined on an annual basis. If indications of impairment exist, the financial asset is appraised and, in the event its carrying amount is higher than its recoverable amount, the financial asset is impaired. The result of impairment is disclosed under revaluation operating expenses for the current year.

Depending on the projected settlement of or the reason for holding a financial asset, these are carried as long-term or current assets in the balance sheet.

Receivables

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

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 less any value adjustments for 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.

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 would exceed the amount of the receivables, making the collection process 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 through operations that belong to the owners.

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

Other revenue reserves are set aside on the basis of 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 formed for obligations that are expected to arise from obligating past events in the coming periods, and their value is based on the assessment of the present value of expenses that are expected to be required to settle such obligations.

The amount of provisions for jubilee benefits and termination benefits was estimated on the basis of an actuarial calculation. 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 it is determined that the reasons for their creation or utilisation no longer exist. In such a case, derecognition of provisions is disclosed under other operating revenue.

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.

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

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 carried at 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 under other short-term operating liabilities.

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.

Short-term financial liabilities include a portion of long-term financial liabilities that fall due within a year of the balance sheet date. They are initially carried at the amounts of cash received. Subsequently, they are decreased by the repayments of principal amounts.

Accounted for but not yet due interest on short-term financial liabilities is recorded under 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.

Derivatives

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

The derivatives used by the company are derivatives held for trading purposes (for emission coupons) and risk hedging derivatives (standard futures for electricity, interest rate swaps and currency forwards).

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

Derivative financial instruments are used for cash flow hedging, hence the portion of the gain or loss considered as successful hedging shall be recognised directly in equity, and the difference shall be recognised in profit or loss.

The 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 annual report users.

Revenue

Revenue is recognised if an increase in economic benefits during the accounting period is related to an increase in assets or a decrease in 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.

Net sales revenue includes the sales value of merchandise sold and services rendered during the accounting period. It is measured based on selling prices stated in invoices or other documents.

Other operating revenue comprises revenue arising from the reversal of provisions, revaluation operating revenue arising from disposal of property, plant and equipment, and revenue from the reversal of impairment of receivables. It is recognised on the basis of issued invoices or other relevant documents.

Finance income arises in connection with long-term and short-term financial assets 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 its amount, maturity and recoverability.

Interest is accounted for in proportion to the period elapsed, outstanding amount of the principal and the agreed-upon interest rate.

Other revenue comprises extraordinary items. They are disclosed in actual amounts.

Expenses

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

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

Labour costs comprise employees' earnings during their employment in the company.

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 are incurred in relation to long-term financial assets and liabilities.

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 with regard to the outstanding amount of the principal balance and the 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 sales revenue by two geographical segments, i.e. the domestic market and foreign markets. 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. From the aspect of reporting by geographical segments, the company's assets and liabilities represent an indivisible unit.

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

Taxation

The company is subject to the Value Added Tax Act, the Excise Duty Act, and the Corporate Income Tax Act. The branch office in the Czech Republic is liable to pay corporate income tax and VAT.

Deferred taxes

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

4.4 BALANCE SHEET

in €

ITEM		Note	31/12/2009	31/12/2008
ASSETS			1,176,889,598	1,158,781,276
A.	**LONG-TERM ASSETS**		**976,637,084**	**951,519,702**
I.	**Intangible assets and long-term accrued revenue and deferred costs**	1	**4,168,833**	**8,178,427**
1.	Long-term property rights		4,168,833	8,178,427
II.	**Property, plant and equipment**	2	**8,520,693**	**6,774,756**
1.	Land and buildings		1,695,415	1,737,447
	b) Buildings		1,695,415	1,737,447
3.	Other plant and equipment		2,341,292	2,613,773
4.	Property, plant and equipment being acquired		4,483,986	2,423,536
	a) Property, plant and equipment in the course of construction		4,483,986	2,423,536
IV.	**Long-term investments**	3	**957,826,055**	**929,662,269**
1.	Long-term investments, excluding loans		957,826,055	929,662,269
	a) Shares and interests in group companies		957,170,705	885,578,229
	b) Shares and interests in associates		543,850	545,500
	c) Other shares and interests		111,000	43,536,871
	d) Other long-term investments		500	1,669
V.	**Long-term operating receivables**	4	**2,872,054**	**2,715,058**
3.	Long-term operating receivables from others		2,872,054	2,715,058
VI.	**Deferred tax assets**	5	**3,249,449**	**4,189,192**
B.	**CURRENT ASSETS**		**193,086,513**	**202,115,396**
II.	**Inventories**		**563**	**779**
1.	Materials		563	779
III.	**Short-term investments**	6	**71,467,521**	**68,242,000**
1.	Short-term investments, excluding loans		43,427,521	0
	b) Other shares and interests		43,427,521	0
2.	Short-term loans		28,040,000	68,242,000
	b) Short-term loans to others		28,040,000	68,242,000
IV.	**Short-term operating receivables**	7	**119,439,143**	**127,497,862**
1.	Short-term operating receivables from group companies		1,880,440	1,615,189
2.	Short-term operating trade receivables		102,944,733	97,575,738
3.	Short-term operating receivables from others		14,613,970	28,306,935
V.	**Cash**	8	**2,179,286**	**6,374,755**
C.	**SHORT-TERM ACCRUED REVENUE AND DEFERRED COSTS**	9	**7,166,001**	**5,146,178**

BALANCE SHEET (continued)

in €

ITEM		Note	31/12/2009	31/12/2008
LIABILITIES			1,176,889,598	1,158,781,276
A.	**EQUITY**	10	**845,844,637**	**798,817,478**
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**		**226,498,386**	**169,502,829**
5.	Other revenue reserves		226,498,386	169,502,829
IV.	**Revaluation surplus**		**(1,573,172)**	**11,634,567**
VI.	**Net profit or loss for the period**		**30,117,449**	**26,878,108**
B.	**PROVISIONS AND LONG-TERM ACCRUED COSTS AND DEFERRED REVENUE**	11	**15,866,215**	**19,175,683**
1.	Provisions for pensions and similar liabilities		495,138	431,612
2.	Other provisions		13,899,743	17,272,737
3.	Long-term accrued costs and deferred revenue		1,471,334	1,471,334
C.	**LONG-TERM LIABILITIES**	12	**116,595,562**	**161,302,465**
I.	**Long-term financial liabilities**		**116,595,562**	**161,267,186**
2.	Long-term financial liabilities to banks		116,431,050	161,118,007
4.	Other long-term financial liabilities		164,512	149,179
II.	**Long-term operating liabilities**		**0**	**35,279**
2.	Long-term operating trade liabilities		0	35,279
D.	**SHORT-TERM LIABILITIES**	13	**197,220,693**	**173,979,273**
II.	**Short-term financial liabilities**		**74,686,957**	**9,811,956**
2.	Short-term financial liabilities to banks		74,686,957	9,811,956
III.	**Short-term operating liabilities**		**122,533,736**	**164,167,317**
1.	Short-term operating liabilities to group companies		81,089,140	130,737,900
2.	Short-term operating trade liabilities		28,744,589	28,959,611
4.	Short-term operating liabilities from advances		1,500	0
5.	Other short-term operating liabilities		12,698,507	4,469,806
E.	**SHORT-TERM ACCRUED COSTS AND DEFERRED REVENUE**		**1,362,491**	**5,506,377**

* 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		Note	2009	2008
1.	**Net sales revenue**	14	**764,485,829**	**819,264,527**
a)	Domestic market		520,590,851	578,426,525
	- from relations with group companies		3,018,461	4,827,794
	- from relations with others		517,572,390	573,598,731
b)	Foreign market		243,894,978	240,838,002
	- from relations with group companies		7,438,283	5,022,245
	- from relations with others		236,456,695	235,815,757
4.	**Other operating revenue (including revaluation operating revenue)**	15	**19,697,246**	**1,041,190**
5.	**Costs of goods, materials and services**	16	**669,795,404**	**766,089,817**
a)	Costs of goods and materials sold and costs of materials used		663,691,502	759,887,952
b)	Costs of services		6,103,902	6,201,865
6.	**Labour costs**	17	**7,113,750**	**6,545,268**
a)	Payroll costs		5,444,308	4,884,574
b)	Social security costs		1,091,134	981,354
	- of which pension insurance costs		684,478	611,140
c)	Other labour costs		578,308	679,340
7.	**Write-downs in value**		**2,694,670**	**1,493,117**
a)	Depreciation and amortisation		1,264,683	1,458,542
b)	Revaluation operating expenses associated with intangible assets and property, plant and equipment		555,617	7,893
c)	Revaluation operating expenses associated with operating current assets		874,370	26,682
8.	**Other operating expenses**		**2,043,732**	**11,050,720**
OPERATING PROFIT OR LOSS			**102,535,519**	**35,126,795**
9.	**Finance income from interests**	18	**15,444,581**	**28,017,618**
a)	Finance income from interests in group companies		15,442,181	27,800,000
d)	Finance income from other investments		2,400	217,618
10.	**Finance Income from loans given**	18	**502,493**	**2,037,012**
a)	Finance income from loans to group companies		0	12,260
b)	Finance income from loans to others		502,493	2,024,752
11.	**Finance income from operating receivables**	18	**2,986,704**	**1,622,351**
a)	Finance income from operating receivables due from group companies		602,775	330,226
b)	Finance income from operating receivables due from others		2,383,929	1,292,125
12.	**Finance expenses for impairment and write-downs of investments**	19	**29,228,609**	**0**
13.	**Finance expenses for financial liabilities**	19	**4,284,750**	**9,088,733**
b)	Finance expenses for loans received from banks		4,136,258	7,993,672
d)	Finance expenses for other financial liabilities		148,492	1,095,061
14.	**Finance expenses for operating liabilities**	19	**479,320**	**776,715**
b)	Finance expenses for trade liabilities and bills payable		22,588	71,577
c)	Finance expenses for other operating liabilities		456,732	705,138
PROFIT OR LOSS ON ORDINARY ACTIVITIES			**87,476,618**	**56,938,328**
15.	**Other revenue**		**381,737**	**4,670,086**
16.	**Other expenses**	20	**9,100,237**	**3**
PROFIT OR LOSS ON EXTRAORDINARY ACTIVITIES			**(8,718,500)**	**4,670,083**
TOTAL PROFIT OR LOSS		21	**78,758,118**	**61,608,411**
17.	**Corporate income tax**	22	**17,581,902**	**7,649,606**
18.	**Deferred taxes**	23	**941,318**	**202,590**
19.	**NET PROFIT OR LOSS FOR THE ACCOUNTING PERIOD**	24	**60,234,898**	**53,756,215**

* 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 €

ITEM	2009	2008
A. CASH FLOWS FROM OPERATING ACTIVITIES		
a) Items of income statement	**67,720,701**	**36,072,591**
Operating revenue (except from revaluation) and finance income from operating receivables	766,927,071	825,179,356
Operating expenses without depreciation/amortisation (except from revaluation) and finance expenses for operating liabilities	(691,150,459)	(782,819,664)
Income taxes and other taxes not included in operating expenses	(8,055,911)	(6,287,101)
b) Changes in net operating assets in balance sheet items (including accruals and deferrals, provisions and deferred tax assets and liabilities)	**(31,656,351)**	**17,283,733**
Opening less closing operating receivables	21,594,155	22,731,312
Opening less closing accrued revenue and deferred costs	(2,019,823)	935,849
Opening less closing deferred tax assets	939,743	202,590
Opening less closing inventories	216	81,802
Closing less opening operating liabilities	(49,039,974)	(8,008,971)
Closing less opening accrued costs and deferred revenue, and provisions	(3,130,668)	1,341,151
c) Net cash from operating activities (a + b)	**36,064,350**	**53,356,324**
B. CASH FLOWS FROM INVESTING ACTIVITIES		
a) Cash receipts from investing activities	**804,460,094**	**857,726,055**
Cash receipts from interest and shares in profits of others related to investing activities	16,071,695	30,054,630
Cash receipts from disposal of intangible assets	14,351,200	6,789,804
Cash receipts from disposal of property, plant and equipment	132,199	16,771
Cash receipts from disposal of short-term investments	773,905,000	820,864,850
b) Cash disbursements for investing activities	**(858,376,524)**	**(938,112,626)**
Cash disbursements to acquire intangible assets	(11,754,926)	(5,643,872)
Cash disbursements to acquire property, plant and equipment	(2,998,445)	(1,607,210)
Cash disbursements to acquire long-term investments	(109,920,153)	(50,414,544)
Cash disbursements to acquire short-term investments	(733,703,000)	(880,447,000)
c) Net cash from investing activities (a + b)	**(53,916,430)**	**(80,386,571)**
C. CASH FLOWS FROM FINANCING ACTIVITIES		
a) Cash receipts from financing activities	**50,000,000**	**161,000,000**
Cash proceeds from increase in long-term financial liabilities	0	74,000,000
Cash proceeds from increase in short-term financial liabilities	50,000,000	87,000,000
b) Cash disbursements for financing activities	**(36,343,389)**	**(131,434,720)**
Interest paid on financing activities	(6,531,433)	(7,160,006)
Cash repayments of long-term financial liabilities	(9,811,956)	(6,374,714)
Cash repayments of short-term financial liabilities	(20,000,000)	(116,000,000)
Dividends and other profit shares paid	0	(1,900,000)
c) Net cash from financing activities (a + b)	**13,656,611**	**29,565,280**
D. CLOSING BALANCE OF CASH	**2,179,286**	**6,374,755**
x) Net cash flow for the period	**(4,195,469)**	**2,535,033**
y) Opening balance of cash	**6,374,755**	**3,839,722**

* 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

in €

	ITEM	Called-up capital		Revenue reserves		Retained net profit or loss	Net profit or loss for the period	
		Nominal capital	Capital surplus	Other revenue reserves	Revaluation surplus	Retained earnings	Net profit for the year	TOTAL
A.	**Balance as at 01/01/2008**	**29,558,789**	**561,243,185**	**138,319,123**	**21,839,790**	**6,205,599**	**0**	**757,166,486**
B.	**Movements to equity**	**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**	**(4,305,599)**	**(26,878,107)**	**0**
a)	Allocation of net profit as a component of equity in accordance with 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**	**(72,466,800)**	**(1,900,000)**	**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 as at 31/12/2008**	**29,558,789**	**561,243,185**	**169,502,829**	**11,634,567**	**0**	**26,878,108**	**798,817,478**

* 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 2009

in €

	ITEM	Called-up capital		Revenue reserves		Retained net profit or loss	Net profit or loss for the period	
		Nominal capital	Capital surplus	Other revenue reserves	Revaluation surplus	Retained earnings	Net profit for the year	TOTAL
A.	**Balance as at 01/01/2009**	**29,558,789**	**561,243,185**	**169,502,829**	**11,634,567**	**26,878,108**	**0**	**798,817,478**
B.	**Movements to equity**	**0**	**0**	**0**	**6,630,506**	**0**	**60,234,898**	**66,865,404**
e)	Net profit or loss for the period						60,234,898	60,234,898
g)	Other increases in components of equity				6,630,506			6,630,506
C.	**Movements within equity**	**0**	**0**	**56,995,557**	**0**	**(26,878,108)**	**(30,117,449)**	**0**
a)	Allocation of net profit as a component of equity in accordance with management and supervisory board decision			30,117,449			(30,117,449)	0
b)	Allocation of net profit to additional reserves in accordance with a general meeting resolution			26,878,108		(26,878,108)		0
D.	**Movements from equity**	**0**	**0**	**0**	**(19,838,245)**	**0**	**0**	**(19,838,245)**
d)	Transfer of revaluation surplus (to operating expenses or finance income)				13,461,948			13,461,948
e)	Other decreases in components of equity				(33,300,193)			(33,300,193)
E.	**Closing balance as at 31/12/2009**	**29,558,789**	**561,243,185**	**226,498,386**	**(1,573,172)**	**0**	**30,117,449**	**845,844,637**
	ACCUMULATED PROFIT	**0**	**0**	**0**	**0**	**0**	**30,117,449**	**30,117,449**

* 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 disposes of 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.

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

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

Below we provide the disclosures of individual balance sheet items as at 31/12/2009.

(1) INTANGIBLE ASSETS € 4,168,833

Long-term property rights include the following intangible assets:

- software,
- investments in other entities' fixed assets and
- emission coupons.

Software is amortised at rates ranging from 8.33% to 33.33%, depending on the envisaged useful life.

In 2009 the useful lives of important software items were reviewed and the expected useful lives reassessed, which resulted in changes in the amount of the amortisation charge.

At the beginning of 2009, the company had 375,000 emission coupons. In 2009 the company purchased 865,000 and sold 1,040,000 emission coupons. As at 31 December 2009 the company's inventory of emission coupons (valid for the period 2008-2012) included 200,000 coupons. During the year, the company used the moving average price method to reduce value of the stock, which was impaired by € 397,000 at the end of 2009 based on the last published price for emission coupons at the German ECC stock exchange.

CHANGES IN INTANGIBLE ASSETS

in €

INTANGIBLE ASSETS	LONG-TERM PROPERTY RIGHTS (excluding emission coupons)	CO_2 EMISSION COUPONS	TOTAL
Cost as at 31/12/2008	**4,081,609**	**6,457,280**	**10,538,889**
Acquisitions	101,288	10,124,400	10,225,688
Disposals	(9,500)	(13,940,680)	(13,950,180)
Cost as at 31/12/2009	**4,173,397**	**2,641,000**	**6,814,397**
Written-down value as at 31/12/2008	**1,850,682**	**509,780**	**2,360,462**
Amortisation	398,224		398,224
Disposals	(342)	(509,780)	(510,122)
Revaluation		397,000	397,000
Written-down value as at 31/12/2009	**2,248,564**	**397,000**	**2,645,564**
Carrying amount as at 31/12/2008	**2,230,927**	**5,947,500**	**8,178,427**
Carrying amount as at 31/12/2009	**1,924,833**	**2,244,000**	**4,168,833**

(2) PROPERTY, PLANT AND EQUIPMENT

€ 8,520,693

The company's property, plant and equipment include business premises, equipment and an investment in the construction of a HPP on the middle Sava River.

In 2009 the company reviewed the useful lives of major equipment, determining that the useful lives were appropriate given the current expectations regarding the usability of these assets.

The company does not have any items of property, plant and equipment 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.

CHANGES IN PROPERTY, PLANT AND EQUIPMENT

in €

PROPERTY, PLANT AND EQUIPMENT	BUILDINGS	OTHER PLANT AND EQUIPMENT	PROPERTY, PLANT AND EQUIPMENT IN THE COURSE OF CONSTRUCTION	TOTAL
Cost as at 31/12/2008	**1,948,127**	**5,978,570**	**2,423,536**	**10,350,233**
Acquisitions			3,278,332	3,278,332
Transfer from ongoing investments		693,165	(693,165)	0
Disposals		(452,792)	(524,717)	(977,509)
Cost as at 31/12/2009	**1,948,127**	**6,218,943**	**4,483,986**	**12,651,056**
Written-down value as at 31/12/2008	**210,680**	**3,364,797**	**0**	**3,575,477**
Depreciation	42,032	824,427		866,459
Disposals		(311,573)		(311,573)
Written-down value as at 31/12/2009	**252,712**	**3,877,651**	**0**	**4,130,363**
Carrying amount as at 31/12/2008	**1,737,447**	**2,613,773**	**2,423,536**	**6,774,756**
Carrying amount as at 31/12/2009	**1,695,415**	**2,341,292**	**4,483,986**	**8,520,693**

PROPERTY, PLANT AND EQUIPMENT DEPRECIATION CATEGORIES

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

(3) LONG-TERM INVESTMENTS
€ 957,826,055

The majority of the company's assets are comprised of long-term investments, the largest part of which constitute **investments in shares and interests of group companies.** They include investments in companies, in which the company – directly or indirectly through other owners – owns a majority stake and prepares consolidated financial statements for this group of companies.

Increases in value of investments in subsidiaries relate to a capital increase of TEŠ, and additional equity contributions in the company HESS in 2009. In addition, a new company, HSE MAK Energy, was established.

The decreases in value of investments in subsidiaries concern an impairment of a long-term investment in the company PV, where the carrying amount decreased to match the recoverable amount which is equal to the value in use. The impairment was made on the basis of an appraisal performed by the company P&S CAPITAL d.o.o from Ljubljana. The appraisal was made in cooperation with an authorised appraiser certified with the Slovenian Institute of Auditors.

Investments in interests of associates include a 45% interest in the company PPE Kidričevo.

Other shares and interests include and investment in the company Stelkom d.o.o. (19% interest).

At the end of 2009, the following investments were transferred from long-term to short-term investments:

- a 33% interest in the company Hidro Moćnost in the amount of € 1,650, because it was sold at the beginning of 2010;
- a 51% interest in the company Toplofikatsia-Ruse AD in the amount of € 43,425,871, since the contract for sale was concluded in the second half of 2010.

None of the companies which are solely or partly owned by the company are listed. Therefore the grounds for potential impairment cannot be determined on the basis of quoted prices. However, the potential reasons for impairment have been determined based on the comparison of the carrying amount of a long-term investment with the proportionate part of the carrying amount of total equity of subsidiary or associated companies as laid down in Interpretation 1 of SAS 3 Impairment of Investments issued by the Slovene Institute of Auditors. Grounds for impairment have been determined in case of a long-term investment in the company PV; in case of other long-term investments, where the value of the investment exceeds the value of the share in equity of associates, no grounds for impairment were identified.

The company estimates that long-term investments are not exposed to risk.

CHANGES IN LONG-TERM INVESTMENTS OTHER THAN LOANS

in €

LONG-TERM INVESTMENTS, EXCLUDING LOANS	INVESTMENTS IN SHARES AND INTERESTS OF COMPANIES OTHER THAN ASSOCIATES	INVESTMENTS IN SHARES AND INTERESTS OF ASSOCIATES	OTHER INVESTMENTS IN SHARES AND INTERESTS	OTHER LONG-TERM INVESTMENTS	TOTAL
Cost as at 31/12/2008	**969,378,441**	**545,500**	**43,536,871**	**1,669**	**1,013,462,481**
Acquisitions	100,819,416			500	100,819,916
Disposals				(1,669)	(1,669)
Transfers		(1,650)	(43,425,871)		(43,427,521)
Cost as at 31/12/2009	**1,070,197,857**	**543,850**	**111,000**	**500**	**1,070,853,207**
Written-down value as at 31/12/2008	**83,800,212**	**0**	**0**	**0**	**83,800,212**
Revaluation	29,226,940				29,226,940
Written-down value as at 31/12/2009	**113,027,152**	**0**	**0**	**0**	**113,027,152**
Carrying amount as at 31/12/2008	**885,578,229**	**545,500**	**43,536,871**	**1,669**	**929,662,269**
Carrying amount as at 31/12/2009	**957,170,705**	**543,850**	**111,000**	**500**	**957,826,055**

CHANGES IN LONG-TERM INVESTMENTS IN GROUP COMPANIES

in €

CHANGES IN LONG-TERM INVESTMENTS	2009
Capital increase in Termoelektrarna Šoštanj d.o.o.	85,458,800
Increase in a long-term investment in Hidroelektrarne na Spodnji Savi d.o.o.	15,333,838
Establishment of HSE MAK Energy d.o.o.	26,778
Impairment of a long-term investment in Premogovnik Velenje d.d.	(29,226,940)
Total changes in long-term investments	**71,592,476**

LONG-TERM INVESTMENTS IN ASSOCIATES

LONG-TERM INVESTMENTS IN ASSOCIATES	EQUITY INTEREST IN %	TOTAL EQUITY OF THE SUBSIDIARY IN €	PROFIT OR LOSS FOR THE CURRENT YEAR IN €	VALUE OF THE PER INVESTMENT AS AT 31/12/2009 IN €	VALUE OF THE PER INVESTMENT AS AT 31/12/2008 IN €
Plinsko parna elektrarna d.o.o. Tovarniška 10, Kidričevo	45.00%	1,233,243	9,761	543,850	543,850

LONG-TERM INVESTMENTS IN SUBSIDIARIES

LONG-TERM INVESTMENTS IN SUBSIDIARIES	EQUITY INTEREST IN %	TOTAL EQUITY OF THE SUBSIDIARY IN €	PROFIT OR LOSS FOR THE CURRENT YEAR IN €	VALUE OF THE PER INVESTMENT AS AT 31/12/2009 IN €	VALUE OF THE PER INVESTMENT AS AT 31/12/2008 IN €
Dravske elektrarne Maribor d.o.o. Obrežna ulica 170, 2000 MARIBOR	100.00%	515,440,404	28,191,320	387,058,979	387,058,979
Soške elektrarne Nova Gorica d.o.o. Erjavčeva 20, 5000 NOVA GORICA	100.00%	167,381,606	4,784,220	152,692,249	152,692,249
HESS d.o.o. Cesta prvih borcev 18, 8250 BREŽICE	51.00%	219,078,170	1,260,651	110,607,548	95,273,710
Termoelektrarna Šoštanj d.o.o. Cesta Lole Ribarja 18, 3325 ŠOŠTANJ	100.00%	344,372,708	54,997	216,117,777	130,658,977
Termoelektrarna Trbovlje d.o.o. Ob železnici 27, 1420 TRBOVLJE	81.33%	35,078,228	719,170	24,503,340	24,503,340
Premogovnik Velenje d.d. Partizanska cesta 78, 3320 VELENJE	77.73%	109,974,369	260,199	60,408,543	89,635,483
HSE Invest d.o.o. Obrežna ulica 170a, 2000 MARIBOR	25.00%	701,496	171,291	80,000	80,000
HSE Italia S.r.l. Via Roma 20, Gorizia, Italy	100.00%	80,549	33,702	29,690	29,690
HSE Hungary Kft. Karolyi Mihaly u. 12, Budapest, Hungary	100.00%	5,495,112	103,862	4,004,965	4,004,965
HSE Balkan Energy d.o.o. Bulevar Mihaila Pupina 117, Belgrade, Serbia	100.00%	941,408	87,248	1,025,063	1,025,063
HSE Adria d.o.o. Miramarska 24, Zagreb, Croatia	100.00%	872,067	181,940	102,553	102,553
HSE Bulgaria EOOD 45A Bulgaria Blvd., Triaditza Region, Sofia, Bulgaria	100.00%	418,062	(25,889)	513,220	513,220
HSE MAK Energy DOOEL Belasica no. 2, 1000 Skopje, Macedonia	100.00%	22,649	(2,074)	26,778	0
Total				**957,170,705**	**885,578,229**

(4) LONG-TERM OPERATING RECEIVABLES
€ 2,872,054

Long-term operating receivables from others relate to deposits made as collaterals in connection with electricity trading in Slovenia and on foreign exchanges.

(5) DEFERRED TAX ASSETS
€ 3,249,449

Deferred tax assets were created on the basis of expenses which affect 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 a long-term investment and derivatives.

Deferred tax assets of € 941,318 have been recognised in the income statement, with deferred tax assets of € 1,575 being recognised in the balance sheet.

CHANGES IN DEFERRED TAX ASSETS

in €

DEFERRED TAX ASSETS	PROVISIONS	IMPAIRMENTS	DEPRECIATION AND AMORTISATION	INTEREST RATE SWAPS	TOTAL
Value as at 31/12/2008	**1,130,166**	**2,936,783**	**90,917**	**31,326**	**4,189,192**
Creation, increase	8,401	3,097,493	4,804	1,575	3,112,273
Use, decrease	(1,054,097)	(2,936,783)	(61,136)	0	(4,052,016)
Value as at 31/12/2009	**84,470**	**3,097,493**	**34,585**	**32,901**	**3,249,449**

(6) SHORT-TERM INVESTMENTS
€ 71,467,521

Short-term investments comprise:

- shares of the company Toplofikatsia-Ruse AD in the amount of € 43,425,871;
- an interest in the company Hidro Moćnost in the amount of € 1,650; and
- short-term deposits in the amount of € 28,040,000.

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.

Short-term deposits consist of deposits with Slovenian banks with a maturity in January 2010. The deposits are not secured. In accordance with its internal rules, the company observes the principle of safety of invested assets and the principle of deposit diversification between individual banks. In addition, the company monitors the banks' credit ratings.

The company estimates that short-term investments are not exposed to risk.

SHORT-TERM INVESTMENTS

in €

TYPE OF SHORT-TERM INVESTMENT	31/12/2009	31/12/2008
Short-term investments in shares and interests	43,427,521	0
Short-term deposits	28,040,000	68,242,000
Total short-term investments	**71,467,521**	**68,242,000**

SHORT-TERM INVESTMENTS IN THE COMPANY TOPLOFIKATSIA-RUSE AD

in €

SHORT-TERM INVESTMENT IN THE COMPANY	EQUITY INTEREST IN %	TOTAL EQUITY OF THE SUBSIDIARY IN €	PROFIT OR LOSS FOR THE CURRENT YEAR IN €	VALUE OF THE PER INVESTMENT AS AT 31/12/2009 IN €	VALUE OF THE PER INVESTMENT AS AT 31/12/2008 IN €
Toplofikatsia-Ruse AD tec-Iztok Street, 7009 Ruse, Bulgaria	51.00%	24,341,957	374,271	43,425,871	43,425,871

(7) SHORT-TERM OPERATING RECEIVABLES
€ 119,439,143

Short-term operating receivables from group companies in the amount of € 1,880,440 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 (excluding group companies) in the amount of € 102,944,733 are predominantly comprised of receivables from the sale of electricity in Slovenia and abroad.

Short-term operating receivables from others in the amount of € 14,613,970 consist mostly of receivables due from input VAT.

Receivables due from customers are mainly settled until the agreed due dates or with minor delays. In the case of delays, the customers in Slovenia and abroad are charged default interest at the contractual rate. Until the issue of this report, most of overdue receivables (except for doubtful receivables) in the total amount of € 12,674,293 were already settled.

A doubtful receivable due from provision of system services, created in 2007 in the amount of € 14,683,915, has been settled in full in 2009. Doubtful receivables for 2009 were created in the amount of € 873,996.

The company had no receivables due from management and Supervisory Board members at the end of 2009.

Electricity-related trade receivables arising from annual contracts, with which the limits of the customer would be exceeded, are mostly secured with bank guarantees, corporate guarantees or bills of exchange. 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 collaterals are required is taken on the basis of Systemic Credit Risk Management Instructions and Systemic Credit Risk Identification and Monitoring Instructions, which, among other things, lay down the method for determining limits.

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' specifics 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.

The company estimates that the trade receivables risk is well managed thanks to the above-mentioned measures.

SHORT-TERM OPERATING RECEIVABLES

in €

TYPE OF RECEIVABLE	31/12/2009	31/12/2008
Short-term trade receivables in Slovenia	71,257,917	66,625,301
Short-term foreign trade receivables	33,567,256	32,565,626
Short-term advances for services in Slovenia not yet rendered	6,600	2,743,872
Short-term advances for services abroad not yet rendered	1,304	7,500
Short-term receivables from operations for third party account	0	614,709
Short-term receivables associated with finance income	51,261	181,706
Short-term receivables from the state	13,502,379	24,046,748
Short-term receivables from others	1,052,426	712,400
Total short-term operating receivables	**119,439,143**	**127,497,862**

BREAKDOWN OF SHORT-TERM RECEIVABLES BY MATURITY DATE

in €

MATURITY PERIOD	31/12/2009	31/12/2008
Receivables not yet due	106,759,005	110,534,545
Receivables overdue up to 3 months	12,679,318	16,963,317
Receivables overdue from 3 to 6 months	770	0
Receivables overdue for more than 6 months	874,046	14,683,915
Total	**120,313,139**	**142,181,777**

SHORT-TERM OPERATING RECEIVABLES FROM GROUP COMPANIES

in €

GROUP COMPANY	31/12/2009	31/12/2008
Dravske elektrarne Maribor d.o.o.	1,704	8,592
Soške elektrarne Nova Gorica d.o.o.	378,032	8,592
Premogovnik Velenje d.d.	563,391	852,737
HESS d.o.o.	46,270	59,956
Termoelektrarna Trbovlje d.o.o.	2,154	0
Termoelektrarna Šoštanj d.o.o.	2,676	0
HSE Invest d.o.o.	852	0
HSE Balkan Energy d.o.o.	23,924	22,396
HSE Hungary Kft.	767,459	613,687
HSE Adria d.o.o.	91,828	27,993
HSE Bulgaria EOOD	453	19,785
HSE Italia S.r.l.	1,697	1,451
Total short-term operating receivables from group companies	**1,880,440**	**1,615,189**

(8) CASH
€ 2,179,286

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

In 2009, the company had in place automatic borrowing facilities with a maturity on 31/12/2009 in the form of overdrafts on its transaction accounts with banks amounting to € 10,000,000. During the year, the overdrafts were used in smaller amounts, and on 31/12/2009 the automatic borrowing facilities have not been utilised.

(9) SHORT-TERM ACCRUED REVENUE AND DEFERRED COSTS
€ 7,166,001

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

ACCRUED REVENUE AND DEFERRED COSTS

in €

TYPE OF ACCRUED REVENUE AND DEFERRED COSTS	31/12/2009	31/12/2008
Short-term deferred costs	4,962,988	1,947,320
Short-term accrued revenue	2,202,763	3,198,858
VAT on advances received	250	0
Total accrued revenue and deferred costs	**7,166,001**	**5,146,178**

(10) EQUITY
€ 845,844,637

The value of **nominal capital** and **capital surplus** remained unchanged in 2009.

Other revenue reserves increased by € 56,995,557, namely:

- by 2008 accumulated profit in the amount of € 26,878,108 in accordance with the resolution of the General Meeting, and
- by a portion of 2009 net profit amounting to € 30,117,449 in accordance with a Supervisory Board decision adopted on the management's proposal.

At the end of 2009, the company records under **revaluation surplus** the gains or losses on futures used for hedging of risks, and the fair value of interest rate swaps. Total revaluation surplus decreased by € 13,207,739 as a result of closed transactions involving future contracts as well as lower average electricity prices and interest rates as compared to 2008.

Electricity futures are concerned with closing of deals on purchase of electricity on a foreign exchange in 2010, thus securing the already concluded deals for the sale of electricity in the same period.

Revaluation surplus decreased by the amounts of electricity purchases in 2009 that were hedged using futures, while the cost of goods sold in the income statement increased cumulatively by € 13,463,748. The negative closing value of revaluation surplus in relation to electricity futures is a result of lower prices of electricity at the exchange at the end of 2009 compared to the period when these electricity futures were concluded.

The negative fair value of interest rate swaps decreased additionally in 2009 by € 13,758. At the beginning of March 2010, the company closed this business transaction.

Retained earnings from 2008 of € 26,878,108 were allocated to other revenue reserves under the decision of the General Meeting.

In accordance with the Supervisory Board's resolution adopted on the management's proposal, € 30,117,449 **of the 2009 net profit,** which totalled € 60,234,898, was allocated to other revenue reserves, while the difference of € 30,117,449 represents the company's accumulated profit.

PROFIT OR LOSS OF THE COMPANY AFTER EQUITY RESTATEMENT

in €

PROFIT OR LOSS OF THE COMPANY AFTER EQUITY RESTATEMENT	31/12/2009
Net profit or loss	60,234,898
Equity restatement result	(14,378,715)
Profit or loss after restatement based on consumer prices (1.8% growth)	**45,856,183**

TOTAL EQUITY

in €

TOTAL EQUITY OF THE COMPANY BY INDIVIDUAL ITEMS	31/12/2009	31/12/2008
Nominal capital	29,558,789	29,558,789
Capital surplus	561,243,185	561,243,185
Other revenue reserves	226,498,386	169,502,829
Revaluation surplus	(1,573,172)	11,634,567
Net profit or loss for the period	30,117,449	26,878,108
Total equity	**845,844,637**	**798,817,478**

BREAKDOWN OF CAPITAL SURPLUS

in €

CAPITAL SURPLUS	PAID-IN CAPITAL SURPLUS	GENERAL EQUITY REVALUATION ADJUSTMENT	TOTAL
Value as at 31/12/2009	561,243,072	113	561,243,185

CHANGES IN REVALUATION SURPLUS

in €

REVALUATION SURPLUS	FUTURES	CO_2 FORWARD CONTRACTS (EUROPEAN CARBNO FUTURES)	INTEREST RATE SWAPS	TOTAL
Value as at 31/12/2008	**11,752,418**	**0**	**(117,851)**	**11,634,567**
Increase	6,575,731	53,200	1,575	6,630,506
Decrease	(33,233,460)	(51,400)	(15,333)	(33,300,193)
Increase in operating expenses	14,211,921	0	0	14,211,921
Decrease in operating expenses	(748,173)	0	0	(748,173)
Increase in finance income for CO_2	0	(1,800)	0	(1,800)
Value as at 31/12/2009	**(1,441,563)**	**0**	**(131,609)**	**(1,573,172)**

(11) PROVISIONS
€ 15,866,215

As at the end of 2009, **provisions** comprised:

- provisions for termination and jubilee benefits that were in 2009 utilised and created based on an actuarial calculation, which took into account:
  - the number of employees in the company as at 31/10/2009 (gender, age, overall and pension qualifying period of service, average net and gross salary for the period August – October 2009),
  - method for calculating termination and jubilee benefits in the company,
  - 3.5% increase in average salary, and
  - staff turnover by age category;
- provision for a fee for the limited area use that the company created in 2007 and increased in 2009 by the amount of legal default interest;
- provision for lawsuits filed by the company TDR-Metalurgija d.d. - v stečaju and its related companies and employees that the company created in 2008 and increased in 2009 by the amount of legal default interest.

At the end of 2009, provisions for guarantees of origin in the amount of € 5,000,000 were eliminated, because the arbitration procedure initiated with the European Commission was resolved in favour of the company.

Long-term accrued costs and deferred revenue in the amount of € 1,471,334 include a liability for indirect costs of electricity in 2002.

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 ACDR	TOTAL
Value as at 31/12/2008	**431,612**	**17,272,737**	**1,471,334**	**19,175,683**
Creation, increases	84,013	1,627,006	0	1,711,019
Use, reversal	(20,487)	(5,000,000)	0	(5,020,487)
Value as at 31/12/2009	**495,138**	**13,899,743**	**1,471,334**	**15,866,215**
Creation planned	50,000	0	0	50,000
Use planned	(15,536)	0	0	(15,536)

(12) LONG-TERM LIABILITIES
€ 116,595,562

The company's long-term liabilities include the following **long-term financial loans:**

- a long-term financial loan taken out with a syndicate of Slovene banks in 2003 for the period of 12 years,
- a long-term financial loan taken out with a Slovene bank in 2006 for the period of 5 years,
- a long-term financial loan taken out with a Slovene bank in 2007 for the period of 10 years, and
- a long-term financial loan taken out with the European Investment Bank in 2008 for the period of 20 years.

The values of loan principals due in 2010 are recorded as short-term liabilities to banks. Interest on loans received is settled on a quarterly or semi-annual basis, and its undue portion payable in 2009 is recorded under short-term operating liabilities.

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

The long-term loan taken out in 2006 will be fully repaid in December 2011. The principal is repaid on a quarterly basis. The agreed-upon interest rate is the 3-month EURIBOR plus a minimal mark-up. The loan is secured 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 € -164,512 as at 31 December 2007, is recorded under **other long-term financial liabilities** and revaluation surplus. The company ended the interest hedging deal prematurely at the beginning of March 2010.

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

The long-term loan taken out in 2008 will be fully repaid in September 2028. The principal will be repaid on a semi-annual basis (the first payment is due in September 2012). The agreed-upon interest rate is the 6-month EURIBOR plus a minimal mark-up. The loan is fully secured with a guarantee issued by a foreign bank for a seven-year period.

The company settles instalments on principal that are due and attributable interest on time.

MATURITY DATES OF LONG-TERM LIABILITIES

in €

LONG-TERM LIABILITIES	MATURITY DATE before 31/12/2012	between 01/01/2013 and 31/12/2014	after 01/01/2015	TOTAL
Long-term financial liabilities to banks	18,920,188	22,701,313	74,809,549	116,431,050
Other long-term financial liabilities	164,512	0	0	164,512
Total	**19,084,700**	**22,701,313**	**74,809,549**	**116,595,562**

(13) SHORT-TERM LIABILITIES
€ 197,220,693

Short-term liabilities include short-term financial and operating liabilities.

The value of **short-term financial liabilities to banks** includes the portion of long-term loan principals due in 2010 and short-term loans taken out with Slovene banks the repayment period of which is one year.

The long-term loan taken out in 2007 will be 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 by five blank bills of exchange.

Short-term loans are repayable in November 2010. The agreed-upon interest rate is the 1-month EURIBOR plus a minimal mark-up. The loans are secured with blank bills of exchange.

The company's **short-term operating liabilities to group companies** in the amount of € 81,089,140 mainly relate to liabilities associated with the electricity purchased from subsidiaries.

The company's **short-term operating liabilities to suppliers** (excluding group companies) in the amount of € 28,744,589 mainly relate to liabilities associated with the electricity purchased in Slovenia and abroad.

Other short-term operating liabilities in the amount of € 12,698,507 mostly concern the liability for additional payment of corporate income tax for 2009, liabilities to employees for December salaries and liabilities for repayment of interest on loans received.

The company settles all its liabilities in due time.

SHORT-TERM OPERATING LIABILITIES

in €

TYPE OF SHORT-TERM OPERATING LIABILITY	31/12/2009	31/12/2008
Short-term trade liabilities in Slovenia	93,919,158	139,689,920
Short-term foreign trade liabilities	15,914,571	20,007,591
Short-term advances received	1,500	0
Short-term liabilities to employees	588,212	428,366
Short-term liabilities to state and other institutions	11,515,550	1,599,852
Short-term interest liabilities	587,315	1,800,293
Other short-term liabilities	7,430	641,295
Total short-term operating liabilities	**122,533,736**	**164,167,317**

SHORT-TERM OPERATING LIABILITIES TO GROUP COMPANIES

in €

GROUP COMPANIES	COUNTRY	31/12/2009	31/12/2008
Dravske elektrarne Maribor d.o.o.	Slovenia	19,707,734	35,981,072
Soške elektrarne Nova Gorica d.o.o.	Slovenia	7,988,513	14,526,600
Termoelektrarna Šoštanj d.o.o.	Slovenia	43,251,426	70,111,658
Premogovnik Velenje d.d.	Slovenia	1,155,548	8,927
Termoelektrarna Trbovlje d.o.o.	Slovenia	5,879,994	5,045,177
HSE Invest d.o.o.	Slovenia	143,081	78,807
HESS d.o.o.	Slovenia	959,114	640,196
HSE Italia S.r.l.	Italy	11,402	28,080
HSE Hungary Kft.	Hungary	455,052	286,023
HSE Balkan Energy d.o.o.	Serbia	59,100	69,050
HSE Adria d.o.o.	Croatia	1,457,695	3,941,554
Other group companies	Slovenia	20,481	20,756
Total short-term operating liabilities to group companies		**81,089,140**	**130,737,900**

€ 803,498,590
of total revenue

€ 724,740,472
of total expenses

Off-balance sheet records

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.

Furthermore, as at 31 December 2009, the company has the following guarantees or parent guarantees in place:

- 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 HSE 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,
- a parent guarantee issued to the Alstom Power Centrales S.A. consortium and Alstom Power Systems GmbH for repayment of liabilities of Termoelektrarna Šoštanj under the contract on planning, supply and construction of the power plant "Šoštanj replacement Unit 6" facility; an agreement was also signed with Termoelektrarna Šoštanj stipulating that in case of a repayment to the Alstom consortium by HSE, receivables arising from the payment will be offset against HSE's liabilities to Termoelektrarna Šoštanj.

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

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 under 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 certain intangible assets.

REVENUE

in €

TYPE OF REVENUE	2009	2008
Operating revenue	784,183,075	820,305,717
Finance income	18,933,778	31,676,981
Other revenue	381,737	4,670,086
Total revenue	**803,498,590**	**856,652,784**

EXPENSES

in €

TYPE OF EXPENSE	2009	2008
Operating expenses	681,647,556	785,178,922
Finance expenses	33,992,679	9,865,448
Other expenses	9,100,237	3
Total expenses	**724,740,472**	**795,044,373**

(14) NET SALES REVENUE
€ 764,485,829

The company generates net sales revenue mostly through sale of electricity. The revenue from sale of electricity accounts for 99.7% of all net sales revenue.

The management estimates that there is doubt as to the collection of receivables arising from market research services and electricity sales services performed in 2008 and 2009 for the associate Toplofikatsia-Ruse AD in the amount € 963,441 because the legal bases have not yet been fully agreed. Until this doubt has been eliminated, the management estimates that there is a significant risk of these receivables not being collected within the meaning of SAS 5.24 and SAS 18.12. The receivables and revenue arising from it have therefore not been included in HSE's financial statements for the year 2008 (they totalled € 930,291) and are also not included in HSE's financial statements for the year 2009 (additional € 33,150 for 2009).

NET SALES REVENUE

in €

NET SALES REVENUE	2009	2008
Revenue from electricity sales	762,103,995	816,625,234
Revenue from the sale of services to subsidiaries	492,880	530,933
Revenue from the sale of electricity related services	1,616,219	1,684,355
Rental income	57,285	82,678
Other sales revenue	215,450	341,327
Total net sales revenue	**764,485,829**	**819,264,527**

(15) OTHER OPERATING REVENUE
€ 19,697,246

Other operating revenue mostly comprises revenue from reversal of doubtful receivables and revenue from reversal of provisions.

(16) COSTS OF GOODS, MATERIALS AND SERVICES
€ 669,795,404

The **cost of goods sold,** which accounts for 97.3% of total operating expenses, encompasses expenses for the purchase of electricity and contingent costs of electricity purchases.

Costs of services are predominantly comprised of costs of intellectual services, costs of sponsorship and costs of maintenance of intangible assets and property, plant and equipment.

COSTS OF GOODS, MATERIALS AND SERVICES

in €

COSTS OF GOODS, MATERIALS AND SERVICES	2009	2008
Cost of merchandise sold	625,152,584	727,676,137
Contingent costs of merchandise sold	38,338,003	31,947,600
Costs of materials	200,915	264,215
Costs of services	6,103,902	6,201,865
Total costs of goods, materials and services	**669,795,404**	**766,089,817**

(17) LABOUR COSTS
€ 7,113,750

Labour costs comprise costs of salaries and other receipts by employees, and include employer's contributions.

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

(18) FINANCE INCOME
€ 18,933,778

Finance income from interests mainly relates to the payment of profit by a subsidiary.

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 from trading in emission coupons.

(19) FINANCE EXPENSES
€ 33,992,679

The largest part of **financial expenses for impairment of investments** is represented by impairment of a long-term investment in a subsidiary.

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

Financial expenses for operating liabilities consist of impairment of emission coupons and foreign exchange losses.

(20) OTHER EXPENSES
€ 9,100,237

The majority of other expenses relates to the payment of a fine on account of anti-competitive behaviour (cartel agreement) of the company TDR Metalurgija in the case of calcium carbide, which the company as the majority owner of TDR Metalurgija at that time paid in October 2009 based on the Decision of the EU Commission. In the same month, the company filed a petition for reversal of the EU Commission decision with the European Court.

Costs by functional group

The company's income statement shows the company's costs by their nature (cost of goods and material sold, cost of services, costs of salaries, depreciation costs), while the table below shows costs by functional group.

GEOGRAPHICAL SEGMENTS

in €

GEOGRAPHICAL SEGMENTS	2009	2008
Domestic market	520,590,851	578,426,525
Foreign market	243,894,978	240,838,002
Total geographical segments	**764,485,829**	**819,264,527**

COSTS BY FUNCTIONAL GROUP

in €

TYPE OF COST	2009	2008
Cost of merchandise sold	665,646,052	761,805,403
Cost of sales	2,349,578	2,012,627
General and administrative costs	13,651,926	21,360,892
Total costs by functional group	**681,647,556**	**785,178,922**

(21) TOTAL PROFIT OR LOSS
€ 78,758,118

The company ended the year 2009 with total profit of € 78,758,118.

(22) CORPORATE INCOME TAX
€ 17,581,902

In accordance with the Corporate Income Tax Act, the tax for 2009 amounted to 21% of the taxable base reported in the company's tax assessment.

Based on the 2008 tax assessment, the company paid € 6,693,406 in advance income tax payments in 2009. Its income tax liability thus amounted to € 10,888,496 at the end of 2009.

(23) DEFERRED TAXES
€ 941,318

Deferred taxes consist of deferred tax assets created and utilised in 2009.

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 2009.

(24) NET PROFIT OR LOSS
€ 60,234,898

After taking into account the corporate income tax and deferred tax assets, net profit totals € 60,234,898.

PROFIT OR LOSS OF THE COMPANY

in €

TYPE OF PROFIT OR LOSS	2009	2008
Operating profit or loss	102,535,519	35,126,795
Profit or loss on ordinary activities	87,476,618	56,938,328
Profit or loss on extraordinary activities	(8,718,500)	4,670,083
Total profit or loss	78,758,118	61,608,411
Net profit or loss for the accounting period	**60,234,898**	**53,756,215**

4.8.3 CASH FLOW STATEMENT

General

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

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

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

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

- under revaluation surplus, cash outflow associated with futures for 2010 has been disclosed under outflows from operating activities;
- the fine paid by the company in 2009 is disclosed under outflows for acquisition of long-term investments;
- receipts and payments related to trading with emission coupons are disclosed under receipts and payments for intangible assets under cash flows from investing activities.

CASH FLOWS

in €

TYPE OF CASH FLOW	2009	2008
Cash flows from operating activities	36,064,350	53,356,324
Cash flows from investing activities	(53,916,430)	(80,386,571)
Cash flows from financing activities	13,656,611	29,565,280
Net cash flow for the period	**(4,195,469)**	**2,535,033**

€ 30,117,449

of accumulated profit

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

Movements to equity

In the period under review, the company's equity increased by € 66,865,404 as follows:

- net profit for the year in the amount of € 60,234,898, and
- revaluation surplus associated with other financial instruments – futures (€ 6,630,506).

Movements within equity

Movements within the company's equity, which amounted to € 56,995,557 during the year, relate to:

- allocation of the 2008 accumulated profit (in accordance with a General Meeting resolution) of € 26,878,108 to other revenue reserves, and
- allocation of half of the net profit or loss for the year, which totalled € 30,117,449, to other revenue reserves, in accordance with a Supervisory Board decision taken on the proposal of the company's management.

Movements from equity

In 2009 the company's equity decreased by € 19,838,245, namely, by the amount of the revaluation surplus related to other financial instruments – futures.

The value of the revaluation surplus created and used is presented under equity disclosures.

Accumulated profit

Accumulated profit for 2009 represents half of the net profit for the period and totals € 30,117,449. The decision regarding the distribution of accumulated profit is made by the owner.

ACCUMULATED PROFIT

in €

COMPONENTS OF ACCUMULATED PROFIT	2009
Net profit or loss for the current year	60,234,898
Increase in revenue reserves in accordance with a resolution of management and supervisory board (other revenue reserves)	(30,117,449)
Accumulated profit	**30,117,449**

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 receipts included in the income tax return notice,
- other receipts (meals, transportation, per diems, untaxed portion of jubilee benefits), and
- premiums paid for voluntary supplementary pension insurance.

Remuneration of managers comprises the remuneration of all managers who acted as managers in 2009 (a member of the management was replaced during the year and the number of members had changed).

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 2009.

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	2009	2008
The company's management	262,295	273,354
Employees who are not subject to the tariff part of the collective agreement	1,955,596	1,998,326
Members of the Supervisory Board	106,948	181,753

Costs of audit and other non-audit services

Expenditures for the audit of financial statements of the company HSE and the HSE Group, and for other non-audit services of the auditor comprised:

- the cost of audit of the annual report of the company HSE and the HSE Group in the amount of € 26,705, and
- other non-audit services in the amount of € 3,780.

Foreign branch offices

In September 2006, a branch office was established in Czech Republic for the purposes of acquiring an electricity trading licence. The branch was used for electricity trading on the territory of Czech Republic in 2009.

Under the Czech tax legislation, the branch office in Czech Republic is liable to pay corporate income tax and value added tax.

In the 2009 financial year, the branch's net profit totalled € 1,680.

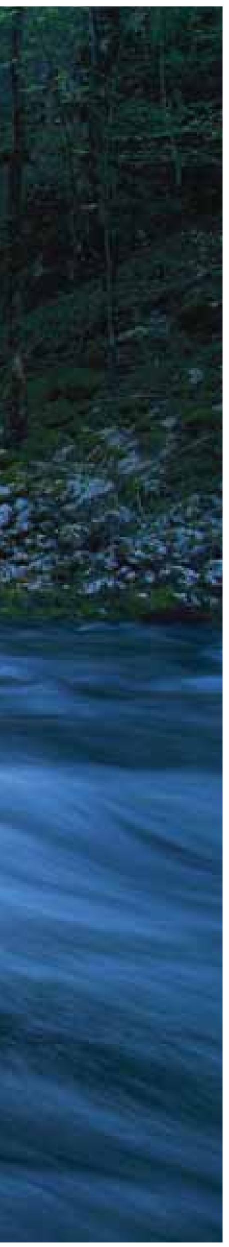
In July 2008, a branch office was established in Slovakia for the purposes of acquiring an electricity trading licence. The branch was used for electricity trading on the territory of Slovakia in the first eight months of 2009. Since 1 July 2009, the Slovak branch is no longer required to submit a VAT statement (based on the circular issued by the Slovak tax administration), therefore, the calculation of the corporate income tax in Slovakia will be submitted without any amount. The reason for this lies in the fact that the company established a branch in accordance with the requirements of the Slovak Energy Act, which, under the applicable tax legislation, does not represent a permanent business unit that the government of Slovakia may impose taxes on.

Events after the balance sheet date

There were no significant events after the balance sheet date that would affect the financial statements for 2009.

The light drives the world forward

by constantly changing, reflecting and exposing. Only 5-10% of light emitted by the sun reaches the Earth. Of this, only around 47% reaches its surface.



Net operating profit of the HSE Group

€ 114 million

2009

+53%

€ 75 million

2008

05 FINANCIAL REPORT OF THE HSE GROUP

5.1 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 2009, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group Holding Slovenske elektrarne as of 31 December 2009, 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, 23. April 2010

TRANSLATION ONLY – SLOVENIAN ORIGINAL PREVAILS

5.2 STATEMENT BY THE MANAGING DIRECTOR

As the Managing Director of HSE, I hereby confirm the consolidated financial statements of the company HSE Group for the financial year 2009, the notes thereto and the accounting policies applied.

I confirm that the accounting policies have been applied consistently during the preparation of consolidated 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 group and the results of its operations in 2009.

I confirm that the consolidated 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 consolidated financial statements have been prepared on the going concern basis.

Borut Meh
Managing Director of HSE d.o.o.

Ljubljana, 23 April 2010

5.3 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 2006) for the financial year 2009, which corresponds to the calendar year.

The consolidated financial statements are presented in euros. The financial statements of HSE Group companies based in Slovenia are also presented in euros. The financial statements of HSE Group companies abroad are presented in their respective national currencies.

A group of companies is an economic rather than a legal entity, and as such not an independent holder of rights and obligations. The financial statements of a group are presented as those of a single company. The consolidated financial statements are prepared on the basis of the primary financial statements of Group companies and include relevant 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, the PV Group had been consolidated. 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.

In 2009, the company HSE Mak Energy, established by the company HSE in the same year, has been included in the consolidated financial statements for the first time.

Hereinafter the term "Group" (or "group") refers to HSE Group companies that are included in the consolidated financial statements.

COMPANIES INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS

COMPANY or GROUP NAME	COUNTRY OF RESIDENCE OF THE COMPANY or GROUP
Holding Slovenske elektrarne d.o.o.	Slovenia
Dravske elektrarne Maribor d.o.o.	Slovenia
Soške elektrarne Nova Gorica d.o.o.	Slovenia
Termoelektrarna Šoštanj d.o.o.	Slovenia
Premogovnik Velenje Group	Slovenia
Termoelektrarna Trbovlje d.o.o.	Slovenia
Hidroelektrarne na Spodnji Savi d.o.o.	Slovenia
HSE Invest d.o.o.	Slovenia
HSE Italia S.r.l.	Italy
HSE Balkan Energy d.o.o.	Serbia
HSE Hungary Kft.	Hungary
HSE Adria d.o.o.	Croatia
HSE Bulgaria EOOD	Bulgaria
HSE Mak Energy DOOEL	Macedonia

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.

Although the company DEM has a 50% share in the company Eldom, the controlling company did not carry out the consolidation since it does not own the majority of voting rights and therefore has no controlling influence over the operations of Eldom. 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.

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. For the same reasons, the investment in the above company has not been accounted for using the equity method.

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:

- the controlling companies' investments in subsidiaries and their corresponding interests in the equity of subsidiaries,
- impairment of investments 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 of the subsidiary,
- 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

COMPANY NAME	COUNTRY OF RESIDENCE
Plinsko parna elektrarna d.o.o.	Slovenia
Hidro Moćnost Makedonija d.o.o.	Macedonia
ERICo, inštitut za ekološke raziskave, d.o.o.	Slovenia
PLP, lesna industrija, d.o.o.	Slovenia
PUP PV, podjetje za vzdrževanje površin, d.o.o.	Slovenia
Robinoks, proizvodnja izdelkov iz nerjavečega jekla, d.o.o.	Slovenia
Sipoteh, strojna in proizvodna industrija, d.o.o.	Slovenia

Associates

Associates are companies in which the Group exercises significant but not dominant control over business decisions. The interest in these companies ranges between 20 and 50%.

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.

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 31/12/2009 or at the national exchange rate of the country in which the company is registered and where it operates.

The resulting exchange gains and losses are carried as financial revenue or financial expenses, respectively. Foreign exchange differences that occur in consolidation are recorded under consolidation equity adjustment.

In translating the financial statements of foreign subsidiaries for the purpose of their incorporation into the consolidated financial statements:

- assets and liabilities are translated at the exchange rate of the Bank of Slovenia as at 31/12/2009,
- revenue and expenses are translated at the average exchange rate of the Bank of Slovenia for 2009.

EXCHANGE RATES USED FOR CONVERSION

COUNTRY	Currency code	Closing exchange rate in € for 2009	Average exchange rate in € for 2009
Bulgaria	BGN	1.9558	1.9558
Croatia	HRK	7.3000	7.3278
Hungary	HUF	270.4200	268.5600
Macedonia	MKD	62.1000	61.8445
Serbia	RSD	95.0250	92.1901

Audit

The companies included in the consolidated financial statements have been audited or reviewed for consolidation purposes.

Intangible assets and long-term accrued revenue and deferred costs

Intangible assets are long-term assets enabling the performance of the company's registered activities, whereas physically they do not exist.

On initial recognition, they are valued at cost, which is inclusive of import duties and other costs that occur while preparing the asset for its intended use. Interest on loans for the acquisition of intangible assets is not part of the cost.

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

An item of intangible assets with finite useful life is amortised using the straight-line amortisation method. Amortisation shall begin when the intangible asset is available for use. The residual value of intangible assets has not been determined.

In the bookkeeping records, the cost and the accumulated amortisation of items of intangible assets are recorded separately, whereas in the balance sheet they are recorded at carrying amount, i.e. as a difference between the cost and accumulated amortisation.

On disposal, intangible assets are eliminated from the books of account, and the difference between the net sales value and the carrying amount of a disposed of intangible asset is transferred to revaluation revenue or expenses.

Goodwill occurs in consolidation as a result of the cost of acquired interest of a company exceeding the value of this interest in the equity of such company. Goodwill is not amortised. It is impaired if necessary. Potential signs of impairment are determined at the end of the financial year.

Long-term deferred costs and accrued revenue include long-term deferred costs that are initially recognised at cost but are later written down as part of costs to which they are attributable.

Property, plant and equipment

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

After initial recognition, an item of property, plant and equipment is carried 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 condition necessary for it to be capable of operating in the manner intended by management, especially the costs of transportation and installation. The cost does not include the costs incurred upon the dismantling or renovation of items of property, plant and equipment.

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 to 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 economic 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 useful life. Depreciation is accounted for individually from the first day of the next 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 are revalued if the carrying amount exceeds the recoverable amount. In Group companies, the reasons underlying the revaluation of property, plant and equipment are verified individually at the end of the financial year.

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

Long-term investments

Long-term investments are part of fixed assets that are intended to earn returns and thus increase financial revenue. Group companies normally own them for more than a year.

On initial recognition, short-term investments are recorded at their historical cost plus the costs directly attributable to the investment.

In the books of account, the long-term investments of Group companies are recognised on their settlement date (payment date) and are disclosed under the fourth group of financial assets.

After initial recognition, long-term investments in the companies' books of account are carried at cost or at fair value, if it is known. In the event an investment is carried at fair value, increases in value are disclosed under revaluation surplus, while permanent impairments are disclosed in the income statement under revaluation financial expenses.

In the consolidated financial statements, investments in associates are valued using the equity method.

Any indications of impairment of long-term investments are determined at the end of the financial year.

Inventories

Inventories are part of current assets that will be used in manufacture of products, rendering of services or will be sold.

Material is initially recognised at cost comprising the purchase price, import duties and other taxes, and direct costs of purchase.

The inventories of end products are measured at production costs in the narrow sense and include costs of production material, production costs, depreciation costs, costs of services and other production costs.

The companies reduce the value of material and raw material inventories using the FIFO or the weighted average cost method.

Group-level reconciliation has not been disclosed because the amount is immaterial.

Inventories are revalued if their carrying amount exceeds their net realisable value. In this is the case, inventories are impaired and the value of impairment increases revaluation operating expenses for current assets.

Receivables

Receivables include the rights to require from customers the payment for deliveries or rendered services, and are part of 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 that are attributable to the asset will flow to the enterprise and if 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 paid within a reasonable time or court proceedings are initiated in connection with the collection, allowances are created and revaluation operating expenses 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 the part of the Group's current assets that generate profits and thus increase financial revenue in a period shorter than a year.

On initial recognition, short-term investments 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 by their settlement date (payment date). After initial recognition, they are carried at cost.

Group companies disclose short-term investments in the fourth group of financial assets.

Cash

The Group's **cash** includes cash in hand, cash in transaction accounts, and deposits redeemable at notice held with commercial banks.

The carrying amount of an item of cash equals its initial nominal value, which can change due to changes in foreign exchange rates if cash is denominated in foreign currencies.

Short-term accrued revenue and deferred costs

Short-term deferred costs and accrued revenue include short-term deferred costs (expenses) and short-term accrued revenue.

Short-term deferred costs are amounts incurred but not yet charged against the activities of Group companies.

Short-term accrued revenue includes amounts included in revenue during the preparation of the consolidated financial statements but not yet invoiced by Group companies.

Equity

Total **equity** is defined by the amounts invested by owners and the amounts generated during operations and belonging to the owners.

Nominal capital is 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.

Retained earnings represent profits or losses of subsidiaries from previous years and impact on the profit or loss in consolidation procedures in previous years.

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 revaluation of financial assets (investments) and fixed assets.

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 expected to arise from obligating past events in a period exceeding one year. If a liability can be reliably measured, they are carried as recognised costs of provisions.

The assessment of provisions for jubilee benefits and termination benefits was performed on the basis of an actuarial calculation. 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 such a case, their derecognition is recorded as operating revenue.

Long-term deferred costs and accrued revenue comprise deferred revenue expected to arise in a period of more than one year. They also include the values of grants for the acquisition of property, plant and equipment and emission coupons received free of charge.

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 amortised 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 disclosed under short-term liabilities.

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 discloses 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 amortised 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 short-term liabilities equals their amortised cost.

Short-term accrued costs and deferred revenue

Short-term accrued costs and deferred revenue comprise short-term accrued costs (expenses) and short-term deferred revenue.

Short-term accrued costs include costs that are expected but have not yet occurred (not yet charged) although they refer to the period for which the financial statements have been prepared.

Short-term deferred revenue represents services already charged but not yet rendered.

Revenue

Revenue represents increases in economic benefits in the accounting period in the form of increases in assets. It is recognised when it is probable that cash receipts will flow from it.

Operating revenue includes sales revenue and other operating revenue associated with products and services.

<u>Net sales revenue</u> includes the selling values of products, merchandise and materials sold and services rendered during the accounting period. It should be measured at selling prices stated in invoices less discounts and rebates.

<u>Changes in the value</u> of inventories are the difference between the closing and opening balance of inventories.

Capitalised own products and services are products or services provided by the Group and recorded under intangible assets or property, plant and equipment.

Other operating revenue is associated with grants and the reversal of provisions.

Revaluation operating revenue is revenue recognised on the disposal of property, plant and equipment and intangible assets if their carrying amount is lower than selling price, as well as on the reversal of impairment of trade receivables.

Financial revenue is revenue arising from investing. It arises in relation to long-term and short-term investments as well as in connection with 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. They are disclosed in actual amounts.

Expenses

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

Operating expenses are equal to the costs accrued over the accounting period. Operating expenses also include the cost of goods sold. Operating expenses are recognised once costs are no longer held in the inventories of products and work in progress or once the merchandise has been sold.

Operating expenses comprise the cost of goods sold, 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 arise from the impairment of property, plant and equipment, intangible assets, inventories 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.

Financial expenses are expenses arising on 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.

Financial 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 nor financial. They are disclosed in 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 segments. Accordingly, net sales revenue is divided into two business segments: electricity and other.

Net sales revenue is also divided into two geographical segments: domestic market and foreign markets.

Taxation

The corporate income tax is calculated by taking into account prescribed tax rates in countries in which the Group companies are located. All group companies are liable to pay this tax. All group companies are also subject to VAT. The tax year of all group companies is equal to the calendar year.

Deferred taxes

Deferred taxes are earmarked 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.

5.4 CONSOLIDATED BALANCE SHEET

in €

ITEM		Note	31/12/2009	31/12/2008
ASSETS			1,874,355,148	1,747,710,783
A.	**LONG-TERM ASSETS**		**1,522,608,890**	**1,424,901,703**
I.	**Intangible assets and Long-term accrued revenue and deferred costs**	1	**41,943,429**	**48,274,010**
1.	Long-term property rights		29,226,648	33,724,261
2.	Goodwill		12,387,056	12,387,056
4.	Long-term deferred development costs		116,757	234,873
5.	Other long-term accrued revenue and deferred costs		212,968	1,927,820
II.	**Property, plant and equipment**	2	**1,456,811,910**	**1,301,732,514**
1.	Land and buildings		575,579,784	509,532,410
	a) Land		36,498,176	27,237,926
	b) Buildings		539,081,608	482,294,484
2.	Production plant and equipment		516,731,231	488,440,416
3.	Other plant and equipment		10,886,144	8,855,996
4.	Property, plant and equipment being acquired		353,614,751	294,903,692
	a) Property, plant and equipment in the course of construction		258,466,860	278,013,609
	b) Advances for acquisition of property, plant and equipment		95,147,891	16,890,083
III.	**Investment property**		**1,065,418**	**922,758**
IV.	**Long-term investments**	3	**7,899,955**	**51,541,008**
1.	Long-term investments, excluding loans		7,464,826	51,103,118
	a) Shares and interests in group companies		3,025,971	3,034,734
	b) Shares and interests in associates		1,070,338	1,015,126
	c) Other shares and interests		3,243,452	46,932,443
	d) Other long-term investments		125,065	120,815
2.	Long-term loans		435,129	437,890
	b) Long-term loans to others		435,129	437,890
V.	**Long-term operating receivables**		**4,043,837**	**3,131,217**
2.	Long-term operating trade receivables		848,591	30,521
3.	Long-term operating receivables from others		3,195,246	3,100,696
VI.	**Deferred tax assets**	4	**10,844,341**	**19,300,196**
B.	**CURRENT ASSETS**		**344,191,822**	**316,850,737**
I.	**Assets (disposal groups) held for sale**		**210,556**	**401,475**
II.	**Inventories**	5	**37,869,366**	**32,873,842**
1.	Materials		28,410,337	26,151,811
2.	Work in progress		42,222	43,658
3.	Products and merchandise		9,346,293	6,258,077
4.	Advances for inventories		70,514	420,296
III.	**Short-term investments**	6	**150,074,101**	**116,375,273**
1.	Short-term investments, excluding loans		43,427,521	0
	b) Other shares and interests		43,427,521	0
2.	Short-term loans		106,646,580	116,375,273
	b) Short-term loans to others		106,646,580	116,375,273
IV.	**Short-term operating receivables**	7	**145,756,684**	**153,746,979**
2.	Short-term operating trade receivables		119,057,210	114,631,808
3.	Short-term operating receivables from others		26,699,474	39,115,171
V.	**Cash**	8	**10,281,115**	**13,453,168**
C.	**SHORT-TERM ACCRUED REVENUE AND DEFERRED COSTS**	9	**7,554,436**	**5,958,343**

BALANCE SHEET (continued)

in €

ITEM		Note	31/12/2009	31/12/2008
LIABILITIES			1,874,355.148	1,747,710,783
A.	**EQUITY**	10	**1,234,004,990**	**1,127,608,615**
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**		**226,498,386**	**169,502,829**
5.	Other revenue reserves		226,498,386	169,502,829
IV.	**Revaluation surplus**		**(2,255,517)**	**10,561,050**
V.	**Retained earnings**		**270,765,863**	**250,720,796**
VI.	**Net profit or loss for the period**		**82,622,604**	**46,923,175**
VII.	**Consolidation equity adjustment**		**(218,671)**	**(903,981)**
VIII.	**Equity of minority owners**		**65,790,351**	**60,002,772**
B.	**PROVISIONS AND LONG-TERM ACCRUED COSTS AND DEFERRED REVENUE**	11	**112,410,723**	**118,046,869**
1.	Provisions for pensions and similar liabilities		13,250,729	12,079,249
2.	Other provisions		72,961,757	73,233,791
3.	Long-term accrued costs and deferred revenue		26,198,237	32,733,829
C.	**LONG-TERM LIABILITIES**	12	**268,461,575**	**292,685,262**
I.	**Long-term financial liabilities**		**265,817,089**	**290,364,661**
2.	Long-term financial liabilities to banks		264,340,954	288,744,803
4.	Other long-term financial liabilities		1,476,135	1,619,858
II.	**Long-term operating liabilities**		**2,575,141**	**2,317,962**
2.	Long-term operating trade liabilities		2,350,303	2,008,006
4.	Long-term operating liabilities from advances		13,460	0
5.	Other long-term operating liabilities		211,378	309,956
III.	**Deferred tax liabilities**		**69,345**	**2,639**
D.	**SHORT-TERM LIABILITIES**	13	**245,988,475**	**194,052,222**
II.	**Short-term financial liabilities**		**108,817,376**	**45,481,809**
2.	Short-term financial liabilities to banks		108,753,988	45,298,464
4.	Other short-term financial liabilities		63,388	183,345
III.	**Short-term operating liabilities**		**137,171,099**	**148,570,413**
2.	Short-term operating trade liabilities		96,629,000	104,391,606
4.	Short-term operating liabilities from advances		111,062	190,486
5.	Other short-term operating liabilities		40,431,037	43,988,321
E.	**SHORT-TERM ACCRUED COSTS AND DEFERRED REVENUE**	14	**13,489,385**	**15,317,815**

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

5.5 CONSOLIDATED INCOME STATEMENT

in €

ITEM		Note	2009	2008
1.	**Net sales revenue**	15	**804,287,077**	**872,762,328**
a)	Domestic market		555,731,387	625,382,932
b)	Foreign market		248,555,690	247,379,396
2.	**Changes in inventories of products and work in progress**		**3,086,779**	**(1,412,901)**
3.	**Capitalised own products and own services**	16	**12,150,305**	**5,551,241**
4.	**Other operating revenue (including revaluation operating revenue)**	17	**57,633,426**	**26,519,382**
5.	**Costs of goods, materials and services**	18	**435,431,748**	**508,120,674**
a)	Cost of goods and materials sold and costs of material used		373,658,981	446,843,322
b)	Costs of services		61,772,767	61,277,352
6.	**Labour costs**	19	**136,863,751**	**137,687,403**
a)	Payroll costs		98,714,817	97,977,470
b)	Social security costs		24,720,111	25,039,450
	- of which pension insurance costs		17,330,470	18,104,296
c)	Other labour costs		13,428,823	14,670,483
7.	**Write-downs in value**	20	**82,736,776**	**79,680,448**
a)	Depreciation and amortisation		79,174,657	74,358,495
b)	Revaluation operating expenses associated with FA and PPE		1,921,335	4,927,577
c)	Revaluation operating expenses associated with operating current assets		1,640,784	394,376
8.	**Other operating expenses**	21	**59,930,777**	**61,159,605**
OPERATING PROFIT OR LOSS			**162,194,535**	**116,771,920**
9.	**Finance income from interests**	22	**111,572**	**1,494,470**
c)	Finance income from interests in other companies		27,484	356,176
d)	Finance income from other investments		84,088	1,138,294
10.	**Finance Income from loans given**	22	**3,060,960**	**7,352,653**
b)	Finance income from loans to others		3,060,960	7,352,653
11.	**Finance income from operating receivables**	22	**3,741,242**	**2,621,987**
b)	Finance income from operating receivables due from others		3,741,242	2,621,987
12.	**Finance expenses for impairment and write-downs of investments**	23	**360,972**	**18,962,851**
13.	**Finance expenses for financial liabilities**	23	**11,875,003**	**18,259,988**
b)	Finance expenses for loans received from banks		9,629,326	16,771,877
d)	Finance expenses for other financial liabilities		2,245,677	1,488,111
14.	**Finance expenses for operating liabilities**	23	**1,534,236**	**1,706,952**
b)	Finance expenses for trade liabilities and bills payable		1,015,530	775,300
c)	Finance expenses for other operating liabilities		518,706	931,652
PROFIT OR LOSS ON ORDINARY ACTIVITIES			**155,338,098**	**89,311,239**
15.	**Other revenue**		**3,195,001**	**5,816,120**
16.	**Other expenses**	24	**11,735,043**	**1,596,431**
PROFIT OR LOSS ON EXTRAORDINARY ACTIVITIES			**(8,540,042)**	**4,219,689**
TOTAL PROFIT OR LOSS			**146,798,056**	**93,530,928**
17.	**Corporate income tax**	25	**24,534,268**	**14,022,776**
18.	**Deferred taxes**	26	**8,422,515**	**4,992,938**
19.	**NET PROFIT OR LOSS FOR THE ACCOUNTING PERIOD**	27	**113,841,273**	**74,515,214**
	Net profit or loss of majority owner for the accounting year		112,740,053	73,801,282
	Net profit or loss of minority owner for the accounting year		1,101,220	713,932

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

5.6 CONSOLIDATED CASH FLOW STATEMENT

in €

ITEM	2009	2008
A. CASH FLOWS FROM OPERATING ACTIVITIES		
a) Items of income statement	**187,602,006**	**193,539,109**
Operating revenue (except from revaluation) and finance income from operating receivables	848,132,617	904,614,858
Operating expenses without depreciation/amortisation (except from revaluation) and finance expenses from operating liabilities	(638,890,299)	(701,239,643)
Income taxes and other taxes not included in operating expenses	(21,640,312)	(9,836,106)
b) Changes in net operating assets in balance sheet items (including accruals and deferrals, provisions and deferred tax assets and liabilities)	**8,090,895**	**7,925,206**
Opening less closing operating receivables	15,323,683	24,692,459
Opening less closing accrued revenue and deferred costs	87,404	1,283,815
Opening less closing deferred tax assets	8,615,637	8,700,950
Opening less closing inventories	(5,269,170)	(3,594,707)
Closing less opening operating liabilities	(8,495,560)	(22,144,432)
Closing less opening accrued costs and deferred revenue, and provisions	(2,237,805)	(1,012,879)
Closing less opening deferred tax liabilities	66,706	0
c) Net cash from operating activities (a + b)	**195,692,901**	**201,464,315**
B. CASH FLOWS FROM INVESTING ACTIVITIES		
a) Cash receipts from investing activities	**1,101,606,159**	**1,097,142,789**
Cash receipts from interest and shares in profits of others related to investing activities	3,490,295	8,824,179
Cash receipts from disposal of intangible assets	6,183,312	5,224,704
Cash receipts from disposal of property, plant and equipment	433,855	309,254
Cash receipts from disposal of investment property	78,681	1,287,469
Cash receipts from disposal of long-term investments	256,449	173,727
Cash receipts from disposal of short-term investments	1,091,163,567	1,081,323,456
b) Cash disbursements for investing activities	**(1,328,593,012)**	**(1,332,696,347)**
Cash disbursements to acquire intangible assets	(10,752,816)	(11,402,735)
Cash disbursements to acquire property, plant and equipment	(231,251,393)	(193,443,912)
Cash disbursements to acquire investment property	(100,000)	0
Cash disbursements to acquire long-term investments	(9,131,855)	(4,547,219)
Cash disbursements to acquire short-term investments	(1,077,356,948)	(1,123,302,481)
c) Net cash from investing activities (a + b)	**(226,986,853)**	**(235,553,558)**
C. CASH FLOWS FROM FINANCING ACTIVITIES		
a) Cash receipts from financing activities	**227,073,355**	**334,533,248**
Cash proceeds from paid-in capital	4,630,217	9,553,549
Cash proceeds from increase in long-term financial liabilities	40,807,898	99,155,847
Cash proceeds from increase in short-term financial liabilities	181,635,240	225,823,852
b) Cash disbursements for financing activities	**(198,951,456)**	**(302,288,129)**
Interest paid on financing activities	(13,218,715)	(14,803,124)
Cash repayments of long-term financial liabilities	(28,260,053)	(35,687,717)
Cash repayments of short-term financial liabilities	(157,472,688)	(249,897,288)
Dividends and other profit shares paid	0	(1,900,000)
c) Net cash from financing activities (a + b)	**28,121,899**	**32,245,119**
D. CLOSING BALANCE OF CASH	**10,281,115**	**13,453,168**
x) Net cash flow for the period	**(3,172,053)**	**(1,844,124)**
y) Opening balance of cash	**13,453,168**	**15,297,292**

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

5.7 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year 2008

in €

ITEM		Called-up capital		Revenue reserves						
		Nominal capital	Capital surplus	Other revenue reserves	Revaluation surplus	Retained net profit or loss	Net profit or loss for the period	Consolidation equity adjustment	Equity of minority owners	TOTAL
A.	**Balance as at 01/01/2008**	**29,558,789**	**561,243,185**	**138,319,123**	**22,670,400**	**255,814,550**	**0**	**(433,309)**	**30,201,464**	**1,037,374,202**
B.	**Movements to equity**	**0**	**0**	**0**	**60,357,450**	**1,111,845**	**73,801,282**	**(470,672)**	**29,801,308**	**164,601,213**
a)	Subscription of called-up nominal capital								28,768,925	28,768,925
e)	Net profit or loss for the period						73,801,282		713,932	74,515,214
f)	Equity revaluation adjustments							(470,672)	(130)	(470,802)
g)	Other increases in components of equity				60,357,450	1,111,845			318,581	61,787,876
C.	**Movements within equity**	**0**	**0**	**31,183,706**	**0**	**(4,305,599)**	**(26,878,107)**	**0**	**0**	**0**
a)	Allocation of net profit as a component of equity in accordance with 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**	**(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 as at 31/12/2008**	**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 financial statements and should be read in conjunction with them.

5.7 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year 2009

in €

	ITEM	Called-up capital		Revenue reserves						
		Nominal capital	Capital surplus	Other revenue reserves	Revaluation surplus	Retained net profit or loss	Net profit or loss for the period	Consolidation equity adjustment	Equity of minority owners	TOTAL
A.	**Balance as at 01/01/2009**	**29,558,789**	**561,243,185**	**169,502,829**	**10,561,050**	**297,643,971**	**0**	**(903,981)**	**60,002,772**	**1,127,608,615**
B.	**Movements to equity**	**0**	**0**	**0**	**7,021,678**	**0**	**112,740,053**	**685,310**	**5,787,579**	**126,234,620**
d)	Additional paid-in capital								4,630,218	4,630,218
e)	Net profit or loss for the period						112,740,053		1,101,220	113,841,273
f)	Equity revaluation adjustments							685,310	56,141	741,451
g)	Other increases in components of equity				7,021,678					7,021,678
C.	**Movements within equity**	**0**	**0**	**56,995,557**	**0**	**(26,878,108)**	**(30,117,449)**	**0**	**0**	**0**
a)	Allocation of net profit as a component of equity in accordance with management and supervisory board decision			30,117,449			(30,117,449)			0
b)	Allocation of net profit to additional reserves in accordance with a general meeting resolution			26,878,108		(26,878,108)				0
D.	**Movements from equity**	**0**	**0**	**0**	**(19,838,245)**	**0**	**0**	**0**	**0**	**(19,838,245)**
d)	Transfer of revaluation surplus (to operating revenue or finance income)				13,461,948					13,461,948
e)	Other decreases in components of equity				(33,300,193)					(33,300,193)
E.	**Closing balance as at 31/12/2009**	**29,558,789**	**561,243,185**	**226,498,386**	**(2,255,517)**	**270,765,863**	**82,622,604**	**(218,671)**	**65,790,351**	**1,234,004,990**

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

5.8 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5.8.1 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 disposes of no additional information that is not required 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 recorded at fair value unless the fair value of individual types of assets or liabilities cannot be determined. In this case, they are carried at historical cost.

(1) INTANGIBLE ASSETS AND LONG-TERM ACCRUED COSTS AND DEFERRED REVENUE
€ 41,943,429

The group's intangible assets consist of:

- long-term property rights,
- goodwill,
- long-term deferred development costs, and
- long-term accrued revenue and deferred costs.

The majority of long-term property rights are comprised of emission coupons and computer software.

In 2008, two of the group companies received emission coupons (for the period 2008-2012) on the basis of the Environment Protection Act, Ordinance on the National Plan for the Allocation of Emission Coupons and Decision on Emission Coupons. In accordance with Interpretation

CHANGES IN INTANGIBLE ASSETS

in €

INTANGIBLE ASSETS	LONG-TERM PROPERTY RIGHTS	GOODWILL	LONG-TERM DEFERRED DEVELOPMENT COSTS	OTHER LONG-TERM ACCRUED REVENUE AND DEFERRED COSTS	TOTAL
Cost as at 31/12/2008	**39,959,061**	**12,387,056**	**239,177**	**1,927,820**	**54,513,114**
Acquisitions	10,886,772		1,200	93,704	10,981,676
Disposals	(15,534,969)		(118,701)	(1,803,025)	(17,456,695)
Transfers	60,278			(948)	59,330
Foreign exchange differences	(39)				(39)
Cost as at 31/12/2009	**35,371,103**	**12,387,056**	**121,676**	**217,551**	**48,097,386**
Written-down value as at 31/12/2008	**6,234,800**	**0**	**4,304**	**0**	**6,239,104**
Amortisation	1,417,719		615		1,418,334
Disposals, decreases	(1,508,062)		0	4,583	(1,503,479)
Foreign exchange differences	(2)				(2)
Written-down value as at 31/12/2009	**6,144,455**	**0**	**4,919**	**4,583**	**6,153,957**
Carrying amount as at 31/12/2008	**33,724,261**	**12,387,056**	**234,873**	**1,927,820**	**48,274,010**
Carrying amount as at 31/12/2009	**29,226,648**	**12,387,056**	**116,757**	**212,968**	**41,943,429**

1 of SAS 2 (2006) issued by the Slovene Institute of Auditors, these coupons are carried at € 1 per coupon. The controlling company also has emission coupons that are held for trading purposes.

At the Group level, the opening balance of emission coupons amounted to 24,610,141 coupons. In 2009, 1,583,712 emission coupons were purchased (of which 500,000 within the group) and 6,738,281 were sold or used. As a result, the company had 19,455,572 emission coupons at the end of 2009.

During consolidation, € 2,170,000 worth of emission coupons was eliminated on account of intra-group sales.

Amortisation rates for intangible assets with finite useful lives range between 2% and 50%.

In 2009, emission coupons were impaired within the Group, whereas no reasons for impairment were determined in relation to other intangible assets.

(2) PROPERTY, PLANT AND EQUIPMENT
€ 1,456,811,910

The majority of group companies are engaged in 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 therefore constitute a significant share of Group's assets.

The most important investments in property, plant and equipment of Group companies in 2009 include the construction of PSP Avče, construction of a HPP on the lower Sava River, investments in replacement Unit 6 at TEŠ and reliable production, and renovation of HPP Zlatoličje. In 2009, HPP Blanca was put into operation. Additional information on Group's investments is available in section Investments.

No reasons for impairment of property, plant and equipment were determined in 2009, however, write-offs of worn-out equipment were carried out, mostly during the time of overhauls.

The group companies hold no items of property, plant and equipment under finance lease. One of the group companies has taken out a mortgage on a piece of land in the amount of € 838,624 and a mortgage on a real estate property in the amount of € 4,818,028. The value of the mortgaged real estate is higher than the value of the mortgage.

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
Cost as at 31/12/2008	**27,237,926**	**1,163,688,787**	**1,839,062,869**	**37,716,622**	**278,013,609**	**16,890,083**	**3,362,609,896**
Acquisitions					157,687,117	89,021,409	246,708,526
Transfer from ongoing investments	9,334,851	71,311,066	83,451,884	4,816,735	(176,662,901)		(7,748,365)
Other transfers						(10,763,601)	(10,763,601)
Disposals	(74,601)	(2,205,225)	(14,419,871)	(1,124,937)	(570,965)		(18,395,599)
Foreign exchange differences				(971)			(971)
Cost as at 31/12/2009	**36,498,176**	**1,232,794,628**	**1,908,094,882**	**41,407,449**	**258,466,860**	**95,147,891**	**3,572,409,886**
Written-down value as at 31/12/2008		**681,394,303**	**1,350,622,453**	**28,860,626**			**2,060,877,382**
Transfer from ongoing investments		(6,737,986)	(1,018,726)	(30,724)			(7,787,436)
Depreciation		20,145,717	54,950,458	2,638,558			77,734,733
Disposals		(1,089,014)	(13,190,534)	(946,521)			(15,226,069)
Foreign exchange differences				(634)			(634)
Written-down value as at 31/12/2009		**693,713,020**	**1,391,363,651**	**30,521,305**			**2,115,597,976**
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**
Carrying amount as at 31/12/2009	**36,498,176**	**539,081,608**	**516,731,231**	**10,886,144**	**258,466,860**	**95,147,891**	**1,456,811,910**

(3) LONG-TERM INVESTMENTS
€ 7,899,955

A significant decrease in long-term investments compared to 2008 relates to the transfer of shares of the company Toplofikatsia-Ruse AD to short-term investments, since a contract on sale in the second half of 2010 has been concluded.

In 2009, reasons were determined for impairment of certain long-term investments, as a result of which revaluation operating expenses increased.

In the process of consolidation, € 1,030,201,563 of long-term investments in Group companies were eliminated.

In the process of consolidation, the value of investments in associated companies accounted for using the equity method increased by € 50,641.

CHANGES IN LONG-TERM INVESTMENTS OTHER THAN LOANS

in €

LONG-TERM INVESTMENTS, EXCLUDING LOANS	INVESTMENTS IN SHARES AND INTERESTS OF COMPANIES OTHER THAN ASSOCIATES	INVESTMENTS IN SHARES AND INTERESTS OF ASSOCIATES	OTHER INVESTMENTS IN SHARES AND INTERESTS	OTHER LONG-TERM INVESTMENTS	TOTAL
Cost as at 31/12/2008	**3,034,734**	**1,015,126**	**47,294,798**	**120,815**	**51,465,473**
Acquisitions, increases		100,000	500	12,224	112,724
Disposals, decreases			(221,200)	(7,974)	(229,174)
Transfers		(1,650)	(43,425,871)		(43,427,521)
Revaluation	(8,763)	(43,138)	(363,940)		(415,841)
Cost as at 31/12/2009	**3,025,971**	**1,070,338**	**3,284,287**	**125,065**	**7,505,661**
Written-down value as at 31/12/2008	**0**	**0**	**362,355**	**0**	**362,355**
Revaluation			(321,520)		(321,520)
Written-down value as at 31/12/2009	**0**	**0**	**40,835**	**0**	**40,835**
Carrying amount as at 31/12/2008	**3,034,734**	**1,015,126**	**46,932,443**	**120,815**	**51,103,118**
Carrying amount as at 31/12/2009	**3,025,971**	**1,070,338**	**3,243,452**	**125,065**	**7,464,826**

(4) DEFERRED TAX ASSETS
€ 10,844,341

In 2009 deferred tax assets were created anew in connection with:

- creation of provisions for jubilee and termination benefits,
- creation of doubtful receivables,
- impairment of investments,
- fair values of derivatives,
- differences between operating and tax depreciation and amortisation.

The utilisation of or decrease in deferred tax assets was a result of:

- use of provisions for jubilee and termination benefits,
- reversal and use of other provisions,
- reversal of doubtful receivables,
- utilisation of tax losses,
- utilisation of differences between operating and tax depreciation and amortisation.

At the end of 2009, the Group's deferred tax liabilities stood at € 69,345.

The amount of deferred tax assets eliminated in consolidation totalled € 4,242,694.

CHANGES IN DEFERRED TAX ASSETS

in €

DEFERRED TAX ASSETS	PROVISIONS	IMPAIRMENT	DEPRECIATION AND AMORTISATION	OTHER	TOTAL
Value as at 31/12/2008	**8,593,378**	**6,732,878**	**93,686**	**3,880,254**	**19,300,196**
Creation, increase	432,772	413,353	7,636	1,575	855,336
Use, decrease	(1,935,551)	(6,656,783)	(61,437)	(657,420)	(9,311,191)
Value as at 31/12/2009	**7,090,599**	**489,448**	**39,885**	**3,224,409**	**10,844,341**

(5) INVENTORIES
€ 37,869,366

The Group's inventories consist of material, which also includes small tools with a useful life of up to 1 year and value of less than € 500, products, work in progress and advances for inventories.

In the inventories of material, the biggest amount refers to inventories of maintenance material, spare parts and heating oil.

Inventories of products mostly include coal.

During the inventory count, surplus of material determined amounted to € 321,935, while deficit of material amounted to € 14,255.

In 2009, € 46,384 worth of material was written off from inventory due to changes in its quality and value.

The net realisable value of inventories is not lower than their carrying amount.

No inventories have been used as collateral.

(6) SHORT-TERM INVESTMENTS
€ 150,074,101

A significant portion of Group's short-term investments refer to deposits with major Slovenian banks, hence the exposure to risks is minimal. Deposits with banks have not been secured, while the loans granted have been secured.

Other shares include shares in Toplofikatisia-Ruse AD owned by the controlling company.

During the consolidation process an impairment of a loan by one of the Group companies in 2008 in the amount of € 6,600,000 was reversed due to the repayment of the loan after the balance sheet date.

TYPE OF SHORT-TERM INVESTMENTS

in €

TYPES OF SHORT-TERM INVESTMENTS	31/12/2009	31/12/2008
Other shares and interests	43,427,521	0
Deposits with banks	96,957,896	113,231,694
Short-term loans to associates	50,000	0
Short-term loans to others	9,636,835	3,142,025
Other short-term investments	1,849	1,554
Total	**150,074,101**	**116,375,273**

(7) RECEIVABLES
€ 149,800,521

The Group's receivables comprise:

- long-term operating receivables in the amount of € 4,043,837, and
- short-term operating receivables in the amount of € 145,756,684.

The majority of long-term trade receivables are secured. Other long-term operating receivables mainly comprise deposits given as collaterals for electricity trading by the controlling company; in this case receivables are not secured.

Due to production of electricity by subsidiaries and purchase of electricity by the controlling company, the majority of short-term trade receivables are related to the sale of electricity by the controlling company.

The majority of short-term trade receivables are secured, whereas due to their nature, others are not.

€ 1,318,897 worth of allowances for receivables have been created within the Group.

The amount of short-term receivables eliminated in consolidation totalled € 107,513,333.

LONG-TERM OPERATING RECEIVABLES BY MATURITY DATE

in €

LONG-TERM OPERATING RECEIVABLES	MATURITY DATE			
	before 31/12/2012	between 01/01/2013 and 31/12/2014	after 01/01/2015	TOTAL
Trade receivables	429,640	143,161	275,790	848,591
Receivables from others	3,068,685	25,107	101,454	3,195,246
Total	**3,498,325**	**168,268**	**377,244**	**4,043,837**

SHORT-TERM OPERATING RECEIVABLES BY MATURITY DATE

in €

SHORT-TERM OPERATING RECEIVABLES	BREAKDOWN BY MATURITY DATE						
	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	TOTAL
Trade receivables	100,569,393	14,795,562	1,294,177	2,340,735	64,681	437,593	119,502,141
Receivables from others	26,615,622	1,849	9,774	884,624	14,747	46,824	27,573,440
Total	**127,185,015**	**14,797,411**	**1,303,951**	**3,225,359**	**79,428**	**484,417**	**147,075,581**

(8) CASH
€ 10,281,115

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 € 11,101,000 but were not used as at 31/12/2009.

(9) SHORT-TERM ACCRUED REVENUE AND DEFERRED COSTS
€ 7,554,436

The largest share of accrued revenue and deferred costs refers to transactions related to electricity trading by the controlling company.

The amount of short-term accrued revenue and deferred costs eliminated in consolidation totalled € 3,229,860.

(10) EQUITY
€ 1,234,004,990

The value of nominal capital and capital surplus remained unchanged in 2009.

Other revenue reserves amount to € 226,498,386 and constitute a portion of retained earnings of the controlling company.

Retained earnings in the amount of € 270,765,863 represent the controlling company's participation in the retained earnings of subsidiaries and the differences in consolidation from previous years.

Net profit for the financial year totals € 82,622,604 and comprises the accumulated profit of the controlling company in the amount of € 30,117,449, the 2008 profits or losses of subsidiaries attributable to the controlling company in the amount of € 37,739,561, and a decrease by € 14,765,594 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 in the amount of € -2,255,517 consists of the revaluation surplus in the controlling company in the amount of € -1,573,172 (hedging derivatives), the share of the controlling company in revaluation surpluses of subsidiaries in the amount of € -693,829, and the share of the controlling company in an associate's profit in the amount of € 11,484.

Consolidation equity adjustment of € -218,671 represents foreign exchange differences that occurred in the translation of balance sheet items and income statement items of subsidiaries abroad and of foreign exchange difference determined in the process of consolidation.

Minority interest amounts to € 65,790,351.

The amount of subsidiaries' equity eliminated during consolidation totalled € 1,015,455,220.

PROFIT OR LOSS OF THE GROUP AFTER EQUITY RESTATEMENT

in €

PROFIT OR LOSS OF THE COMPANY AFTER EQUITY RESTATEMENT	31/12/2009
Net profit or loss	112,740,053
Equity restatement result	(19,233,177)
Profit or loss after restatement based on consumer prices (1.8% growth)	**93,506,876**

EQUITY

in €

TOTAL EQUITY	31/12/2009	31/12/2008
Nominal capital	29,558,789	29,558,789
Capital surplus	561,243,185	561,243,185
Other revenue reserves	226,498,386	169,502,829
Revaluation surplus	(2,255,517)	10,561,050
Retained net profit or loss	270,765,863	250,720,796
Net profit or loss for the period	82,622,604	46,923,175
Consolidation equity adjustment	(218,671)	(903,981)
Equity of minority owners	65,790,351	60,002,772
Total	**1,234,004,990**	**1,127,608,615**

(11) PROVISIONS AND LONG-TERM ACCRUED COSTS AND DEFERRED REVENUE
€ 112,410,723

Significant provisions in the Group comprise provisions for termination and jubilee benefits, provisions for the for closing down the Škale Pit and the remaining coalmining sites in Velenje, provisions for claims, provisions for lawsuits and provisions created and used in accordance with legislation covering disability organisations.

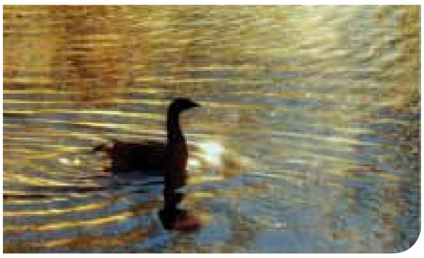
Provisions for termination and jubilee benefits were created based on an actuarial calculation as at 31/12/2009 for all group companies in Slovenia.

The actuarial calculation was based on:

- the number of employees in companies as at 31/10/2009 (gender, age, overall and pension qualifying period of service, average net and gross salary for the period August – October 2009),
- the method for calculating termination and jubilee benefits in a group company,
- 3.5% increase in average salary,
- staff turnover by age category.

Provisions for closing down the Škale Pit and the remaining coalmining sites in Velenje have been created on the basis of documents prepared by the subsidiary that created said provisions.

Long-term accrued costs and deferred revenue include provisions for government grants received for acquisition of fixed assets, which were utilised in 2009 in connection with the depreciation charge. This group also includes provisions related to the emission coupons received.



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 ACDR	TOTAL
Value as at 31/12/2008	**12,079,249**	**73,233,791**	**32,733,829**	**118,046,869**
Creation, increases	2,688,437	15,422,003	137,249	18,247,689
Use, reversal	(1,516,957)	(15,694,037)	(6,672,841)	(23,883,835)
Value as at 31/12/2009	**13,250,729**	**72,961,757**	**26,198,237**	**112,410,723**
Creation planned				1,258,085
Use planned				12,810,791

(12) LONG-TERM LIABILITIES € 268,461,575

The Group's long-term liabilities comprise:

- long-term financial liabilities in the amount of € 265,817,089,
- long-term operating liabilities in the amount of € 2,575,141, and
- deferred tax liabilities in the amount of € 69,345.

Long-term financial liabilities of group companies mainly relate to long-term bank loans. Loans have been taken with Slovene and foreign banks, and interest rates range between 1% and 6%, depending on the type of the loan, maturity and moment of borrowing. They also include loans which fall due in a period of more than five years, but not later than 2028.

Long-term financial liabilities are secured by bills of exchange, acceptance orders, guarantees, receivables or warranties issued by the Republic of Slovenia.

Long-term financial liabilities are disclosed in greater detail in the annual reports of the 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 fall 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.

TYPES OF LONG-TERM LIABILITIES

in €

TYPES OF LONG-TERM LIABILITIES	31/12/2009	31/12/2008
Long-term financial liabilities to banks	264,340,954	288,744,803
Long-term financial liabilities to others	1,476,135	1,619,858
Long-term operating trade liabilities	2,350,303	2,008,006
Long-term operating liabilities from advances	13,460	0
Long-term operating liabilities to others	211,378	309,956
Deferred tax liabilities	69,345	2,639
Total	**268,461,575**	**292,685,262**

MATURITY DATES OF LONG-TERM LIABILITIES

in €

LONG-TERM LIABILITIES	MATURITY DATE			
	before 31/12/2012	between 01/01/2013 and 31/12/2014	after 01/01/2015	TOTAL
Long-term financial liabilities to banks	68,197,642	57,066,475	139,076,837	264,340,954
Long-term financial liabilities to others	1,468,119	8,016		1,476,135
Long-term operating trade liabilities	2,350,303			2,350,303
Long-term operating liabilities from advances			13,460	13,460
Long-term operating liabilities to others	11,878	2,271	197,229	211,378
Total	**72,027,942**	**57,076,762**	**139,287,526**	**268,392,230**

(13) SHORT-TERM LIABILITIES € 245,988,475

The Group's short-term liabilities comprise:

- short-term financial liabilities in the amount of € 108,817,376 and
- short-term operating liabilities in the amount of € 137,171,099.

All short-term liabilities have not yet fallen due and are comprised of both short-term loans as well as a portion of long-term loans falling due in one year after the balance sheet date. They are secured by bills of exchange, acceptance orders, guarantees, receivables or warranties issued by the Republic of Slovenia.

Interest rates charged on short-term loans range from 2.2% to 5.5%.

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 € 38,390.

The amount of short-term operating liabilities eliminated in consolidation totalled € 110,713,499.

TYPES OF SHORT-TERM LIABILITIES

in €

TYPES OF SHORT-TERM LIABILITIES	31/12/2009	31/12/2008
Short-term financial liabilities to banks	108,753,988	45,298,464
Short-term financial liabilities to others	63,388	183,345
Short-term operating trade liabilities	96,629,000	104,387,218
Short-term operating liabilities to associates	0	4,388
Short-term operating liabilities from advances	111,062	190,486
Short-term operating liabilities to others	40,431,037	43,988,321
Total	**245,988,475**	**194,052,222**

MATURITY DATES OF SHORT-TERM OPERATING LIABILITIES

in €

SHORT-TERM OPERATING LIABILITIES	BREAKDOWN BY MATURITY			
	Not yet due	Up to 3 months overdue	9 to 12 months overdue	TOTAL
Short-term trade liabilities	96,590,610	19,516	18,874	96,629,000
Short-term liabilities from advances	111,062			111,062
Short-term liabilities to others	40,431,037			40,431,037
Total	**137,132,709**	**19,516**	**18,874**	**137,171,099**

(14) SHORT-TERM ACCRUED COSTS AND DEFERRED REVENUE
€ 13,489,385

The bulk of the Group's short-term accrued costs and deferred revenue refer to accrued costs of unutilised leave, costs of concessions and VAT on advances granted.

The amount of short-term accrued cost and deferred revenue relating to accrued costs of emission coupons, which were eliminated during consolidation, totalled € 2,201,675.

Off-balance sheet records

Off-balance sheet items encompass granted and received instruments for collateralisation of payments (bank guarantees, insurance policies), granted guarantees and the value of futures.

CHANGES IN SHORT-TERM ACCRUED COSTS AND DEFERRED REVENUE

in €

ACCRUED COSTS AND DEFERRED REVENUE	SHORT-TERM ACCRUED COSTS	SHORT-TERM DEFERRED REVENUE	TOTAL
Value as at 31/12/2008	**15,310,256**	**7,559**	**15,317,815**
Creation, increases	20,124,697	42,979	20,167,676
Use, release	(21,988,429)	(7,559)	(21,995,988)
Foreign exchange differences	(118)	0	(118)
Value as at 31/12/2009	**13,446,406**	**42,979**	**13,489,385**
Creation planned			81,900
Use planned			4,137,976

5.8.2 CONSOLIDATED INCOME STATEMENT

The consolidated income statement has been prepared using Format I as defined in SAS 25.

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.

REVENUE
€ 887,266,362

The Groups' revenue is comprised of operating revenue, finance income and other revenue.

TYPES OF REVENUE

in €

TYPES OF REVENUE	2009	2008
Operating revenue	877,157,587	903,420,050
Finance income	6,913,774	11,469,110
Other revenue	3,195,001	5,816,120
Total	**887,266,362**	**920,705,280**

EXPENSES
€ 740,468,306

The Group's expenses are comprised of operating, finance and other expenses.

TYPES OF EXPENSES

in €

TYPES OF EXPENSES	2009	2008
Operating expenses	714,963,052	786,648,130
Finance expenses	13,770,211	38,929,791
Other expenses	11,735,043	1,596,431
Total	**740,468,306**	**827,174,352**

(15) NET SALES REVENUE
€ 804,287,077

Most of the net sales revenue refers to the revenue generated through the sale of electricity.

The amount of net sales revenue eliminated in consolidation totalled € 553,758,394.

(16) CAPITALISED OWN PRODUCTS
€ 12,150,305

In consolidation, the value of capitalised own products and services increased by € 5,853,840, which represents the sale of property, plant and equipment within the Group.

(17) OTHER OPERATING REVENUE
€ 57,633,426

The majority of other operating revenue is represented by revaluation operating revenue arising from reversal of doubtful receivables and impairment of loans, revenue arising from reversal of provisions and revenue from emission coupons received from the Republic of Slovenia.

During the consolidation process, revaluation operating revenue increased by € 6,600,000 due to a reversed impairment of a loan in a subsidiary. At the same time, € 88,107 of other operating revenue was eliminated.

(18) COSTS OF GOODS, MATERIALS AND SERVICES
€ 435,431,748

The majority of costs of goods and material sold consist of costs of electricity, gas, coal and other energy products required for electricity production and costs of spare parts.

The cost of goods and materials sold eliminated during consolidation totalled € 544,757,415.

Costs of services are predominantly comprised of costs of maintenance services and costs related to operation of property, plant and equipment, insurance premiums and public utilities.

The costs of services eliminated during consolidation totalled € 2,433,024.

(19) LABOUR COSTS
€ 136,863,751

Labour costs comprise salaries and allowances, social insurance contributions, additional pension insurance and other labour costs (meal allowance, commuting allowance, holiday allowance, jubilee benefits, financial support, termination benefits, etc.).

(20) WRITE-DOWNS IN VALUE
€ 82,736,776

Most of the write-downs in value refer to the amortisation of intangible assets and depreciation of property, plant and equipment.

The Group applies similar rates of depreciation to property, plant and equipment of the same kind. As for the manufacturing plant and equipment, individual subsidiaries apply depreciation rates that correspond to the activity carried out.

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.

With intangible assets and property, plant and equipment, the biggest part of revaluation operating expenses refers to the write-down of unusable and technologically or economically inefficient assets, whereas with operating current assets it refers to creation of doubtful receivables.

AMORTISATION AND DEPRECIATION RATES OF INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

TYPE OF ASSET	2009
Buildings	1 - 11.33 %
Production equipment	1.3 - 33.33 %
Other equipment	6.45 - 50 %
Intangible assets	2 - 50 %

(21) OTHER OPERATING EXPENSES € 59,930,777

Other operating expenses mostly comprise a concession contribution to the state, contributions for building sites, water charge, environmental charges and formation of provisions.

The amount of other intra-group operating expenses eliminated during consolidation totalled € 3,327.

TYPES OF OPERATING EXPENSES

in €

TYPES OF OPERATING EXPENSES	2009	2008
Cost of goods sold and costs of materials	373,658,981	446,843,322
Costs of services	61,772,767	61,277,352
Labour costs	136,863,751	137,687,403
Depreciation and amortisation	79,174,657	74,358,495
Revaluation operating expenses associated with intangible assets and property, plant and equipment	1,921,335	4,927,577
Revaluation operating expenses associated with operating current assets	1,640,784	394,376
Other operating expenses	59,930,777	61,159,605
Total	**714,963,052**	**786,648,130**

(22) FINANCE INCOME € 6,913,774

The largest part of finance income consists of interest on deposits and loans, revenue from default interest and foreign exchange gains.

The amount of finance income eliminated during consolidation totals € 16,019,524. This mainly relates to the payment of a share of profit to the controlling company by the subsidiary.

(23) FINANCE EXPENSES € 13,770,211

The largest part of finance expenses consists of interest expenses for long- and short-term loans, which decreased substantially compared to 2008 due to lower EURIBOR.

The amount of finance expenses eliminated during consolidation totals € 29,226,940. These mainly relate to the reversal of impairment of a long-term investment in a subsidiary.

(24) OTHER EXPENSES
€ 11,735,043

The payment of a fine by the controlling company and compensation for mining damages account for the majority of other expenses.

SEGMENTS

BUSINESS SEGMENTS

in €

NET SALES REVENUE BY BUSINESS SEGMENT	2009	2008
Electricity	775,828,679	840,340,453
Other	28,458,398	32,421,875
Total	**804,287,077**	**872,762,328**

GEOGRAPHICAL SEGMENTS

in €

NET SALES REVENUE BY GEOGRAPHICAL SEGMENT	2009	2008
Domestic market	555,731,387	625,382,932
Foreign market	248,555,690	247,379,396
Total	**804,287,077**	**872,762,328**

COSTS BY FUNCTIONAL GROUP

in €

OVERVIEW OF COSTS BY FUNCTIONAL GROUP	2009	2008
Cost of goods sold or production costs of quantities sold	619,753,961	693,637,238
Cost of sales	13,873,964	13,408,994
General and administrative costs	66,098,043	75,463,558

(25) CORPORATE INCOME TAX
€ 24,534,268

In 2009, seven group companies in Slovenia and four out of six 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 2009, the group companies' unused tax losses stood at € 30,672,313.

(26) DEFERRED TAXES
€ 8,422,515

Deferred taxes refer to deferred tax assets recognised in the likely amount of available profit against which they can be used in the future. Deferred tax assets are decreased by the amount up to which it is no longer probable that tax deductible expenses can be utilised in the future or the amount up to which expenses have been included in tax statements for the current year. In 2009, the group companies disclosed € 4,179,821 in deferred taxes. In the consolidation process, additional € 4,242,694 of deferred tax assets has been eliminated.

(27) NET PROFIT OR LOSS
€ 113,841,273

Net profit or loss represents the net profit or loss of the controlling company € 60,234,898, the controlling company's share of profits or losses of its subsidiaries € 37,739,561, cumulative increase in profit or loss as a result of reversal of impairment in the group, reversal of impairment of a loan due to repayment in 2010, elimination of finance income of the controlling company associated with payment of shares of profit of subsidiaries and other effects on the consolidated profit or loss during consolidation € 14,765,594, and net profit or loss of minority owners € 1,101,220.

PROFIT OR LOSS OF THE GROUP

in €

TYPE OF PROFIT OR LOSS	2009	2008
Operating profit or loss	162,194,535	116,771,920
Profit or loss on ordinary activities	155,338,098	89,311,239
Profit or loss on extraordinary activities	(8,540,042)	4,219,689
Total profit or loss	146,798,056	93,530,928
Net profit or loss for the accounting period	113,841,273	74,515,214
- of which majority owner	112,740,053	73,801,282
- of which minority owner	1,101,220	713,932

5.8.3 CONSOLIDATED CASH FLOW STATEMENT

General

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

Cash comprises cash in 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 in the consolidated cash flow statement has been obtained from cash flow statements of Group companies, taking into account eliminations in the process of consolidation.

CASH FLOWS

in €

TYPE OF CASH FLOW	2009	2008
Cash flows from operating activities	195,692,901	201,464,315
Cash flows from investing activities	(226,986,853)	(235,553,558)
Cash flows from financing activities	28,121,899	32,245,119
Net cash flow for the period	**(3,172,053)**	**(1,844,124)**

5.8.4 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 in accordance with Format I as defined by SAS 27.2. Accumulated profit is not determined on the Group level.

Movements to equity

In 2009 movements to equity amounted to € 126,234,620.

The equity of the Group (excluding minority interests) increased by € 120,447,041. The increase relates to:

- the net profit of the Group in the amount of € 112,740,053,
- the amount of consolidation equity adjustment (€ 685,310) arising from foreign exchange differences in subsidiaries abroad,
- the amount of revaluation surplus amounting to € 7,021,678, of which € 6,630,506 was recorded by the controlling company (gain on futures used for hedging), € 386,780 represents the controlling company's share of revaluation surplus of subsidiaries and € 4,392

represents the controlling company's share of profits of associates.

Minority interest increased by € 5,787,579, of which:

- € 4,630,218 relates to additional equity contributions by company members in subsidiaries,
- € 1,101,220 relates to net profit of group companies, and
- € 56,141 relates to the revaluation surplus created by Group companies.

Movements within equity

Movements within equity amounting to € 56,995,557 comprise:

- allocation of the controlling company's accumulated profit for 2008 (in accordance with a General Meeting resolution) of € 26,878,108 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 € 30,117,449 to other revenue reserves.

Movements from equity

Movements from equity amount to € -19,838,245 and represent a decrease in revaluation surplus of the controlling company.

5.8.5 OTHER DISCLOSURES

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 receipts 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 2009, members of Management Boards, other employees who are not subject to the tariff part of the collective labour agreement, and members of the Group's Supervisory Boards did not participate in the net profits under resolutions adopted by General Meetings, nor were they approved any advances, loans or guarantees by group companies.

At the end of 2009, group companies had no loan receivables and operating receivables from the above groups of persons.

Costs of audit and tax consulting

The cost of audit of the annual reports of HSE Group companies amounted to € 209,391. The costs of other non-audit services totalled € 3,780.

Business events after the consolidated balance sheet date

Due to a repayment of a loan to a subsidiary after the date of approval of 2009 financial statements, the reversal of impairment of the loan from 2008 was taken into account in the consolidation process at the Group level, namely, the Group's net profit increased by € 5,280,000.

Business events after the consolidated balance sheet date are disclosed in the business report. There were no other important business events within the group that would have an impact on the group's financial statements for 2009.

REMUNERATION OF INDIVIDUAL GROUPS OF PERSONS

in €

GROUPS OF PERSONS	2009	2008
Members of management boards	1,521,426	1,386,821
Employees who are not subject to the tariff part of the collective agreement	3,949,301	4,503,940
Members of supervisory boards	222,888	350,289

Imagination drives the world forward

with unsurpassable enthusiasm. Imagination is the superior creative force in all areas of our activities; it is what separates us from other living creatures.

06

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Abbreviations

€	The euro
ARDC	Accrued revenue and deferred costs
DEP/AM	Depreciation/amortisation
EA	Environmental Agency of RS
GDP	Gross domestic product
BiH	Bosnia and Herzegovina
CC	Control centre
PSP	Pumped storage plant
CBTC	Cross-border transfer capacities
VAT	Value-added tax
DEM	Dravske elektrarne Maribor
NSP	National spatial plan
EBIT	Operating profit or loss
EBITDA	Operating profit or loss plus depreciation and amortisation
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 sources
EU	European Union
EURIBOR	Euro interbank offered rate
EXAA	Austrian electricity exchange
ECS	Energy Chamber of Slovenia
FIFO	First-in first-out method
CCI	Chamber of Commerce and Industry of Slovenia
HACCP	Renewable energy certificate system
HPP	Hydropower plant
HESS	Hidroelektrarne na spodnji Savi
HICP	Harmonised Index of Consumer Prices
HSE	Holding Slovenske elektrarne
IPEX	Italian electricity exchange
ISO	International Organisation for Standardisation
IT	Information technology
NPP	Nuclear power plant
MoF	Ministry of Finance
MoE	Ministry of the Economy
SHPP	Small hydropower plants

MESP	Ministry of the Environment and Spatial Planning
NAC	Network Access Control
NAP	Network Access Protection
NFI	Non-governmental financial institutions
RIP	Revised investment programme
NKBM	Nova kreditna banka Maribor
NLB	Nova ljubljanska banka
SB	Supervisory Board
ODOS	Electronic document system
OHSAS	Occupational health and safety management system
OTE	Czech electricity market operator
RES	Renewable energy sources
ACDR	Accrued costs and deferred revenue
DOBP	Design for obtaining a building permit
GO	Guarantees of origin
GSPP	Gas and steam power plant
PV	Premogovnik Velenje (Velenje coalmine)
PXE	Prague electricity exchange
RECS	Renewable energy certificate system
RS	Republic of Slovenia
RTH	Trbovlje-Hrastnik coalmine
SDE	Slovene Power Sector Trade Union
SEL	Savske elektrarne Ljubljana
SENG	Soške elektrarne Nova Gorica
SPESS	Slovene Union of Coalminers
SAS	Slovene Accounting Standards
JWC	HSE Group Joint Workers' Council
TPP	Thermal power plant
TEŠ	Termoelektrarna Šoštanj
TET	Termoelektrarna Trbovlje
GG	Greenhouse gases
TC	Telecommunications
IMAD	Institute of Macroeconomic Analysis and Development
EEU	Efficient energy use
ZGD	Companies Act
CCS	Carbon capture and storage
ZEPP	Zero emission power plants

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THE SLOVENIAN VERSION OF THIS ANNUAL REPORT IS AUTHORITATIVE.

Image list

The company HSE organised a photography competition entitled Slovene Rivers, which took place between October 30, 2009, and February 25, 2010. Among 1,363 photos received, an expert commission headed by Arnej Hodalič, an internationally renowned photographer, selected fifty of the best. Some of the photographs were also used in our annual report.

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