Annual Report
of the Company HSE and HSE Group
2010

Energy
my inspiration

hse
Holding Slovenske elektrarne d.o.o.

Energy

my inspiration

Eco-task

Send solar messages / Make an Eco-mascot

OŠ Mala Nedelja
5th grade
Mentor: Klaudija Zadravec

Eco-task

Plant a tree

OŠ Neznanih talcev, Dravograd, PŠ Črneče
1st – 4th grade
Mentor: Maja Medved Kajzer

Eco-task

Let's help Modri Jan

OŠ Gustava Šiliha, Laporje
3rd grade
Mentor: Andreja Perkovič

Eco-task

Blue water drop

OŠ Mihe Pintarja Toleda, Velenje
3rd grade
Mentor: Jožica Ramšak

Slovenia. With its geographic diversity and natural beauty. With an abundance of animal and plant life. Small, but at the same time open in spirit. Soothing and inspiring. Home to industrious people, top athletes and world-renowned artists.

HSE is the largest electricity producer in Slovenia.

Energy
my inspiration

What is it that makes people successful? It is life energy. It drives them forward, discovering new ways, seeking new opportunities, making new friends. This is the same energy that makes us successful, as HSE is the largest electricity producer in Slovenia. And because it drives us further and further, we also have a widespread international network. However, in order to be successful, we, as many others, need inspiration. Our inspiration is nature. And as we are aware of the importance of nature and how essential it is to preserve its resources, we devote special attention to environmental protection. Through the projects Modra energija (Blue Energy), Energija si – bodi učinkovit (You are Energy – Be Efficient) and Ekomobil (Ecomobile) we are attempting to raise awareness about renewable energy sources in the wider public. In doing so, we are also helped by Modri Jan (Blue Ian) – a likable blue water drop which educates children to be responsible towards the environment and use energy rationally.

There is a saying that “the children are our future” and if this is so and they will be trusted with our planet, it makes sense to show them how they should treat it. We must teach them how to take care of the planet, how to protect the environment and how to use its resources in a manageable way, much the same as we taught them their first steps and their first words. We must teach them love.
Love towards nature, themselves and towards life.

Only time will show how successful we are in our efforts. To give you a general impression, below you can take a peek at some “Eco-tasks”, carried out by children. These were a part of the *Modri Jan tours the schools and assigns environmental tasks* project, in which almost 400 primary schools and kindergartens participated. More than 8,000 children. They were inspired by nature. As were we. All of us are driven by energy.

Annual Report 2010

Holding Slovenske elektrarne d.o.o.

Contents

8,429 GWh

Record annual production of electricity by the HSE Group.

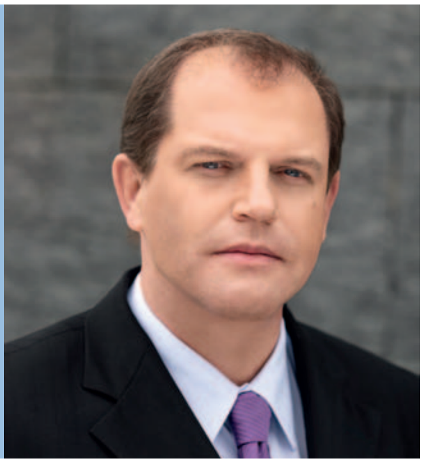
1

Introduction

1.1

Foreword by the Managing Director

2010: We have entered a decade of great challenges



Despite the fact that we can claim with confidence that 2010 was one of the most successful years in the history of the HSE Group which, as such, clearly defined our goals for the following years, an even more important development is the beginning of the largest capital investment in the Slovenian energy sector in the past few decades. Therefore, this year has been of even greater importance due to the challenges the HSE Group has set itself for the next decade.

In 2010, all the production, market and financial goals were achieved as evident by the numbers, record production of electricity in the amount of 8,43 terawatt hours, and 16 terawatt hours of electricity sold, which together resulted in more the € 900 million of net sales revenue and almost € 80 million of net profit. According to our results and most performance indicators, we are one of the most successful Slovenian companies. It should also be noted that more than a half of revenue was generated in markets outside Slovenia and that therefore we can claim that our market is Europe. Due to intensified marketing activities and with the help of favourable hydrology we were able to retain more than a half of the market share in electricity sales while increasing the quantity of electricity sold by 23 percent relative to 2009.

We are proud of the fact that HSE Group produces almost a half of its electricity from renewable resources, which represents 80 percent of all electricity produced from renewable resources in Slovenia. It should also be noted that the end product, electricity, is produced entirely from domestic primary resources, i.e. coal and energy potential of our rivers. The result of these facts is substantial added value throughout the production chain and, as a consequence, great significance for the Slovenian economy.

In 2010, we moved ahead with our key capital investments in hydroelectric power plants in the lower Sava River and also started the project for the largest energy sector investment in Slovenia – replacement Unit 6 at TEŠ. Unit 6 at TEŠ will be important for stable, efficient and environmentally sustainable electricity production and represents an investment in which the whole of the HSE Group is taking part. The project also bears great significance for the Slovenian energy sector as it will cover at least a third of all electricity requirements.

HSE Group remains the largest Slovenian investor in energy-producing facilities. As in previous years, the focus of our investments remains on electricity production based on renewable energy sources. The project for the construction of hydroelectric power plants on the lower Sava River is moving forward. The construction of HPP Krško is in its final stages; it will be followed by HPPs Brežice and Mokrice after which the HPP chain will be completed. The pumped-storage power plant Kozjak and HPPs on the middle Sava and Mura Rivers are in the stage of project documentation and spatial planning. We hope that we will be able to start construction in the shortest time possible.

We are aware that every energy investment represents an intervention into the environment and the human habitat which is why we devote special attention to environmental issues. In doing so, our goal is to minimise negative effects and, wherever possible, improve living conditions. We require both clean environment and energy; therefore, in energy projects, a compromise between the environment, energy and people is a necessity. In order to be able to achieve that, all the stakeholders in the process of spatial planning of energy-producing facilities must be able to listen, be heard and, finally, reach an agreement. It is our belief that a positive attitude and constructive cooperation will enable us to achieve the goals significant for the economic development as well as improvement of living conditions in the vicinity of energy-producing facilities.

In 2011, HSE Group will be celebrating its 10th anniversary – although a short period for the energy sector, this was a period of great commercial progress. The future development of the HSE Group, both in production and marketing of electricity, will be based on our previous achievements.

We have accepted many great challenges and now it is time to make them a reality.

Ljubljana, 3 May 2011

Matjaž Janežič, M.Sc.
Managing Director of HSE d.o.o.

1.2
Report of the Supervisory Board

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

- the method and extent of examination of the company's operations in the 2010 financial year,
- the review and confirmation of the annual report of the company HSE and the HSE Group for 2010,
- the examination of the proposal for allocation of accumulated profit,
- the Supervisory Board's position on the auditor's reports.

In the 2010 financial year, the Supervisory Board included the following owner's representatives: from 1.1.2010 to 10.10.2010: Franc Žerdin, Ph.D., Franc Žlahtič, Ph.D., Igor Tičar, Ph.D. and Mojca Kert Kos; and from 11.10.2010 to 31.12.2010: Drago Dolinar, Ph.D., Marjan Ravnikar, M.Sc., Vekoslav Korošec, M.Sc., and Jadranko Medak. The employee representatives were: Boštjan Jančar from 1.1.2010 to 16.9.2010, Silvester Medveščček from 1.1.2010 to 4.10.2010, Rene Jeromel from 17.9.2010 to 31.12.2010 and Mojca Turnšek, M.Sc., from 5.10.2010 to 31.12.2010.

The Supervisory Board members cooperating in the Audit Committee were Franc Žerdin, Ph.D. (from 1.1.2010 to 10.10.2010), Boštjan Jančar (from 1.1.2010 to 16.9.2010), Rene Jeromel (from 17.9.2010 to 10.10.2010) and Brane Podboršek, who was appointed to the Audit Committee in accordance with Article 280 of the Companies Act as an independent accounting and tax expert (from 1.1.2010 to 10.10.2010). At its 1st regular meeting on 13.10.2010, the Supervisory Board established that on 10.10.2010 the mandate of the current board members, appointed by the government of RS, expired which also meant that their mandate in the Audit Committee of the Supervisory Board came to an end. On the day of expiration of mandate of current HSE d.o.o. Supervisory Board members, the mandate of the external Audit Committee member Brane Podboršek also ended.

Supervisory Board meetings were attended by the following management members:

- from 1.1.2010 to 5.10.2010 Borut Meh, Managing Director
- from 6.10.2010 to 4.11.2010 Viljem Pozeb, M.Sc., Managing Director
- from 5.11.2010 to 31.12.2010 Matjaž Janežič, M.Sc., Managing Director.

1.2.1 Monitoring and supervision of company operations

The company's Supervisory Board held twenty two meetings in 2010, of which eight were regular, nine were extraordinary and five were correspondence meetings. In addition to reviewing information about the company's operations and discussing legal transactions requiring its preliminary approval, the Supervisory Board was also briefed on 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. The Supervisory Board devoted special attention to the company's liquidity and provision of sufficient financial resources required for the Group's key development projects.

Special attention was also devoted to active cooperation in the project for the construction of replacement Unit 6 at Termoelektrarna Šoštanj, d.o.o., the largest energy project in Slovenia. In relation to this project which will contribute significantly to increased competitiveness of the HSE Group and lower emissions, the HSE Supervisory Board took the following actions:

- It reviewed the report of the Committee for active supervision regarding procedures in relation to preparation and hand-over of deliverables for the desulphurisation plant.
- It examined the report on activities completed in the procedure for construction of Unit 6 at TEŠ.
- It gave approval for short-term loans granted to TEŠ and, subsequently, short-term loans taken out with other companies under the Cash Management policy
- It gave preliminary approval for signing of an agreement with the European Investment Bank required for the signing of a Finance Contract between TEŠ d.o.o. and EIB for the financing of the construction of Unit 6.
- It became familiarised with the conditions of the Term Sheet as at 22.6.2010 which lays down conditions for HSE d.o.o. as the guarantor for 80% of the loan by EBRD and commercial banks for the financing of the construction of Unit 6 at TEŠ d.o.o., and gave approval for the signing of the contract.
- It gave preliminary approval for the company's management to issue a guarantee for liabilities of Termoelektrarna Šoštanj d.o.o. under the contract on issue of a guarantee concluded with the guarantor banks for the loan taken out with the European Investment Bank and the European Bank for Reconstruction and Development.
- It reviewed annexes nos. 2 and 3 to the Revised investment programme entitled Construction of 600 MW Unit at TEŠ, rev. 3, October 2009, and examined the costs arising from potential termination of the project for the construction of Unit 6 at TEŠ.
- It reviewed quarterly reports about the progress of the investment in replacement Unit 6 at TEŠ and confirmed the form of the report.
- It reviewed reports by the Committee for active supervision.
- It reviewed the report of the Managing Director about the developments at Termoelektrarna Šoštanj d.o.o., including an opinion of the company's legal department, two independent legal opinions and the opinion of the court regarding the procedures for dismissal and appointment of the Managing Director of Termoelektrarna Šoštanj d.o.o., and discovered no legal violations.

- It gave approval for the company Termoelektrarna Šoštanj d.o.o. to draw a long-term loan in the amount of € 110,000,000 taken out with the European Investment Bank.
- It was briefed on the Programme for the management of risks related to the investment in replacement Unit 6 from the perspective of the parent company and the HSE Group, and on the planning of production and quality of coal used for supply of U6.

The key decisions, adopted by the new Supervisory Board immediately after it was appointed and briefed on the current situation regarding the project for construction of replacement Unit 6 in the period from October to beginning of December 2010, are the following:

- It requested an analysis of costs in case of temporary suspension of contracts in relation to the Unit 6 project at TEŠ.
- It requested preparation of an external, neutral opinion about the stocks of coal at PV, its calorific value and the realistic chances of achieving the target price of coal.
- It requested an audit of operations at the company Termoelektrarna Šoštanj d.o.o.
- It requested preparation of a comprehensive report on the investment in replacement Unit 6 at TEŠ for the Government of the Republic of Slovenia.

Other important matters and issues discussed by the company's Supervisory Board in 2010 are summarised below:

- It discussed and adopted the HSE's Business plan for 2010.
- It gave preliminary approval for establishment of a company and conclusion of other transactions for the purposes of the Planina Cogeneration project.
- It became familiarised with the activities related to greater efficiency and transparency in the management of companies in the HSE Group.
- It was briefed on the progress of activities regarding changes to key internal acts of HSE Group subsidiaries.
- It examined the Report of the Workers' Council of HSE d.o.o. and the Report of the Joint Workers' Council of the HSE Group on the situation in the area of implementation of the Worker Participation in Management Act in HSE d.o.o. and in HSE Group.
- It agreed that Holding Slovenske elektrarne d.o.o., together with the company SOLAR Invest d.o.o., is to establish the company Skupina sončnih elektrarn, družba za investiranje in upravljanje elektrarn d.o.o.
- It was briefed on the progress regarding activities in the SE European markets.
- It examined the issues related to operation and reconstruction and investments in HPPs of the HSE Group.
- It reviewed and confirmed the Annual Report of the company HSE and the HSE Group for 2009.
- It gave approval for the signing of a contract on the spin-off and acquisition with the companies Dravske elektrarne Maribor d.o.o and Soške elektrarne Nova Gorica d.o.o. (the decision was not implemented).
- It gave preliminary approval for HSE d.o.o. to acquire an interest in the company BSP, Regionalna Energetska Borza, d.o.o. (the decision was not implemented).

- It reviewed the Development plan of the HSE Group for the period 2010 to 2020, looking ahead to 2030, and proposed to the founder to adopt the plan (the decision was not implemented).
- It concurred with the proposal of the company's management to the founder for the company to make a transition to International Financial Reporting Standards.
- It gave preliminary approval for the company to be able to deposit surplus cash subject to the principle of diversification of deposits with individual banks.
- It became familiarised with the new Act Regulating the Income of Managers of Companies owned by the Republic of Slovenia and Municipalities and the accompanying Regulation which required the Supervisory Board members to amend the current employment and civil law contracts for managing functions by 30 June 2010, and concluded a new contract with the Managing Director.
- It gave approval for the sale of business premises at Trg svobode 9, 8290 Sevnica (HTC), and dissolution of the branch in Sevnica registered at the same address.
- It was briefed on the project of Plinsko Parna elektrarna d.o.o. and gave preliminary approval to the company's management to vote in favour of the company's liquidation at the General Meeting of Plinsko Parna elektrarna d.o.o.
- It was briefed on the progress of the project for revitalisation of the location Termoelektrarna Trbovlje.
- It was briefed by the Workers Council on dismissal and appointment of new Supervisory Board members.
- It adopted a decision to dismiss the Managing Director of the company and appointed a new Managing Director with whom it concluded a contract for the performance of the function of the Managing Director of HSE d.o.o. starting on 6.10.2010 for a maximum of one year.
- It reviewed the report on open legal issues of the company HSE d.o.o.
- It was briefed on the review of studies and technical papers order by the company in the last four years.
- It reviewed the envisaged procedure for the selection of the new Managing Director of the company HSE d.o.o.
- It was acquainted with the proposal of the Managing Director on mutually agreed termination of the function of the Managing Director on 4.11.2010, and appointed a new Managing Director on 5.11.2010 with whom a Management Contract was signed.
- It gave preliminary approval for the company's management to conclude a contract with the company Mechel International Holdings GmbH (Mechel) on the sale of 2,454,818 shares of the company TE-TO Ruse, Ruse, Bulgaria.

In 2010, the Audit Committee of the company's Supervisory Board held two regular meetings, at which it discussed various strategic and business issues:

- It was briefed on the findings of the preliminary audit of HSE d.o.o. for the year 2009 and the responses by HSE d.o.o.'s management.
- It reviewed the provisional, expanded financial report of the company for 2009.

The Supervisory Board's work in 2010 was very extensive due to active cooperation in procedures related to the replacement Unit 6 project at Termoelektrarna Šoštanj d.o.o., as well as other major projects of the company. 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

Pursuant to Article 272, Paragraph 3, of the Companies Act, the company's management submitted to the Supervisory Board the 2010 Annual Report of the Company HSE and the HSE Group including the Auditor's Reports on 18 May 2011. The Supervisory Board discussed the annual report at its meeting on 24 May 2011 and determined that the management prepared the 2010 Annual Report within the legal deadline and that the annual report contained all the elements laid down by the current Companies Act (Official Gazette of RS No. 65/2009, ZGD-1 UPB-3)

The audit of the 2010 Annual Report of the company HSE and the HSE Group was performed by Deloitte Revizija, d.o.o., which issued a positive, unqualified opinion on the unconsolidated and consolidated financial statements of the company and the Group and determined that the business report of the company and the Group was consistent with the audited financial statements for 2010.

At its 3rd regular meeting on 23 May 2011, the SB's Audit Committee discussed the 2010 Annual Report of the company HSE and the HSE Group and took note of the views and positive opinions of the Audit Company Deloitte Revizija d.o.o.

Based on the review of the 2010 Annual Report of the company HSE and the HSE Group, both Auditor's Reports and the positions of the Audit Committee, the Supervisory Board determined:

- that the 2010 annual report is clear, transparent and prepared in accordance with the provisions of the Companies Act;
- that the annual report enables detailed verification of the financial position and the financial performance of the company;
- that, in the auditor's opinion, the unconsolidated and consolidated financial statements of HSE present fairly, in all material respects, the financial position of the company and the Group as at 31.12.2010 and their financial performance and cash flows for the year 2010 in accordance with Slovenian Accounting Standards, and that the business section of the annual report is consistent with the audited financial statements.

On the basis of these findings and the unqualified Auditor's Reports, the Supervisory Board confirmed the 2010 Annual Report of the company HSE and the HSE Group and their content as submitted by the company's management.

1.2.3 Determination and proposed allocation of accumulated profit

The company Holding Slovenske elektrarne d.o.o. ended the financial year 2010 with a net profit of € 79,491,404.44.

At its 6th regular meeting held on 11 March 2011, the Supervisory Board agreed with the management's proposal that half of the net profit of 2010 in the amount of € 39,745,702.22 is to be allocated to other revenue reserves as early as during preparation of financial statements for the year 2010.

The remaining net profit represents the accumulated profit of 2010 and amounts to € 39,745,702.22.

In line with the strategic objectives and investment policy, the HSE Supervisory Board agrees with the management's proposal submitted to the founder for the accumulated profit for 2010, which represents the remainder of the net profit of 2010, in the amount of € 39,745,702.22 to be allocated to other revenue reserves.

Further on, the Supervisory Board proposes to the General Meeting that a discharge from liability should be granted to the management and the Supervisory Board as regards operations in 2010.

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

Ljubljana, 24 May 2011

Drago Dolinar, Ph.D.
President of the Supervisory Board of
Holding Slovenske elektrarne d.o.o.

1.3

Electricity production and trading in the HSE Group

SALES IN FOREIGN MARKETS
8,086 GWh | 51% PRODAJE

SALES IN DOMESTIC MARKET
7,921 GWh | 49% OF SALES

HSE COMPANY
123 employees as at 31.12.2010 | 16,007 GWh | 100% RS

OTHER SOURCES
7,578 GWh | 47% OF SOURCES

OWN PRODUCTION SOURCES
2,409 employees as at 31.12.2010 | 8,429 GWh 1,849-1,874 MW | 53% OF SOURCES

47% OF SOURCES

HYDRO
434 – EMPLOYEES AS AT 31.12.2010
3,969 GWh – PRODUCTION
998 MW – CAPACITY
69 – NO. OF TURBINES

53% OF SOURCES

THERMAL
697 – EMPLOYEES AS AT 31.12.2010
4,460 GWh – PRODUCTION
851 MW – CAPACITY
4 UNITS AND 4 GAS TURBINES

PRIMARY SOURCES
1,278 – EMPLOYEES AS AT 31.12.2010
44,671 TJ – PRODUCTION

DEM
282 employees as at 31.12.2010 | 2,841 GWh 584 MW 24 turbin | 100% HSE

SENG
126 employees as at 31.12.2010 | 808 GWh 341 MW 39 turbines | 100% HSE

HESS**
26 employees as at 31.12.2010 | 320 GWh 73 MW 6 turbines | 84.6% HSE

TEŠ
488 employees as at 31.12.2010 | 3,946 GWh 687 MW 3 units and 2 gas turbines | 100% HSE

TET
209 employees as at 31.12.2010 | 514 GWh 164 MW 1 unit and 2 gas turbines | 81.3% HSE

PV
1,278 employees as at 31.12.2010 | 44,671 TJ | 77.7% HSE

* net output in MW refers to the end of 2010
** 15.4% of HESS's production is sold outside the HSE Group

1.4

Operating highlights of the company and the Group

Considering the general economic situation, conditions in the financial markets, safe and reliable supply of electricity in Slovenia, activities on key development projects of the Group, successful sale of a stake in the company Toplofikatsia-Ruse AD and the achieved net operating result in Group companies, HSE Group ended the 2010 financial year successfully.

Relative to 2009, HSE Group:

- increased net sales revenue in foreign markets by 72%,
- achieved a 4% higher trading result; despite this, EBIT was lower by 23% and the net profit by 10%, mostly due to extraordinary other operating revenue already realised in 2009 (repayment of already written-off receivables and decreased provisions),
- increased sales quantities by 18%,
- increased equity by 9%,
- increased operating cash flows by 1%, and
- continued establishing entities abroad.

Despite adverse economic conditions, HSE Group continued to ensure efficient and secure supply of electricity to its customers in 2010. Coordinated trading, sale of electricity produced by HSE Group companies, management of the company's production units and sale of electricity from other sources enabled us to maximise our performance. It should be pointed out that for the first time in HSE's history, the quantity of electricity sold in foreign markets reached 51% of all electricity sold in 2010.

HSE Group

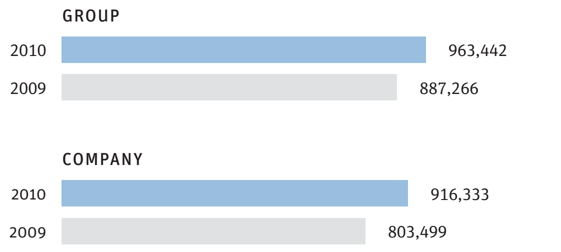
	2010	2009
Net sales revenue in €	908,610,095	804,287,077
Revenue in €	963,442,228	887,266,362
EBITDA in €	213,787,974	241,369,192
Net profit or loss in €	102,897,542	113,841,273
Assets in €	1,900,508,355	1,874,355,148
Equity in €	1,344,136,472	1,234,004,990
Cash flows from operating activities in €	197,638,154	195,692,901
Electricity production in GWh	8,429	8,408
Electricity sales in GWh	15,283	13,001
Number of employees as at 31 December	3,824	3,836
Number of group companies as at 31 December	29	27

HSE d.o.o.

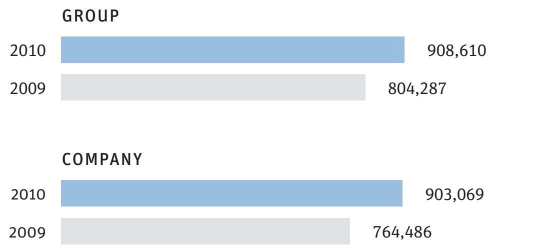
	2010	2009
Net sales revenue in €	903,068,515	764,485,829
Revenue in €	916,333,041	803,498,590
EBITDA in €	91,528,105	103,800,202
Net profit or loss in €	79,491,404	60,234,898
Assets in €	1,198,207,987	1,176,889,598
Equity in €	929,748,299	845,844,637
Cash flows from operating activities in €	79,648,095	36,064,350
Electricity sales in GWh	16,007	12,962
Number of employees as at 31 December	123	116

HSE Group is the largest Slovenian group in the electricity sector, and the largest electricity producer and trader which has been operating successfully since its establishment. However, our ambitions do not end here. We wish to increase our efficiency over the long term by optimising internal potentials, maximising synergies and expanding our activities to the target markets of SE Europe. Our priorities remain socially responsible activities, management of all key risks, provision of financial resources for investments in development, further streamlining of operations and increasing of synergy effects within the Group.

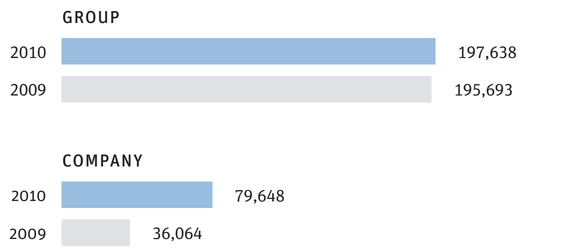
Total revenue (in € thousand)



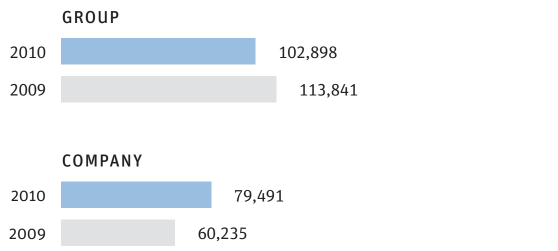
Net sales revenue (in € thousand)



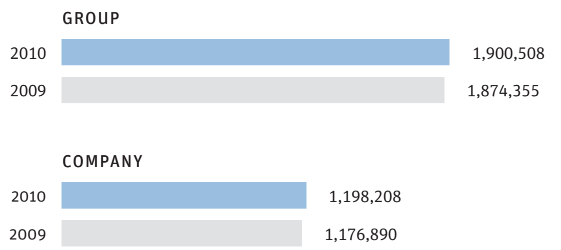
Cash flows from operating activities (in € thousand)



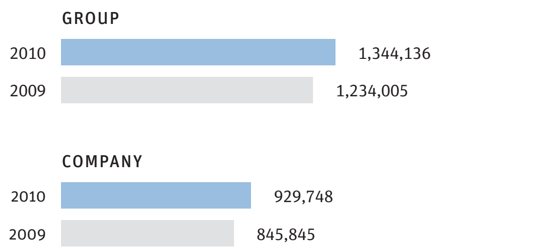
Net profit or loss (in € thousand)



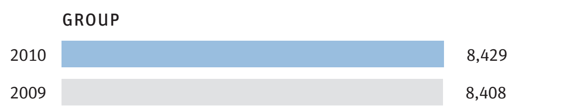
Assets (in € thousand)



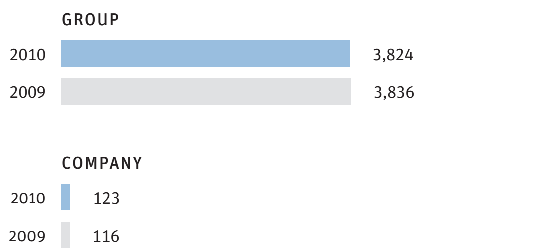
Equity (in € thousand)



Electricity production by HSE companies (in GWh)



Employees



1.5

Chronology of major developments in 2010

January

- On 5 January, PSP Avče at SENG started a trial run.
- On 19 January, the 5th General Meeting of the company HESS took place, where the company members adopted a decision on additional capital contributions in 2010 in the total amount of € 23.7 million.
- On 25 January, HSE's Supervisory Board adopted the business plan of HSE for 2010.
- The 2010 business plan of HSE Invest was adopted by the SB on 26 January.
- The SB of the company PV adopted its business plan for 2010 on 27 January.
- In November 2008, the Macedonian government adopted a decision to repeal a prequalification call for tenders for the HPP Čebren and HPP Galište projects without providing reasons for doing so. HSE decided not to participate in any subsequent calls for tenders; therefore, it sold its 33% interest in the company Hidro Moćnost Makedonija to RWE Power AG on the basis of an equity interest transfer agreement signed in January 2010.

February

- On 1 February, the companies HSE, Elektro Gorenjska, Domplan and Petrol founded the company Soenergetika d.o.o. The company's purpose is cooperation of its founders in construction and operation of the infrastructure and facilities in the "Cogeneration of heat and electricity at Planina Kranj boiler plant" project.
- PV signed a contract with Macedonian Power Plants (Elem) on the design of the principal mining project related to the opening of Marijevo mine near Prilep, Macedonia. PV will design complete technical documentation and prepare everything that is required for the start of production in the mine.
- SENG signed a Letter of Intent on cooperation in the area of electricity supply to the upper Soča Valley between SENG, Elektro Primorska, and Bovec and Kobarid Municipalities.
- A civil initiative in support of PSP Kozjak was founded in order to further stimulate the exchange of expert opinions on the project and enable the interested public to obtain as much relevant information as possible.

March

- The 2010 business plan of TET was adopted by the SB on 10 March.
- As the first trader in the region, on 15 March HSE began promoting trading in BSP SOUTHPOOL hourly auctions, which represents an important contribution to the transparency of the Slovenian market.
- The 2010 business plan of DEM was adopted by a decision of the sole company member on 16 March.
- On 30 March, ceremonial opening and start of operation of PSP Avče took place.

- The 2010 business plan of SENG was adopted by a decision of the sole company member on 30 March.
- On 31 March, Unit 1 at TEŠ was permanently shut down after 54 years of operation.
- The 2010 business plan of TEŠ was adopted by a decision of the sole company member on 31 March.
- In March, the investment in Unit 6 was also discussed by the Government of the Republic of Slovenia which, based on previous briefings on the work done so far, decided to support the project.
- At the Megra trade fair, which took place between 23 and 27 March in Gornja Radgona, the designers, sponsored by DEM and GZS-Energy Association (GZS-Združenje za energetiko), presented for the first time the preliminary findings of a framework study on sustainable development of the areas along the Mura River. The findings about the economic and social development of the areas along the Mura River will also represent an important basis for the decisions on future development of the project.
- In March, the 13th strategic conference of the PV Group took place.

April

- On 1 April, the company Zvon ena holding settled in full its outstanding liabilities to DEM in the amount of € 9 million.
- On 6 April, a three and a half month overhaul at TET began, which included replacement of the LP rotor, an upgrade of the HP rotor, replacement of the generator stator and the excitation system, as well as installation of an outlet line for the supply of a remote heating station.
- On 11 April, 135 years had passed since the start of lignite extraction in the Šalek Valley.
- Between 15 and 16 April, the VII. strategic conference of the HSE Group took place, the main theme of which was "Joining forces to achieve synergies".
- In April, commercial operation of PSP Avče started.
- TEŠ signed an agreement with EIB on an additional € 200 million loan for the financing of the replacement Unit 6.

May

- On 14 May, HSE received the certificate "Family-friendly company".
- On 25 May, the Prime Minister Borut Pahor, along with the Minister of the Economy and the Minister of the Environment and Spatial Planning, visited the construction site of the new Unit 6 at TEŠ. During this working visit, the Prime Minister was acquainted with the project for the construction of replacement Unit 6 and its role in the HSE Group and the broader Slovenian energy sector. He declared that the visit had been helpful and pointed out that he had been provided with an insight into the TEŠ Unit 6 project and answers to many questions. At the end of the meeting he summed up that the estimates had shown that the decision to build a replacement Unit 6 would be beneficial to the national economy, both in economic and environmental terms.
- With the beginning of extraction at the mining site G2/C, PV started implementing its project of simultaneous extraction at two mining sites. The G2/C mining site is the first mining site that will be longer than 200 metres while operational. On 31 May, a record daily extraction of coal was achieved: 10,100 tonnes.
- At TEŠ, phased demolition of cooling towers 1 through 3 began.
- In the beginning of May, the installation of the generating unit 2 turbine was completed at HPP Zlatoličje.
- A record monthly production of HPPs on the Soča River was achieved, reaching 66,981,930 kWh.
- TET started with the renovation of the chimney.

June

- On 3 June, HPP Boštanj obtained an operating permit for the dam construction.
- On the World Environment Day (5 June), HSE published – as part of the Modri Jan project – the first issue of the free environmental magazine for children Modri Jan.
- On 17 June, HSE established a subsidiary, HSE BH Energetsko preduzeće d.o.o. Sarajevo (shortened HSE BH d.o.o.), for the purposes of electricity trading in Bosnia and Herzegovina.
- In June, HSE submitted to the Government of the Republic of Slovenia a proposal of the HSE Group development plan for the period 2010-2020, looking ahead to 2030.
- The government of RS issued a letter of support to TEŠ for the financing of the € 200 million loan by EBRD, which is the key document for successful execution of the contract.
- In the tender of the EU Research Fund for Coal and Steel, PV was awarded € 550,000 for two development projects.
- The underground Mining Museum of Slovenia, which was opened on the Mining Day in 1999 and also received a special award by the European Museum Forum, was visited by the 300,000th visitor.

July

- In July, the Pomurje Academic and Scientific Union organised the second roundtable on the subject of HPP construction on Mura River entitled "HPPs – opportunity or liability?". At the roundtable, the interested public was presented with the findings of the sustainable development study for the project of energy exploitation of the Mura River where most of the attention was devoted to expert assessments regarding the sustainable development of Pomurje.
- PV celebrated the 50th "Jump over the skin".
- At SENG, a contract for renovation of the remaining electric equipment (LOT EE) of HPP Doblar 1 was signed.

September

- The 2010 business plan of HESS was adopted by the General Meeting on 7 September.
- At the General Meeting on 16 September, the company members of PPE Kidričevo decided on a fast-track procedure for dissolution of the company.
- On 19 September, 50 years had passed since the start of operation of HPP Ožbolt.
- At the mining site 50/B, a record daily production of 2,008,670 tonnes was reached.
- SENG shut down HPP Doblar due to the beginning of overhaul of generating units.
- In September, TEŠ completed demolition of cooling towers 1-2 and 3 by relocating the TC centre into the new office building.
- TET opened the waste disposal site Prapretno sever.

October

- At the 4th extraordinary meeting on 5 October, HSE's Supervisory Board adopted a decision on dismissal of HSE's Managing Director Borut Meh on no-fault grounds. He was replaced by Viljem Pozeb, M.Sc., as the acting Managing Director on 6 October.
- Under the decision by the government, a new SB of HSE was appointed on 7 October. At the inaugural meeting, which took place on 13 October, Jadranko Medak was elected President, and Drago Dolinar, Ph.D. Vice-president. The remaining members of the SB, as the owner's representatives, are Vekoslav Korošec, M.Sc, and Marjan Ravnikar, M.Sc.
- On 20 October, the Capital Assets Management Agency of the Republic of Slovenia (AUKN), pursuant to Article 40 of the Law on Corporate Governance of State Capital Investments (ZUKN), formally assumed the management of capital investments of the Republic of Slovenia. The agency is a separate and independent government body which, under the provisions of ZUKN, reports to the National Assembly.

- At the Pesje pit, mining site 50/C was opened which is equipped with 88 sections of the new hydraulic support system constructed in line with the latest findings and using high-quality materials selected based on experience and adapted to the circumstances in the Velenje mine.
- At SENG, a contract on execution of construction works (LOT A) for the refurbishment of HPP Doblar 1 was signed.
- DEM opened a safe system room, i.e. “safe room”, in order to provide for a higher level of security and reliability of IT infrastructure systems, communication centre, metering systems and other systems related to the production and management of electricity production.

November

- At the 2nd extraordinary meeting on 4 November, HSE’s SB was acquainted with the proposal of the Managing Director Viljem Pozeb, M.Sc., on consensual suspension of his function. On 5 November 2010, Matjaž Janežič, M.Sc., was appointed the new Managing Director of HSE d.o.o. for a period of maximum two years.
- On 11 November, Simon Tot, M.Sc., was appointed Managing Director of TEŠ.
- On 12 November, HPP Blanca obtained an operating permit for the dam construction.
- On 22 November, TET received a decision on modification of technical specifications of the energy permit no. 360-56/2006-2.
- On 23 November, HSE received the proceeds from the sale of Toplifikatsia-Ruse AD in Bulgaria in the amount of € 52 million on its bank account. This represented and end of ownership over the TPP which HSE purchased from the Bulgarian government in 2007.
- On 24 November, HSE and TEŠ signed an agreement on issue of a guarantee for EIB, which is one of the key conditions for the € 110 million loan by EIB to be drawn.
- Generating unit 3 at HPP Boštanj was repaired and reconnected to the network.
- SENG was subjected to a technical inspection and obtained an operating permit for the measurement tower at Kanalski vrh.
- In November, TEŠ was ranked among TOP 10 in educational management in 2010 and placed second in the Horus competition, a Slovenian competition for corporate social responsibility.

December

- On 16 December, trial operation of the accumulation basin at HPP Blanca was extended.
- On 17 December, AUKN adopted a decision stipulating that from 2011 onwards (and for a period no shorter than 5 years) HSE will have to prepare financial statements in accordance with IFRSs. The founders of HSE Group companies based in Slovenia also adopted a decision in 2010 on transition to IFRSs in 2011.
- On 20 December, the Comprehensive Environmental Impact Assessment Department of MESP issued a positive opinion on the fitness of the environmental report for HPP Brežice. The issued document cleared the path for further procedures and public presentation of the national spatial plan (NSP) for HPP Brežice.
- Since December 2010, HPP Boštanj has been operating without a crew.
- At TET, the coal transhipment station was opened.
- AUKN, as the representative of the founder, reviewed the Annual Report of the company and Group for 2009 and agreed with allocation of accumulated profit for 2009 in the amount of € 30,117,449 to other revenue reserves. AUKN also adopted a decision on discharge of the Managing Director Borut Meh for the year 2009.

1.6

Important events after the end of the period

January 2011

- On 12 January 2011, a loan agreement with EBRD in the amount of EUR 200 million was signed for the purposes of financing the construction of replacement Unit 6.
- On 18 January 2011, AUKN published its internal acts on its website that should serve as recommendations for entities representing capital investments by the state. These acts are: Government-owned entities governance code, Reporting guidelines, Criteria for remuneration of members of governing bodies in entities representing capital investments by the state, Criteria and procedures for determining the appropriateness of candidates for members of governance bodies in corporate entities in which RS holds a capital investment, Rules of procedure governing work of the AUKN accreditation commission, and Rules of procedure governing work of the AUKN board.
- On 19 January 2011, an expanded project team for the replacement Unit 6 was approved. New project managers were appointed, and Miran Žgajner, M.Sc., became the project director with Branko Debeljak, M.Sc., as his deputy.
- At its 4th regular meeting, HSE's Supervisory Board appointed an Audit Committee comprised of: Marjan Ravnikar, M.Sc. (President), Brane Podboršek and Rene Jeromel.
- On 20 January, after the dismissal of the President of HSE's Supervisory Board, Jadranko Medak, Drago Dolinar, Ph.D. became the new President of the SB, and Igor Šalamun, Ph.D. the new SB member. The remaining SB members are: Marjan Ravnikar, M.Sc. (Vice-president), Vekoslav Korošec, M.Sc., and Rene Jeromel and Mojca Turnšek, M.Sc. (both employee representatives).
- At the end of January, all the conditions for drawing of the € 110 loan from EIB were met as Slovenia and Austria had resolved the environmental issues regarding cross-border effects of the replacement Unit 6. On 17 February 2011, EIB transferred the amount of the loan to TEŠ.

February 2011

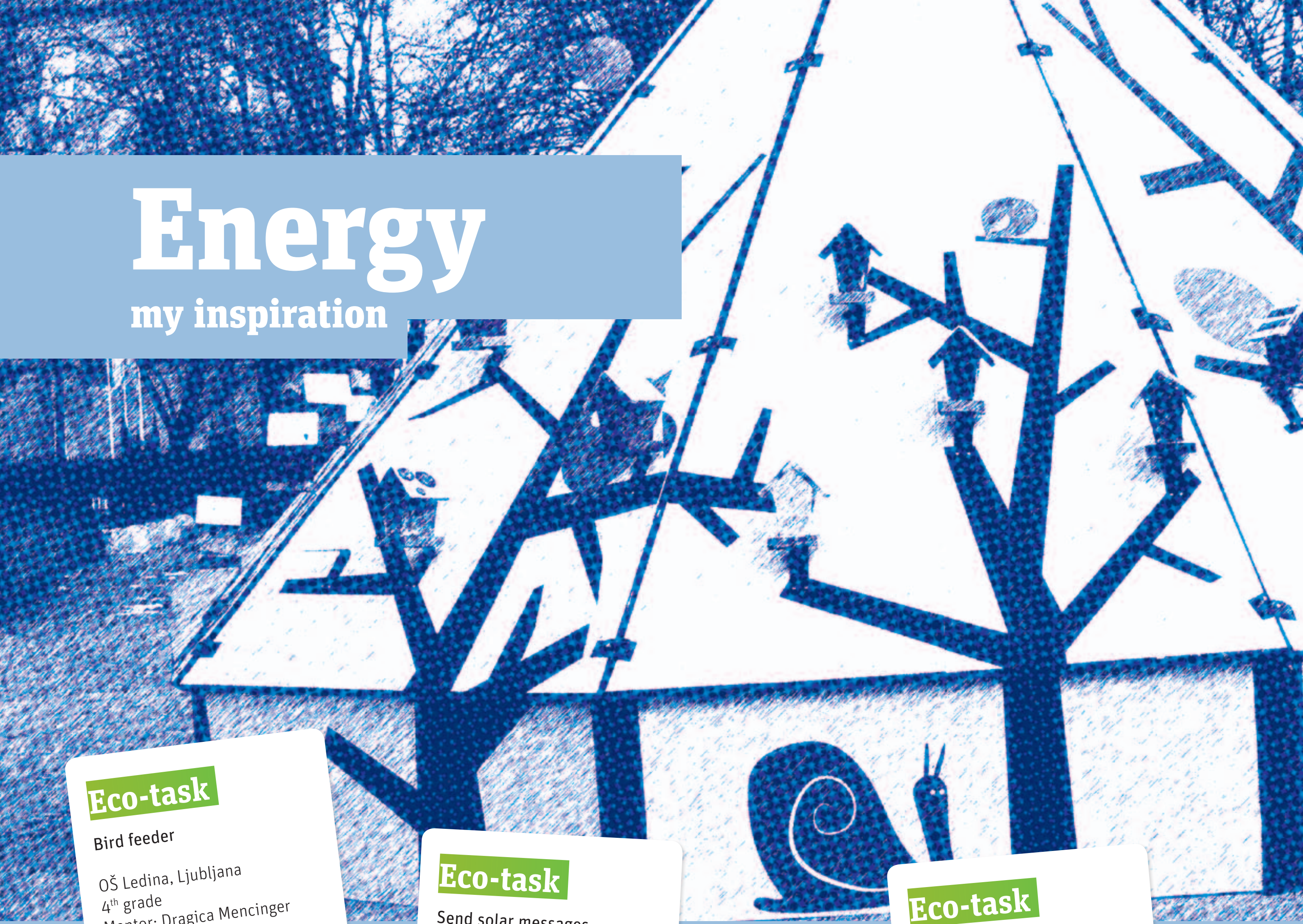
- On 16 February 2011, TEŠ obtained an Environmental permit for operation of the large combustion plant of Unit 6, which became effective at the beginning of March 2011. This permit means that all the conditions for the issue of a building permit for replacement Unit 6 have been met.
- At its 4th correspondence meeting on 18 February 2011, HSE's SB adopted the business plan of HSE for 2011.

March 2011

- On 17 March 2011 TEŠ obtained a final and legally enforceable building permit for the cooling tower and main technological facility of replacement Unit 6.

Energy

my inspiration



Eco-task

Bird feeder

OŠ Ledina, Ljubljana
4th grade
Mentor: Dragica Mencinger

Eco-task

Send solar messages

OŠ Šmartno pri Litiji
2nd grade
Mentor: Lidija Ribič

Eco-task

Send solar messages

OŠ Antona Globočnika, Postojna
6th grade
Mentors: Magdalena Penko Šajn, Milena Marković

Eco-task

Solar messages

OŠ Franja Goloba, Prevalje
3rd grade
Mentors: Marija Kumprej,
Štefka Zavolovšek

Warmth. It caresses the first springtime sunray with the softest touch. The best rest is a long Sunday morning under a warm blanket in a soft embrace of those who are closest to us. The most captivating act of all is a child's care for animals. The most inspiring is the warmth of a child's love.

Premogovnik Velenje is one of the most technologically advanced mines in Europe.

16 TWh

is the amount of **electricity sold** by HSE in 2010.
Compared to 2009, sales grew by **23%**.

2

Business Report 2010

2.1

The controlling company

2.1.1 Profile of the controlling company

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

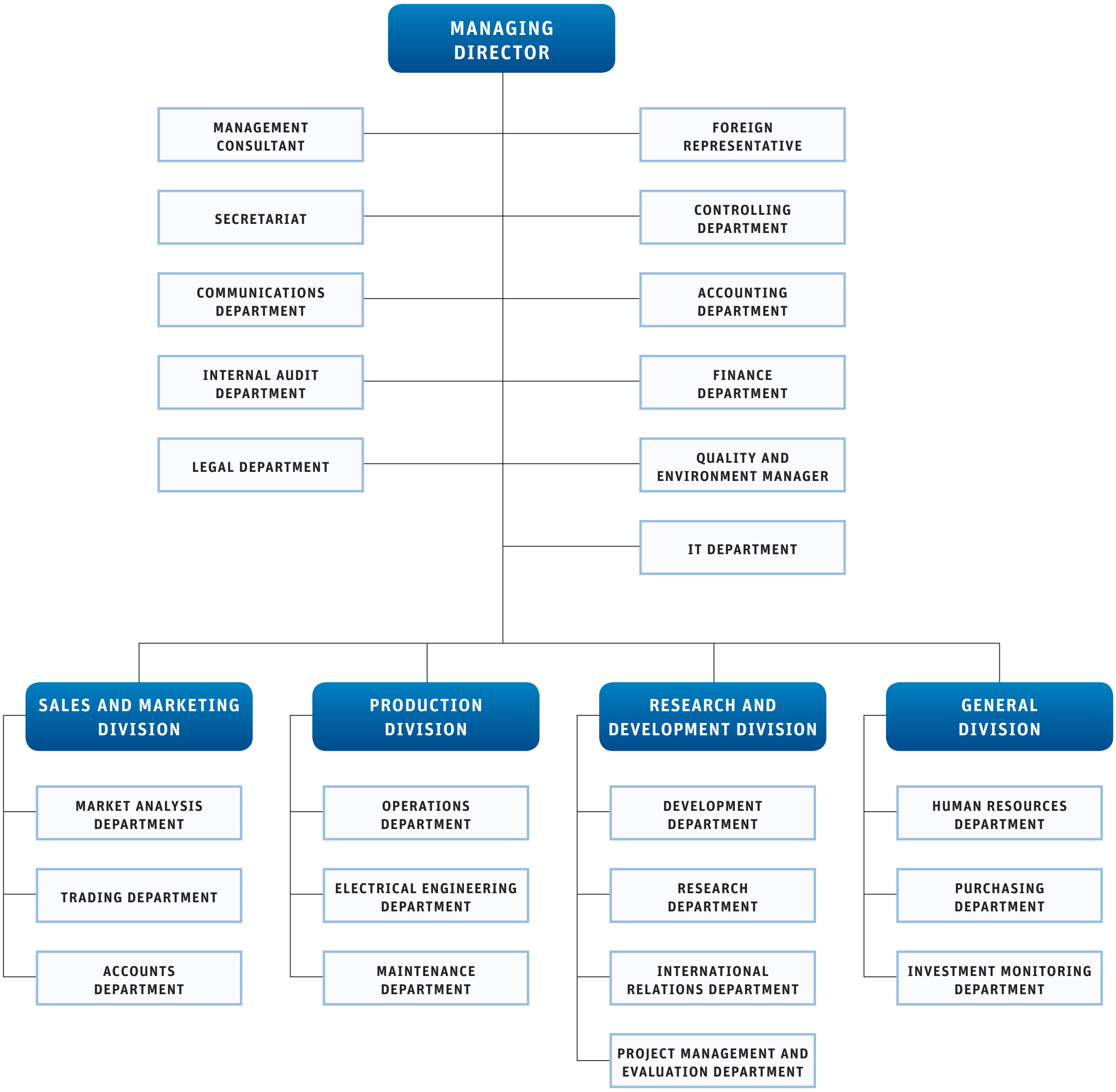
Company profile of Holding Slovenske elektrarne d.o.o. as at 31/12/2010

Full company name	Holding Slovenske elektrarne d.o.o.
Abbreviated name	HSE d.o.o.
Legal form	Limited liability company
Address	Koprska ulica 92, SI-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
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	Matjaž Janežič, M.Sc.
President of the Supervisory Board	Jadranko Medak

At its 38th session 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 Slovenian production companies, and carry out the project for construction of hydropower plants on the lower Sava River.

2.1.2 Organisational structure of the controlling company



HSE d.o.o. is the controlling company of the HSE Group. It is based in Ljubljana and has business establishments in Maribor, Velenje and Nova Gorica. Its business functions are divided depending on where various advantages can best be used. The management, administration, sales and marketing division, research and development division, general division, and the departments of internal audit, communications, legal affairs, IT, controlling, finance and accounting are located in Ljubljana. The production control, investment management and telecommunications centre is located 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 1.1.2010

GENERAL MEETING	SUPERVISORY BOARD	MANAGING DIRECTOR
COMPANY MEMBERS	OWNER'S REPRESENTATIVES	
RS – 100% stake	Franc Žerdin, Ph.D. (President)	Borut Meh
	Franc Žlahtič, Ph.D. (Vice-President)	
	Mojca Kert Kos	
	Igor Tičar, Ph.D.	
	EMPLOYEE REPRESENTATIVES	
	Silvester Medveščček	
	Boštjan Jančar	

AUDIT COMMITTEE
Franc Žerdin, Ph.D. (President)
Brane Podboršek (external member)
Boštjan Jančar

Governing bodies of the controlling company as at 31.12.2010

GENERAL MEETING	SUPERVISORY BOARD	MANAGING DIRECTOR
COMPANY MEMBERS	OWNER'S REPRESENTATIVES	
RS – 100% stake representative: Capital Assets Management Agency of RS	Jadranko Medak (President)	Matjaž Janežič, M.Sc.
	Drago Dolinar, Ph.D. (Vice-President)	
	Vekoslav Korošec, M.Sc.	
	Marjan Ravnikar, M.Sc.	
	PREDSTAVNIKI ZAPOSLENIH	
	Mojca Turnšek, M.Sc.	
	Rene Jeromel	

Changes in HSE's management in 2010

In 2010, the following changes occurred in the company's management:

- Borut Meh was Managing Director from 1.1.2020 to 5.10.2010,
- Viljem Pozeb, M.Sc., was the acting Managing Director from 6.10.2010 to 4.11.2010,
- from 5.11.2010, the Managing Director is Matjaž Janežič, M.Sc.

Changes in HSE's Supervisory Board in 2010

Between 1.1.2010 and 10.10.2010, the owner's representatives were:

- Franc Žerdin, Ph.D.,
- Franc Žlahtič, Ph.D.,
- Igor Tičar, Ph.D.,
- Mojca Kert Kos.

From 11.10.2010 until the end of 2010, the owner's representatives were:

- Jadranko Medak,
- Drago Dolinar, Ph.D.,
- Vekoslav Korošec, M.Sc.,
- Marjan Ravnikar, M.Sc.

Between 1.1.2010 and 16.9.2010, the employee representatives were:

- Boštjan Jančar,
- Silvester Medveščček.

Between 17.9.2010 and 4.10.2010, the employee representatives were:

- Rene Jeromel,
- Silvester Medveščček.

Between 5.10.2010 and 31.12.2010, the employee representatives were:

- Rene Jeromel,
- Mojca Turnšek, M.Sc.

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 the limited liability company HSE, and in conformity with good business practices.

As the Managing Director of the company HSE, I hereby declare that I have been acquainted with the Corporate Governance Code for Companies with State Capital Investments (hereinafter: the “Code”) in 2011. It is my estimate that the governance of the company in 2010 was in line with recommendations laid down by the Code which was adopted by The Capital Assets Management Agency of the Republic of Slovenia (hereinafter: AUKN) and published on 18 November 2011 on AUKN’s website (www.auknrs.si). As the Managing Director of the company HSE, I declare, pursuant to point 73 of the Code, that the company HSE has opted to apply the AUKN Code on a voluntary basis.

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 of 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 reappointed 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 allocation of accumulated profit,
- it prepares a report on the results of the examination of the annual report for the General Meeting,
- 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 management in connection with the decisions to be accepted by the founder,
- it appoints or removes the management,
- it concludes employment and management contracts with the management,
- it authorises the management to take decisions at the general meetings of subsidiaries when there are changes in the status or equity structure,
- it adopts the Rules governing work of the Supervisory Board,
- it may request reports on other matters, and
- it issues preliminary approvals to the HSE Managing Director 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 (including investments, credit transactions and similar) 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 applicable regulations and company's governing documents, or authorised by the decisions of the founder.

The Supervisory Board established 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.

Ljubljana, 3 May 2011

Matjaž Janežič, M.Sc.
Managing Director of HSE d.o.o.

2.2

Profile of the HSE Group

29

is the NUMBER OF COMPANIES IN THE HSE GROUP, which continued expansion to foreign markets in 2010 in line with its strategy and founded a new company in BiH.

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

HSE Group is primarily engaged in energy and environmental management, and control of 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.

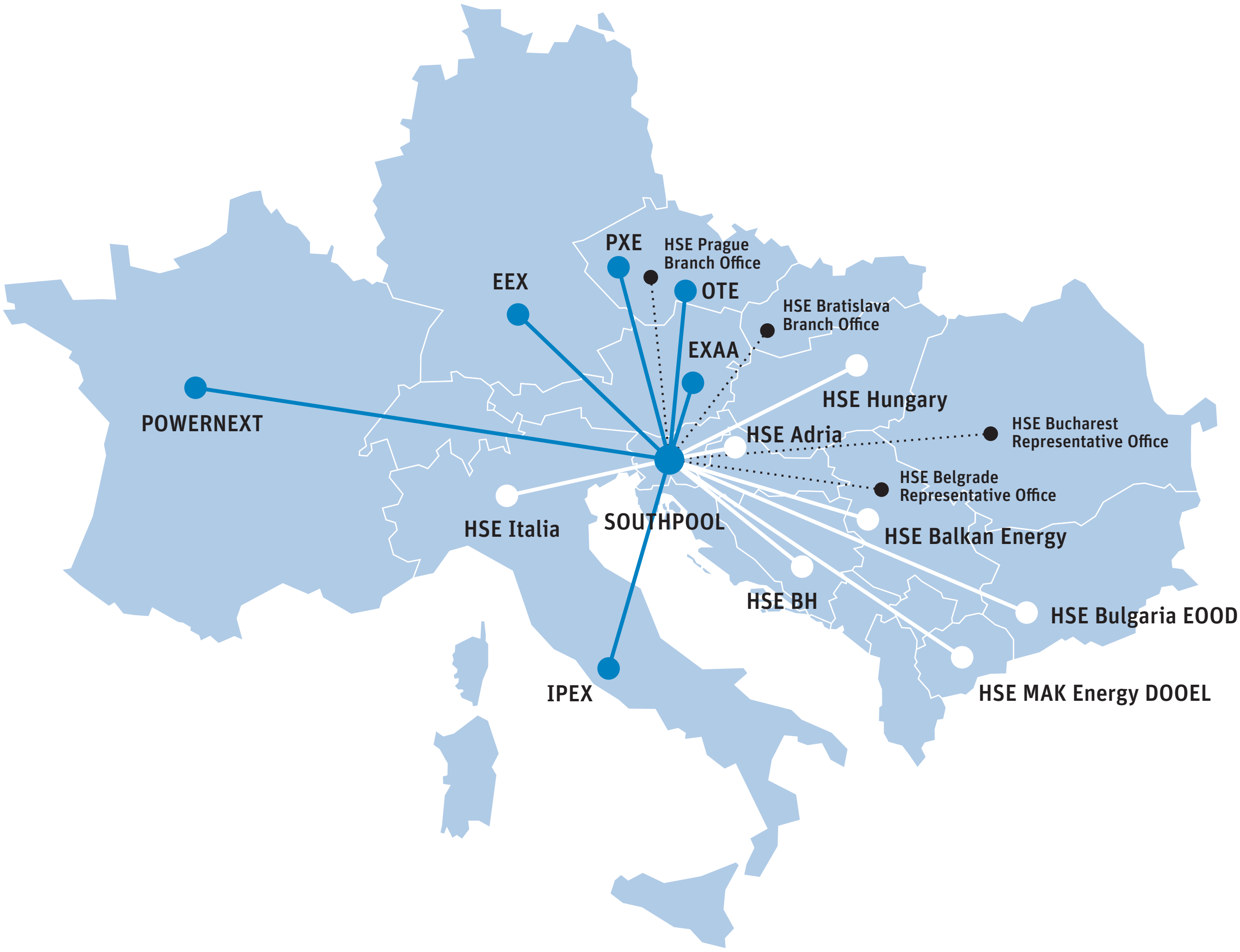
Its main activities are electricity production and trading, which is why HSE Group seeks to take advantage of synergies associated with the wide spectrum of production capacities in order to maximise its operating efficiency. Because different production units have different operational and cost characteristics, a more cost-effective electricity supply can be achieved through appropriate combination of production units. And because market prices of electricity vary over time, 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

In 2010 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 six subsidiaries and four associates,
- 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,
- HSE BH d.o.o.,
- HSE Prague Branch Office,
- HSE Bratislava Branch Office,
- HSE Bucharest Representative Office,
- HSE Belgrade Representative Office.

HSE Group in Western, Central and South-Eastern European Markets

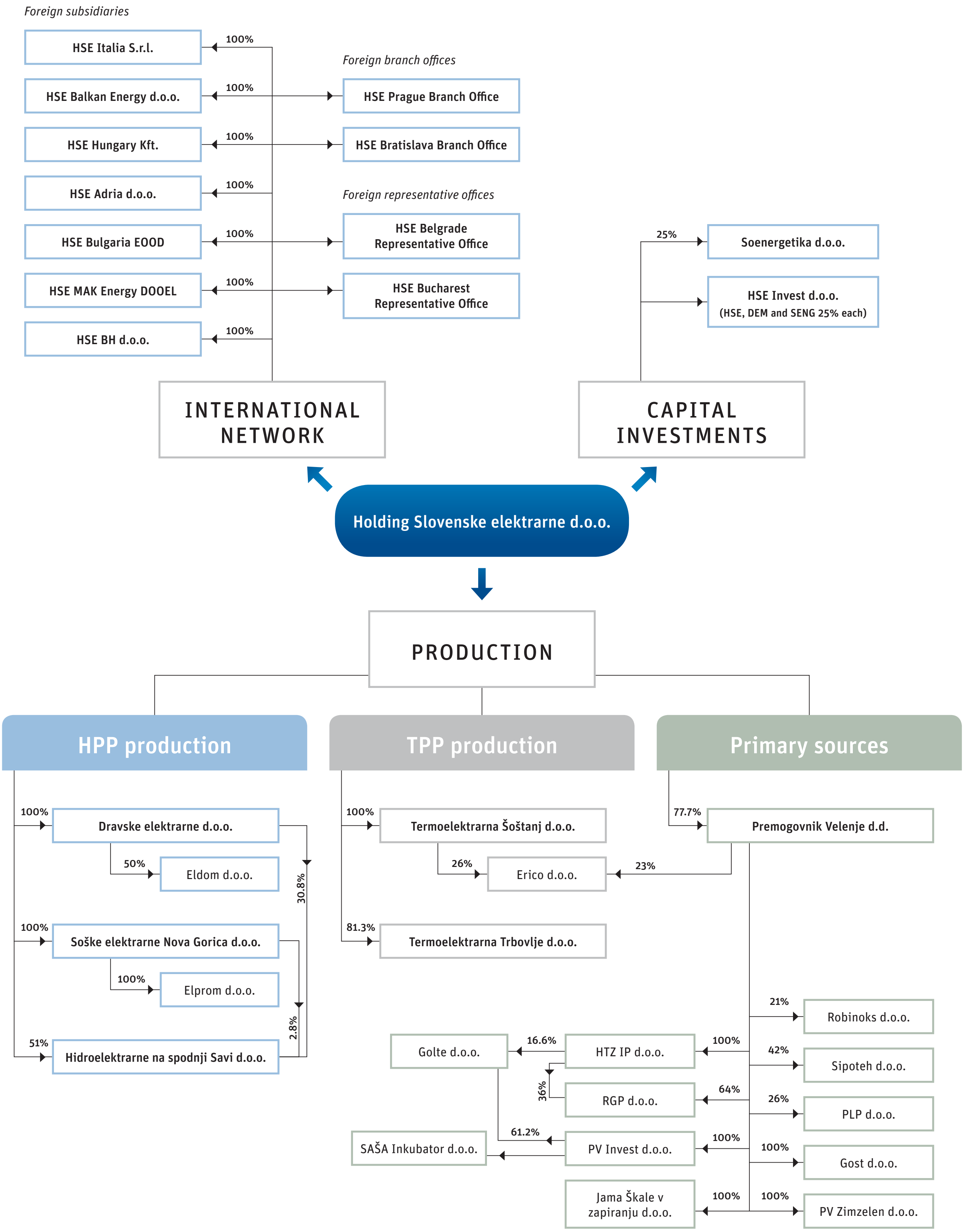


HSE has companies, branches and representative offices in Slovenia, Croatia, Serbia, Italy, Hungary, Bulgaria, Bosnia and Herzegovina, Czech Republic, Slovakia, Romania and Macedonia. It is a member of the German energy exchange EEX, Austrian energy exchange EXAA, French power exchange Powernext, Italian power exchange IPEX, Czech energy exchange OTE, Prague-based energy exchange PXE, Hungarian energy exchange HUPIX, and the regional energy exchange Southpool. In Greece, HSE obtained an electricity trading licence on behalf of the controlling company; it also holds a trading licence in Poland. At the moment, preparations for entering the Spanish market and joining the local exchange OMEL are underway.

The HSE Group's other trading markets include:

- Albania,
- Montenegro,
- Switzerland and Kosovo.

Prelated companies of the HSE Group as at 31.12.2010



HPP production

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

Managing Director	Viljem Pozeb, M.Sc.
Main activity	Production of electricity in HE generation facilities
Supervisory Board composition as at 31/12/2010	Stanislava Boban (President) Simon Tot, M.Sc. Marjan Kirbiš

DEM is the largest Slovenian producer of E-RES. Its power plants account for 25% of total demand for electricity in Slovenia, and their net output amounts to 584 MW (run of river). With eight hydropower plants on the Drava River and two small hydropower plants, the company produces as much as 80% of Slovenia's electricity, which satisfies the criteria set out for renewable energy sources and the standards of the internationally recognised RECS certificate. High-quality hydrology is ensured in an environmentally friendly way and in line with the principles of sustainable development.

By increasing the rated flow of the HPP chain from 450 to 550 m3/s, DEM's ability to efficiently cover demand in peak hours even in times of high waters and provide the required back-up power to the system has grown substantially. The immediate energy-related effect of these measures is an increase in the chain's installed capacity of 50 MW. After the planned refurbishment of HPPs Zlatoličje and Formin, the chain's output will increase by further 20-25 MW.

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 sector.

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

Managing Director	Vladimir Gabrijelčič
Main activity	Production of electricity in HE generation facilities
Supervisory Board composition as at 31/12/2010	Tomaž Štokelj, Ph.D. (President) Irena Stare Silvester Medvešček

SENG is specialised for the production of the so-called "Blue Energy", which is electricity produced from renewable water sources. Today, the Soča River and its tributaries power 5 large and 21 small HPPs and PSP Avče with a total output of 341 MW. The company, which operates in the area of the Soča River, one of the best preserved rivers in the Alps, exploits the water potential of the river and its tributaries in an optimum way, while abiding by strict international standards and environmental regulations. Next to electricity production, one of its priority objectives is harmony with the environment.

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.

Hidroelektrarne na spodnji Savi d.o.o. (HESS)

Managing Director	Bogdan Barbič
Main activity	Production of electricity in HE generation facilities
Supervisory Board composition as at 01/01/2010	Janez Keržan, M.Sc. (President) Jožef Hebar Tomislav Malgaj Nikola Galeša Vladimir Gabrijelčič
Supervisory Board composition as at 31/12/2010	Janez Keržan, M.Sc. (President) Jožef Hebar Primož Stropnik Nikola Galeša Vladimir Gabrijelčič

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 key project is the construction of HPPs on the lower Sava River and is of great significance both for the owners as well as the country in terms of securing new renewable sources of 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 spatial planning. The overall net output of HPPs at the end of 2010 stood at 73 MW.

TPP production

Termoelektrarna Šoštanj d.o.o (TEŠ)

Managing Director as at 01/01/2010	Uroš Rotnik, Ph.D.
Managing Director as at 31/12/2010	Simon Tot, M.Sc.
Main activity	Production of electricity in thermal power plants
Supervisory Board composition as at 31/12/2010	Djordje Žebeljan, M.Sc. (President) Franc Rosec Janez Keržan, M.Sc.

TEŠ is the largest production facility in the HSE Group. Its main activity is production of electricity and thermal energy for the purposes of district heating. With a net output of 687 MW, TEŠ produces approximately a third of the country's energy, 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 and even 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 Trbovlje d.o.o. (TET)

Managing Director	Marko Agrež, M.Sc.
Main activity	Production of electricity in thermal power plants
Supervisory Board composition as at 01/01/2010	Drago Skornšek (President) Jaroslav Vrtačnik, M.Sc. Janez Balog
Supervisory Board composition as at 31/12/2010	Drago Skornšek (President) Jaroslav Vrtačnik, M.Sc. Mojca Turnšek, M.Sc.

TET is one of the two power plants in Slovenia that produces electricity from locally extracted 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 uses brown coal from Zasavje coal mines as fuel, and two gas turbine units, which use extra light heating oil and serve as a backup for the Slovene energy system. The overall installed capacity of the power plants at the end of 2010 stood at 164 MW.

Primary sources

Premogovnik Velenje d.d. (PV)

Managing Director	Milan Medved, Ph.D.
Main activity	Mining and agglomeration of lignite
Supervisory Board composition as at 31/12/2010	Simon Tot, M.Sc. (President) Irena Stare Miran Božič

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

The quantity of coal extracted by PV depends on the plans of the Slovenian electricity sector. Annually, it amounts to approximately 4 million tons of lignite on average, and the entire quantity is earmarked for the requirements of TEŠ. In addition to coal extraction, PV pursues numerous other activities, such as underground and aboveground extraction planning for mining, machinery and electricity purposes, construction of all types of underground structures, drilling, geo-mechanical research, cave surveying, and hydro-geological and technological services. Modern equipment and high technical expertise ensure the safety of employees and high productivity, which serves as a basis for a competitive price of coal.

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 company in 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.

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

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

PV Zimzelen d.o.o. is a retirement home for persons older than 65 years. Through a family-like co-habitation in residential units and social and medical support, the home operates in accordance with the guidelines for providing quality and purposefulness in the lives of our elders.

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

GOLTE d.o.o., is a winter and summer resort. Its main activity involves ski resort services comprising: the technical division, which is responsible for 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.

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.

International network

HSE Italia S.r.l.

Board of directors of the company as at 31/12/2010	Tomaž Štokelj, Ph.D. (President) Ana Zaljetelj Damjan Lipušček
Main activity	Electricity trading

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 Balkan Energy d.o.o.

Managing Director	Boris Mezgec, M.Sc.
Main activity	Electricity trading

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 Hungary Kft.

Managing Directors	Tomaž Štokelj, Ph.D. Irena Stare
Main activity	Electricity trading

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 Adria d.o.o.

Managing Directors	Tomaž Štokelj, Ph.D. Irena Stare
Main activity	Electricity trading

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

HSE Bulgaria EOOD

Managing Directors	Drago Skornšek Irena Šlemic
Main activity	Electricity trading

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

HSE MAK Energy DOOEL

Managing Directors	Tomaž Štokelj, Ph.D. Drago Skornšek
Main activity	Electricity trading

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.

HSE BH d.o.o.

Managing Director	Zlatko Sahadžić
Main activity	Electricity trading

In June 2010, HSE BH Energetsko preduzeće d.o.o. Sarajevo was established in Bosnia and Herzegovina for the purposes of electricity trading. The legislation of BiH requires that in order to obtain electricity trading licences in BiH and engage in cross-border trading, a legal entity must be registered in BiH.

HSE Prague Branch Office

Manager	Tomaž Štokelj, Ph.D.
Main activity	Electricity trading

The main reason for establishing a branch in the Czech Republic was acquisition of an electricity trading licence enabling trade inside the Czech Republic and on OTE and PXE energy exchanges.

In 2010, trading activities were transferred to the controlling company.

HSE Bratislava Branch Office

Manager	Tomaž Štokelj, Ph.D.
Main activity	Electricity trading

The main reason for establishing a branch in Slovakia was to fill the void between the Czech Republic and Hungary and enable transfer of energy from the Czech Republic, which will remain a net exporter of electricity in the coming years, through Slovakia and Hungary to the Balkans.

In Slovakia, electricity trading also takes place through the controlling company which enables greater credibility and flexibility in trading transactions.

HSE Belgrade Representative Office

Manager	Boris Mezgec, M.Sc.
Main activity	Internationalisation of HSE's operations

An own representative office in Belgrade was established for HSE to form one of the bases for expansion of activities to the markets of former Yugoslavia and the wider area of SE Europe.

HSE Bucharest Representative Office

Manager	Drago Skornšek
Main activity	Electricity trading

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. For these reasons, HSE decided to open a representative office in Bucharest and obtain an electricity trading licence.

Investments

HSE Invest d.o.o.

Managing Director	Miran Žgajner, M.Sc.
Main activity	Other project engineering and technical consulting
Supervisory Board composition as at 31/12/2010	Irena Šlemic (President) Alida Rejec, M.Sc. Jožef Hebar Drago Polak

HSE Invest is a company specialised in engineering and construction of energy plants which provides its customers with a full range of services in the area of consulting and contracting engineering. The major activities of the company include management of project development tasks in the pre-investment phase, management of new plant construction projects and management of existing plant refurbishment projects. The company is carrying out projects in the areas of energy, infrastructure and environmental protection in Slovenia with a goal of expanding its operations to other countries. The company plays a particularly important role in the construction of the HPP chain on the lower Sava River, the construction of PSP Avče, renovation of HPP Zlatoličje, the replacement Unit 6 project and other major projects of the HSE Group.

Soenergetika d.o.o.

Managing Director	Aleš Ažman
Main activity	Production of electricity and thermal energy

As part of activities in the area of EEU and distribution of electricity production, HSE has been searching for potential projects as well as reliable partners that would be willing to participate in such projects in cooperation with HSE. The result of these activities was the Cogeneration Planina project, where the municipality of Kranj carried out a tender to grant the right to construct and operate the infrastructure and plants for "Cogeneration of heat and electricity in Planina Kranj bolier plant" under a direct contract.

The project partners are: Elektro-Gorenjska, Petrol, Domplan and HSE. Each partner's participation in the project amounts to 25%. The leading partner of the consortium is Elektro-Gorenjska. The consortium of abovementioned partners was also selected by the municipality of Kranj as the most favourable bidder with its proposal dated 15.1.2010.

On 10.2.2010, project partners signed a contract of members establishing a limited liability company.

The objective of the investments is implementation of a project for cogeneration of heat and electricity in the area of Planina boiler plant. The boiler plant will be fitted with two cogeneration motors with a power of 999kWe (1.177kWt) and 3.3MWe (3.218MWt), respectively. The projected total annual production of the two motors is 21,000 MWhe and 22,500 MWht.

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.

Efficient corporate governance

Intensive activities to introduce efficient corporate governance (GC) were started in 2010. The basic goals of introducing CG in the HSE Group were to:

- ensure greater efficiency of operations,
- maximise mutual synergies,
- provide for better management of operations,
- provide conditions for effective execution of large capital investments (such as construction of replacement Unit 6 at TEŠ), and
- (subsequently) achieve even better operating results.

The notion of the need to reorganise the HSE Group in terms of higher-quality management is not new. This fact can be confirmed by the decisions of the Group's strategic conferences as well as other documents. The content of these documents clearly shows that a need for **greater exploitation of synergies**, **equity consolidation** and more intensive **coordination of activities** exists.

Active supervision committee

HSE also started establishing **active supervision committees** in subsidiaries which are exposed to greater risks due to intensive investment activities.

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. 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 and TEŠ are co-ordinated by Sindikat delavcev dejavnosti energetike Slovenije (SDE – the Slovene Power Sector Union), one of the strongest within Zveza svobodnih sindikatov Slovenije (ZSSS – the Association of Free Trade Unions of Slovenia).

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. Such cooperation also extends to the Joint Workers' Council of the HSE Group.

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

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

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.

Economic and Social Council (ESC)

In 2010, and Economic and Social Council (ESC) was founded with the goal of intensifying cooperation between the management boards, workers' councils and representative labour unions in the HSE Group companies.

2.3

Business policy of the HSE Group

Mission

HSE's mission is to maintain its leading position in the energy sector in the domestic market and play a major role in the markets of SE Europe as well as to develop the Slovenian energy sector and science, establishing them in an international context.

Vision

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

Values

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

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

2.4

Strategic policies of the HSE Group

- maintaining a leading role in Slovenia
- consolidating our position in the region
- enabling and increasing E-RES production
- lowering greenhouse gas emissions
- ensuring sufficient and optimal financing sources
- streamlining operations on a continuous basis
- seeking synergies within the Group
- managing risks at all times

HSE Group is implementing its development programme on a continuous basis while its operations are adjusted to the strategic policies of the Government of the Republic of Slovenia. Our short-term and long-term goals are adapted to the new economic situation which brought about great challenges that the HSE Group is and will keep facing in the future. These days, timely identification and interpretation of influential factors and prompt, but deliberate, reaction are strategically important in order to maintain a leading role in the country and strengthen our position in foreign markets of the region. The most important implications of the ongoing global economic crisis are lower demand for electricity and, in turn, lower electricity prices. The end of the crisis and intensified economic activity are expected to result in renewed growth in demand and subsequently higher electricity prices. The volatility of future economic trends implies a great uncertainty with regard to future electricity and emission coupon prices.

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

All the changes in the energy policy and legislation (energy and climate package, third legislative package, expected new NEP) and the subsequent changes in energy markets also have a significant impact 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 current Development plan of the HSE Group, adopted in 2006, which will nevertheless have to be adapted to fit the requirements of the ambitious energy and climate package and the resulting binding requirements for Slovenia.

Investments in new production capacities have been a necessity for quite a while now, while the energy and climate package has brought about requests for new production capacities that will help achieve the following objectives:

- 25% share of RES in end consumption of energy in Slovenia by 2020 (today the share is app. 16%),
- 20% increase in energy efficiency by 2020,
- 20% decrease in greenhouse gas emissions by 2020, and
- 10% share of bio-fuels by 2020.

HSE Group's projects, such as HPP construction on the lower Sava River, replacement Unit 6 at TEŠ, two PSPs, the planned power plants on the middle Sava River, exploration of the possibility to construct a HPP chain on the Mura River, are the projects that will help Slovenia achieve its goals.

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.

Foreign investments

Next to ensuring safe, reliable, sufficient and environment-friendly production in Slovenia and electricity supply at competitive prices, our fundamental goal is development and growth of the Group by assuming a more important role within the region. These markets offer the greatest opportunities for further expansion of the company's operations, while the risks associated with them can still mostly be attributed to unstable political and regulatory conditions and dominant positions of local vertically integrated companies.

In light of important investments in Slovenia, all additional investments have to be very carefully planned. In today's changing market conditions, both at home and abroad, HSE is aware of potential drawbacks of foreign investments 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, regulatory and economic conditions, which are a prerequisite for successful outcome of energy projects.

Optimisation of Group's operations

We must be aware of the fact that only through a unified approach of all companies which make up the HSE Group we can ensure greater competitiveness in the market, utilise production and other capacities in an optimal manner, enable a more rounded range of products, reduce risks when concluding long-term contracts and implementing larger projects etc. By unifying the strategic goals, strategies and business policies and utilising the existing resources of all HSE Group companies we will be able to achieve greater synergies of the Group. Achieving synergies within the Group was the primary topic at the VII. strategic conference of the HSE Group, which took place in April 2010. Such an approach will also be used when revising the HSE Group development plan.

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 implementation of objectives concerning quality, environmental management, occupational safety and information security in accordance with their responsibilities and competencies.

2.5.1 Achieving objectives in the area of 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 2010 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 and organisation of work continued. In 2010, we underwent a recertification audit for the ISO 14001:2004 certificate, and regular audits for other certificates.

We also underwent and successfully passed an internal and external evaluation regarding RES-based production under the criteria of EE TUV 08/02 and RECS audit of DEM's, SENG's and HESS's HPP chains.

2.5.2 Achieving environmental management objectives

The HSE Group is an environmentally conscious group of companies, which provide their employees with pleasant and healthy working environment and foster good relations with their neighbours. They are implementing the principle of sustainable development on a local and national level, and their goal is constant improvement of working and living conditions of employees and people living in their vicinity. The companies' environmental policy has been reconciled with the requirements of the ISO 14001:2004 standard. In 2010, 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 HSE Group, compliance with relevant legislation represents merely a minimum level which is observed and supplemented with the requirements of the OHSAS 18001 standard. After the internal and external recertification audit was carried out and successfully completed, the auditors determined that the area of occupational health and safety is managed in accordance with the standard.

2.5.4 Achieving information security objectives

In 2010, the implementation of information security management measures continued in accordance with the ISO 27001 standard and included:

- an inventory count of IT resources within individual systems at TEŠ and HSE;
- renewed risk assessment for all IT resources;
- amended procedures for monitoring of events in the area of information security and business IT, as well as methods for their classification based on changes, possible incidents and actual incidents, and their appropriate allocation and resolution;
- a revised system management manual;
- a revised SP 30-41 Business IT procedure in accordance with organisational changes;
- training of all employees as per the requirements of ISO/IEC 27001;
- a review (in accordance with the personal data protection act) of all data-bases, where HSE processes personal data, which will be reported as data-base catalogues to the Information Commissioner as required by the law.

We also performed an external assessment according to the criteria of ISO/IEC 27001.

2.5.5 Family-friendly company

In October 2009, based on the proposal by the Workers' Council, HSE started a procedure in order to acquire a basic certificate for a "Family-friendly company". The project team prepared underlying documents for the acquisition of the basic certificate. From the proposed measures, the Managing Director selected the most appropriate. On 10.5.2010, the company received the certificate under an audit committee decision. After the certificate was acquired, the Managing Director appointed a team for coordination of professional and family life.

2.5.6 Certificates obtained by HSE Group production companies

Open market conditions in the Slovene electricity market and in 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	HSE Invest
ISO 9001	•	•	•	•	•	•	•
ISO 14001	•	•	•	•	•	•	
ISO 27001	•			•			
OHSAS 18001	•	•	•	•	•	•	•
EE TÜV	•	•	•				
RECS	•	•	•				
HACCP				•	•		
PoI		•	•				
DPP	•						
ISO/IEC 17025:2005				•			

EE TÜV Organisation for technical control of RES
RECS Renewable Energy Certificate System
HACCP Hazard Analysis Critical Control Point (Measurement laboratory standard)
GO Guarantee of origin
FFC Family-friendly company
ISO/IEC 17025 Accreditation for testing laboratories for coal and desulphurisation

2.6

Market position

51%

The **SHARE OF HSE'S SALES IN FOREIGN MARKETS** has been increasing each year. Compared to 2009 it increased by 17 percentage points.

2.6.1 Slovenian economic climate in 2010

Moderate GDP growth

In 2010, moderate GDP growth was recorded, namely 1.2%, compared to 2009. According to current estimates, in 2010 GDP amounted to € 36,061 million or € 17,602 per capita.

Annual inflation of 1.9%

At the end of the year, annual inflation stabilised at 1.9%, and the average annual inflation rate at 1.8%.

In 2010, prices grew the most in the apartment sector. In this sector, the prices of liquid fuels increased the most, by 28%, followed by garbage collection (20%), gas (19.1%), district heating (12.3%), electricity (5.9%) and solid fuels (4.7%).

Prices of imported products increased by 10.3% in a year

In December 2010, prices of imported products as measured by the import price index increased by 10.3% relative to December 2009. Prices of products imported from countries outside the Euro zone increased by 12.8%, while prices of products from the Euro zone increased by 8.6%.

Higher prices of energy products and raw materials in particular

In 2010, prices of energy products and raw materials increased the most (by 18.2% and 16.7%, respectively), followed by consumer products (6.7%) and capital investment products (1.1%).

The rate of registered unemployed as high as 11.8%

At the end of 2010, the number of registered unemployed reached 110,021; the unemployment rate in Slovenia thus amounted to 11.8% and increased by 13.8% relative to December 2009.

A decrease in the number of employed of 1.4%

Compared to December 2009, the number of actively employed decreased by 1.4%, with the construction sector, processing industry and sale and servicing of motor vehicles accounting for the largest share.

Exports and imports higher in December 2010 than in December 2009

In the period January to December 2010, exports increased by 13.7% and imports by 14.6% compared to the same period in 2009; export to import ratio was 92.9%.

Mining and processing industry

Productivity in the mining and processing industry was almost 13% higher in 2010 relative to 2009.

2.6.2 Market environment of the electricity industry

After the recession year 2009, Europe's economies started to recover in 2010. The recovery, however, was accompanied by an uncertain financial environment. National debts of certain EU members exceeded sustainable levels, which was reflected in the lack of confidence in markets with regard to their ability to repay those debts. Increased risk in relation to repayment of certain members' debts pushed the interest rates higher up, which led to conditions where joint assistance of all EU countries was required to save the most affected nations. As a consequence, doubts as to the resilience of the euro drove its value down, which did improve the competitiveness of European exporters in the global market, but increased the prices of energy products in the EU which are traded in US dollars. The uncertainty with regard to the future structure of the European financial system therefore had a positive effect on price levels of electricity in continental Europe.

Despite the recovery, traders remained cautious throughout the year due to the possibility of renewed recession and subsequent decrease in consumption. 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 months of 2010 we witnessed low prices of electricity in the daily market, which was also reflected in the futures market, with futures gradually losing value. In the second half of the year, the prices of energy products, oil in particular, recovered which, among other, led to higher prices of electricity.

With regard to transmission of electricity across Slovene borders we should mention that the Slovene transmission network operator, ELES, in accordance with the European directive concerning the allocation of cross-border transmission capacities, continued with market-based allocation of cross-border transmission capacities through explicit auctions.

In 2010, the electricity market was under strong influence of developments in the global economic environment which was significantly affected by the situation in the FX market and energy products market (oil market in particular). The start of economic recovery and higher production of industrial products were accompanied by greater electricity consumption. Growth in electricity consumption was also recorded in Slovenia where an important share in growth can be attributed to industrial consumers the consumption of which was, however, still much lower than before the recession.

Despite large surpluses of emission coupons as a result of lower consumption in the European industry, the price of coupons was extremely stable and moved between € 13 and € 17 per coupon. This was made possible by the legislation under which all coupon surpluses can be transferred to the next trading period 2013-2020; energy companies, in turn, will have to buy all coupons at auctions organised by member states or in the secondary coupon market. The system, under which the complete quantity of coupons will have to be purchased as opposed to the current situation, where all energy companies have received the coupons virtually free of charge, only having to purchase the remaining coupons, will further strengthen competition in the European electricity producers market. Given the current ratios between prices of primary energy products and coupons on the one hand and prices of electricity on the other, it can be expected that some of the electricity producers using fossil fuels will be forced to shut down as early as 2013 as the current price ratios will not even suffice to cover the variable production costs.

2.6.3 Situation in electricity markets in 2010

Slovenia

The changes in electricity prices in developed markets of continental Europe were accompanied by similar changes in SE Europe. The Hungarian wholesale market, which is strongly connected to German electricity prices, serves as an important indicator of electricity prices in former Yugoslav countries.

Slovenia is ideally located, being the hub of continental and SE Europe markets, for the company to be able exploit the price differences and the structure of products in the electricity market in an efficient manner.

Despite the fact that the countries of former Yugoslavia are not a part of the emission coupon trading system and are therefore exempt from this environmental tax, electricity prices were formed at levels similar to those in the neighbouring countries which signed the Kyoto protocol. As in the previous year, a lot of energy entered the Slovenian electricity market from the SE European electricity market, which raised the average price of cross-border transmission capacities on the Slovene-Croatian border to € 1.3/MWh.

The increase in cross-border transmission capacities on the Austrian-Slovene border and solid electricity supply in SE Europe resulted in a low price of cross-border transmission capacities from Austria to Slovenia which averaged only € 0.18/MWh on a daily level. Somewhat higher prices of cross-border transmission capacities for import of electricity across this border were recorded in the summer months of July and August when they averaged € 0.83/MWh on a daily level. The price of annual cross-border transmission capacity on the same border reached € 0.53/MWh, which indicates that the traders made a good estimate as to the value of this capacity.

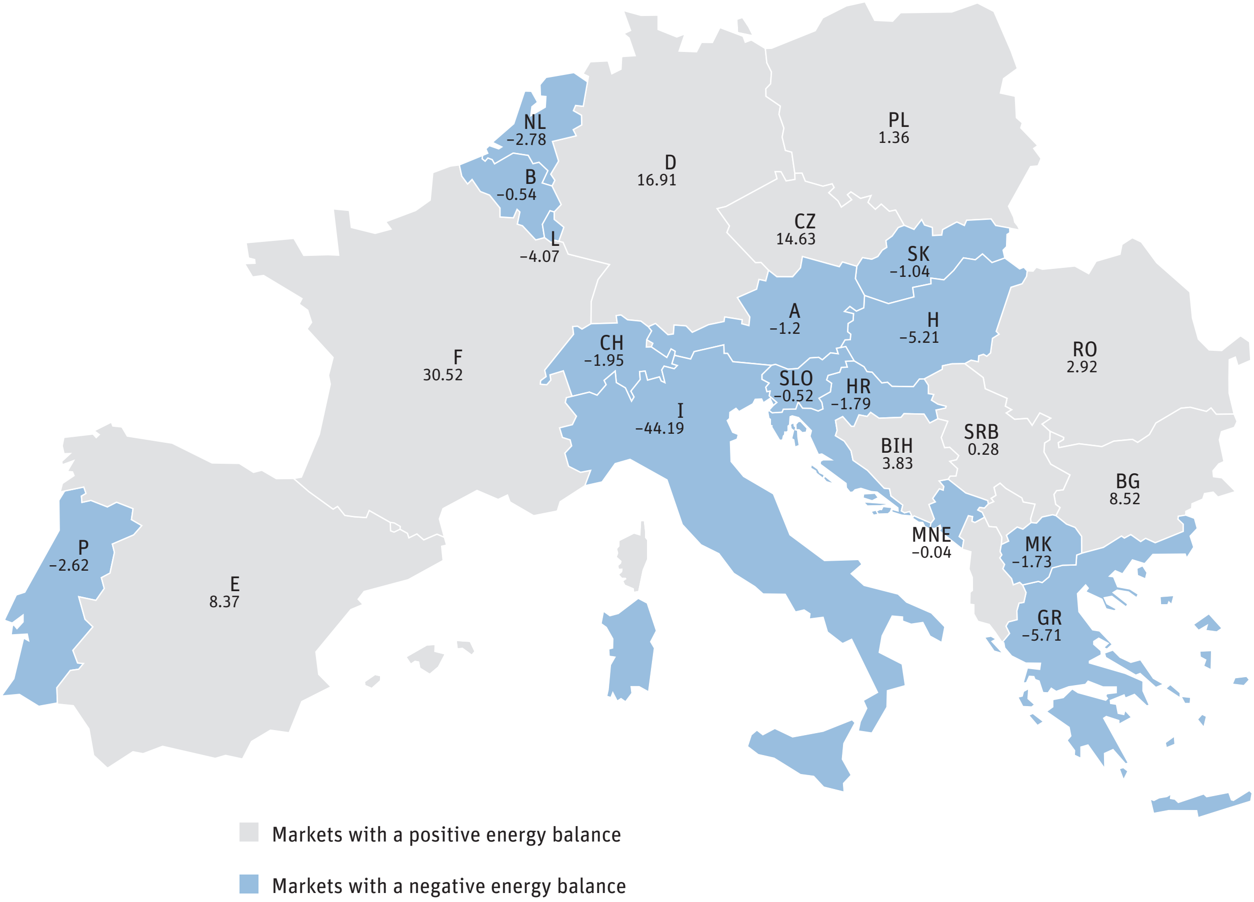
The most important export market in the previous year remained Italy, where the prices reached in the daily market were only slightly higher than in 2009.

After the surplus in previous year, the balance of the Slovenian transmission network became negative again in 2010 despite the above-planned production of Slovenian HPPs. Compared to pre-recession years, Slovenian import dependency remained low in 2010. In light of gradual recovery, particularly of the Slovenian export industry, it is expected that import dependency will keep growing in future years.

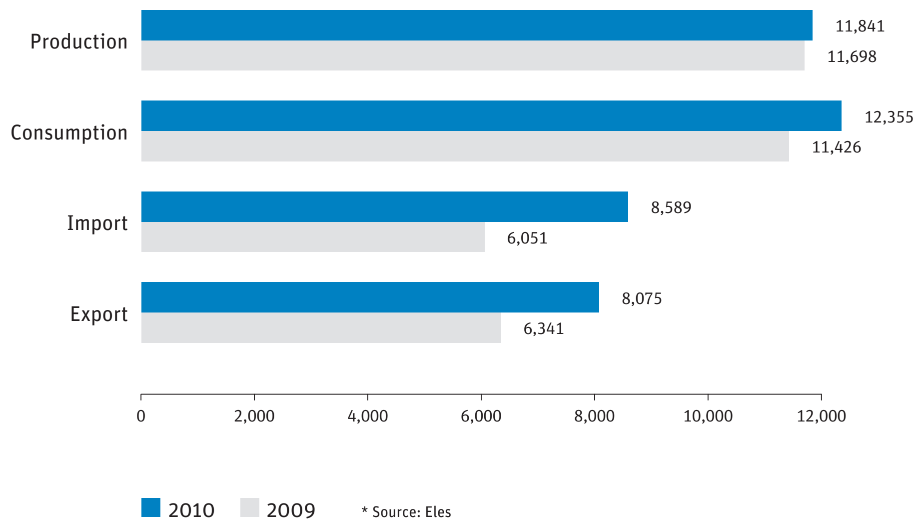
The flexibility of HPP production was used to our advantage by allocating a significant portion of energy to more expensive peak hours and, depending on the price levels or economic purpose, selling it on the liquid Italian and German markets. Production was also being optimised at thermal power plants, where, while observing technical limitations, we exploited the differences in prices between individual hours. During nights, weekends and bank holidays, when the price of electricity and cross-border transmission 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.

The company responded to the high price volatility in the market by adopting a strategy for the sale of own production. The strategy thus envisages that in the current year, a certain percentage of production can be sold for several years in advance. Such a manner of selling own production contributes to greater stability of revenues, which was particularly evident during the period of low prices of long-term sales as the company sold a portion of energy supplied in 2010 during the peak price years before the start of the financial and economic crisis.

Balance of European electricity markets in 2010 (in TWh)

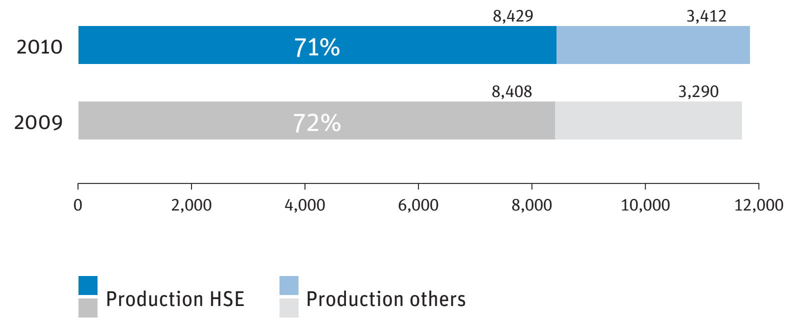


Slovene electricity market in 2010 and 2009* (in GWh)

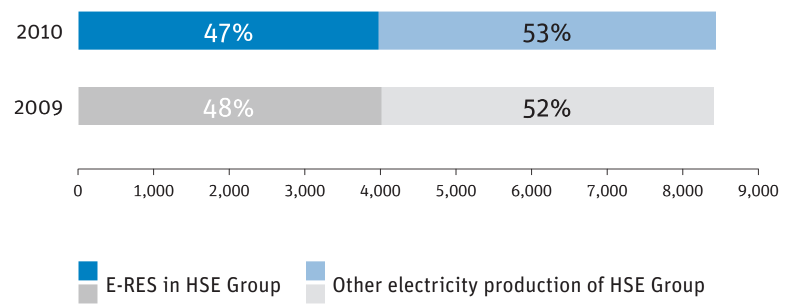


* Source: Eles

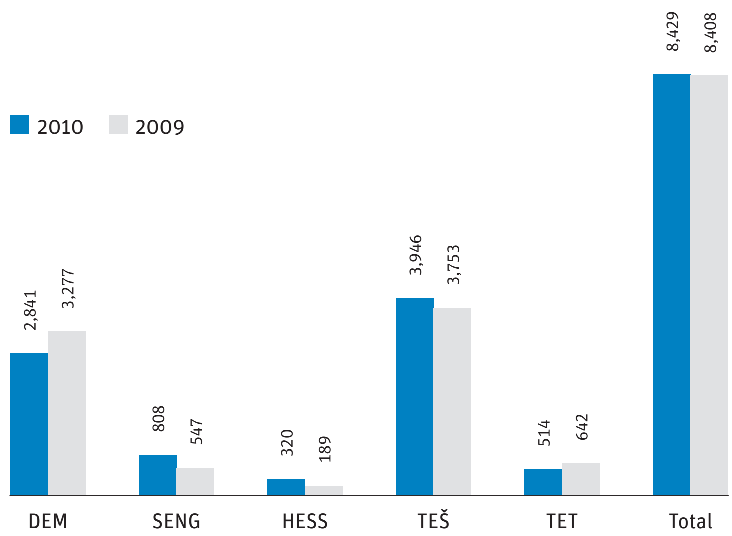
Share of HSE Group's production in total electricity production in Slovenia in 2010 and 2009 (in GWh)



Share of electricity produced from RES in production of HSE Group



Net electricity production of the HSE Group in 2010 and 2009 (in GWh)



Continental Europe

The economic upturn strengthened the prices of electricity and the liquidity of energy exchanges in continental Europe. Germany, where our trading activities are most intensive, remained our largest foreign market in 2010.

As in the case of the Slovak branch, trading activities of the Czech branch were also transferred to the controlling company in 2010. This represented an important step forward as it is an economically sound solution which simplifies operations and also resulted in greater volume of trade in the Czech market. This was possible due to a larger number of partners and better credit rating the controlling company has compared to the branch. However, the latter remained open as this is required by the Czech energy law.

Trading in the period under review was marked by exploitation of price differences between the Czech and German markets. The price difference between these markets was quite favourable in some of the months which, of course, represents an incentive for trading which increased substantially relative to the previous year.

Because, due to market coupling*, electricity prices between the Czech Republic and Slovakia virtually levelled, Slovakia became mostly a transit country for us as its market is much less liquid than the Czech. Therefore, trading in 2010 was more or less modest on account of increased trading in the Czech Republic.

Italy, France

In 2010, the situation in the Mediterranean market normalised after the turbulent years of 2008 and 2009. The economic picture is still not very promising which is also evident in low electricity consumption; however, no severe price fluctuations have been detected. Despite the positive trend in consumption relative to 2009, the quantities are still below those in pre-crisis times. This is also evident in the price of base load electricity, which barely indicates growth (Italy, 2009: € 63.72/MWh, 2010: € 64.12/MWh). Low levels of electricity prices were made possible by a relatively low price of gas, which is abundant due to the crisis.

We should particularly point out the discrepancy between long-term prices of gas, which are tied to the price of oil and therefore very high, and short-term/daily prices, which are based on market conditions and are low due to low consumption. If the consumption of gas does not grow and its supply remains uninterrupted, the price of electricity should not increase uncontrollably.

HSE recorded solid results in Mediterranean markets in 2010, mostly in sales in the Italian market. The increase in sales quantities was mostly the result of improved liquidity of the wholesale market on trading portals. We were also quite successful in the French market, where the sales plan was also exceeded.

In 2010, we began procedures for registration of HSE in Spain.

SE Europe

In 2010, the recession in the area of SE Europe remained in full swing. Electricity prices were kept low as there were no conditions for their increase. Due to continued decline in industrial consumption, certain countries further reduced their electricity purchases in the market. As a consequence, SE European markets experienced lower liquidity which interfered with trading on the one hand but opened new opportunities on the other. Due to insufficient financial liquidity of companies, operating risks increased which led to stricter monitoring of credit ratings of all business partners as well as increased trading in organised electricity markets and lower number of bilateral deals.

Despite all this, in the middle of the year Bulgaria increased the duties for export of electricity which currently stand at unconscionable € 12.14/MWh. This, of course, had a negative effect on trading throughout the region.

* Market coupling – a mechanism for coordination of orders at the exchange and at the same time an implicit mechanism for allocation of cross-border transmission capacities.

In 2010, HSE participated – directly or through its subsidiaries – in most auctions for cross-border capacities in SE Europe. Hungary remained HSE's most important market, with trading reaching a little less than a half of the whole SE Europe portfolio. In 2010, HSE traded in Hungary in the name of the controlling company.

HSE successfully traded in the name of the controlling company in Romania as well, mostly on daily bases, where we exploited the current circumstances and imbalances in neighbouring markets.

In Macedonia, HSE MAK Energy obtained all the required licences, concluded all the necessary contracts and started trading in August. It was mostly instrumental in connecting Serbia and Bulgaria with Greece. In Greece, where HSE's trading activities are carried out in the name of the controlling company, we participated in auctions for cross-border transmission capacities, mostly in direction towards Italy, and thus consolidated, i.e. rounded up, our trading portfolio. Despite unfavourable conditions, HSE Bulgaria was successful in concluding business deals, particularly with related companies. In the second half of 2010, HSE sold a 51% stake in the company TE-TO Ruse to the Russian company Mechel thus withdrawing from the ownership structure of TE-TO Ruse.

2.7

Sales and customers

2.7.1 Electricity

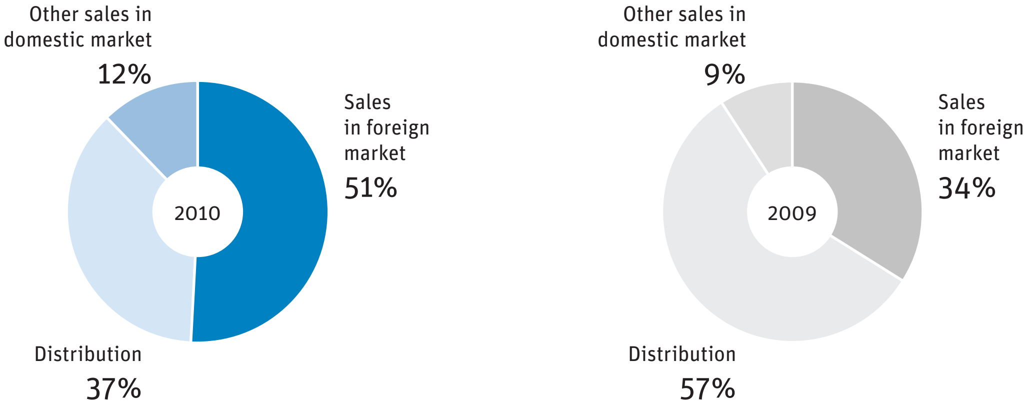
Electricity and electricity prices

While in 2009 we had witnessed lower electricity consumption relative to preceding years, both in the services sector as well as in household and industrial consumption, we can claim that the economic crisis and recession reached a bottom at the end of 2009 and beginning of 2010. Subsequently, electricity consumption started growing slowly, with the growth reaching 6% at the end of the year.

As in previous years, hydrologic conditions were favourable for HSE in 2010 as well, with just the HSE Group hydropower plants sending into the network as much as 698 GWh more electricity than planned. Although this is 224 GWh less than what was produced in 2009, the result is still satisfactory.

Despite adverse economic conditions, HSE strived to ensure efficient and secure supply of electricity to its customers in 2010 as well. Coordinated trading, sale of electricity produced by HSE Group companies, management of the company's production units and sale of electricity from other sources enabled us to maximise our performance. We should point out in particular that for the first time in HSE's existence, the quantity of electricity sold in the domestic market reached almost a half of all energy sold or, in other words, cross-border sale of electricity exceeded a half of all energy sold in 2010 (51%). In the domestic market, 37% of electricity was sold to distributors and other customers bought 12%.

Structure of electricity sales in 2010 and 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 the market price exceeded the cost of extra production were sold in day-ahead markets.

Ancillary services

In addition to electricity, the following contractually required ancillary services were provided in 2010:

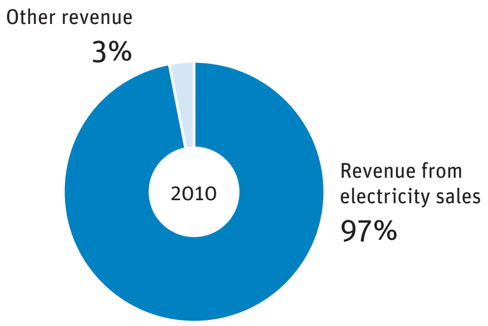
- lease of active power for tertiary regulation – minute reserve in the amount of 134 MW,
- secondary frequency control in the regulatory range of ± 77 MW,
- black start capability,
- reactive power support, and
- secondary control services.

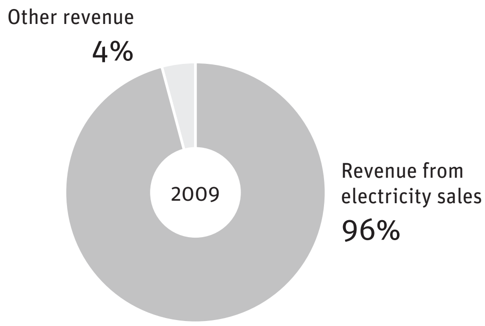
2.7.2 Other activities

Net sales revenue structure

HSE Group generated almost € 909 million in net sales revenue in 2010. Accounting for 97%, electricity was by far the most important in the structure of the HSE Group's net sales revenue, with other revenue amounting to 3%.

Structure of net sales revenue in 2010 and 2009





Other products and services

Other revenue from the sale of products and services includes revenue from the sale of apartments and rents, revenue from hospitality services, revenue from steam and hot water supply, revenue from the sale of heat, and revenue from storage and sale of fly ash. The majority of revenues from the sale of other products and services were generated by the PV Group, specifically by the companies RGP and HTZ IP.

Heat

In 2010, 407 GWh of heat was produced, which is 5% more than in 2009.

2.8

Purchasing and suppliers

2.8.1 Electricity

Synergy

To maximise efficiency, HSE endeavours to take advantage of the synergies of production units within the Group. Because the operating and cost-related characteristics of individual production plants differ, cost-effective production of electricity can be achieved through appropriate production scheduling. And because electricity market prices fluctuate over time, rational dispatching of production units, while observing technical criteria, is all the more important.

HSE Group's electricity production units in 2010

DEM

		Dravograd	Vuzenica	Vuhred	Ožbalt	Fala	MB otok	Zlatoličje	Formin	Small HPPs	Total
	No. of turbines	3	3	3	3	3	3	2	2	2	
Net output	MW	26	56	72	73	58	60	120	116	2.9	**584**
Rated generator capacity	MVA	36	78	90	90	74	78	159	148	2.9	**755.9**
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
	No. of turbines	3	3	
Net output	MW	32	42	**73.5**
Rated generator capacity	MVA	43.5	50	**93.5**
Gross head	m	7.6	8.8	**16.4**
Rated flow Qi	m^3/s	500	500	

SENG

		Doblar I.	Doblar II.	Plave I.	Plave II.	Solkan	ČHE Avče	Zadlaščica	Small HPPs	Total
No. of turbines		3	1	2	1	3	1	2	26	
Net output	MW	34	40	16	19	32	180	8	11.4	**340.8**
Rated generator capacity	MVA	48	50	22	23	39	200	10	15.6	**407.6**
Gross head	m	47.2	48.5	27.5	27.5	23	521	440		**1,134.7**
Rated flow Qi	m³/s	90	105	75	105	180	40	2.2		

TEŠ

		PT 51	PT 52	Unit 1 Jan-Mar	Unit 3	Unit 4	Unit 5	Total
Net output	MW	42	42	25	50	248	305	**712 / 687**
Rated generator capacity	MVA	56.25	56.25	37.5	94	324	377	**945 / 907.5**

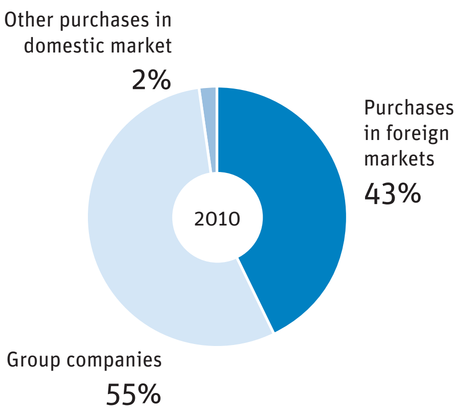
TET

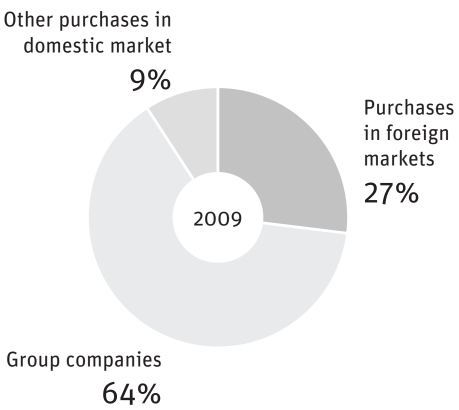
		PB I.	PB II.	Unit 4	Total
Net output	MW	27	27	110	**164**
Rated generator capacity	MVA	34	34	156	**224**

Structure of sources

The electricity supplied by the HSE Group to its customers in 2010 was mainly purchased from HSE Group companies (55%) and in foreign markets (43%). The remaining 2% were purchased from suppliers in the Slovene market.

Structure of electricity purchases in 2010 and 2009





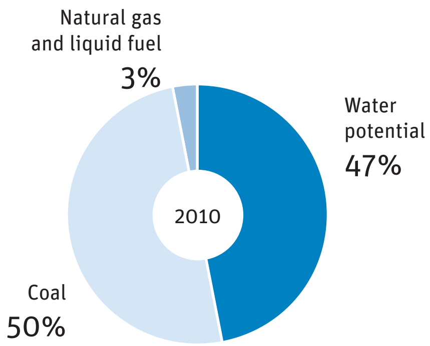
Optimising purchases

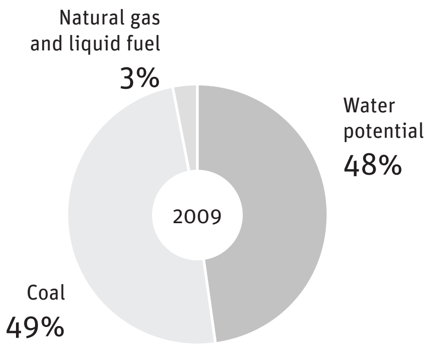
In order to offset shortfalls arising from supply interruptions or unfavourable hydrology, as well as optimise production and trading, HSE purchased electricity in the day-ahead electricity market.

Primary raw materials

In 2010, primary raw materials used in the production of electricity included coal (50.7%), water potential (46.8%), and natural gas and extra light heating oil (2.5%).

Primary raw materials used in electricity production in 2010 and 2009





Purchase price

In 2010, the purchase price of electricity was mostly affected by the following factors:

- favourable hydrology conditions that resulted in 23% higher production of hydropower in HSE Group companies,
- 4% higher than planned electricity production from coal at TEŠ,
- 1% higher than planned electricity production from gas at TEŠ,
- 1% higher than planned electricity production at TET,
- conditions in the electricity market.

Coal

At TEŠ, 43,847 TJ of coal was used for production of electricity and heat. At TET, 5,902 TJ of coal was used for production of electricity.

Coal supplies

On 31.12.2010, PV's coal supplies totalled 3,989 TJ while at TET they stood at 1,890 TJ. As at 31.12.2010, coal supplies at PV were 2% higher compared to the end of 2009 due to discrepancies between supply (extraction) and consumption of coal (dependent on electricity production) during the year. At TET, coal supplies at the end of the year were 27% lower than on 31.12.2009.

2.9

Investments

3E

Represent the criterion for Energy efficiency, Economic viability and Environmental sustainability.

All investments in the HSE Group meet this criterion.

Despite the fact that electricity consumption fluctuates locally and globally, HSE Group keeps searching for new 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;
- high level of efficiency can only be achieved through effective use 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 on a continuous basis.

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

- increasing the share of renewable energy sources;
- applying new technologies in use 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.

Major investments of the HSE Group in 2010 are presented below.

PSP Avče

PSP Avče is the first pumped-storage hydro power plant in Slovenia and one of the first pumped-storage hydro power plants in Europe equipped with a reversible aggregate with a variable pumping regime operation rate.

Basic technical data	
Qi (max. discharge – turbine oper.)	40 m^3/s
Qp (max. discharge – pumped oper.)	34 m^3/s
Hgross max. (maximum gross head)	521 m
Pi (median installed capacity in generator operation mode)	185 MW
Pp (median installed capacity in pump operation mode)	180 MW
Eap (annual electricity production)	426 GWh
Eac (annual electricity consumption for pump operation)	553 GWh
N (Eac/Eap) – PP's efficiency rate	0.77

In December 2009, a decision of the administrative body authorising a trial run for the period of one year was awarded. In 2010, all testing and trial procedures were completed and commercial operation started in April. In December, MESP extended the decision authorising the trial run for another year.

The project investor is the company SENG.

HPPs on the middle Sava River

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

The purpose of the project is to improve the utilisation of the Sava River's hydro potential and increase the installed capacity. The construction of a HPP chain on the middle Sava River will contribute to the increase in base load and peak load energy produced from RES.

Basic technical data		Head [m]	Installed capacity [MW]	Electricity [GWh/year]
1	HPP Suhadol	12.5	43.8	148.9
2	HPP Trbovlje	10.1	35.2	117.1
3	HPP Renke	9.9	36.2	118.3
4	HPP Ponoviče	19.5	68.0	215.4
5	HPP Kresnice	8.5	29.8	92.2
6	HPP Jevnica	8.5	29.8	91.6
7	HPP Zalog	7.5	16.8	43.4
8	HPP Šentjakob	7.5	16.8	43.4
9	HPP Gameljne*	12.5	27.6	69.7
10	HPP Tacen*	15.5	34.8	89.1

* HPP Gameljne and HPP Tacen are a replacement for the planned construction of the derivation HPP Ježica which was envisaged in the Regulation.

The project is expected to involve construction of 10 power plants on the middle Sava River, increasing the Group's E-RES production by 1,029 GWh, and the installed capacity by 338 MW, and expanding the volume of ancillary services.

In 2010, the Concession Agreement was harmonised and the applicable Regulation on concession for the use of water in electricity production in the section of the Sava River between Ježica and Suhadol was amended. We also gathered relevant hydrological and surveying information required for studies and research papers supporting the preparation of the National Spatial Plan (NSP) and Comprehensive Environmental Impact Assessment (CEIA). The technical-economic documentation for the first three HPPs was prepared.

The project investor is the company HSE.

HPPs on the lower Sava River

HPPs 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 was completed in 2006 and the operating permit for the dam construction acquired in 2010. We did not yet obtain an operating permit for the accumulation basin – the activities for acquisition of the permit are being handled by the company Infra.

HPP Blanca was completed in 2009 and the operating permit for the dam construction acquired on 12.11.2010.

At HPP Krško, the following works were performed in 2010: in the second construction pit excavations were underway, the massive concrete elements of the engine room were cemented, the assembly works on all generators were completed, the majority of electrical equipment was supplied, works on the redirection of the road G 1-5 were completed, large blocks of rock were removed, activities regarding the project-planning of the HPP Krško accumulation basin (reservoir) were underway, the river bed below the power plant was deepened and works were carried out on the bypass road.

At HPP Brežice, the process for preparation of the NSP was underway, technical documents for the NSP were drawn up and studies and investment and project documentation prepared.

At HPP Mokrice, the process for preparation of the NSP was underway, technical documents for the NSP were drawn up and studies and investment and project documentation 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.

Replacement Unit 6

The replacement Unit 6 will generate 3,500 GWh of electricity, for which it will require 2.9 million tonnes of coal, and emit 3.1 million tonnes of CO_2 which is almost one and a half million tonnes less than the currently operating units. This is, therefore, a more acceptable production facility in terms of energy and environment, which will produce the same quantity of electricity with 30% less coal. 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.

Basic technical data

Output	600 MW
Specific net consumption	8,451 kJ/kWh
Price of coal	€ 23.18/t (€ 2.25/GJ)
Hours of operation at full capacity	6,500 hrs/year
Number of employees	200
Useful life	40 years
CO_2 emission	0.87 kg/kWh

The functional project activities in 2010 have been primarily focused on the preparation of documentation for acquisition of an environmental permit, building permits for the cooling tower and main technological facility and securing of financial sources for the project.

In 2010, calls for tenders have been prepared and published, and contractors selected, for the preparatory construction works, i.e.:

- demolition of cooling towers 1-3,
- embankment and platform for the cooling tower and transformers,
- construction of the western importation platform.

Construction works on all three sections also began in 2010 based on the acquired building permits for demolition and preparatory works. Demolition of cooling towers was completed in the beginning of autumn 2010.

In February 2010, a contractor for the construction of the cooling tower with the cooling system was selected on the basis of a public call for tenders published in the Official Journal of the EU in November 2009.

In the same period, intensive coordination on final technical solutions with the supplier of the main technological equipment was underway. The project was, in accordance with the contract on active supervision of the project between TEŠ and HSE, monitored by the Active Project Supervision Committee, appointed by the managing director of HSE.

The project investor is the company TEŠ.

Modernisation of mining equipment

In 2010, the company PV spent the most resources on modernisation of mining equipment, namely hydraulic supports, and invested in spare parts and other equipment for mining and side chain conveyors.

Coal transhipment station

Investment in the construction of a coal transhipment station in Trbovlje has been underway since 2007. On 26.8.2010, a final technical inspection was performed, and on 5.10.2010 a technical inspection by MESP. In the period after the technical inspection by the administrative body, in November, trial operation of the facility began. The official opening of the Coal transhipment station took place in December 2010. In March 2011, an operating permit for the plant was issued.

The project investor is the company TET.

PSP Kozjak

PSP Kozjak is in the final stages of the process for incorporation into the national spatial plan by the Government of RS.

Basic technical data

Qi (max. discharge – turbine oper.)	65 m^3/s
Qp (max. discharge – pumped oper.)	45.8 m^3/s
Hgross max. (maximum gross head)	710.31 m
Pi (median installed capacity in generator operation mode)	215.50 MW
Pp (median installed capacity in pump operation mode)	213 MW
Eap (annual electricity production)	985 GWh
Eac (annual electricity consumption for pump operation)	1,208 GWh
N (Eac/Eap) – PP's efficiency rate	0.82

In 2010, additional technical papers were prepared on the subject of the location of the power line connection and the necessity for laying a cable for the 400 kV power line, on the basis of which an optimised route of the 400 kV power line was designed.

The project investor is the company DEM.

2.10

Informatics

Consolidation

We have reviewed the situation in the area of IT in all companies of the HSE Group. The review was focused on the infrastructure, application software, system services, security, and IT control and staff. On the basis of the review, we have prepared a short-term action plan for consolidation of the IT area in the companies of the HSE Group. We created individual project groups responsible for specific tasks involving performance of clearly defined activities. We also prepared a framework policy for the IT area.

In addition, we performed a thorough review of the network in all HSE Group companies which will serve as a basis for further development of the network infrastructure.

As the first step towards business-IT consolidation, a project entitled “Energy” was started in 2010 the objective of which is implementation of the IT-supported process for consolidation of financial statements of the whole HSE Group.

E-archive accreditation

We prepared a “Programme for implementation of digital storage at HSE and accreditation of service”, in which we laid down the purpose and goals of accreditation and the conditions required for implementing digital storage.

The requirements for implementation of digital storage in the HSE Group involve preparation and approval of internal rules and use of appropriately accredited hardware and software.

The requirements for accreditation of services involve fulfilment of organisational and technological conditions of the service provider. These conditions are much more demanding. Here, HSE will play a dual role, which is why we must meet the conditions both of the user as well as the provider of services.

Standardisation of business IT systems in the Group

The project team performed a thorough analysis of existing solutions in all HSE Group companies and proposed a solution on the basis of evaluation and elimination criteria that it estimates will be appropriate for the whole Group.

2.11

Business performance analysis

5A1

In 2010, the Dun & Bradstreet credit rating agency lifted HSE's credit rating from 4A1 to 5A1, which is the highest possible credit rating. HSE has thus been placed on the coveted list of 50 Slovenian companies with the best credit rating.

Main activities

In 2010, the financial operations of the HSE Group were again 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

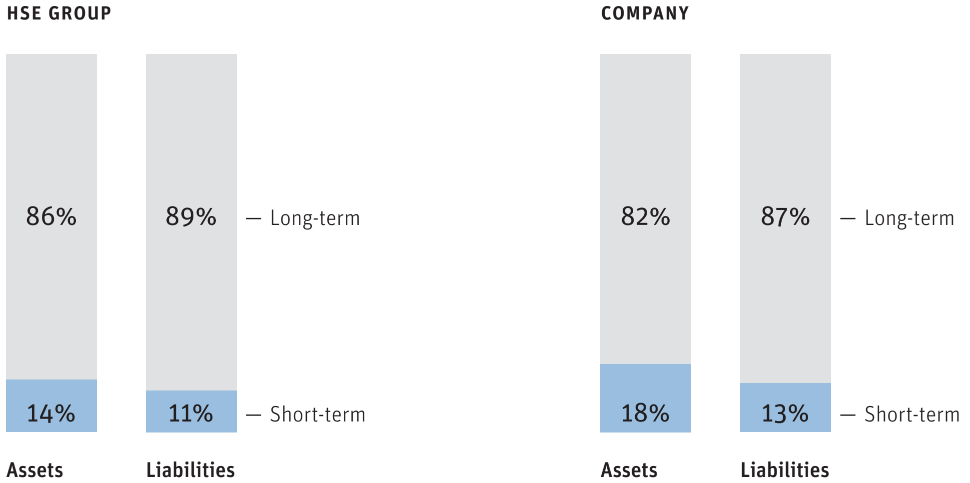
The basic function of financial operations is to ensure solvency of the HSE Group and, consequently, undisturbed performance of other business activities. In 2010, short-term solvency of the Group and management of solvency risk were ensured through a centralised system of up-to-date coordination and 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 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. 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 2010, 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 2010 financial year, the Group's financial liabilities totalled € 312.9 million, of which long-term financial liabilities accounted for 81% and short-term financial liabilities for 19%. The long-term financing to assets ratio of the HSE Group stood at 100%. 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, adequately managed. Additional information on risk management can be found in section "2.12 Risk management".

Balance sheet structure of HSE Group and controlling company as at 31.12.2010



Capital adequacy

Ensuring capital adequacy is one the most important responsibilities of HSE Group managers. It is estimated that HSE Group companies comply with capital adequacy requirements, since they dispose of sufficient funds given the volume and type of business activities and given the risk, to which they are exposed in pursuit of these activities.

The HSE Group is also aware of the fact that non-financial elements – the so-called soft factors, such as staff, information etc. – are increasingly being treated as part of the company's 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.

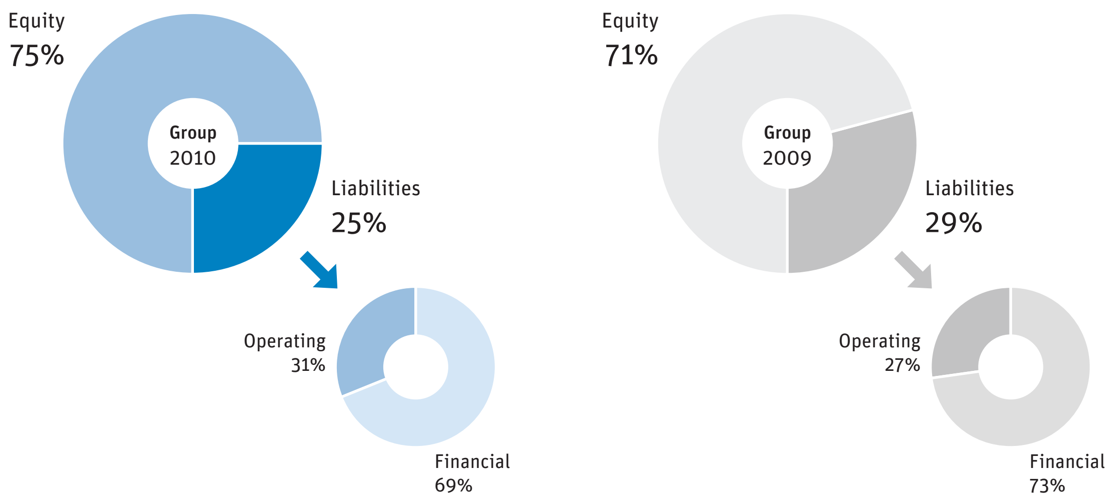
Debt ratio

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.

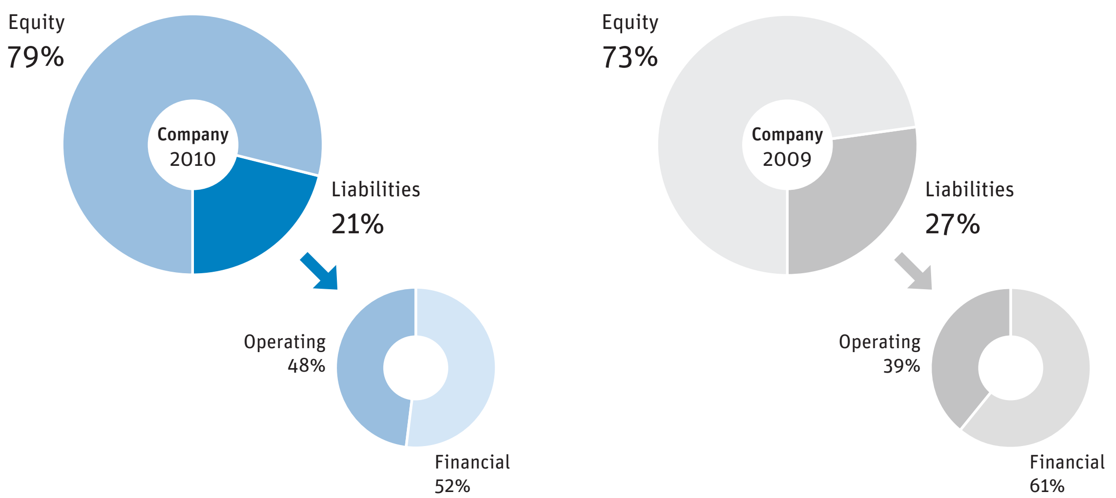
The share of debt (as per long-term and short-term liabilities presented in the balance sheet) in the controlling company's financing is 21%, whereas in the case of the Group it is 25%. In the debt structure of the parent company and the Group, financial liabilities account for 52% and 69%, respectively. A more detailed structure of liabilities is presented in the financial report of the controlling company HSE and the HSE Group.

At the end of 2010, indebtedness of the controlling company towards the banks was 31% lower than at the end of 2009, while indebtedness of the Group was lower by 16%.

HSE Group's equity-to-debt ratio



The controlling company's equity-to-debt ratio



The value of assets and total equity as at 31.12.2010 and operating results of HSE Group companies in 2010

Holding Slovenske elektrarne d.o.o.

Total assets in €	1,198,207,987
Total equity in €	929,748,299
Net profit or loss in €	79,491,404

SLOVENIA

Dravske elektrarne d.o.o.

HSE's stake	100%
Total assets in €	542,715,658
Total equity in €	528,416,498
Net profit or loss in €	12,976,094

Termoelektrarna Šoštanj d.o.o.

HSE's stake	100%
Total assets in €	541,317,059
Total equity in €	348,575,114
Net profit or loss in €	4,202,406

HSE Invest d.o.o.

Direct HSE's stake	25%
Indirect HSE's stake	75%
Total assets in €	1,914,763
Total equity in €	816,995
Net profit or loss in €	115,499

Soške elektrarne Nova Gorica d.o.o.

HSE's stake	100%
Total assets in €	267,649,542
Total equity in €	177,706,014
Net profit or loss in €	9,698,611

Termoelektrarna Trbovlje d.o.o.

HSE's stake	81.3%
Total assets in €	63,842,598
Total equity in €	34,434,971
Net profit or loss in €[1]	(445,653)

Soenergetika d.o.o.

HSE's stake	25%
Total assets in €	2,563,732
Total equity in €	525,719
Net profit or loss in €[2]	(14,281)

Hidroelektrarne na spodnji Savi d.o.o.

Direct HSE's stake	51%
Indirect HSE's stake	84.6%
Total assets in €	249,074,185
Total equity in €	234,171,665
Net profit or loss in €	593,495

Premogovnik Velenje d.d.

HSE's stake	77.7%
Total assets in €	213,271,490
Total equity in €	110,923,360
Net profit or loss in €	948,992

ABROAD

HSE Italia S.r.l.

HSE's stake	100%
Total assets in €	3,201,831
Total equity in €	119,179
Net profit or loss in €	38,631

HSE Hungary Kft.

HSE's stake	100%
Total assets in €	5,430,594
Total equity in €	5,391,591
Net profit or loss in €	45,348

HSE Balkan Energy d.o.o.

HSE's stake	100%
Total assets in €	2,090,114
Total equity in €	1,067,112
Net profit or loss in €	234,718

HSE Adria d.o.o.

HSE's stake	100%
Total assets in €	4,082,906
Total equity in €	1,145,348
Net profit or loss in €	283,085

HSE Bulgaria EOOD

HSE's stake	100%
Total assets in €	454,201
Total equity in €	443,134
Net profit or loss in €	25,072

HSE BH d.o.o.

HSE's stake	100%
Total assets in €	497,814
Total equity in €	492,427
Net profit or loss in €[3]	(18,865)

HSE MAK Energy DOOEL

HSE's stake	100%
Total assets in €	18,151
Total equity in €	8,115
Net profit or loss in €[4]	(14,951)

1 In 2010, TET d.o.o. recorded a net loss due to higher other expenses and deferred taxes.
2 In 2010, Soenergetika d.o.o. performed activities for the construction of co-generation Planina.
3 HSE BH d.o.o. has not yet started trading in 2010.
4 HSE MAK Energy DOOEL only received all required permits in 2010 and started trading in August.

2.11.1 Controlling company's ratios

Equity financing rate

	31/12/2010	31/12/2009
1. Liabilities in €	1,198,207,987	1,176,889,598
2. Equity in €	929,748,299	845,844,637
Equity financing rate = 2 / 1	**77.59**	**71.87**

At the end of the year, the company's equity constituted almost 78% of its total liabilities. Compared to 2009, the equity financing rate increased mainly due to the net profit realised in 2010, which means that the ratio improved.

Long-term financing rate

	31/12/2010	31/12/2009
1. Equity in €	929,748,299	845,844,637
2. Long-term liabilities in €	106,645,403	116,595,562
3. Provisions and long-term accrued costs and deferred revenue in €	9,768,636	15,866,215
4. Total (1+2+3)	1,046,162,338	978,306,414
5. Liabilities in €	1,198,207,987	1,176,889,598
Long-term financing rate = 4 / 5	**87.31**	**83.13**

The company financed 87% of its assets from long-term sources and 13% from short-term sources. Compared to the end of 2009, the long-term financing rate increased by 4.2 p.p., mainly due to the net profit realised in 2010, which means that the ratio improved.

Operating fixed assets rate

	31/12/2010	31/12/2009
1. Property, plant and equipment in €	9,804,160	8,523,248
2. Intangible assets and long-term accrued revenue and deferred costs in €	6,388,682	4,166,278
3. Total fixed assets at carrying amount in € (1+2)	16,192,842	12,689,526
4. Assets in €	1,198,207,987	1,176,889,598
Operating fixed assets rate = 3 / 4	**1.35**	**1.08**

The share of property, plant and equipment and intangible assets in the company's assets amounts to 1% and increased compared to the end of 2009, mostly due to higher reserves of emission coupons.

Long-term assets rate

	31/12/2010	31/12/2009
1. Property, plant and equipment in €	9,804,160	8,523,248
2. Intangible assets and long-term accrued revenue and deferred costs in €	6,388,682	4,166,278
4. Long-term investments in €	965,326,195	957,826,055
5. Long-term operating receivables in €	885,930	2,872,054
6. Total (1+2+3+4+5)	982,404,967	973,387,635
7. Assets in €	1,198,207,987	1,176,889,598
Long-term assets rate = 6 / 7	**81.99**	**82.71**

The company's long-term assets account for almost 82% of its total assets. The ratio decreased compared to the end of 2009 mainly due to an increase in short-term investments (short-term loans to Group companies in particular).

Equity to fixed assets ratio

	31/12/2010	31/12/2009
1. Equity in €	929,748,299	845,844,637
2. Property, plant and equipment in €	9,804,160	8,523,248
3. Intangible assets and long-term accrued revenue and deferred costs in €	6,388,682	4,166,278
4. Total fixed assets at carrying amount (2+3)	16,192,842	12,689,526
Equity to fixed assets ratio = 1 / 4	**57.42**	**66.66**

The ratio stood at 57 at the end of 2010, meaning that the majority of the company's most illiquid assets were financed from equity. The ratio decreased somewhat relative to 2009 because of an increase in equity due to net profit of 2010 and higher stocks of emission coupons.

Acid test ratio

	31/12/2010	31/12/2009
1. Cash in €	3,723,839	2,179,286
2. Short-term investments in €	83,963,079	71,467,521
3. Total liquid assets in € (1+2)	87,686,918	73,646,807
4. Short-term liabilities in €	145,704,701	197,220,693
Acid test ratio = 3 / 4	**0.60**	**0.37**

The acid test ratio describes the relationship between liquid assets and short-term liabilities. At the end of 2010, it stood at 0.6, meaning that more than a half of the company's short-term liabilities were covered by liquid assets. Compared to the balance at the end of 2009, the ratio increased, mostly as a result of lower short-term liabilities to banks due to repayment of principals of long-term loans which were due in 2010.

Quick ratio

	31/12/2010	31/12/2009
1. Cash in €	3,723,839	2,179,286
2. Short-term investments in €	83,963,079	71,467,521
3. Short-term operating receivables in €	118,349,126	119,439,143
4. Total (1+2+3)	206,036,044	193,085,950
5. Short-term liabilities in €	145,704,701	197,220,693
Quick ratio = 4 / 5	**1.41**	**0.98**

The quick ratio stood at 1.4 at the end of 2010, meaning that the company also finances a part of its long-term liabilities with current assets. Compared to the balance at the end of 2009, the ratio increased, mostly as a result of lower short-term liabilities to banks due to repayment of principals of long-term loans which were due in 2010.

Current ratio

	31/12/2010	31/12/2009
1. Current assets in €	206,036,515	193,086,513
2. Short-term accrued revenue and deferred costs in €	6,626,166	7,166,001
3. Total (1+2)	212,662,681	200,252,514
4. Short-term liabilities in €	145,704,701	197,220,693
Current ratio = 3 / 4	**1.46**	**1.02**

The current ratio amounted to 1.46 at the end of 2010, which indicates the company is solvent as it was able to cover all its short-term liabilities with current assets. Compared to the balance at the end of 2009, the ratio increased due to already mentioned lower short-term liabilities to banks.

Operating efficiency ratio

	2010	2009
1. Operating revenue in €	903,772,826	784,183,075
2. Costs of goods, materials and services in €	802,939,181	669,795,404
3. Labour costs in €	7,948,872	7,113,750
4. Write-downs in value in €	1,179,777	2,694,670
5. Other operating expenses in €	1,316,785	2,043,732
6. Other operating expenses in € (2+3+4+5)	813,384,615	681,647,556
Operating efficiency ratio = 1 / 6	**1.11**	**1.15**

The company's operating revenue exceeded its operating expenses by 11% in 2010. Relative to 2009, the ratio decreased somewhat due to large other operating revenues (reversed impairment of receivables).

Net return on equity ratio

	2010	2009
1. Net profit for the period in €	79,491,404	60,234,898
2. Average equity in €	887,796,468	822,331,058
Net return on equity ratio = 1 / 2	**0.09**	**0.07**

In 2010 the company generated € 9 of net profit per € 100 of equity invested. The value of the ratio is 29% higher than in 2009, mostly due to higher profit of the current year.

Total financial liabilities / EBITDA

	31/12/2010	31/12/2009
1. Long-term financial liabilities in €	106,619,094	116,595,562
2. Short-term financial liabilities in €	24,823,490	74,686,957
3. Total financial liabilities in € (1+2)	131,442,584	191,282,519
4. Operating profit or loss in €	90,388,211	102,535,519
5. Depreciation and amortisation in €	1,139,894	1,264,683
6. EBITDA in € (4+5)	91,528,105	103,800,202
Total financial liabilities / EBITDA = 3 / 6	**1.44**	**1.84**

The ratio shows the relationship between the company's debt and EBITDA. The ratio improved compared to the end of 2009 due to lower short-term liabilities.

Total financial liabilities / Equity

	31/12/2010	31/12/2009
1. Long-term financial liabilities in €	106,619,094	116,595,562
2. Short-term financial liabilities in €	24,823,490	74,686,957
3. Total financial liabilities in € (1+2)	131,442,584	191,282,519
4. Equity in €	929,748,299	845,844,637
Total financial liabilities / Equity = 3 / 4	**0.14**	**0.23**

The ratio shows the relationship between the company's debt and equity. Compared to the end of 2009, the ratio decreased mostly due to repayment of short-term loans.

EBITDA / Financial expenses for loans

	2010	2009
1. Operating profit or loss in €	90,388,211	102,535,519
2. Depreciation and amortisation in €	1,139,894	1,264,683
3. EBITDA in € (1+2)	91,528,105	103,800,202
4. Financial expenses for loans in €	2,595,542	4,136,258
EBITDA / Financial expenses for loans = 3 / 4	**35.26**	**25.10**

The ratio improved relative to 2009, mostly due to lower interest.

Total financial liabilities / Assets

	31/12/2010	31/12/2009
1. Long-term financial liabilities in €	106,619,094	116,595,562
2. Short-term financial liabilities in €	24,823,490	74,686,957
3. Total financial liabilities in € (1+2)	131,442,584	191,282,519
4. Assets in €	1,198,207,987	1,176,889,598
Total financial liabilities / Assets = 3 / 4	**0.11**	**0.16**

The total financial liabilities to assets ratio decreased relative to the end of 2009. As at 31.12.2010, the company had less short-term liabilities to banks than at the end of 2009.

Value added

	2010	2009
1. Gross return on operations	903,772,826	784,183,075
2. Costs of goods, materials and services	802,939,181	669,795,404
3. Other operating expenses	1,316,785	2,043,732
Value added in € = 1-2-3	**99,516,860**	**112,343,939**

The value added is lower compared to 2009 mostly due to a lower total operating profit. In 2009, total operating profit was exceptional due to revenue arising from revaluation of doubtful receivables in the amount of € 14.7 million.

Value added / employee

	2010	2009
1. Value added in €	99,516,860	112,343,939
2. Average number of employees	120	114
Value added in € / employee = 1/2	**832,777**	**985,473**

The value added per employee is lower compared to 2009 due to a higher number of employees and lower value added.

2.11.2 HSE Group's ratios

Equity financing rate

	31/12/2010	31/12/2009
1. Liabilities in €	1,900,508,355	1,874,355,148
2. Equity in €	1,344,136,472	1,234,004,990
Equity financing rate = 2 / 1	**70.73**	**65.84**

At the end of 2010, the Group's equity amounted to 71% of its total liabilities. Compared to the end of 2009, the equity financing rate improved mainly due to an increase in equity as a result of added net profit of the HSE Group for 2010.

Long-term financing rate

	31/12/2010	31/12/2009
1. Equity in €	1,344,136,472	1,234,004,990
2. Long-term liabilities in €	258,128,428	268,461,575
3. Provisions and long-term accrued costs and deferred revenue in €	96,727,196	112,410,723
4. Total (1+2+3)	1,698,992,096	1,614,877,288
5. Liabilities in €	1,900,508,355	1,874,355,148
Long-term financing rate = 4 / 5	**89.40**	**86.16**

The Group financed 89% of its assets from long-term sources and 11% from short-term sources. Compared to the end of 2009, the long-term financing rate increased mainly due to an increase in equity as a result of added net profit of the HSE Group for 2010.

Operating fixed assets rate

	31/12/2010	31/12/2009
1. Property, plant and equipment in €	1,567,133,820	1,457,530,449
2. Intangible assets and long-term accrued revenue and deferred costs in €	37,007,791	41,224,890
3. Total fixed assets at carrying amount in € (1+2)	1,604,141,611	1,498,755,339
4. Assets in €	1,900,508,355	1,874,355,148
Operating fixed assets rate = 3 / 4	**84.41**	**79.96**

The share of property, plant and equipment and intangible fixed assets in the Group's total assets stood at 84% at the end of 2010. The operating fixed assets rate increased compared to the end of 2009 as a result of higher investments in property, plant and equipment.

Long-term assets rate

	31/12/2010	31/12/2009
1. Property, plant and equipment in €	1,567,133,820	1,457,530,449
2. Intangible assets and long-term accrued revenue and deferred costs in €	37,007,791	41,224,890
3. Investment property	295,964	1,065,418
4. Long-term investments in €	10,592,046	7,899,955
5. Long-term operating receivables in €	1,827,101	4,043,837
6. Total (1+2+3+4+5)	1,616,856,722	1,511,764,549
7. Assets in €	1,900,508,355	1,874,355,148
Long-term assets rate = 6 / 7	**85.07**	**80.66**

The Group's total long-term assets account for 85% of its total assets. The long-term assets rate increased compared to the end of 2009 as a result of higher investments in property, plant and equipment.

Equity to fixed assets ratio

	31/12/2010	31/12/2009
1. Equity in €	1,344,136,472	1,234,004,990
2. Property, plant and equipment in €	1,567,133,820	1,457,530,449
3. Intangible assets and long-term accrued revenue and deferred costs in €	37,007,791	41,224,890
4. Total fixed assets at carrying amount (2+3)	1,604,141,611	1,498,755,339
Equity to fixed assets ratio = 1 / 4	**0.84**	**0.82**

The equity to fixed assets ratio stood at 0.84 at the end of 2010, meaning that the majority of the most illiquid assets were financed from equity. Compared to the balance at the end of 2009, the ratio increased as the equity (net profit of HSE Group for 2010) increased more than the fixed assets at carrying amount.

Acid test ratio

	31/12/2010	31/12/2009
1. Cash in €	19,998,807	10,281,115
2. Short-term investments in €	73,492,305	150,074,101
3. Total liquid assets in € (1+2)	93,491,112	160,355,216
4. Short-term liabilities in €	192,544,320	245,988,475
Acid test ratio = 3 / 4	**0.49**	**0.65**

At the end of 2010, acid test ratio equalled 0.5, meaning that a half of the Group's short-term liabilities were covered with the most liquid assets. Compared to the balance at the end of 2009, the ratio decreased somewhat, with both liquid assets and short-term liabilities being lower in 2010 than in 2009.

Quick ratio

	31/12/2010	31/12/2009
1. Cash in €	19,998,807	10,281,115
2. Short-term investments in €	73,492,305	150,074,101
3. Short-term operating receivables in €	136,203,935	145,756,684
4. Total (1+2+3)	229,695,047	306,111,900
5. Short-term liabilities in €	192,544,320	245,988,475
Quick ratio = 4 / 5	**1.19**	**1.24**

The quick ratio stood at 1.2 at the end of 2010, meaning that in addition to inventories the Group also finances other current assets from long-term sources. Compared to the balance at the end of 2009, the ratio remained on the same level.

Current ratio

	31/12/2010	31/12/2009
1. Current assets in €	266,344,924	344,191,822
2. Short-term accrued revenue and deferred costs in €	7,147,212	7,554,436
3. Total (1+2)	273,492,136	351,746,258
4. Short-term liabilities in €	192,544,320	245,988,475
Current ratio = 3 / 4	**1.42**	**1.43**

The current ratio amounted to 1.42 at the end of 2010, which is an indication of the Group's solvency considering that short-term liabilities were fully covered by current assets. Compared to the balance at the end of 2009, the ratio remained on the same level.

Operating efficiency ratio

	2010	2009
1. Operating revenue in €	948,722,676	877,157,587
2. Costs of goods, materials and services in €	529,332,737	435,431,748
3. Labour costs in €	142,679,442	136,863,751
4. Write-downs in value in €	93,525,576	82,736,776
5. Other operating expenses in €	58,026,994	59,930,777
6. Other operating expenses in € (2+3+4+5)	823,564,749	714,963,052
Operating efficiency ratio = 1 / 6	**1.15**	**1.23**

The Group's operating revenue exceeded its operating expenses by 15% in 2010. The ratio decreased compared to 2009, mostly due to lower operating profit as a result of large other operating revenues in 2009.

Net return on equity ratio

	2010	2009
1. Net profit for the period in €	102,897,542	113,841,273
2. Average equity in €	1,289,070,731	1,180,806,803
Net return on equity ratio = 1 / 2	**0.08**	**0.10**

In 2010 the Group generated € 8 of net profit per € 100 of equity invested. The ratio decreased relative to 2009, mostly due to lower net profit for 2010 as compared to 2009.

Total financial liabilities / EBITDA

	2010	2009
1. Long-term financial liabilities in €	253,668,459	265,817,089
2. Short-term financial liabilities in €	59,250,118	108,817,376
3. Total financial liabilities in € (1+2)	312,918,577	374,634,465
4. Operating profit or loss in €	125,157,927	162,194,535
5. Depreciation and amortisation in €	88,630,047	79,174,657
6. EBITDA in € (4+5)	213,787,974	241,369,192
Total financial liabilities / EBITDA = 3 / 6	**1.46**	**1.55**

The ratio shows the relationship between the Group's debt and EBITDA. The ratio improved relative to 2009, mostly due to lower indebtedness of the Group.

Total financial liabilities / Equity

	31/12/2010	31/12/2009
1. Long-term financial liabilities in €	253,668,459	265,817,089
2. Short-term financial liabilities in €	59,250,118	108,817,376
3. Total financial liabilities in € (1+2)	312,918,577	374,634,465
4. Equity in €	1,344,136,472	1,234,004,990
Total financial liabilities / Equity = 3 / 4	**0.23**	**0.30**

The ratio shows the relationship between the Group's indebtedness and equity. The ratio improved compared to the end of 2009 due to lower indebtedness and higher equity of the Group.

EBITDA / Financial expenses for loans

	2010	2009
1. Operating profit or loss in €	125,157,927	162,194,535
2. Depreciation and amortisation in €	88,630,047	79,174,657
3. EBITDA in € (1+2)	213,787,974	241,369,192
4. Financial expenses for loans in €	6,489,779	9,629,326
EBITDA / Financial expenses for loans = 3 / 4	**32.94**	**25.07**

The ratio shows the relationship between EBITDA and financial expenses for loans. Relative to 2009, the ratio increased as the financial expenses for loans decreased by less than the operating profit.

Total financial liabilities / Assets

	31/12/2010	31/12/2009
1. Long-term financial liabilities in €	253,668,459	265,817,089
2. Short-term financial liabilities in €	59,250,118	108,817,376
3. Total financial liabilities in € (1+2)	312,918,577	374,634,465
4. Assets in €	1,900,508,355	1,874,355,148
Total financial liabilities / Assets = 3 / 4	**0.16**	**0.20**

The ratio shows the relationship between the Group's indebtedness and assets. The ratio increased compared to the end of 2009, mostly due to lower indebtedness of the Group.

Value added

	2010	2009
1. Gross return on operations	948,722,676	877,157,587
2. Costs of goods, materials and services	529,332,737	435,431,748
3. Other operating expenses	58,026,994	59,930,777
Value added in € = 1-2-3	**361,362,945**	**381,795,062**

Compared to 2009, the value added of the Group was lower by 5%, mostly due to lower operating profit.

Value added / employee

	2010	2009
1. Value added in €	361,362,945	381,795,062
2. Average number of employees	3,830	3,867
Value added in € / employee = 1/2	**94,351**	**98,744**

Compared to 2009, the value added per employee of the Group was lower by 6%, mostly due to lower value added of the Group.

2.12

Risk management

8

is the number of HSE Group companies taking part in Cash Management and Cash Pooling systems of the HSE Group with the objective of efficient liquidity management.

The Group considers all risks to which it is exposed in its operation, 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.

In doing so, our goals are most of all timely identification of potential threats and related risks, their monitoring and prompt actions to ensure they only result in the smallest possible deviations from projected results.

HSE Group encounters risks in all areas of 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,
- regulatory risks, and
- R&R risks.

The risk management policy is based on rules, strategies and registers adopted in the period 2008-2010, and has been designed to ensure an increase in the value of HSE Group companies by assuming risks that fall within the prescribed limits enabling identification and exploitation of market opportunities. The risk management process is incorporated in daily operations of all companies. HSE Group therefore continues to implement a conservative risk management policy.

Based on the analysis of HSE Group's operations in 2010 it is our estimate that risks were managed successfully.

Market risks

Market risk associated with market illiquidity

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.

Based on the adopted market risk management policy, the company monitors exposure of portfolios (groups of transactions with similar purpose) on the level of individual portfolios as well as overall exposure of all portfolios. The company monitors exposure of portfolios in individual trading years as well as in the whole trading period.

From the analytical perspective, the company is continuing the development of tools for monitoring influencing factors of market exposures in trade. This predominantly involves monitoring of price dynamics, volatility and correlations in individual markets in certain periods, and the company's position. Parallel to that, improvements and amendments are being made to the optimisation models and projections of future operation of power plants owned by the company. In addition, models and mechanisms are being prepared to provide a data base for new products with which the company may, given the circumstances, trade in the future.

Market risks associated with market illiquidity arise from trading activities where lower trading quantities appear on the supply or demand side. Such exposure can also arise due to low market participation of traders or non-conclusion of EFET agreements. The result is inability (or inappropriate timing) to close a position or closing of a position at unfavourable prices.

In 2010, risks were managed with the following activities and methods:

- segmentation and prioritisation of markets and partners;
- design of a margin policy in relation to market liquidity and market conditions;
- promotion of long-term relations with partners;
- conclusion of contracts with adequate maturity and sufficient contractual safeguards;
- daily analysis of the company's position, trading quantities and product prices in illiquid markets, and of the coverage used for price fluctuations for transactions aimed at generating added value or minimising the risk of losses in accordance with the principle of good management;
- limitation of trade or open position of the company HSE in illiquid markets;
- trading with instruments for hedging against price risks;
- conclusion of EFET agreements.

Market risk associated with non-transparency of the market

Market risks associated with non-transparency of the market arise from trading activities which can lead to transactions being concluded at unfavourable prices, incorrect valuation of price curves and, subsequently, incorrect valuation of the HSE's portfolio.

In 2010, risks were managed with the following activities and methods:

- weekly review of the fundamental analysis of changes in electricity prices;
- weekly examination of events taking place in non-transparent markets that could lead to changes in market conditions in the electricity market;
- daily analysis of HSE's position;
- monthly reviews of price curves in relation to transactions concluded in various countries and the value of cross-border transmission capacities;
- gathering of quality and up-to-date information from local sources.

Price risk

Price risk is the risk arising from fluctuations in market prices of electricity and market prices of other energy products (coal, gas, emission coupons, oil etc.) that have a direct impact on electricity prices or HSE's operations. On the one hand, price risks affect the sales revenue (e.g. lower market prices of electricity lead to lower market values of electricity not yet sold by HSE subsidiaries), and on the other, expenses associated with the company's operations (e.g. higher prices of CO_2 emission coupons increase production costs of subsidiaries emitting CO_2).

The impact of price risk on the company's operations can be quantified on the basis of four key variables: market position of the company HSE in individual markets at a specific moment of supply; volatility or fluctuation of prices in individual markets at a specific moment of supply; correlation or interconnectedness of prices between individual markets at specific points of supply; and the price levels in individual markets at a specific moment of supply.

Market position: As part of its operations, the company concludes purchase and sales agreements in the electricity market and sells the energy produced by its subsidiaries. In order to optimise return and due to market features, the company does not hold, for the purposes of future supply, purchase or sale contracts for the same quantities at any given time. The purchase and sales activities for a certain year in the future are regulated by internal rules of the company HSE. The result is that in a certain period, the company purchases more energy than it sells (long position) or sells more energy than it purchases (short position) for the purposes of supply in a specific future period. When, for a specific period in the future, the company has concluded purchase and sale contracts for the same quantities of energy, the position is closed. A long and short position bring about the risk of decreased value of HSE's portfolio in case of unfavourable developments in market prices, i.e. a danger that in the event of a short position, purchase of quantities at prices higher than the current prices will be required, or that in the event of a long position, sale of quantities at prices lower than the current prices will be required.

Volatility: Volatility represents a measure of fluctuation of market prices in individual markets at a certain point of supply; as a result, volatility defines the expected future price deviations in normal market conditions. The degree of volatility is normally associated with the liquidity of an individual market and the liquidity of an individual period of supply – as a rule, less liquid markets experience higher price volatility and, similarly, the periods of supply that are further away experience higher volatility on markets with greater liquidity than periods of supply that are closer. Volatility is an external factor that cannot be changed or corrected, but can be hedged against by ensuring that there are no large open positions in illiquid markets or in liquid markets with supplies planned far in the future.

Correlation: Correlation or interconnectedness of markets dictates how the prices in one market will change compared to the prices in another. This parameter is important in the event when the company makes purchases in one market and sales in another. In the event that the correlation between the prices of different countries is highly positive, the probability that the value of the company HSE will decrease as a result of a purchase of electricity in one country and its sale in another is low. The opposite is true in the event of a negative correlation. Correlation is an external factor; therefore, we can use the same instruments for hedging against price risks as in the case of volatility. It is also important to monitor the correlation of prices between individual energy products, e.g. correlation of the price of CO_2 emission coupons, gas and oil with the prices of electricity.

Price level: The absolute level of prices can affect the absolute level of market exposure via the volatility rate which is represented in percents.

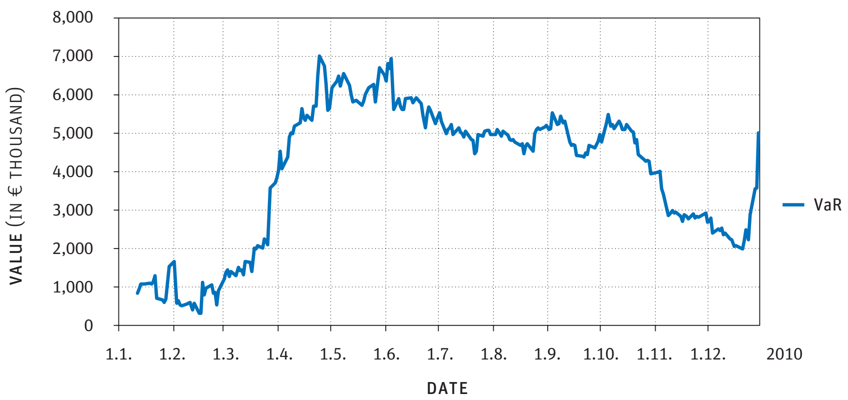
The above variables are included in the calculation of the VaR parameter (Value-at-Risk) which is the main indicator of the company's direct exposure to price fluctuations and indirect exposure to quantity risks (by means of market position). In HSE, we decided to monitor the 5-day VaR with a 95% confidence interval for a period of 6 years. This tells us, with a 95% probability, what the maximum trading loss of

HSE's trading activities can be in a 5-day period given the market data on prices, HSE's position, volatility and correlation.

In 2010, risks were managed with the following activities and methods:

- Daily monitoring of market position on group-level and on the level of HSE by countries and individual groups of transactions that have similar purpose and/or significance. In the event that in a certain moment the position exceeds the quantities allowed by the rules, it is corrected accordingly (conclusion of a purchase or sale transaction). For optimisation of the market position, we use both contracts for supply, i.e. sale, of physical energy and derivatives involving physical settlement (forwards). In 2010, the market position never exceeded the limit defined by the rules.
- Daily monitoring and limitation of trade in illiquid markets, as well as liquid markets where supply is expected further away in the future, in connection with market volatility.
- Daily hedging – conclusion of counter-transactions involving the same quantity in the same market, or purchase of derivatives involving financial settlement (futures), if they exist for the market in question, depending on the type of the trading transaction.
- Daily monitoring and analyses of prices of energy products and projections regarding the expected changes in prices of energy products in various markets.
- Daily monitoring of market activities in the CO_2 emission coupons market, investment decisions in the EU energy sector, and monitoring of economic growth of leading countries.
- Daily monitoring and analyses of the value of VaR and MtM (Mark-to-Market) parameters by individual groups of transactions of the company HSE with similar purpose or significance, taking into account the limitations or values of VaR determined by the rules.
- Daily monitoring of the value of the coverage used for price fluctuations for transactions intended to generate added value or minimise the risk of losses in accordance with the principle of good management.
- Weekly examination of conditions, prices and developments in the electricity market.
- Bi-weekly examination of the company's exposure to risks by individual groups of transactions with similar purpose and examination of conditions in oil and coal markets.

VaR dynamics for the AllWoSubsidiary scenario for the whole trading period in 2010



Quantity risk associated with deviations from contractual quantities

Quantity risk associated with deviations from contractual quantities is represented by the difference between the actually supplied or received quantities and the projected quantities. The difference must be additionally purchased or sold in the market, frequently under less favourable conditions; similarly, production shortfalls must be covered with electricity purchases, the market price of which is usually higher than the contractual price.

In 2010, risks were managed with the following activities and methods:

- daily recording of measurements (actual take-over or production), monitoring of deviations of actual schedules from the planned, i.e. contractual, quantities, which provides for daily monitoring of realised deliveries and subsequent analysis, by partner, of the risk of non-delivery or failure to take over;
- daily analysis of scenarios involving different hydrology conditions or failure of TPP generation units (stress testing);
- daily monitoring of market conditions (prices of energy products and transmission capacities), position of the company, and VaR and MtM by individual groups of transactions with similar purpose.

Quantity risk associated with changes in NTC (cross-border transmission capacities)

Quantity risk associated with changes in cross-border transfer capacities arises from changes in permeability of major individual transport routes (e.g. reduction of daily cross-border transmission capacities due to wild currents). As a consequence, situations can arise where obligations from long-term contracts are not fulfilled, leading to a need to purchase more expensive energy as replacement from other sources (countries) and possibility of deviations in balances.

In 2010, risks were managed with the following activities and methods:

- monthly monitoring of legislation (regulations) by country and the balance of transmission capacities;
- monthly scenario analysis of market conditions given the previous probabilities of events and subsequently with regard to findings on limitations to trading quantities between countries;
- daily monitoring of the market position at Group- and company-level by country and by individual groups of transactions with similar purpose or significance, and monitoring of published annual, monthly and daily values of cross-border transmission capacities on individual borders.

Regulatory risk

Regulatory risks arise from changes in market rules or legislation in the Slovenian and foreign electricity and CO_2 emission coupon markets and affect the business results of the company/Group. Their management is the most demanding as it is difficult to identify and quantify them and mitigate their effects.

In 2010, risks were managed with the following activities and methods:

- constant monitoring of development of the Slovenian and foreign markets for electricity and other energy products and the CO_2 emission coupons market as well as the associated regulatory framework, and responding to such changes by adapting the trading strategy;
- performance of long- and medium-term scenario analyses in light of the expected changes to the regulatory framework;
- continuous reporting and informing about legislative changes in domestic and local markets by the domestic and local legal departments of the company;
- daily monitoring of investment decisions in the EU energy sector and economic policy, and adaptation of market measures.

Methodology risk

Methodology risk is a risk arising from changes in actual value of individual groups of transactions due to inappropriate methodology, incorrect modelling items, and errors in modelling or incompatible models. The result is incorrect projection of price dynamics or inaccurate valuation of products in the market.

In 2010, risks were managed with the following activities and methods:

- regular monitoring of all stages of modelling;
- regular examination of changes in the value of individual groups of transactions in case of different models and consideration of other defaults;
- regular recording of changes and a list of valuation models.

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 electricity 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 conditions as a large share of electricity is supplied from hydropower plants.
- **Consumption uncertainty** arises from the impact of weather and temperature, load flexibility and seasonal cycles.
- **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.

Risk associated with electricity supply from HSE Group

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

- risk of (absence of) supply of electricity from hydropower plants due to hydrological and meteorological conditions, and failures and technological limitations of production;
- risk of (absence of) supply of electricity from thermal power plants due to outages or technological and ecological limitations of production;
- 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 duty payments and in trading in CO_2 emission coupons should also be considered.

Departure from plans

In 2010, the production of HPPs of the HSE Group was 698 GWh higher than planned, whereas at TEŠ the plan was exceeded by 140 GWh. At TET, the actual production fell behind by 7 GWh. The deviations of actual daily flows of water from daily forecasts are also reflected in deviations of hydropower production from the forecast schedules. To the extent possible, the deviations were balanced out by adjusting production at TPPs and increasing sales and purchases.

At the thermal power plants, a 2 to 4% unexpected production shortfall has to be considered in addition to the planned shutdowns due to overhauls. This percentage corresponds to ten to twelve daily production shortfalls, which can be offset by starting up gas-fired power plants, but only for shorter periods. Alternatively, to the extent possible, shortfalls can be offset by reallocating the use of HPP accumulation and purchasing electricity on the market. In 2010, TEŠ's unexpected production shortfall totalled 6.6%. TET's losses amounted to 5.7%.

Thanks to a less complex production process, HPPs are more reliable. The unexpected production outage at DEM stood at 0.4%, at SENG at 1.8% and at HESS at 5.0%.

Risks of interrupted coal supply from PV

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 shortfalls could be addressed without significant interruptions to production, and rarely would such breakdowns result in 14-20 days of supply interruptions. 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 amount to 3,000 TJ (February–October) and 4,000 TJ (November–January).

Production management

The HSE Group's electricity production is managed from the Control Centre in Maribor. The main objectives of production management are as follows:

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

The quality of management of the HSE balancing group is reflected in the minimisation of deviation costs thanks to the deviations of balancing group members being reduced through adjustment of their production. In 2010 the HSE balancing group was comprised of the Group's production units, including small HPPs, PV and balancing subgroups of four distribution companies, Elektroprodaja and a few smaller consumers. The balancing group's deviations include all production and consumption deviations from forecast schedules. The HSE Group estimates that the management of the HSE balancing group was successful in 2010.

Financial risks

In 2010, after a period of global economic recession and financial crisis, the global economy started recovering, the main driver of which was industrial production spurred by the growth of global trade. Despite global economic recovery, the impact of economic recession and financial crisis on operations of corporate entities remained strong. Their implications are mostly evident in solvency issues, payment delays, inability to acquire new sources of financing or extend existing loans, and urgently needed financial reorganisation. The liquidity of banks and the supply of sources of financing improved in 2010, but the banks became more careful in financing of companies.

In 2010, HSE Group monitored exposure to individual types of risks and adopted measures and engaged in activities for their management. Management and thus limitation of financial risks in such conditions is namely 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 and executes appropriate measures in order to manage these risks.

Interest rate risk

Interest rate risk is a risk of an increase in the costs of financing tied to a variable interest rate as a result of changed interest rates in the market. The company has taken out long-term loans at variable interest rates and is therefore exposed to interest rate risk. The interest rate risk is adequately managed, as we have adopted a risk management strategy, approved by HSE's Risk management committee, which defined the share or level up to which the company must hedge against risks and the instruments used for hedging. The appropriateness and correctness of contracts aimed at hedging against interest rate risks are managed by way of monitoring developments in the European and global money market.

Currency risk

Currency risk is a risk associated with transactions involving foreign currencies and is subject to changes in exchange rates. Our operations are exposed to the risk to a minimum extent, due to foreign currencies only being used in electricity trading in Hungary (in HUF) and Romania (in RON). The risk is managed by using derivative financial instruments, i.e. FX forwards which fixate the exchange rate of a foreign currency in relation to the local. Other currencies are very rarely used in operations.

Solvency risk

Solvency risk is the risk associated with insufficient financial sources and the subsequent inability of the company to settle its liabilities in due time. It is present to a lesser extent as solvency is managed by constant monitoring and optimisation of short-term cash flow surpluses and deficits. Solvency risk is also reduced by the high credit rating of the company which stems from its successful operation, by the liquidity reserve, and by its permanent ability to generate cash flows from operating activities. In order to manage the Group's solvency risk, the HSE Group implemented the so-called "Cash Management".

The main objective of Cash Management in the HSE Group is optimisation of liquidity of Group companies. The basis for this has been introduction of intra-group borrowing: the primary source of financing of short-term deficits of Group companies are surpluses of available cash in other Group companies. This means better conditions for both borrowing and investing of cash, but, most of all, better exploitation of synergies of the Group as a whole by making it possible for the financial position of individual companies in financial markets not to deteriorate. The above represents short-term financial management of cash, i.e. offsetting of short-term deficits and short-term allocation of cash surpluses to HSE Group companies. All transactions in relation to borrowing between the companies are carried out in accordance with the Decree on the terms and conditions and methods of borrowing by legal entities from Article 87 of the Public Finance Act and reported to the Ministry of Finance on a regular basis in accordance with the Rules on the transmission of information about debt level and changes in debt level of legal entities of the public sector and communities.

Next to Cash Management, the HSE Group also introduced the practice of "Cash Pooling" in 2010. Cash Pooling is the actual, automatic pooling of cash surpluses at the end of the day from subordinated accounts of individual HSE Group companies on the treasury (main) account held by the controlling company, i.e. HSE. The basic purpose of Cash Pooling is optimisation of interest income and efficient liquidity management.

Risk of financial indiscipline of banks and financial institutions in relation to investment of free cash

The risk of financial indiscipline of banks and financial institutions in relation to investment of free cash is a risk associated with the global financial crisis and the inability of financial institutions and banks to settle their liabilities from investment of free cash within due dates and on time. The company's exposure to this risk is minimal. Nevertheless, the risk is managed by observing the principle of deposit diversification between individual banks. The financial department monitors data on current operations of banks with which HSE occasionally deposits surplus cash.

Credit risk

Credit risk arises always when a probability exists that receivables will not be settled in full. The company HSE is mostly exposed to credit risks in the area of electricity trading, financial investments and derivatives contracts. Management of credit risks in the HSE Group is defined by internal rules and consists of several stages.

Before a business transaction is concluded, partners are checked primarily through the use of external credit ratings which are supplemented with internal models that include analyses of annual reports and other available data and information. On the basis of such analyses and credit ratings, partners are assigned limits for open account operation.

With the objective of the best possible management of credit risks we are focused on consolidating business relations with our partners based on the EFET master agreement which envisages offsetting of reciprocal receivables as the fundamental way of settlement of inter-company obligations. In case of partners with which we concluded an EFET master agreement or a corresponding arrangement (e.g. ISDA master agreement in the event of derivatives), we monitor net exposure to credit risks. In the event of a larger number of contracts concluded with the same partner, HSE aims to conclude a master agreement which regulates the offset of mutual obligations and insurance of payments under all concluded contracts.

The exposure to credit risks and potential breaches of individual limits and payment delays are monitored on a daily basis. We also regularly monitor the levels of approved limits with regard to information obtained from the market and, when necessary, request additional assurance for timely payment, mostly in the form of bank and parent guarantees.

Information system risk

There is a risk, that heterogeneous information systems (supporting operations) will not meet the actual needs of the Group. In relation to uncoordinated information systems of Group companies, particularly the following risks could have a long-term effect:

- smaller possibilities for coordinated and streamlined work on group-level;
- lesser negotiating power with regard to external suppliers of IT services and equipment and subsequently higher prices of services and equipment;
- varying levels of information security in individual companies;
- smaller flow of know-how between Group companies.

Consolidation of information systems in dispersed companies also represents an opportunity for increasing the ability to move human resources between companies and easier management of common projects.

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.

In order to reduce these risks, we have moved the users to a highly available and duplicated computer centre. The primary equipment is set up in a safe room at TEŠ and the back-up equipment at PV. The acquired quality standard ISO 27001 requires deployment and maintenance of processes which ensure a high level of reliability and availability which must be measured and maintained on a continuous basis. In May, we successfully underwent an external assessment of compliance with the standard. We also performed a security check of WAN and LAN networks at HSE. All this has resulted in great reliability of information systems.

R&R risk

Risk of misdirected priorities in preparation and implementation of the company's strategic policies

Through continuous monitoring of developments and policies in the area of national and EU-wide energy and environmental policies we are ensuring regular analysis and incorporation of such policies into the development and strategic policy of the company and the Group. For this purpose, we monitor on a regular basis the developments on the national and EU level, both in the area of legislative procedures as well as preparation and adoption of regional policies and commitments. We have implemented a system for communication and transfer of information within the HSE Group both at the level of responsible sectors and departments in individual subsidiaries as well as at the level of relevant strategic documents. In 2010 we have updated the strategic and development policies of the HSE Group in response to the energy and climate legislation adopted in the EU. We have drafted a long-term development plan of the HSE Group which, however, has not yet been approved by the owner as it must first be coordinated with the national energy policy, which will be laid down by the new National Energy Programme the adoption of which is expected in 2011.

Risk of late execution of planned investments

Timely execution of all planned investments and other development activities are ensured with procedures and preparation of investments projects in accordance with the set development plan of the HSE Group, internal acts and applicable national legislation regarding investment projects in all project stages. For this purpose, the execution of individual projects is assigned to project leaders and the project and administrative documentation is prepared in due time. An important aspect is also timely provision of financial sources for the execution and risk management process. The key for well-timed execution of all planned investments is timely preparation of all documentation and adoption of all required decisions regarding execution; therefore, the process of investment policy and execution includes all the necessary departments and sectors in HSE. The status of subsidiaries' investment activities is monitored on a regular basis, also at the level of development committees. In addition, the investment plan is coordinated during preparation of the long-term development plan and, at the annual level, during preparation of annual business plans. In order to be able to identify and prepare our business policies on time, we also organise an annual strategic conference of the HSE Group. Preparation of investment documentation is supervised, the execution of investments is actively monitored, the key investment risks are subject to oversight and the investments within the Group are actively coordinated.

Risk of key project of the companies not being placed under national priorities

In the process of continued monitoring of developments in the area of national and EU sector policy, we are actively collaborating with the competent ministries. We are enabling mutual exchange of information and communication regarding current projects and other development and strategic policies. Given the fact that the electricity sector belongs to development areas that are of national importance, such importance has also been assigned to certain projects being developed in the HSE Group. As we have entered a period where, due to technical challenges (age of production facilities and parts of the network) and challenges related to the new energy policy, the whole energy sector in the EU is facing demands for upgrades and investments, the company is currently preparing several key energy projects some of which are also of strategic importance due to their role in the electricity system. Therefore, in such projects we cooperate with relevant ministries which are competent for placing such projects under national priorities which generally represents a certain advantage and involves assistance by the government. The HSE Group has been in the process of developing several such projects, of which we should point out projects in the area of E-RES production (HPPs on Sava and Mura River etc.) and the construction of replacement Unit 6.

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 risk of potential loss of key employees is considered the main human resources risk. This can only be prevented through good management and communication 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.

In 2010, we have introduced rules on protection of employees against discrimination, harassment and abuse (Anti-mobbing rules) with which the company enables, in a systematic way, its employees to take use of legal procedures in these areas.

2.13

External communication

Virtually the whole of 2010 has been characterised by public relations activities concentrated on the largest energy investment in Slovenia, the replacement Unit 6 at TEŠ. In order to inform the wider public about the facts regarding the project, we have been organising press conferences and published an information brochure and leaflet. We regularly responded to inquiries by the media, published press releases and took part in various events (roundtables, public discussions, debates) where the topic of discussion was the project.

HSE also actively publicised the construction of other production facilities (HPPs on the lower Sava River, PSP Avče, PSP Kozjak, and study on energy exploitation of the Mura River) as well as other projects and decisions of the controlling company and the HSE Group that are of strategic importance.

As for the several past years, HSE also devoted attention to raising awareness among the general public about efficient use of energy and renewable energy resources, this time through a photography competition entitled "Slovenian river" which was carried out in support of the Blue Energy project. The event culminated on 22 March 2010, the World Water Day, when an exhibition of 50 of the most beautiful photos was opened in the urban culture centre Kino Šiška in Ljubljana.

Additional attention was devoted to raising awareness among our youth. The "Skrivnostni zvezek" (Mysterious notebook) competition, which started in 2009, was concluded with an informative puppet show. We also started two Slovenia-wide environmental projects taking place at Slovenian primary schools (the project – Modri Jan (Blue Ian) is touring the schools and assigning environmental tasks – in which 386 primary schools took part was concluded in the summer of 2010) and kindergartens (the project – Majhna hišica-veliko zavetje (Small house-big shelter) – in which 300 kindergartens took part was concluded in the spring of 2010). The photos from reports on both projects are published on www.modri-jan.si.

As part of promotion activities in relation to the Modri Jan project we began another long-term project, i.e. publication of a free environmental magazine for children Modri Jan. In 2010, we published three issues which received a lot of positive feedback from children, parents, childcare workers and teachers.

Modri Jan also spread the word about how to take care of the environment at the Kayak World Championships in Tacen – SLOKA 2010, where he organised painting and creative workshops for the children.

For the wider Slovene and foreign public, HSE updated its promotional brochure, and for the purposes of communication with internal public, five issues of the publication Energija were published which is being increasingly read also by external target publics. 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.

2.14

Research and development

100%

HSE Group produces energy from 100% LOCAL PRIMARY SOURCES and contributes significantly to at least partial independence in energy supply.

In 2010, the areas of energy policy and the functioning of the energy market were characterised by numerous changes in terms of legislation, and strategy and policy. In anticipation of the new NSP, which will set the framework for the future energy strategy of Slovenia and should have been confirmed by the end of the year but was not, we have been keeping up to date with another, fourth, amendment of the Energy Act, the adoption of the new Act on placement of spatial arrangements of national significance into the environment, and the preparation of the new Climate Change Act and the National action plan on renewable energy. On the European and global level we awaited with interest the new EU energy strategy for the period up until 2020, the Regulation on auctions of emission rights, the paper of the European Commission on development of key energy infrastructure for the period 2020/2030 and, of course, the Cancun agreement.

In the Research and development sector, 2010 was mostly oriented towards updating the Group's development plan which will consider all the new circumstances and prepare the Group, through selection of key priorities, to the new challenges. We have also started activities for more efficient coordination within the Group in the area of investments and R&R activities, mostly with the goal of exploiting the Group's synergy effects and achieving greater flow of know-how through unified monitoring, management and decision-making on R&R activities within the Group, timely preparation and implementation of investment projects, coordinated collaboration in monitoring and cooperation in preparation of relevant legislation and climate-energy policies and through coordination of activities in acquisition of grants. The key factor in these activities was the Group's Development Committee established at the end of 2009.

At the VII. strategic conference of the HSE Group, a joint conclusion was made about further activities regarding execution of already confirmed projects, where, next to the earnings criteria, another important factor will be the level of spatial placement. Preparation of future development projects for existing locations and facilities in the HSE Group was also made a priority. Here, the principal priority areas will be continued electricity production at TET and construction of the replacement Unit 6 at TEŠ. In the area of new buildings, activities will be directed towards construction of new E-RES production facilities.

Studies and collaboration with knowledge centres

In 2010, as part of a study, expert bases have been prepared for planning activities in the area of energy in order to meet the requirements of the climate-energy package, the main challenges of which will be, for the Slovenian energy sector, establishment of a new paradigm in the energy sector to achieve a leading role in the area of green energy technologies. The production and use of sustainable energy technologies require a higher level of expertise and a higher than average share of investments in R&R. Extensive implementation of sustainable energy policies also requires new concepts in planning of networks, spatial planning and energy planning in local communities.

In 2010, the companies of the HSE Group joined the Technological platform for smart networks, continued their work in the Centre Of Excellence Low-carbon Technologies and participated in the tender of the ME on Development centres of the Slovenian economy, the purpose of which is support of projects involving development activities as well as the necessary equipment and other infrastructure which will enable development of companies, their competencies and long-term foundations for economic growth and development, and technology breakthroughs in the areas where there is already a critical mass of know-how. The companies participated in the tender with the Development centre – Energy and Development centre – New materials. Both Development centres have been successful at the tender.

The european CH_2OICE project

Collaboration in the project CH2OICE (Certification for Hydro: Improving Clean Energy), started in 2008, which is co-financed by the EU, was intensive in 2010 as well. The purpose of the project is preparation of methodology for higher levels of sustainability criteria when certifying electricity production in HPPs. The project is being financed within the scope of the Intelligent Energy Europe project.

NER3000 tender

We have been collaborating with ME in drafting proposals for preparation and implementation of at least one national demonstration project from areas listed in Annex I to the Commission Decision laying down criteria and measures for the financing of commercial demonstration projects that aim at the environmentally safe capture and geological storage of CO_2 as well as demonstration projects of innovative renewable energy technologies under the scheme for greenhouse gas emission allowance trading within the Community adopted on the basis of Article 10(a) of Directive 2009/29/EC of the European Parliament and of the Council of 2 February 2010. In accordance with the provisions of Directive 2009/29/EC, the Republic of Slovenia contributes, indirectly, to the reserves of emission coupons for new facilities 1.17 million tonnes of CO_2 which is, at the price of € 20/t of CO_2, a little more than € 20 million.

2.15

Plans for the future

Goals in 2011

→ revenues in excess of € 1.0 billion

→ electricity production over 7.7 TWh

→ overall electricity sales of close to 20 TWh

Structure of development projects

The principle objectives that the HSE Group will be pursuing in the future in the area of development of the European and Slovenian electricity markets are:

- increasing market share in foreign electricity markets,
- increasing the share of quantities sold in foreign markets;
- geographic expansion of trading activities;
- increasing presence in SE European markets, and
- expanding 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, the company 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.

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 HSE 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.

Energy

my inspiration

Eco-task

Windmill grove

OŠ Jurija Vege, Moravče
1st grade
Mentor: Betka Gorjup Skok

Eco-task

Windmill grove

OŠ Franca Lešnika-Vuka, Orehova vas
3rd grade
Mentor: Romana Rojko

Eco-task

Collection of poems

VIZ OŠ Bistrica ob Sotli
4th grade
Mentor: Vanja Kolar

Eco-task

Eco-bags

OŠ Slave Klavore, Maribor
5th grade
Mentor: Jadranka Dvoršak

Foreign lands.

Our curiosity drives us across the borders of our country, discovering and conquering the unknown. We are inspired by other cultures, people and new associations, by business challenges, stories from novels, and images from pictures.

HSE also has a widespread business network in foreign electricity markets.

3,824

is the **number of HSE Group employees**.

We are aware that strategies alone do not guarantee success.

Success is achieved by people and values guiding them.

3

Social Responsibility Report 2010

3.1

Responsibility to employees

In 2010 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 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 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 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 development and transfer of knowledge and competences of employees, focusing on development of our own expertise and training of team leaders,
- to establish a knowledge registry of the HSE Group,
- to set up a flexible remuneration and promotion system,
- to invest in high-quality and healthy working environment and to continue the programme for protection and strengthening of health in working and living environments.

Regular and close cooperation with labour 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 between various interests and, consequently, a broad consensus regarding the Group's development plans and provision of social security.

3.1.1 Employees in the controlling company

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 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 2010, the number of employees increased by 7 compared to the balance as at 31.12.2009 as we hired 14 new employees during the year, while 7 left. As at 31.12.2010, the number of employees was thus 123. The recruitment dynamics was balanced, 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 retire.

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.

Education and 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 2010, we allocated 0.01% of net sales revenue to training and education.

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 2010, 22 employees completed their part-time studies, of which 12 obtained a master's degree, 1 acquired a master's degree under the Bologna programme, 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.

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. During 2010 we had 2 scholarship recipients one of which successfully completed their studies at the end of 2010.

3.1.2 Employees in the HSE Group

At the end of 2010, HSE Group had 3,824 employees, which is 12 less than on 31.12.2009. In October 2010, HESS employed the first 26 employees, most of whom are technical personnel. The number of employees decreased the most in the PV Group (by 20), TET (by 11) and TEŠ (by 10).

Number of HSE Group employees

Company	31/12/2010	%	31/12/2009	%	IND 10/09
HSE	123	3	116	3	106
DEM	282	7	288	8	98
SENG	126	3	130	3	97
TEŠ	488	13	498	13	98
TET	209	5	220	6	95
PV Group	2,507	66	2,527	66	99
HSE Invest	59	2	55	1	107
HESS	26	1	0	0	0
HSE Italia	0	0	0	0	0
HSE Balkan Energy	2	0	1	0	200
HSE Hungary	0	0	0	0	0
HSE Adria	1	0	1	0	100
HSE Bulgaria	0	0	0	0	0
HSE MAK Energy	0	0	0	0	0
HSE BH	1	0	0	0	0
Total	**3,824**	**100**	**3,836**	**100**	**100**

The employee education structure of the HSE Group has been improving over the years. Relative to the previous year, the number of employees with a higher level of education (VIII and IX) increased the most, by 27%. The number of employees with level VII education increased by 11%, while the number of employees with level IV and lower education decreased.

Number of employees as at 31.12.2010 and average number of employees in 2010 by education

	Number of employees as at 31/12/2010		Average number of employees in 2010	
Education level	Controlling company	HSE Group	Controlling company	HSE Group
I.	0	232	0	243
II.	0	153	0	166
III.	0	14	0	15
IV.	1	1,436	1	1,466
V.	16	1,085	16	1,074
VI.	13	356	13	350
VII.	69	501	68	477
VIII. and IX.	24	47	23	42
Total	**123**	**3,824**	**121**	**3,831**

Education and training

Investments in education alone do not guarantee success of a company or group. That is why we have 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. In 2010, we organised three topical workshops in the HSE Group.

Through additional education and training, HSE Group is providing for adequate professional qualification, quality and safety of work and personal development of employees. The HSE Group employees underwent training in the areas of production processes, occupational health and safety, leadership and communication, management of integrated quality systems, foreign languages, IT systems and other areas which were subject to amended legislation.

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 development of RES,
- to achieve a partnership with local communities and together solve environmental issues and plan for sustainable development of electricity production,
- to achieve sustainable operation and development of energy capacities.

All electricity-producing companies in the HSE Group and the controlling company have the ISO 9001 international quality certificate and the ISO 14001 international environmental certificate. Through consistent observance of these standards, the companies ensure safe and environment-friendly production of electricity in 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, its aim is to produce electricity from RES and use it rationally. The Group is the largest producer of RES-based electricity – in 2010, it produced more than 90% 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 E-RES in Slovenia. The area of renewable energy sources is therefore highly important, both for 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 (Blue Energy)

HSE designed the Modra energija (Blue Energy) project in 2004 in collaboration with distribution companies. Modra energija (Blue Energy) stands for electricity produced from environment-friendly, renewable sources. The project is aimed at encouraging development of energy production from RES, establishing the market in such energy and selling it in Slovenia. The Modra energija (Blue Energy) project enabled Slovenian 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 commercial as well household customers. In 2010, the number of customers was 1,762. The quantity of Modra energija (Blue Energy) sold totalled 29 GWh.

All hydropower plants of the HSE Group holding the international RECS certificate participate in the Modra energija (Blue Energy) project. In Slovenia, HSE and distribution companies sell the energy produced from renewable sources under the Modra energija (Blue Energy) brand. HSE guarantees renewability of energy to its project partners by cashing in an appropriate number of RECS certificates on their behalf. In 2010, Modra energija (Blue Energy) was 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 copyrighted.

In accordance with the contract entered into by Modra energija (Blue Energy) project partners, the majority of proceeds from the sale of Modra energija (Blue Energy) (60%) goes into the Modri sklad (Blue Fund), which is intended to promote production of E-RES, research aimed at accelerating production of E-RES and development, and refurbishment and construction of E-RES facilities. We used the proceeds from the fund for several extensive education projects, research papers and studies, and helped with organisation of a number of summer education camps in the area of E-RES and EEU. At the end of 2010, proceeds from the Modri sklad (Blue Fund) were used to construct a Blue solar power plant Gimnazija Velenje (49.68 kW of output) at the Centre of Secondary Schools Velenje. The projected annual production is over 50,000 kWh. The solar power plant will have several purposes, as it will not only be used for environment-friendly E-RES production, but will also serve educational, promotional, demonstration and research purposes.

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 could be translated as 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, which encourage the children to think about the significance of RES and EEU.

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 rational 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 Slovenian and international public as a conscious and socially responsible company.

Modra energija (Blue Energy) for Heat Pumps

At the end of 2010, HSE, in cooperation with electricity distributors EE Elektro Celje, Elektro Maribor, Elektro Gorenjska and Elektro Primorska and several suppliers of heat pumps, initiated a campaign entitled Modra energija (Blue Energy) for Heat Pumps. This campaign combines the EEU and E-RES initiatives (Modra energija (Blue Energy)). In the campaign, the suppliers of heat pumps and electricity distributors joined forces and offered extremely attractive conditions for end buyers, all for the purposes of promotion of EEU and RES. Both offer a 10% discount for their products to households that will choose a heat pump as their method of heating, using environment-friendly energy. Until the end of 2011, the suppliers of heat pumps will enable their buyers a 10% discount on the price of heat pumps meeting the criteria of the campaign. Electricity distributors, on the other hand, will supply the buyers with Modra energija (Blue Energy) (electricity, produced from renewable water sources) at the current price of regular electricity, on which they will give an additional 10% discount for a period of two years.

3.2

Responsibility to the broader social community

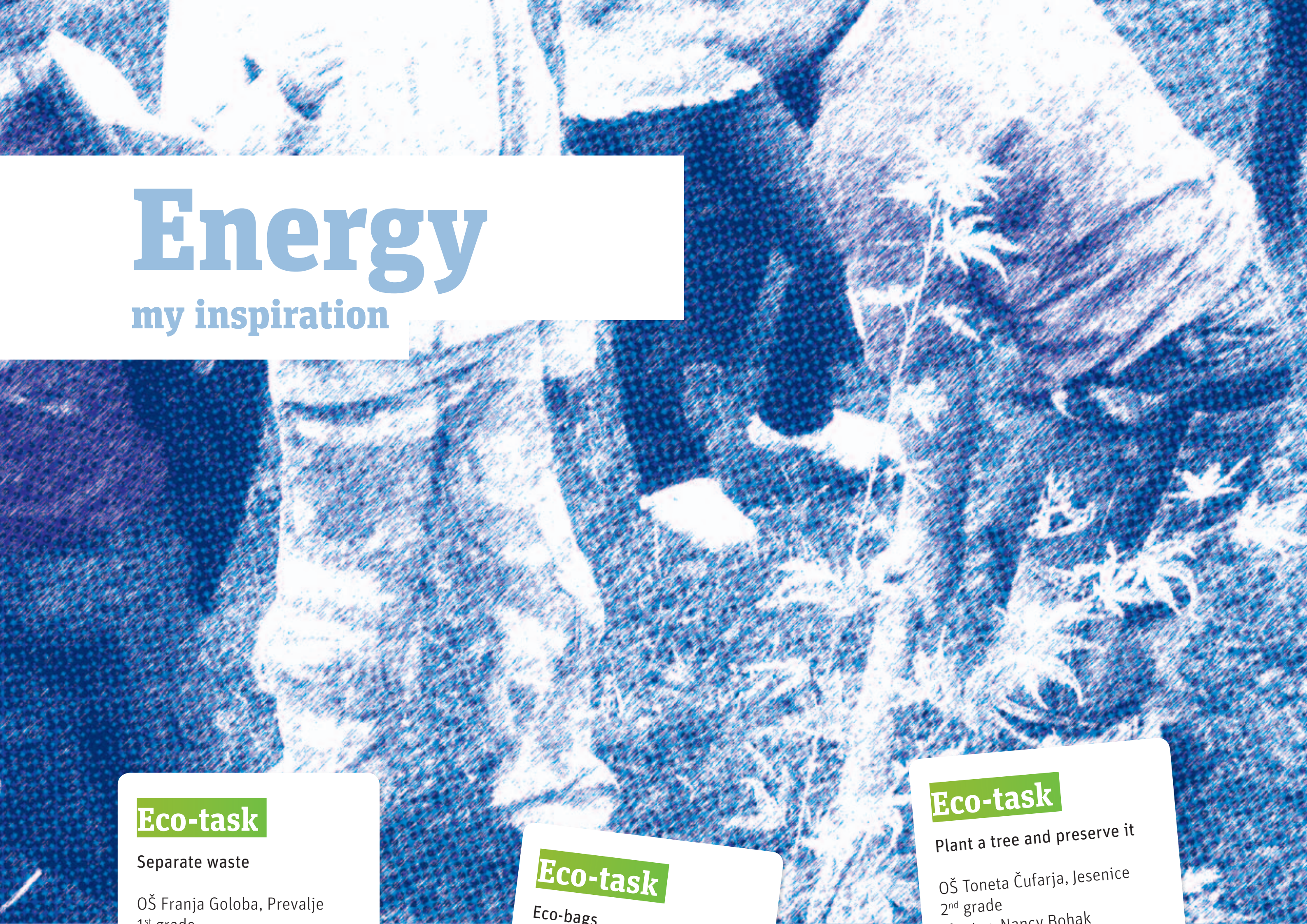
Ever since its establishment, HSE has been aware of its responsibility to the environment and the community in which the controlling company and its subsidiaries operate. As in previous years we have supported the project "**You are energy, be efficient**", which was based on the campaign "**Blue degree**". The campaign promoted energy-efficient heating and cooling, and the use of renewable blue energy.

In the summer months, we used the proceeds collected in the Blue Energy Fund to provide support to the Institute for Environmental Studies ERICO Velenje, which organised the 22nd international summer camp for recipients of the Zois scholarship and gifted students from other countries.

At the end of the year, we organised a campaign entitled "**From children to children**" – collection of used teaching implements and books in order to help the children in educational institutions in places in which the HSE Group companies operate.

In 2010, we again did our best, in the form of targeted sponsorships and donations, to help organisations, associations and individuals who particularly need help and support.

In the HSE Group, we are aware of our implications for the environment, in which we operate and which we actively shape. We are aware of this in particular because of the environmental considerations of electricity production. Therefore, we have adopted an active role in the development of towns by participating in various projects and providing financial support. We cooperate with different educational institutions and give donations to various culture associations. We sponsor a variety of sports clubs. We actively participate in various humanitarian campaigns, supporting institutions and individuals.



Energy

my inspiration

Eco-task

Separate waste

OŠ Franja Goloba, Prevalje
1st grade
Mentors: Marjeta Jezernik,
Milena Hlupič

Eco-task

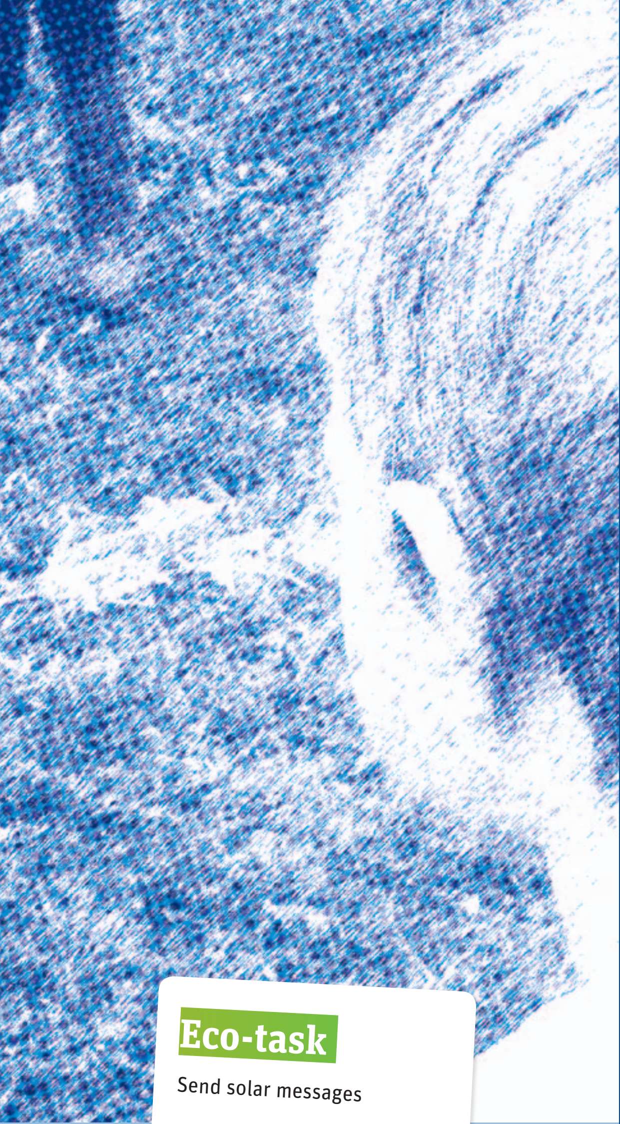
Eco-bags

OŠ Starše
2nd grade
Mentor: Jana Dobnik

Eco-task

Plant a tree and preserve it

OŠ Toneta Čufarja, Jesenice
2nd grade
Mentor: Nancy Bohak



Eco-task

Send solar messages

OŠ Franca Lešnika-Vuka,
Orehova vas
6th grade
Mentors: Franc Gosak,
Petra Trstenjak

The environment is

... so very colourful. Green summer grass, blue seas, a vibrant rainbow of flowers ... all so lively. The life force of trees, the hoo-hah of birds singing, the cheerful child's play ... all so precious. Invaluable fresh air, electric cars growing in popularity, beneficial electricity savings, underrated waste separation. Our home.

HSE produces electricity with minimum implications for the environment, promoting development of renewable energy sources and energy-producing capabilities.

+ 121%

is by how much we increased
cash flows from operating activities
in 2010 which totalled **€ 80 million.**

4

Financial Report of the Company HSE 2010

4.1 Auditor's Report

DELOITTE REVIZIJA D.O.O.
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1000 Ljubljana
Slovenija

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www.deloitte.si

INDEPENDENT AUDITOR'S 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 2010, and the income statement, statement of other comprehensive income, 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. The management is also responsible for the level of internal control required in its opinion to prepare financial statements that are free from material misstatement, whether due to fraud or error.

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 the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to 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 controls. 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 at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with Slovenian Accounting Standards.

Emphasis of Matter – Consolidated Financial Statements

The company Holding Slovenske elektrarne d.o.o. is the controlling company of Holding Slovenske elektrarne Group (hereinafter: the "Group"), which prepares consolidated financial statements in accordance with Slovenian Accounting Standards. The consolidated financial statements of the Group for the year ended 31 December 2010 are presented separately. We have audited the consolidated financial statements of the Group and issued an unqualified opinion on 3 May 2011.

Our opinion is not modified in respect of this matter.

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

Yuri Sidorovich
President of the Board

For signature please refer to the original Slovenian version.

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

Ljubljana, 3 May 2011

TRANSLATION ONLY – SLOVENIAN ORIGINAL PREVAILS

4.2 Statement by the Managing Director

As the Managing Director of the company HSE, I hereby confirm the financial statements of the company for the financial year 2010, 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 2010.

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.

Ljubljana, 3 May 2011

Matjaž Janežič, M.Sc.
Managing Director of HSE d.o.o.

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 for the financial year 2010, which corresponds to the calendar year.

The 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 and
- going concern,

and required qualitative characteristics:

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

Exchange rate and method of translation into local 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 31.12.2010.

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

For the conversion of assets and liabilities expressed in a foreign currency, the following exchange rates have been used:

• € as at 31.12.2010	= USD 1.3362	USA
• € as at 31.12.2010	= CZK 25.0610	Czech Republic
• € as at 31.12.2010	= HUF 277.9500	Hungary
• € as at 31.12.2010	= CHF 1.2504	Switzerland
• € as at 31.12.2010	= RON 4.2620	Romania
• € as at December 2010	= RSD 107.4700	Serbia

Accounting policies

In recording and valuation of financial statement items, SAS stipulations have been followed directly, except in valuation of items for which SAS allow different methods. In such cases, the company applies valuation methods defined in its Accounting Rules or determined by the management by way of a resolution.

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 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 CO_2 emission coupons.

An item of intangible assets is initially carried at cost. The cost also includes import duties and non-refundable purchase taxes.

After recognition, intangible assets are measured using the cost model and emission coupons using the fair value model. Long-term property rights are subsequently decreased by the amount of the amortisation charge recorded in the accumulated amortisation account. In the balance sheet, they are disclosed at carrying amount, i.e. as the difference between the cost and accumulated amortisation.

Long-term property rights are amortised individually using the straight-line amortisation method. Amortisation begins when they become available for use. Amortisation rates applied to the individual types of long-term property rights are based on their projected useful lives.

The value of CO_2 emission coupons used is calculated based on the sliding average price method.

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 costs incurred upon the dismantling or removal of items of property, plant and equipment.

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 the difference between the cost and accumulated depreciation.

Subsequent expenditures related to 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.

Depreciation of property, plant and equipment items begins on the first day of the month following the month in which the items become available for their 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 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).

The company's short-term financial assets are disclosed under available-for-sale financial assets. Assets in this category are measured according to their fair value or cost, when it is not possible to determine reliably their fair value (investments in subsidiaries and associates are disclosed in this manner).

Any indications of impairment of investments are determined on an annual basis. If indications of impairment exist, the financial asset is subjected to valuation and, in the event its carrying amount is higher than the present value of discounted future cash flows, impaired. The result of impairment is disclosed under revaluation operating expenses for the current year.

In the event a financial asset is sold, the difference between the carrying amount and the value of cash received is disclosed under financial revenue or expenses.

Depending on the envisaged settlement or the reason for holding a financial asset, they 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 at their net amounts, i.e. decreased by any allowances for receivables. Allowances for receivables are made on an individual basis. If receivables are not collected in a certain period, they are considered doubtful. If legal proceedings have been initiated in relation to them, they are considered disputed.

Receivables of smaller value are written off based on a management's decision if it is determined that the costs of collection of such outstanding receivables would exceed the amount of the receivables, making the collection process economically unjustified.

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 may subsequently 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 costs comprise short-term deferred costs and short-term accrued revenue.

Short-term deferred costs include amounts incurred but not yet debited 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 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 resolutions adopted by the Supervisory Board and the General Meeting and represent profits brought forward from previous years.

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 ACDR

Provisions are created 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 for settlement of 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 the estimated amount of liabilities for termination and jubilee benefits discounted on the balance sheet date.

Provisions are utilised for liabilities for which they have been created.

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 costs and deferred revenue represent 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 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 repayments of principal.

Accounted for but not yet due interest on long-term financial liabilities is recorded as other short-term operating liabilities.

Short-term liabilities

Short-term liabilities are liabilities recognised in connection with financing of own assets that need to be settled in cash in a period of less than one year.

Short-term financial liabilities include a portion of long-term financial liabilities that will 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 repayments of principal.

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.

Short-term accrued costs and deferred revenue

Short-term accrued costs and deferred revenue are comprised of short-term accrued costs. To debit them evenly against profit or loss, the costs and expenses that did not occur but are expected are recorded among accrued costs.

Derivatives

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

The company uses derivatives for trading and hedging against risks.

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 is recognised directly in equity, and the difference in profit or loss. In doing so, the conditions for hedge accounting are considered. When preparing annual financial statements, the company determines the effectiveness of hedging as the relation between the price as at the balance sheet date and the price on the day the transaction was concluded. The gain or loss associated with a successful hedge 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 represent important information for 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 such an increase can be measured reliably.

Revenue is recognised when it can be reasonably expected it will result in receipts, unless such receipts had already arisen 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 reversal of impairment of receivables. It is recognised on the basis of issued invoices or other relevant documents.

Financial revenue arises in connection with long-term and short-term financial assets and in connection with receivables and short-term liabilities. Financial revenue is recognised upon 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 revenues comprise 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 useful lives 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 creation of doubtful receivables.

Financial expenses are incurred in relation to long-term financial assets, liabilities and intangible assets.

They are recognised when the statements of account are prepared, regardless of the payments associated with them.

Interest is recognised in proportion to the previous year and with regard to the outstanding amount of the principal 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 to 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 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 offices in the Czech Republic and in Slovakia are liable to pay corporate income tax and value added tax.

Deferred taxes

Deferred taxes are earmarked for covering temporary differences between the carrying amount and tax value of assets and liabilities. They are accounted for using the balance sheet liability method.

Deferred tax assets represent the currently recorded corporate income tax and deductible temporary differences, which will result in 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.

4.4 Balance sheet

in €		Note*	31/12/2010	31/12/2009
	ASSETS		**1,198,207,987**	**1,176,889,598**
A.	**LONG-TERM ASSETS**		**985,545,306**	**976,637,084**
I.	**Intangible assets and long-term deferred costs and accrued revenue**	1	**6,388,682**	**4,166,278**
1.	Long-term property rights		6,388,682	4,166,278
II.	**Property, plant and equipment**	2	**9,804,160**	**8,523,248**
1.	Land and buildings		1,502,449	1,695,415
	b) Buildings		1,502,449	1,695,415
3.	Other plant and equipment		2,295,161	2,343,847
4.	Property, plant and equipment being acquired		6,006,550	4,483,986
	a) Property, plant and equipment in the course of construction		6,006,550	4,483,986
IV.	**Long-term investments**	3	**965,326,195**	**957,826,055**
1.	Long-term investments, excluding loans		965,326,195	957,826,055
	a) Shares and interests in group companies		965,079,695	957,170,705
	b) Shares and interests in associates		135,000	543,850
	c) Other shares and interests		111,000	111,000
	d) Other long-term investments		500	500
V.	**Long-term operating receivables**	4	**885,930**	**2,872,054**
3.	Long-term operating receivables from others		885,930	2,872,054
VI.	**Deferred tax assets**	5	**3,140,339**	**3,249,449**
B.	**CURRENT ASSETS**		**206,036,515**	**193,086,513**
II.	**Inventories**		**471**	**563**
1.	Material		471	563
III.	**Short-term investments**	6	**83,963,079**	**71,467,521**
1.	Short-term investments, excluding loans		143,079	43,427,521
	b) Other shares and interests		0	43,427,521
	c) Other short-term investments		143,079	0
2.	Short-term loans		83,820,000	28,040,000
	a) Short-term loans to group companies		48,100,000	0
	b) Short-term loans to others		35,720,000	28,040,000
IV.	**Short-term operating receivables**	7	**118,349,126**	**119,439,143**
1.	Short-term operating receivables from group companies		8,848,745	1,880,440
2.	Short-term operating trade receivables		98,060,805	102,944,733
3.	Short-term operating receivables due from others		11,439,576	14,613,970
V.	**Cash**	8	**3,723,839**	**2,179,286**
C.	**SHORT-TERM ACCRUED REVENUE AND DEFERRED COSTS**	9	**6,626,166**	**7,166,001**

continued ...

… continued

in €		Note*	31/12/2010	31/12/2009
	EQUITY AND LIABILITIES		**1,198,207,987**	**1,176,889,598**
A.	**EQUITY**	10	**929,748,299**	**845,844,637**
I.	**Called-up capital**		**29,558,789**	**29,558,789**
1.	Share capital		29,558,789	29,558,789
II.	**Capital surplus**		**561,243,185**	**561,243,185**
III.	**Revenue reserves**		**296,361,537**	**226,498,386**
5.	Other revenue reserves		296,361,537	226,498,386
IV.	**Revaluation surplus**		**2,839,086**	**(1,573,172)**
VI.	**Net profit or loss for the period**		**39,745,702**	**30,117,449**
B.	**PROVISIONS AND LONG-TERM ACCRUED COSTS AND DEFERRED REVENUE**	11	**9,768,636**	**15,866,215**
1.	Provisions for pensions and similar liabilities		639,825	495,138
2.	Other provisions		7,657,477	13,899,743
3.	Long-term accrued costs and deferred revenue		1,471,334	1,471,334
C.	**LONG-TERM LIABILITIES**	12	**106,645,403**	**116,595,562**
I.	**Long-term financial liabilities**		**106,619,094**	**116,595,562**
2.	Long-term financial liabilities to banks		106,619,094	116,431,050
4.	Other long-term financial liabilities		0	164,512
III.	**Deferred tax liabilities**		**26,309**	**0**
D.	**SHORT-TERM LIABILITIES**	13	**145,704,701**	**197,220,693**
II.	**Short-term financial liabilities**		**24,823,490**	**74,686,957**
2.	Short-term financial liabilities to banks		24,811,956	74,686,957
4.	Other short-term financial liabilities		11,534	0
III.	**Short-term operating liabilities**		**120,881,211**	**122,533,736**
1.	Short-term operating liabilities to group companies		78,313,903	81,089,140
2.	Short-term trade payables		36,938,021	28,744,589
4.	Short-term operating liabilities arising from advances		135,726	1,500
5.	Other short-term operating liabilities		5,493,561	12,698,507
E.	**SHORT-TERM ACCRUED COSTS AND DEFERRED REVENUE**	14	**6,340,948**	**1,362,491**

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

4.5 Income statement

in €		Note*	2010	2009
1.	**Net sales revenue**	15	**903,068,515**	**764,485,829**
a)	Domestic market		452,541,347	520,590,851
	• from relations with group companies		10,552,956	3,018,461
	• from relations with others		441,988,391	517,572,390
b)	Foreign market		450,527,168	243,894,978
	• from relations with group companies		33,072,169	7,438,283
	• from relations with others		417,454,999	236,456,695
4.	**Other operating revenue (including revaluation operating revenue)**		**704,311**	**19,697,246**
5.	**Costs of goods, materials and services**	16	**802,939,181**	**669,795,404**
a)	Costs of goods and materials sold and materials used		797,344,438	663,691,502
b)	Costs of services		5,594,743	6,103,902
6.	**Labour costs**	17	**7,948,872**	**7,113,750**
a)	Payroll costs		6,090,291	5,444,308
b)	Social security costs		1,229,190	1,091,134
	• of which pension insurance costs		768,672	684,478
c)	Other labour costs		629,391	578,308
7.	**Write-downs in value**		**1,179,777**	**2,694,670**
a)	Depreciation and amortisation		1,139,894	1,264,683
b)	Revaluation operating expenses associated with IA and PPE		24,431	555,617
c)	Revaluation operating expenses associated with operating current assets		15,452	874,370
8.	**Other operating expenses**		**1,316,785**	**2,043,732**
	OPERATING PROFIT OR LOSS		**90,388,211**	**102,535,519**
9.	**Financial revenue from shares and interests**	18	**8,849,129**	**15,444,581**
a)	Financial revenue from interests in group companies		0	15,442,181
c)	Financial revenue from interests in other companies		8,849,129	0
d)	Financial revenue from other investments		0	2,400
10.	**Financial revenue from loans**	18	**716,790**	**502,493**
a)	Financial income from loans to group companies		605,259	0
b)	Financial revenue from loans to others		111,531	502,493
11.	**Financial revenue from operating receivables**	18	**1,550,923**	**2,986,704**
a)	Financial revenue from operating receivables due from group companies		546,848	602,775
b)	Financial revenue from operating receivables due from others		1,004,075	2,383,929
12.	**Financial expenses for impairment and write-downs of investments**	19	**360,228**	**29,228,609**
13.	**Financial expenses for financial liabilities**	19	**2,877,119**	**4,284,750**
a)	Financial expenses for loans received from group companies		68,651	0
b)	Financial expenses for loans received from banks		2,595,542	4,136,258
d)	Financial expenses for other financial liabilities		212,926	148,492
14.	**Financial expenses for operating liabilities**	19	**1,345,323**	**479,320**
b)	Financial expenses for trade liabilities and bills payable		84,622	22,588
c)	Financial expenses for other operating liabilities		1,260,701	456,732
	PROFIT OR LOSS ON ORDINARY ACTIVITIES		**96,922,383**	**87,476,618**
15.	**Other revenue**		**1,443,373**	**381,737**
16.	**Other expenses**		**5,254**	**9,100,237**
	PROFIT OR LOSS ON EXTRAORDINARY ACTIVITIES		**1,438,119**	**(8,718,500)**
	TOTAL PROFIT OR LOSS	20	**98,360,502**	**78,758,118**
17.	**Corporate income tax**	21	**18,792,891**	**17,581,902**
18.	**Deferred taxes**	22	**76,207**	**941,318**
19.	**NET PROFIT OR LOSS FOR THE ACCOUNTING PERIOD**	23	**79,491,404**	**60,234,898**

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

4.6 Statement of other comprehensive income

in €		Note*	2010	2009
19.	**NET PROFIT OR LOSS FOR THE ACCOUNTING PERIOD**	23	**79,491,404**	**60,234,898**
21.	Change in surplus arising on revaluation of available-for-sale financial assets		236,845	(13,758)
23.	Other components of comprehensive income		4,175,413	(13,193,981)
24.	**TOTAL COMPREHENSIVE INCOME FOR THE ACCOUNTING PERIOD**	24	**83,903,662**	**47,027,159**

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

4.7 Cash flow statement

in €		2010	2009
A.	**CASH FLOWS FROM OPERATING ACTIVITIES**		
	a) Items of income statement	**83,336,977**	**67,720,701**
	Operating revenue (except from revaluation) and financial income from operating receivables	909,820,425	766,927,071
	Operating expenses without depreciation/amortisation (except from revaluation) and financial expenses for operating liabilities	(811,193,380)	(691,150,459)
	Income taxes and other taxes not included in operating expenses	(15,290,068)	(8,055,911)
	b) Changes in net operating assets in balance sheet items (including accruals and deferrals, provisions and deferred tax assets and liabilities)	**(3,688,882)**	**(31,656,351)**
	Opening less closing operating receivables	3,127,696	21,594,155
	Opening less closing accrued revenue and deferred costs	539,835	(2,019,823)
	Opening less closing deferred tax assets	(32,903)	939,743
	Opening less closing inventories	92	216
	Closing less opening operating liabilities	(5,012,584)	(49,039,974)
	Closing less opening accrued costs and deferred revenue, and provisions	(2,284,709)	(3,130,668)
	Closing less opening deferred tax liabilities	(26,309)	0
	c) Net cash from operating activities (a + b)	**79,648,095**	**36,064,350**
B.	**CASH FLOWS FROM INVESTING ACTIVITIES**		
	a) Cash receipts from investing activities	**352,043,102**	**804,460,094**
	Cash receipts from interest and shares in profits of others related to investing activities	621,379	16,071,695
	Cash receipts from disposal of intangible assets	7,674,136	14,351,200
	Cash receipts from disposal of property, plant and equipment	377,315	132,199
	Cash receipts from disposal of long-term investments	183,622	0
	Cash receipts from disposal of short-term investments	343,186,650	773,905,000
	b) Cash disbursements for investing activities	**(367,682,071)**	**(858,376,524)**
	Cash disbursements to acquire intangible assets	(10,479,718)	(11,754,926)
	Cash disbursements to acquire property, plant and equipment	(2,468,363)	(2,998,445)
	Cash disbursements to acquire long-term investments	(8,043,990)	(109,920,153)
	Cash disbursements to acquire short-term investments	(346,690,000)	(733,703,000)
	c) Net cash from investing activities (a + b)	**(15,638,969)**	**(53,916,430)**
C.	**CASH FLOWS FROM FINANCING ACTIVITIES**		
	a) Cash receipts from financing activities	**19,000,000**	**50,000,000**
	Cash proceeds from increase in short-term financial liabilities	19,000,000	50,000,000
	b) Cash disbursements from financing activities	**(81,464,573)**	**(36,343,389)**
	Interest paid on financing activities	(2,777,617)	(6,531,433)
	Disbursements for repayment of non-current financial liabilities	(44,686,956)	(9,811,956)
	Cash repayments of short-term financial liabilities	(34,000,000)	(20,000,000)
	c) Net cash from financing activities (a + b)	**(62,464,573)**	**13,656,611**
D.	**CLOSING BALANCE OF CASH**	**3,723,839**	**2,179,286**
	x) Net cash flow for the period	**1,544,553**	**(4,195,469)**
	y) Opening balance of cash	**2,179,286**	**6,374,755**

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

4.8 Statement of changes in equity

in €		Called-up capital Share capital	Capital surplus
A.1.	**Balance as at 31/12/2008**	**29,558,789**	**561,243,185**
A.2.	**Opening balance as at 1/1/2009**	**29,558,789**	**561,243,185**
B.2.	**Total comprehensive income of the reporting period**	**0**	**0**
a)	Net profit or loss for the reporting period		
d)	Change in surplus arising on revaluation of investments		
e)	Other components of comprehensive income of the reporting period		
B.3.	**Changes in equity**	**0**	**0**
b)	Allocation of portion of net profit for the period to other components of equity under the decision of management and supervisory bodies		
c)	Allocation of a portion of net profit to additional reserves in accordance with a general meeting resolution		
C.	**Closing balance as at 31/12/2009**	**29,558,789**	**561,243,185**

A.2.	**Opening balance as at 1/1/2010**	**29,558,789**	**561,243,185**
B.2.	**Total comprehensive income of the reporting period**	**0**	**0**
a)	Net profit or loss for the reporting period		
d)	Change in surplus arising on revaluation of investments		
e)	Other components of comprehensive income of the reporting period		
B.3.	**Changes in equity**	**0**	**0**
b)	Allocation of portion of net profit for the period to other components of equity under the decision of management and supervisory bodies		
c)	Allocation of a portion of net profit to additional reserves in accordance with a general meeting resolution		
C.	**Closing balance as at 31.12.2010**	**29,558,789**	**561,243,185**
	ACCUMULATED PROFIT	**0**	**0**

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

Revenue reserves	Revaluation surplus	Retained earnings	Net profit or loss for the period	
Other revenue reserves		Preneseni čisti dobiček	Retained net profit	Total
169,502,829	**11,634,567**	**0**	**26,878,108**	**798,817,478**
169,502,829	**11,634,567**	**26,878,108**	**0**	**798,817,478**
0	**(13,207,739)**	**0**	**60,234,898**	**47,027,159**
			60,234,898	60,234,898
	(13,758)			(13,758)
	(13,193,981)			(13,193,981)
56,995,557	**0**	**(26,878,108)**	**(30,117,449)**	**0**
30,117,449			(30,117,449)	0
26,878,108		(26,878,108)		0
226,498,386	**(1,573,172)**	**0**	**30,117,449**	**845,844,637**

226,498,386	**(1,573,172)**	**30,117,449**	**0**	**845,844,637**
0	**4,412,258**	**0**	**79,491,404**	**83,903,662**
			79,491,404	79,491,404
	236,845			236,845
	4,175,413			4,175,413
69,863,151	**0**	**(30,117,449)**	**(39,745,702)**	**0**
39,745,702			(39,745,702)	0
30,117,449		(30,117,449)		0
296,361,537	**2,839,086**	**0**	**39,745,702**	**929,748,299**
0	**0**	**0**	**39,745,702**	**39,745,702**

4.9 Notes to the financial statements

4.9.1 Balance sheet

General

Information on the basis for 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 assets and liabilities and their management have been disclosed in the business report (section 2.12 Risk management).

Upon recognition, assets and liabilities are carried at historical cost, and after recognition in accordance with the defined valuation method.

Below we provide the disclosures of individual balance sheet items as at 31.12.2010.

(1) Intangible assets
€ 6,388,682

Long-term property rights include software and CO_2 emission coupons.

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

Since 1 January 2010, investments in fixed assets of other entities are disclosed under property, plant and equipment due to a change in SAS. For the purposes of comparability, the carrying amount of these investments in 2009 totalling € 2,555 has also been disclosed under property, plant and equipment.

In 2010 the company reviewed the useful lives of important software items, determining that the useful lives were appropriate given the current expectations regarding the usability of these assets.

At the beginning of 2010, the company had 200,000 CO_2 emission coupons. During the year, the company purchased 755,059 and sold 593,105 emission coupons generating € 500,694 in revenue. As at 31.12.2010, the stocks of emission coupons totalled 361,954 coupons. During the year, the company used the sliding average price method to reduce the value of stocks, which was impaired by € 1,053,775 at the end of 2010 based on the last published price for emission coupons at the German ECC exchange and the price in the purchase agreement.

Changes in intangible assets

Intangible assets in €	Long-term property rights (excluding emission coupons)	CO_2 emission coupons	Total
Cost as at 31/12/2009	**4,170,558**	**2,641,000**	**6,811,558**
Acquisitions	560,341	10,380,631	10,940,972
Disposals	(154)	(7,649,744)	(7,649,898)
Cost as at 31/12/2010	**4,730,745**	**5,371,887**	**10,102,632**
Written-down value as at 31.12.2009	**2,248,280**	**397,000**	**2,645,280**
Amortisation	412,049		412,049
Disposals	(154)	(397,000)	(397,154)
Revaluation		1,053,775	1,053,775
Written-down value as at 31/12/2010	**2,660,175**	**1,053,775**	**3,713,950**
Carrying amount as at 31/12/2009	**1,922,278**	**2,244,000**	**4,166,278**
Carrying amount as at 31/12/2010	**2,070,570**	**4,318,112**	**6,388,682**

(2) Property, plant and equipment
€ 9,804,160

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.

Since 1 January 2010, investments in fixed assets of other entities are disclosed under property, plant and equipment due to a change in SAS. For the purposes of comparability, the carrying amount of these investments in 2009 totalling € 2,555 has also been disclosed under property, plant and equipment.

In 2010 the useful lives of major equipment was reviewed and the expected useful lives reassessed, which resulted in a changed depreciation rate for the TC equipment of HSE. Due to an extended useful life of said equipment, the depreciation charge in 2010 amounted to € 201,099, which is € 125,855 less than the depreciation charge according to the initially determined useful life.

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

Property, plant and equipment in €	Buildings	Other plant and equipment	Property, plant and equipment in the course of construction	Total
Cost as at 31/12/2009	**1,948,127**	**6,221,782**	**4,483,986**	**12,653,895**
Acquisitions			2,285,309	2,285,309
Transfer from ongoing investments	86,455	676,290	(762,745)	0
Disposals	(303,372)	(328,701)		(632,073)
Cost as at 31/12/2010	**1,731,210**	**6,569,371**	**6,006,550**	**14,307,131**
Written-down value as at 31/12/2009	**252,712**	**3,877,935**		**4,130,647**
Depreciation	38,999	688,846		727,845
Disposals	(62,950)	(292,571)		(355,521)
Written-down value as at 31/12/2010	**228,761**	**4,274,210**		**4,502,971**
Carrying amount as at 31/12/2009	**1,695,415**	**2,343,847**	**4,483,986**	**8,523,248**
Carrying amount as at 31/12/2010	**1,502,449**	**2,295,161**	**6,006,550**	**9,804,160**

Property, plant and equipment depreciation categories

Category of property, plant and equipment	Depreciation rate	Useful life
Buildings	2%	50 let
Furniture	10% – 25%	4 – 10 let
Computer equipment	20% – 50%	2 – 3 leta
Small inventory	20% – 33.33%	3 – 5 let
Cars	12.5% – 20%	5 – 8 let
Other equipment	4% – 33.33%	3 – 25 let

(3) Long-term investments
€ 965,326,195

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.

Long-term investments in subsidiaries

	Equity interest in %	Total equity of the subsidiary in €	Profit or loss for the current year in €	Value of investment as at 31/12/2010 in €	Value of investment as at 31/12/2009 in €
Dravske elektrarne Maribor d.o.o. Obrežna ulica 170, SI-2000 Maribor, Slovenia	100%	528,416,498	12,976,094	387,058,979	387,058,979
Soške elektrarne Nova Gorica d.o.o. Erjavčeva 20, SI-5000 Nova Gorica, Slovenia	100%	177,706,014	9,698,611	152,692,249	152,692,249
Hidroelektrarne na spodnji Savi d.o.o. Cesta bratov Cerjakov 33a, SI-8250 Brežice, Slovenia	51%	234,171,665	593,495	118,002,548	110,607,548
Termoelektrarna Šoštanj d.o.o. Cesta Lole Ribarja 18, SI-3325 Šoštanj, Slovenia	100%	348,575,114	4,202,406	216,117,777	216,117,777
Termoelektrarna Trbovlje d.o.o. Ob železnici 27, SI-1420 Trbovlje, Slovenia	81.33%	34,434,971	(445,653)	24,503,340	24,503,340
Premogovnik Velenje d.d. Partizanska cesta 78, SI-3320 Velenje, Slovenia	77.73%	110,923,360	948,992	60,408,543	60,408,543
HSE Invest d.o.o. Obrežna ulica 170a, SI-2000 Maribor, Slovenia	25%	816,995	115,499	80,000	80,000
HSE Italia S.r.l. Via Roma 20, Gorizia, Italy	100%	119,179	38,631	29,690	29,690
HSE Hungary Kft. Karolyi Mihaly u. 12, Budapest, Hungary	100%	5,391,591	45,348	4,004,965	4,004,965
HSE Balkan Energy d.o.o. Bulevar Mihaila Pupina 117, Belgrade, Serbia	100%	1,067,112	234,718	1,025,063	1,025,063
HSE Adria d.o.o. Miramarska 24, Zagreb, Croatia	100%	1,145,348	283,085	102,553	102,553
HSE Bulgaria EOOD 45A Bulgaria Blvd., Triaditza Region, Sofia, Bulgaria	100%	443,134	25,072	513,220	513,220
HSE MAK Energy DOOEL Belasica no. 2, 1000 Skopje, Macedonia	100%	8,115	(14,951)	26,778	26,778
HSE BH d.o.o. Ul. Bulevar Meše Selimovića br. 16, Sarajevo, Bosnia and Herzegovina	100%	492,427	(18,865)	513,990	0
Total				**965,079,695**	**957,170,705**

Changes in long-term investments

in €	2010
Subsequent contributions to HESS d.o.o. equity	7,395,000
Establishment of HSE BH d.o.o.	513,990
Total changes in long-term investments	**7,908,990**

Increased value of investments in subsidiaries in 2010 refers to subsequent equity contributions in HESS and establishment of the company HSE BH d.o.o.

Investments in interests of associates include a 25% ownership interest in the company Soenergetika d.o.o.

Long-term investments in associates

	Equity interest in %	Total equity of the associate in €	Profit or loss for the current year in €	Value of investment as at 31/12/2010 in €
Soenergetika d.o.o. Stara cesta 3, Kranj	25%	525,719	(14,281)	135,000

Decreases in 2010 refer to the write-off of investment in the company Plinsko parna elektrarna d.o.o.

Other shares and interests include an investment in the company Stelkom d.o.o. (19% interest) in the amount of € 111,000.

Other long-term investments include an investment in the company CO NOT in the amount of € 500.

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

There are only two subsidiaries abroad still operating with a negative result (HSE MAK Energy and HSE Bulgaria), where the carrying amount of the long-term investment exceeds the carrying amount of total equity (the reason lies in negative operating results of these two companies as they have not yet begun with electricity trading due to unfavourable market conditions).

It is our estimate that these investments are not at risk, while the fair value itself is difficult to determine.

Changes in long-term investments other than loans

Long-term investments, excluding loans in €	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 31/12/2009	**1,070,197,857**	**543,850**	**111,000**	**500**	**1,070,853,207**
Acquisitions	7,908,990	135,000			8,043,990
Disposals		(543,850)			(543,850)
Cost as at 31/12/2010	**1,078,106,847**	**135,000**	**111,000**	**500**	**1,078,353,347**
Written-down value as at 31/12/2009	**113,027,152**	**0**	**0**	**0**	**113,027,152**
Written-down value as at 31/12/2010	**113,027,152**	**0**	**0**	**0**	**113,027,152**
Carrying amount as at 31/12/2009	**957,170,705**	**543,850**	**111,000**	**500**	**957,826,055**
Carrying amount as at 31/12/2010	**965,079,695**	**135,000**	**111,000**	**500**	**965,326,195**

(4) Long-term operating receivables
€ 885,930

Long-term operating receivables from others relate to deposits pledged as collateral in connection with electricity trading in Slovenia and on foreign exchanges. The decrease relative to 2009 is a result of the changed method of insurance due to a good credit rating of the company.

(5) Deferred tax assets
€ 3,140,339

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

The change in deferred tax assets of € 72,692 is recognised in the income statement.

Changes in deferred tax assets

Deferred tax assets in €	For termination benefits	For jubilee benefits	From impairments	From depreciation/ amortisation	From interest rate swaps	Total
Value as at 31/12/2009	**66,647**	**17,823**	**3,097,493**	**34,585**	**32,901**	**3,249,449**
Creation, increase	13,692	4,910	3,050	4,924		26,576
Utilisation, decrease	(5,403)	(2,865)	(86,065)	(8,452)	(32,901)	(135,686)
Value as at 31/12/2010	**74,936**	**19,868**	**3,014,478**	**31,057**	**0**	**3,140,339**

(6) Short-term investments
€ 83,963,079

Short-term investments comprise:
- short-term deposits in the amount of € 35,720,000,
- short-term loans to group companies in the amount of € 48,100,000, and
- fair value of FX forward transactions in the amount of € 143,079.

Short-term deposits consist of deposits with Slovenian banks with a maturity in January 2011. 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.

Short-term loans given to group companies include a short-term overdraft facility to a subsidiary with a repayment date at the end of February 2011.

The interest rate is a 1-month EURIBOR with a minimum mark-up; the interest is charged monthly, with a due date of 10 days after the interest has been charged. The loan is not secured.

In 2010, the company sold two short-term investments (Toplofikatsia – Ruse AD and Hidro Moćnost Makedonija d.o.o.) – the relevant financial revenue amounted to € 8,849,129.

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

Short-term investments

in €	31/12/2010	31/12/2009
Short-term investments in shares and interests	0	43,427,521
Fair value of FX forwards	143,079	0
Short-term loans to group companies	48,100,000	0
Short-term deposits	35,720,000	28,040,000
Total	**83,963,079**	**71,467,521**

(7) Short-term operating receivables
€ 118,349,126

Short-term operating receivables from group companies in the amount of € 8,848,745 mainly refer to receivables arising from electricity sales and receivables arising from services related to performance of certain functions on behalf of subsidiaries.

Short-term trade receivables (excluding group companies) in the amount of € 98,060,805 are predominantly comprised of receivables from the sale of electricity in Slovenia and abroad.

Short-term operating receivables from others in the amount of € 11,439,576 consist mostly of receivables due from input value added tax.

Receivables due from customers are mainly settled by the agreed-upon due dates or with only minor delays. In case of delays, the customers in Slovenia and abroad are charged default interest at the contractual rate. The majority of overdue receivables at the end of 2010 refer to invoices issued for electricity sold that have already been settled by the time this report was prepared.

The company had no receivables due from management and Supervisory Board members at the end of 2010.

Electricity-related trade receivables arising from annual contracts are, in the event the approved limits are exceeded, mostly secured with bank guarantees, corporate guarantees or (exceptionally) bills of exchange. In order to properly secure receivables from customers, the company concludes framework EFET agreements with its partners, which determine in detail mutual rights and obligations of parties and prescribe procedures for provision of potential additional instruments for securing payment in the event of deteriorated financial position of partners or other events that might affect their ability to settle their obligations. Based on the analysis of financial position, future projections and credit rating, certain customers can also purchase goods on open account. For each customer, the decision whether insurance is required is taken on the basis of Systemic Credit Risk Management Instructions and Systemic Credit Risk Identification and Monitoring Instructions, which, among other things, lay down the method for determining limits.

Short-term trading with electricity takes place at exchanges. Since the operation of exchanges is strongly regulated, and the membership in an exchange requires preliminary insurance of payments arising from transactions and potential liabilities, these receivables are not subjected to additional insurance. In addition, the transactions at the exchange take place exclusively with partners, for whom we already have estimates of financial stability, and within limits they have been assigned according to such estimates. A very similar approach is used when trading via trade portals and on the basis of bilateral agreements. In case of the latter the company already has framework EFET agreements in place with the customers, or the bilateral agreements already include clauses governing settlement and provision of additional insurance in the event the approved limits are exceeded or the financial position of the customer has deteriorated.

For other receivables insurance is not required due to their specific nature.

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

Short-term operating receivables

in €	31/12/2010	31/12/2009
Short-term trade receivables in Slovenia	53,986,793	71,257,917
Short-term foreign trade receivables	52,828,933	33,567,256
Short-term advances for services in Slovenia not yet rendered	20,000	6,600
Short-term advances for services abroad not yet rendered	31,087	1,304
Short-term receivables from operations for third party account	7,098	0
Short-term receivables associated with financial revenue	148,611	51,261
Short-term receivables from the government	11,064,362	13,502,379
Short-term receivables from others	262,242	1,052,426
Total	**118,349,126**	**119,439,143**

Short-term operating receivables from group companies

in €	31/12/2010	31/12/2009
Dravske elektrarne Maribor d.o.o.	9,000	1,704
Soške elektrarne Nova Gorica d.o.o.	3,688,478	378,032
Premogovnik Velenje d.d.	409,918	563,391
Hidroelektrarne na spodnji Savi d.o.o.	103,969	46,270
Termoelektrarna Trbovlje d.o.o.	4,464	2,154
Termoelektrarna Šoštanj d.o.o.	407,143	2,676
HSE Invest d.o.o.	0	852
HSE Balkan Energy d.o.o.	589,990	23,924
HSE Hungary Kft.	3,011	767,459
HSE Adria d.o.o.	2,504,650	91,828
HSE Bulgaria EOOD	6,069	453
HSE BH d.o.o.	1,566	0
HSE Italia S.r.l.	1,112,605	1,697
HSE MAK Energy DOOEL	7,882	0
Total	**8,848,745**	**1,880,440**

Breakdown of short-term receivables by maturity date

in €	31/12/2010	31/12/2009
Receivables not yet due	113,252,673	106,759,005
Receivables overdue up to 3 months	5,094,670	12,679,318
Receivables overdue from 3 to 6 months	1,783	770
Receivables overdue for more than 6 months	458,923	874,046
Total	**118,808,049**	**120,313,139**

(8) Cash
€ 3,723,839

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

In 2010, the company had in place automatic borrowing facilities with a maturity on 31.12.2010 in the form of overdrafts on its transaction accounts with banks amounting to € 22,000,000. During the year, the overdrafts were used in smaller amounts, and as at 31.12.2010 the automatic borrowing facilities have not been utilised.

Cash denominated in foreign currencies has been appropriately converted into € on the balance-sheet date.

(9) Short-term accrued revenue and deferred costs
€ 6,626,166

The majority of **short-term accrued revenue and deferred costs** relates to transactions associated with electricity trading (auction costs, electricity deviations, guarantees of origin, and costs of transfer capacities for 2011).

Accrued revenue and deferred costs

in €	31/12/2010	31/12/2009
Short-term deferred costs	5,015,247	4,962,988
Short-term accrued revenue	1,610,919	2,202,763
VAT on advances received	0	250
Total	**6,626,166**	**7,166,001**

(10) Equity
€ 929,748,299

The value of **nominal capital** and capital surplus remained unchanged in 2010.

Other revenue reserves increased by € 69,863,151, namely:

- by a portion of accumulated profit of 2009 in the amount of € 30,117,449 in accordance with the General Meeting resolution,
- by a portion of 2010 net profit amounting to € 39,745,702 in accordance with a Supervisory Board proposal.

At the end of 2010, the company carried under **revaluation surplus** gains or losses on futures used for hedging risks and the fair value of FX forwards.

Total revaluation surplus increased by € 4,412,258, mostly as a result of closed transactions involving future contracts as well as higher average electricity prices compared to 2009.

Electricity futures concern transactions for the purchase of electricity on a foreign exchange in the period 2011-2013, which the company used to hedge already concluded transactions for the sale of electricity in the same period. For electricity purchases in 2010 which were hedged using futures, revaluation surpluses decreased and the cost of goods sold in the income statement cumulatively increased by € 1,212,782. In case of forward transactions, fluctuations in electricity prices at the exchange resulted in a cumulative positive financial result in 2010 in the amount of € 2,962,631. The positive closing amount of revaluation surplus in relation to electricity futures is a result of higher electricity prices at the exchange at the end of 2010 compared to the period when these electricity futures were concluded.

At the beginning of March 2010, the company closed out an interest swap, the negative fair value of which at the end of 2009 amounted to € 131,609 (taking into account deferred taxes). In 2010, the company was entering into FX forwards, in relation to which it has recorded € 105,236 at the end of 2010 (taking into account deferred taxes).

Retained earnings from 2009 of € 30,117,449 were allocated to other revenue reserves under the decision of the General Meeting.

In accordance with the Supervisory Board decision adopted on the management's proposal, € 39,745,702 of the 2010 net profit, which totalled € 79,491,404, was allocated to other revenue reserves, while the difference of € 39,745,702 represents the company's accumulated profit.

In 2010, consumer prices increased by 1.9%. Had the increase in consumer prices been taken into account, the total equity of the company would have increased by € 16,071,048. The equity restatement does not include net profit or loss for the current period and changes in revaluation surplus. Had the said restatement been taken into account, the company would have recorded a net profit of € 63,420,356.

Total equity

in €	31/12/2010	31/12/2009
Share capital	29,558,789	29,558,789
Capital surplus	561,243,185	561,243,185
Other revenue reserves	296,361,537	226,498,386
Revaluation surplus	2,839,086	(1,573,172)
Net profit or loss for the period	39,745,702	30,117,449
Total	**929,748,299**	**845,844,637**

Profit or loss of the company after equity restatement

in €	31/12/2010
Net profit or loss	79,491,404
Equity restatement result	(16,071,048)
Profit or loss after restatement based on consumer prices (1.9% growth)	**63,420,356**

Changes in revaluation surplus

Revaluation surplus in €	Futures	European Carbon Futures	Interest rate swaps and FX forwards	Total
Value as at 31/12/2009	**(1,441,563)**	**0**	**(131,609)**	**(1,573,172)**
Increase	6,833,847	69,408	105,236	7,008,491
Decrease	(3,871,216)	(70,998)	131,609	(3,810,605)
Increase in operating expenses	1,684,156			1,684,156
Decrease in operating expenses	(471,374)			(471,374)
Increase in financial revenue for CO_2		1,590		1,590
Value as at 31/12/2010	**2,733,850**	**0**	**105,236**	**2,839,086**

(11) Provisions
€ 9,768,636

At the end of 2010, the company's **provisions** in the total amount of € 9,768,636 included:

- provisions for termination and jubilee benefits that were utilised and created in 2010 based on an actuarial calculation, which took into account:
    - *the number of employees in the company as at 31.10.2010 (gender, age, overall and pension qualifying period of service, average net and gross salary for the period August – October 2010),*
    - *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 increases each year 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 increases each year by the amount of legal default interest. A part of this provision has been utilised in 2010 due to legal enforcement ordered by the court.

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

Provisions and long-term accrued costs and deferred revenue in €	Provisions for termination and jubilee benefits	Other provisions	Long-term accrued costs and deferred revenue	Total
Value as at 31/12/2009	**495,138**	**13,899,743**	**1,471,334**	**15,866,215**
Creation, increases	186,024	979,563		1,165,587
Utilisation, reversal	(41,337)	(7,221,829)		(7,263,166)
Value as at 31/12/2010	**639,825**	**7,657,477**	**1,471,334**	**9,768,636**
Creation planned	49,862			49,862
Utilisation planned	(25,000)			(25,000)

(12) Long-term liabilities
€ 106,645,403

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 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 2011 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 2010 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 a 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 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.

The company created **deferred tax liabilities** in relation to the fair value of FX forwards which are disclosed in the revaluation surplus.

Maturity dates of long-term liabilities

Long-term liabilities in €	Maturity date			Total
	before 31/12/2013	between 1/1/2014 and 31/12/2015	after 1/1/2016	
Long-term financial liabilities to banks	18,216,464	24,943,737	63,458,893	106,619,094

(13) Short-term liabilities
€ 145,704,701

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

Short-term financial liabilities to banks in the amount of € 24,811,956 include the portion of long-term loan principals due in 2011 and short-term loans taken out with Slovene banks the repayment period of which is one year.

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 a 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 from 1.12.2006 to hedge against increasing interest rates in the future. However, the interest hedging deal was prematurely closed at the beginning of March 2010.

Short-term loans are repayable in November 2011. The agreed-upon interest rate is a 1-month EURIBOR plus a minimal mark-up or a fixed interest rate. The loans are secured with blank bills of exchange.

Other short-term financial liabilities include negative fair values of FX forwards.

The company's **short-term operating liabilities to group companies** in the amount of € 78,313,903 mainly relate to liabilities associated with electricity purchased from subsidiaries.

The company's **short-term operating liabilities to suppliers** (excluding group companies) in the amount of € 36,938,021 mainly relate to liabilities associated with electricity purchased in Slovenia and abroad.

Short-term operating liabilities from advances consist of advances for the purchase of electricity.

Other short-term operating liabilities in the amount of € 5,493,561 mostly concern a liability for additional payment of corporate income tax for 2010, 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 €	31/12/2010	31/12/2009
Short-term trade liabilities in Slovenia	80,164,060	93,919,158
Short-term foreign trade liabilities	35,080,782	15,914,571
Short-term advances received	135,726	1,500
Short-term liabilities to employees	710,930	588,212
Short-term liabilities to government and other institutions	4,268,930	11,515,550
Short-term liabilities for interest	487,813	587,315
Other short-term liabilities	32,970	7,430
Total	**120,881,211**	**122,533,736**

Short-term operating liabilities to group companies

in €	Country	31/12/2010	31/12/2009
Termoelektrarna Šoštanj d.o.o.	Slovenia	40,415,618	43,251,426
Dravske elektrarne Maribor d.o.o.	Slovenija	15,921,263	19,707,734
Soške elektrarne Nova Gorica d.o.o.	Slovenia	9,293,906	7,988,513
Termoelektrarna Trbovlje d.o.o.	Slovenia	6,899,515	5,879,994
Hidroelektrarne na spodnji Savi d.o.o.	Slovenia	1,269,250	959,114
HSE Invest d.o.o.	Slovenia	79,843	143,081
HTZ Velenje I.P. d.o.o.	Slovenia	29,869	0
Premogovnik Velenje d.d.	Slovenia	10,977	1,155,548
HSE Adria d.o.o.	Croatia	2,949,507	1,457,695
HSE Italia S.r.l.	Italy	1,013,438	11,402
HSE Balkan Energy d.o.o.	Serbia	421,670	59,100
HSE Hungary Kft.	Hungary	9,047	455,052
Other group companies	Slovenia	0	20,481
Total		**78,313,903**	**81,089,140**

(14) Short-term accrued costs and deferred revenue
€ 6,340,948

The company's short-term accrued costs and deferred revenue mostly consist of electricity-related costs for 2010.

Changes in short-term accrued costs and deferred revenue

Accrued costs and deferred revenue in €	Short-term accrued costs	Total
Value as at 31/12/2009	**1,362,491**	**1,362,491**
Creation, increases	21,698,691	21,698,691
Utilisation	(16,720,234)	(16,720,234)
Value as at 31/12/2010	**6,340,948**	**6,340,948**
Utilisation planned		(726,366)

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. The off-balance sheet records also include open transactions involving futures and charged default interest of business partners until it is settled.

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

Off-balance sheet records of the company

in €	31/12/2010	31/12/2009
Bank guarantees received and other types of insurance	37,195,173	69,326,054
Bank guarantees issued and other types of insurance	105,975,164	109,636,422
Derivatives	80,337,289	20,748,385
Other	264,127	288,223
Total	**223,771,753**	**199,999,084**

Furthermore, as at 31.12.2010, the company had the following guarantees or parent guarantees in place:

- a guarantee issued to Geoplin securing settlement of cash-based and other liabilities of TPP Šoštanj arising from a long-term natural gas supply agreement for the period until (and including) 2015;
- a guarantee issued under a guarantee contract entered into by HSE, SENG and Bank Austria Creditanstalt, as an agent, and Bank Austria Creditanstalt, Bayerische Landesbank, Nova Ljubljanska banka and Nova Kreditna banka Maribor, as original guarantors, stating that HSE shall settle all overdue liabilities arising from the guarantee contract;
- a parent guarantee issued to Alstom Power Centrales S.A. consortium and Alstom Power Systems GmbH for repayment of liabilities of TEŠ under the contract on planning, supply and construction of the replacement unit 6;
- a guarantee provided by HSE under the guarantee agreement concluded between HSE and TEŠ, and The Bank of Tokyo-Mitsubishi, Caja de Ahorros y Monte de Piedad de Madrid, Zweigniederlassung Wien, Intesa San paolo, Societe General and Unicredit Bank AG Munich as the guarantors, stating that HSE shall settle any outstanding liabilities arising from the guarantee agreement;
- a guarantee by HSE under the credit agreement between HSE and TEŠ, and UniCredit Banka Slovenije and SID – Slovenska izvozna in razvojna banka;
- a guarantee by HSE for the guarantee of BTC under the contract on transfer of guarantee between HSE and BTC.

The company estimates that the probability of outflows and inflows related to the above is very low; therefore we are only disclosing the general nature of off-balance sheet assets and liabilities purely for informational purposes.

4.9.2 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 by SAS 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 in 2010, but it did change an accounting assessment by extending the useful life of an item of property, plant and equipment.

Revenue

Type of revenue

in €	2010	2009
Operating revenue	903,772,826	784,183,075
Financial revenue	11,116,842	18,933,778
Other revenue	1,443,373	381,737
Total	**916,333,041**	**803,498,590**

Operating revenue of the company

in €	2010	2009
Revenue from electricity sales	898,322,497	762,103,995
Revenue from the sale of services	4,746,018	2,381,834
Revenue from reversal of provisions	148,822	5,000,000
Revaluation operating revenue	555,489	14,697,246
Total	**903,772,826**	**784,183,075**

Expenses

Type of expense

in €	2010	2009
Operating expenses	813,384,615	681,647,556
Financial expenses	4,582,670	33,992,679
Other expenses	5,254	9,100,237
Total	**817,972,539**	**724,740,472**

Operating expenses of the company

in €	2010	2009
Cost of merchandise sold	752,684,666	625,152,584
Contingent costs of merchandise sold	44,470,501	38,338,003
Costs of materials	189,271	200,915
Costs of services	5,594,743	6,103,902
Labour costs	7,948,872	7,113,750
Depreciation and amortisation charge	1,139,894	1,264,683
Revaluation operating expenses	39,883	1,429,987
Other operating expenses	1,316,785	2,043,732
Total	**813,384,615**	**681,647,556**

(15) Net sales revenue

€ 903,068,515

The company generates net sales revenue mostly through sale of electricity. The revenue from the sale of electricity accounts for 99.5% of all net sales revenue.

In 2010, receivables arising from market research services and services related to electricity sales provided to the associate Toplofikatsia Ruse AD were recorded under operating revenue and settled in full. While these receivables in the total amount of € 963,441 refer to 2008 and 2009, they were not recognised in those years as the management estimated that considerable doubt exists as to their repayment.

Net sales revenue

in €	2010	2009
Revenue from electricity sales	898,322,497	762,103,995
Revenue from the sale of services to subsidiaries	456,528	492,880
Revenue from the sale of electricity related services	4,092,061	1,616,219
Lease income	53,429	57,285
Other sales revenue	144,000	215,450
Total	**903,068,515**	**764,485,829**

(16) Costs of goods, materials and services

€ 802,939,181

The **cost of goods sold**, which accounts for 98% of total operating expenses, consists of 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 advertising, costs of banking services and costs of maintenance of intangible assets and property, plant and equipment.

Costs of goods, materials and services

in €	2010	2009
Cost of merchandise sold	752,684,667	625,152,584
Contingent costs of merchandise sold	44,470,500	38,338,003
Costs of materials	189,271	200,915
Costs of services	5,594,743	6,103,902
Total	**802,939,181**	**669,795,404**

(17) Labour costs

€ 7,948,872

Costs of labour comprise costs of salaries and other receipts by employees, including employer's contributions.

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

(18) Financial revenue
€ 11,116,842

Financial revenue from interests include a gain from the sale of a short-term investment in the company Toplofikatsia-Ruse AD.

Financial revenue from loans granted includes interest on loans granted to group companies and interest charged on deposits with banks.

Financial revenue from operating receivables consists mostly of revenue from parent guarantees given, gains from the sale of CO_2 emission coupons and revenue from default interest.

(19) Financial expenses
€ 4,582,670

Financial expenses for impairment and write-off of investments include financial expenses arising from closure of an associated company Plinsko parna elektrarna d.o.o.

Financial expenses for financial liabilities predominantly represent interest charged on loans received.

Financial expenses for operating liabilities mostly consist of impairments and losses from the sale of CO_2 emission coupons.

Geographic segments

in €	2010	2009
Domestic market	452,541,347	520,590,851
Foreign market	450,527,168	243,894,978
Total	**903,068,515**	**764,485,829**

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.

Costs by functional group

in €	2010	2009
Cost of merchandise sold	799,234,364	665,646,052
Costs to sell	2,686,518	2,349,578
General and administrative costs	11,463,733	13,651,926
Total costs by functional group	**813,384,615**	**681,647,556**

(20) Total profit or loss
€ 98,360,502

The company concluded the 2010 financial year with a total profit of € 98,360,502.

Profit or loss of the company

in €	2010	2009
Operating profit or loss	90,388,211	102,535,519
Profit or loss on ordinary activities	96,922,383	87,476,618
Profit or loss on extraordinary activities	1,438,119	(8,718,500)
Total profit or loss	98,360,502	78,758,118
Net profit or loss for the period	**79,491,404**	**60,234,898**

(21) Corporate income tax
€ 18,792,891

In accordance with the Corporate Income Tax Act, the tax for 2010 amounted to 20% of the taxable base reported in the company's tax return.

Based on the 2009 tax return, the company paid € 15,349,280 in advances on income tax in 2010. Its income tax liability at the end of 2010 amounted to € 3,443,611.

(22) Deferred taxes
€ 76,207

Deferred taxes consist of deferred tax assets created and utilised in 2010 and arising from the income statement items.

The values of deferred taxes created and used are presented in the table showing deferred tax assets.

(23) Net profit or loss
€ 79,491,404

After deducting corporate income tax and deferred tax assets, the net profit totalled € 79,491,404.

4.9.3 Statement of other comprehensive income

(24) Total comprehensive income for the accounting period

€ 83,903,662

Changes in revaluation surplus of available-for-sale financial assets include a change in the fair value of interest rate swaps (closed transaction) and FX forwards in the amount of € 236,845. The value also includes a deferred tax liability in the amount of € 26,309.

Other components of comprehensive income in the amount of € 4,175,413 represent the value of standardised futures for the purchase of electricity; the latter is disclosed in detail under equity.

Taking into account all of the above, the total comprehensive income at year-end amounts to € 83,903,662.

4.9.4 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 has been prepared using the indirect method (Format II – SAS 26.9).

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

- under revaluation surplus, cash inflow associated with futures for 2010 has been disclosed under outflows from operating activities;
- receipts and expenditures related to trading with CO_2 emission coupons are disclosed under receipts and expenditures for intangible assets under cash flows from investing activities.

Cash flows

in €	2010	2009
Cash flows from operating activities	79,648,095	36,064,350
Cash flows from investing activities	(15,638,969)	(53,916,430)
Cash flows from financing activities	(62,464,573)	13,656,611
Net cash flow for the period	**1,544,553**	**(4,195,469)**

4.9.5 Statement of changes in equity

General

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

The statement of changes in equity is prepared in the form of a composite spreadsheet.

Changes in equity

In 2010, no transactions took place that would result in changes in equity.

Total comprehensive income of the reporting period

Total comprehensive income of the reporting period increased by € 83,903,662, with the increase consisting of:

- the net profit for the year in the amount of € 79,491,404,
- a change in revaluation surplus of financial assets in the amount of € 236,845 (fair value of interest rate and FX swaps), and
- a change in other components of comprehensive income in the amount of € 4,175,413 (value of standardised futures for the purchase of electricity).

Changes within equity

In the reporting period, individual items of equity changed by € 69,893,151, due to:

- transfer of accumulated profit of the previous year (in accordance with a General Meeting resolution) in the amount of € 30,117,449 to other revenue reserves, and
- allocation of half of the net profit for the year in the amount of € 39,745,702 to other revenue reserves, in accordance with a Supervisory Board decision adopted on the proposal of the company's management.

Accumulated profit

Accumulated profit for 2010 totals € 39,745,702 which represents half of net profit for the period. The decision regarding allocation of accumulated profit is made by the owner.

Accumulated profit

Components of accumulated profit in €	2010
Net profit or loss for the current year	79,491,404
Increase in revenue reserves in accordance with a resolution of management and supervisory board (other revenue reserves)	(39,745,702)
Accumulated profit	**39,745,702**

4.9.6 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:

a) gross receipts included in the income tax statement,
b) other remuneration (meals, transportation, per diems, untaxed portion of jubilee benefits),
c) premiums for voluntary supplementary pension insurance.

Remuneration of managers comprises the remuneration of all managers who acted as managers in 2010 (composition of the management board changed during the year).

Remuneration of Supervisory Board members

Remuneration of Supervisory Board members includes gross attendance fees of all members (composition of the SB changed during the year), including travel expenses related to the performance of tasks in the SB and the audit committee.

No advances, loans or guarantees were extended to these groups of persons in 2010.

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.

Costs of audit

In 2010, the costs of audit of financial reports of HSE (company and group) totalled € 30,064.

Foreign branch offices

In September 2006, a branch office was established in Czech Republic for the purposes of acquiring an electricity trading licence. The Czech branch was used for electricity trading for the first 5 months of 2010. Since 1.6.2010, electricity trading has been performed via the controlling company HSE.

In July 2008, a branch office was established in Slovakia for the purposes of acquiring an electricity trading licence. In 2010, the Slovak branch did not take part in electricity trading in Slovakia as the trading had already been started in 2009 by the controlling company HSE.

Events after the balance sheet date

There were no significant events after the balance sheet date that would affect the financial statements for 2010.

Based on the decision by the Capital Assets Management Agency of the Republic of Slovenia issued at the end of 2010, the company will be preparing financial statements in accordance with IFRSs from 2011 onwards.

Remuneration of individual groups of persons

in €	2010	2009
Company management	161,478	262,295
Employees not subject to the tariff part of the collective agreement	2,153,066	1,955,596
Members of the Supervisory Board	57,776	106,948

Energy

my inspiration

Eco-task

A drop of friendship

OŠ Zadobrova, Ljubljana
1st grade
Mentors: Katarina Plut,
Lea Arnejšek, Tjaša Šoste

Eco-task

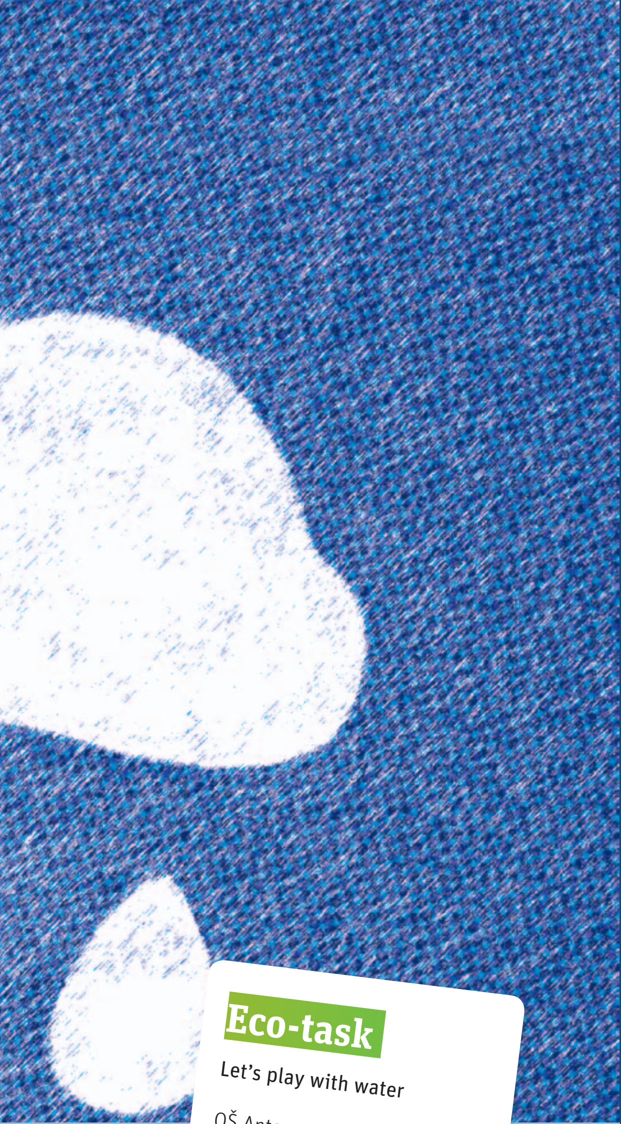
Eco-boards

OŠ Jurija Vege, Moravče
2nd grade
Mentor: Barbara Fale

Eco-task

Put up an information board

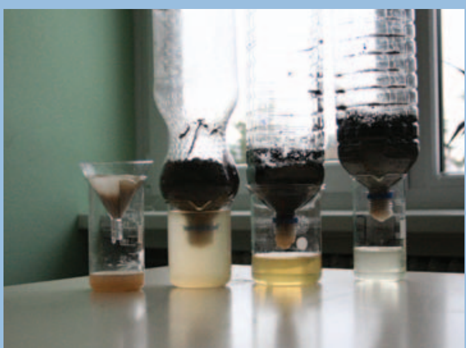
OŠ Toneta Čufarja, Jesenice
2nd grade
Mentor: Klavdija Krašovec



Eco-task

Let's play with water

OŠ Antona Globočnika, Postojna
8th and 9th grade
Mentor: Suzana Vidmar



Water. In all its forms.
From a raindrop to an ocean.
Supplies, revives, revitalises, provides a shelter and a living environment. It symbolises clarity and tranquillity.
It surprises with the most incredible power. Destroys, floods, drives. A source of energy. Again and again.
And a source of inspiration.
Water = life.

Dravske elektrarne Maribor is the largest producer of electricity from renewable water sources in Slovenia.

+ 72%

is by how much we increased
net sales revenue in the foreign market
in 2010 which totalled **€ 427 million.**

5
Financial Report of the HSE Group 2010

5.1 Auditor's Report

Deloitte.

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1000 Ljubljana
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INDEPENDENT AUDITOR'S 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 Holding Slovenske elektrarne Group (hereinafter: the "Group"), which comprise the consolidated balance sheet as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Slovenian Accounting Standards. The management is also responsible for the level of internal control required in its opinion to prepare financial statements that are free from material misstatement, whether due to fraud or error.

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 the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to 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 controls. 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 Holding Slovenske elektrarne Group as at 31 December 2010 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 Group'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

Yuri Sidorovich
President of the Board

For signature please refer to the original Slovenian version.

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

Ljubljana, 3 May 2011

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 HSE Group for the 2010 financial year, 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 2010.

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.

Ljubljana, 3 May 2011

Matjaž Janežič, M.Sc.
Managing Director of HSE d.o.o.

5.3 Introductory notes

Basis of preparation

The consolidated financial statements presented herein have been prepared in accordance with provisions of the Companies Act and the Slovene Accounting Standards. The statements have been prepared for the 2010 financial year, 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 original 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 2010, the company HSE BH, established by the company HSE in the same year, has been included in the consolidated financial statements for the first time.

Companies included in the consolidated financial statements

Company or group	Country of residence	Company or group	Country of residence
Holding Slovenske elektrarne d.o.o.	Slovenia	HSE Italia S.r.l.	Italy
Dravske elektrarne Maribor d.o.o.	Slovenia	HSE Balkan Energy d.o.o.	Serbia
Soške elektrarne Nova Gorica d.o.o.	Slovenia	HSE Hungary Kft.	Hungary
Termoelektrarna Šoštanj d.o.o.	Slovenia	HSE Adria d.o.o.	Croatia
Skupina Premogovnik Velenje	Slovenia	HSE Bulgaria EOOD	Bulgaria
Termoelektrarna Trbovlje d.o.o.	Slovenia	HSE MAK Energy DOOEL	Macedonia
Hidroelektrarne na spodnji Savi d.o.o.	Slovenia	HSE BH d.o.o.	Bosnia and Herzegovina
HSE Invest d.o.o.	Slovenia		

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

Companies excluded from the consolidated financial statements

Subsidiaries in the HSE Group – Elprom d.o.o., Golte d.o.o., Jama Škale v zapiranju d.o.o. and Saša Inkubator d.o.o. – are dormant companies and have not been consolidated either at the level of their controlling companies or at the Group level due to their 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.

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 given and received by Group companies,
- 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,
- deferred tax assets associated with the above eliminations.

The consolidated income statement shows a minority owners' share of the Group’s profit or loss, while the consolidated balance sheet and the consolidated statement of changes in equity present minority interests in the Group's equity.

Associates

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

Associates	Country of residence
Soenergetika d.o.o.	Slovenia
Eldom, družba za storitve in gostinstvo, d.o.o.	Slovenia
Erico, inštitut za ekološke raziskave, d.o.o.	Slovenia
PLP, lesna industrija, d.o.o.	Slovenia
Robinoks, proizvodnja izdelkov iz nerjavečega jekla, d.o.o.	Slovenia
Sipoteh, strojna in proizvodna industrija, d.o.o.	Slovenia

Accounting policies

All accounting policies and rules regarding the valuation of material items were harmonised between companies for the purpose of preparing the consolidated financial statements.

Exchange rate and method of translation into local 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 31.12.2010 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 31.12.2010,
- revenue and expenses are translated at the average exchange rate of the Bank of Slovenia for 2010.

Country	Currency code	Closing exchange rate in € for 2010	Average exchange rate in € for 2010
Bulgaria	BGN	1.9558	1.9558
Croatia	HRK	7.3830	7.3415
Hungary	HUF	277.9500	274.1850
Macedonia	MKD	60.9770	61.5385
Bosnia and Herzegovina	BAM	1.95583	1.95583
Serbia	RSD	107.4700	101.2475

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.

After recognition, long-term property rights 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, they are disclosed at carrying amount, i.e. as the difference between the cost and accumulated amortisation. Long-term property rights are amortised individually using the straight-line amortisation method. Amortisation begins when they become available for use. Amortisation rates applied to the individual types of long-term property rights are based on their projected useful lives.

Upon recognition, CO_2 emission coupons held for trading are measured using the cost model and subsequently using the fair value model. The value of CO_2 emission coupons held for trading is calculated based on the sliding average price method. CO_2 emission coupons received from the government are valued at € 1 per coupon.

Long-term deferred development costs, and long-term accrued revenue and deferred costs are initially carried at cost. Their value is later decreased within the category of costs to which they belong.

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

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.

Property, plant and equipment

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

Upon initial recognition, an item of property, plant and equipment is measured 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 includes borrowing costs related to the acquisition of an item of property, plant and equipment up until the asset is in its working condition. 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 into individual items with different useful lives.

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, 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.

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.

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 their carrying amount exceeds the recoverable amount. In Group companies, the causes underlying 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 generate returns and thus increase financial revenue. Group companies normally own them for more than a year.

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

In the books of account, long-term investments of Group companies are recognised on their settlement date (payment date) and are disclosed under available-for-sale financial assets. Assets in this category are measured at fair value or at cost if the former cannot be determined reliably. 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. Any indications of impairment of investments are determined on an annual basis.

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

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.

Inventories of end products are measured at production costs in the narrower 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. If this is the case, inventories are impaired and the value of impairment increases revaluation operating expenses for current assets.

Receivables

Receivables include rights to require from customers payment for delivered goods or services rendered, and represent a part of Group's assets. Depending on their due date, receivables can be long-term (due in more than a year) and short-term (due in less than a 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 entity 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 have been given.

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. 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 a 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, such 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 carry short-term investments as available-for-sale financial assets.

Cash

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

The carrying amount of an item of cash equals its initial nominal value, which may subsequently 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 profit or loss of 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).

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 ACDR

Provisions are set aside for obligations expected to arise from obligating past events in a period exceeding one year. They are only disclosed, if the liability can be reliably measured; in such a case they are recognised as 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 the estimated amount of liabilities for termination and jubilee benefits discounted on 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 CO_2 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 repaid amounts. 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 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.

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 group are derivatives held for trading purposes (controlling company only) and risk hedging derivatives (controlling company and one subsidiary).

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 is recognised directly in equity, and the difference in profit or loss. In doing so, the conditions for hedge accounting are considered. The gain or loss associated with a successful hedge 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.

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

Revenue

Revenue represents increases in economic benefits in the accounting period in the form of increases in assets or decreases in debts. It is recognised when it is reasonably expected that it will lead to cash receipts.

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

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

Changes in the value of inventories represent 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 the selling price, as well as on reversal of impairment of trade receivables.

Financial revenue is revenue arising from investing activities. It arises in relation to long-term and short-term investments as well as in connection with long-term and short-term receivables. It comprises interest charged, profit participation, and revaluation financial revenue. 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 debt 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 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 from financing and investing activities. They are mainly comprised of interest charged 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 financial expenses include losses on 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 deals with products or services (a business segment) or that deals with products and services in a particular economic environment (a geographical segment).

At the Group level, primary reporting is performed by business segments. Accordingly, net sales revenue is divided into two business segments: electricity and other.

Net sales revenue is also divided into two geographical segments: domestic market and foreign markets. From the aspect of reporting by geographical segments, the company's assets and liabilities represent an indivisible unit.

Taxation

The corporate income tax is calculated by taking into account the 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 the value added tax. 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 value 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 €		Note*	31/12/2010	31/12/2009
	ASSETS		**1,900,508,355**	**1,874,355,148**
A.	**LONG-TERM ASSETS**		**1,627,016,219**	**1,522,608,890**
I.	**Intangible assets and long-term accrued revenue and deferred costs**	1	**37,007,791**	**41,224,890**
1.	Long-term property rights		24,355,820	28,508,109
2.	Goodwill		12,387,056	12,387,056
4.	Long-term deferred development costs		58,530	116,757
5.	Other long-term deferred costs and accrued revenue		206,385	212,968
II.	**Property, plant and equipment**	2	**1,567,133,820**	**1,457,530,449**
1.	Land and buildings		619,734,163	575,579,784
	a) Land		38,592,355	36,498,176
	b) Buildings		581,141,808	539,081,608
2.	Production plant and equipment		569,279,426	517,447,215
3.	Other plant and equipment		17,112,809	10,888,699
4.	Property, plant and equipment being acquired		361,007,422	353,614,751
	a) Property, plant and equipment in the course of construction		280,791,491	258,466,860
	b) Advances for acquisition of property, plant and equipment		80,215,931	95,147,891
III.	**Investment property**		**295,964**	**1,065,418**
IV.	**Long-term investments**	3	**10,592,046**	**7,899,955**
1.	Long-term investments, excluding loans		10,158,626	7,464,826
	a) Shares and interests in group companies		6,463,091	3,025,971
	b) Shares and interests in associates		734,747	1,070,338
	c) Other shares and interests		2,814,555	3,243,452
	d) Other long-term investments		146,233	125,065
2.	Long-term loans		433,420	435,129
	b) Long-term loans to others		433,420	435,129
V.	**Long-term operating receivables**	7	**1,827,101**	**4,043,837**
2.	Long-term operating trade receivables		701,029	848,591
3.	Long-term operating receivables from others		1,126,072	3,195,246
VI.	**Deferred tax assets**	4	**10,159,497**	**10,844,341**
B.	**CURRENT ASSETS**		**266,344,924**	**344,191,822**
I.	**Assets (disposal groups) held for sale**		**210,556**	**210,556**
II.	**Inventories**	5	**36,439,321**	**37,869,366**
1.	Material		25,548,559	28,410,337
2.	Work-in-progress		51,233	42,222
3.	Products and merchandise		10,625,134	9,346,293
4.	Advances for inventories		214,395	70,514
III.	**Short-term investments**	6	**73,492,305**	**150,074,101**
1.	Short-term investments, excluding loans		143,079	43,427,521
	b) Other shares and interests		0	43,427,521
	c) Other short-term investments		143,079	0
2.	Short-term loans		73,349,226	106,646,580
	b) Short-term loans to others		73,349,226	106,646,580
IV.	**Short-term operating receivables**	7	**136,203,935**	**145,756,684**
2.	Short-term operating trade receivables		113,826,365	119,057,210
3.	Short-term operating receivables due from others		22,377,570	26,699,474
V.	**Cash**	8	**19,998,807**	**10,281,115**
C.	**SHORT-TERM ACCRUED REVENUE AND DEFERRED COSTS**	9	**7,147,212**	**7,554,436**

continued ...

… continued

in €		Note*	31/12/2010	31/12/2009
	EQUITY AND LIABILITIES		**1,900,508,355**	**1,874,355,148**
A.	**EQUITY**	10	**1,344,136,472**	**1,234,004,990**
I.	**Called-up capital**		**29,558,789**	**29,558,789**
1.	Share capital		29,558,789	29,558,789
II.	**Capital surplus**		**561,243,185**	**561,243,185**
III.	**Revenue reserves**		**296,361,537**	**226,498,386**
5.	Other revenue reserves		296,361,537	226,498,386
IV.	**Revaluation surplus**		**2,926,796**	**(2,255,517)**
V.	**Retained earnings**		**323,271,019**	**270,765,863**
VI.	**Net profit or loss for the period**		**62,894,413**	**82,622,604**
VII.	**Consolidation equity adjustment**		**(453,827)**	**(218,671)**
VIII.	**Minority interest**		**68,334,560**	**65,790,351**
B.	**PROVISIONS AND LONG-TERM ACCRUED COSTS AND DEFERRED REVENUE**	11	**96,727,196**	**112,410,723**
1.	Provisions for pensions and similar liabilities		14,305,734	13,250,729
2.	Other provisions		62,545,805	72,961,757
3.	Long-term accrued costs and deferred revenue		19,875,657	26,198,237
C.	**LONG-TERM LIABILITIES**	12	**258,128,428**	**268,461,575**
I.	**Long-term financial liabilities**		**253,668,459**	**265,817,089**
2.	Long-term financial liabilities to banks		253,148,607	264,340,954
4.	Other long-term financial liabilities		519,852	1,476,135
II.	**Long-term operating liabilities**		**4,415,443**	**2,575,141**
2.	Long-term operating trade liabilities		4,201,257	2,350,303
4.	Long-term operating liabilities from advances		14,162	13,460
5.	Other long-term operating liabilities		200,024	211,378
III.	**Deferred tax liabilities**		**44,526**	**69,345**
D.	**SHORT-TERM LIABILITIES**	13	**192,544,320**	**245,988,475**
II.	**Short-term financial liabilities**		**59,250,118**	**108,817,376**
2.	Short-term financial liabilities to banks		59,078,706	108,753,988
4.	Other short-term financial liabilities		171,412	63,388
III.	**Short-term operating liabilities**		**133,294,202**	**137,171,099**
2.	Short-term trade payables		97,965,525	96,629,000
4.	Short-term operating liabilities arising from advances		248,567	111,062
5.	Other short-term operating liabilities		35,080,110	40,431,037
E.	**SHORT-TERM ACCRUED COSTS AND DEFERRED REVENUE**	14	**8,971,939**	**13,489,385**

* 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 €		Note*	2010	2009
1.	**Net sales revenue**	15	**908,610,095**	**804,287,077**
a)	Domestic market		481,299,462	555,731,387
b)	Foreign market		427,310,633	248,555,690
2.	**Changes in inventories of products and work in progress**		**3,876,149**	**3,086,779**
3.	**Capitalised own products and own services**	16	**12,378,025**	**12,150,305**
4.	**Other operating revenue (including revaluation operating revenue)**	17	**23,858,407**	**57,633,426**
5.	**Costs of goods, materials and services**	18	**529,332,737**	**435,431,748**
a)	Cost of goods and materials sold and costs of material used		466,741,437	373,658,981
b)	Costs of services		62,591,300	61,772,767
6.	**Labour costs**	19	**142,679,442**	**136,863,751**
a)	Payroll costs		102,684,698	98,714,817
b)	Social security costs		25,515,003	24,720,111
	• of which pension insurance costs		12,846,801	17,330,470
c)	Other labour costs		14,479,741	13,428,823
7.	**Write-downs in value**	20	**93,525,576**	**82,736,776**
a)	Depreciation and amortisation		88,630,047	79,174,657
b)	Revaluation operating expenses associated with IA and PPE		1,151,347	1,921,335
c)	Revaluation operating expenses associated with operating current assets		3,744,182	1,640,784
8.	**Other operating expenses**	21	**58,026,994**	**59,930,777**
	OPERATING PROFIT OR LOSS		**125,157,927**	**162,194,535**
9.	**Financial revenue from shares and interests**	22	**8,877,974**	**111,572**
c)	Financial revenue from interests in other companies		8,851,786	27,484
d)	Financial revenue from other investments		26,188	84,088
10.	**Financial revenue from loans**	22	**1,444,317**	**3,060,960**
b)	Financial revenue from loans to others		1,444,317	3,060,960
11.	**Financial revenue from operating receivables**	22	**1,850,922**	**3,741,242**
b)	Financial revenue from operating receivables due from others		1,850,922	3,741,242
12.	**Financial expenses for impairment and write-downs of investments**	23	**761,825**	**360,972**
13.	**Financial expenses for financial liabilities**	23	**7,686,076**	**11,875,003**
b)	Financial expenses for loans received from banks		6,489,779	9,629,326
d)	Financial expenses for other financial liabilities		1,196,297	2,245,677
14.	**Financial expenses for operating liabilities**	23	**1,730,951**	**1,534,236**
b)	Finance expenses for trade liabilities and bills payable		358,473	1,015,530
c)	Financial expenses for other operating liabilities		1,372,478	518,706
	PROFIT OR LOSS ON ORDINARY ACTIVITIES		**127,152,288**	**155,338,098**
15.	**Other revenue**		**2,546,339**	**3,195,001**
16.	**Other expenses**		**1,180,521**	**11,735,043**
	PROFIT OR LOSS ON EXTRAORDINARY ACTIVITIES		**1,365,818**	**(8,540,042)**
	TOTAL PROFIT OR LOSS		**128,518,106**	**146,798,056**
17.	**Corporate income tax**	24	**24,768,275**	**24,534,268**
18.	**Deferred taxes**	25	**852,289**	**8,422,515**
19.	**NET PROFIT OR LOSS FOR THE ACCOUNTING PERIOD**	26	**102,897,542**	**113,841,273**
	Net profit or loss of majority owner for the accounting period		102,640,115	112,740,053
	Net profit or loss of minority owner for the accounting period		257,427	1,101,220

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

5.6 Consolidated statement of other comprehensive income

	in €	Note*	2010	2009
19.	**NET PROFIT OR LOSS FOR THE ACCOUNTING PERIOD**	26	**102,897,542**	**113,841,273**
21.	Change in surplus arising on revaluation of available-for-sale financial assets		1,060,682	433,555
22.	Gains and losses arising from translation of financial statements of entities located abroad (effect of changes in foreign exchange rates)		(235,156)	685,310
23.	Other components of comprehensive income of the reporting period		4,175,413	(13,193,981)
24.	**TOTAL COMPREHENSIVE INCOME FOR THE ACCOUNTING PERIOD**	27	**107,898,481**	**101,766,157**
	Total comprehensive income in the reporting period – majority owner		107,587,272	100,608,796
	Total comprehensive income in the reporting period – minority owner		311,209	1,157,361

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

5.7 Consolidated cash flow statement

in €		2010	2009
A.	**CASH FLOWS FROM OPERATING ACTIVITIES**		
	a) Items of income statement	**201,538,760**	**187,602,006**
	Operating revenue (except from revaluation) and financial income from operating receivables	945,937,909	848,132,617
	Operating expenses without depreciation/amortisation (except from revaluation) and financial expenses for operating liabilities	(723,267,692)	(638,890,299)
	Income taxes and other taxes not included in operating expenses	(21,131,457)	(21,640,312)
	b) Changes in net operating assets in balance sheet items (including accruals and deferrals, provisions and deferred tax assets and liabilities)	**(3,900,606)**	**8,090,895**
	Opening less closing operating receivables	10,681,823	15,323,683
	Opening less closing accrued revenue and deferred costs	1,010,255	87,404
	Opening less closing deferred tax assets	1,694,969	8,615,637
	Opening less closing inventories	(1,158,251)	(5,269,170)
	Closing less opening operating liabilities	1,419,227	(8,495,560)
	Closing less opening accrued costs and deferred revenue, and provisions	(17,472,919)	(2,237,805)
	Closing less opening deferred tax liabilities	(75,710)	66,706
	c) Net cash from operating activities (a + b)	**197,638,154**	**195,692,901**
B.	**CASH FLOWS FROM INVESTING ACTIVITIES**		
	a) Cash receipts from investing activities	**1,213,442,631**	**1,101,606,159**
	Cash receipts from interest and shares in profits of others related to investing activities	1,251,965	3,490,295
	Cash receipts from disposal of intangible assets	7,688,924	6,183,312
	Cash receipts from disposal of property, plant and equipment	2,854,207	433,855
	Cash receipts from disposal of investment property	0	78,681
	Cash receipts from disposal of long-term investments	191,930	256,449
	Cash receipts from disposal of short-term investments	1,201,455,605	1,091,163,567
	b) Cash disbursements for investing activities	**(1,327,154,944)**	**(1,328,593,012)**
	Cash disbursements to acquire intangible assets	(11,647,731)	(10,752,816)
	Cash disbursements to acquire property, plant and equipment	(196,220,233)	(231,251,393)
	Cash disbursements to acquire investment property	(142,441)	(100,000)
	Cash disbursements to acquire long-term investments	(3,604,902)	(9,131,855)
	Cash disbursements to acquire short-term investments	(1,115,539,637)	(1,077,356,948)
	c) Net cash from investing activities (a + b)	**(113,712,313)**	**(226,986,853)**
C.	**CASH FLOWS FROM FINANCING ACTIVITIES**		
	a) Cash receipts from financing activities	**213,795,335**	**227,073,355**
	Cash receipts from paid-in capital	2,233,000	4,630,217
	Cash receipts from increase in long-term financial liabilities	32,299,211	40,807,898
	Cash proceeds from increase in short-term financial liabilities	179,263,124	181,635,240
	b) Cash disbursements from financing activities	**(288,003,484)**	**(198,951,456)**
	Interest paid on financing activities	(8,242,045)	(13,218,715)
	Disbursements for repayment of non-current financial liabilities	(66,165,811)	(28,260,053)
	Cash repayments of short-term financial liabilities	(213,595,628)	(157,472,688)
	c) Net cash from financing activities (a + b)	**(74,208,149)**	**28,121,899**
D.	**CLOSING BALANCE OF CASH**	**19,998,807**	**10,281,115**
	x) Net cash flow for the period	**9,717,692**	**(3,172,053)**
	y) Opening balance of cash	**10,281,115**	**13,453,168**

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

5.8 Consolidated statement of changes in equity

in €		Called-up capital – Share capital	Capital surplus	Revenue reserves – Other revenue reserves
A.1.	**Balance as at 31/12/2008**	**29,558,789**	**561,243,185**	**169,502,829**
A.2.	**Opening balance as at 1/1/2009**	**29,558,789**	**561,243,185**	**169,502,829**
B.1.	**Changes in equity – transactions with owners**	**0**	**0**	**0**
d)	Additional paid-in capital			
B.2.	**Total comprehensive income of the reporting period**	**0**	**0**	**0**
a)	Net profit or loss for the reporting period			
d)	Change in surplus arising on revaluation of investments			
e)	Other components of comprehensive income of the reporting period			
f)	Gains and losses arising from translation of financial statements of entities located abroad			
B.3.	**Changes in equity**	**0**	**0**	**56,995,557**
b)	Allocation of portion of net profit for the period to other components of equity under the decision of management and supervisory bodies			30,117,449
c)	Allocation of a portion of net profit to additional reserves in accordance with a general meeting resolution			26,878,108
C.	**Closing balance as at 31/12/2009**	**29,558,789**	**561,243,185**	**226,498,386**

A.2.	**Opening balance as at 1/1/2010**	**29,558,789**	**561,243,185**	**226,498,386**
B.1.	**Changes in equity – transactions with owners**	**0**	**0**	**0**
d)	Additional paid-in capital			
B.2.	**Total comprehensive income of the reporting period**	**0**	**0**	**0**
a)	Net profit or loss for the reporting period			
d)	Change in surplus arising on revaluation of investments			
e)	Other components of comprehensive income of the reporting period			
f)	Gains and losses arising from translation of financial statements of entities located abroad			
B.3.	**Changes in equity**	**0**	**0**	**69,863,151**
b)	Allocation of portion of net profit for the period to other components of equity under the decision of management and supervisory bodies			39,745,702
c)	Allocation of a portion of net profit to additional reserves in accordance with a general meeting resolution			30,117,449
C.	**Closing balance as at 31/12/2010**	**29,558,789**	**561,243,185**	**296,361,537**

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

Revaluation surplus	Retained earnings	Net profit or loss for the period	Consolidation equity adjustment	Minority interest	Total
10,561,050	**250,720,796**	**46,923,175**	**(903,981)**	**60,002,772**	**1,127,608,615**
10,561,050	**297,643,971**	**0**	**(903,981)**	**60,002,772**	**1,127,608,615**
0	**0**	**0**	**0**	**4,630,218**	**4,630,218**
				4,630,218	4,630,218
(12,816,567)	**0**	**112,740,053**	**685,310**	**1,157,361**	**101,766,157**
		112,740,053		1,101,220	113,841,273
377,414				56,141	433,555
(13,193,981)					(13,193,981)
			685,310		685,310
0	**(26,878,108)**	**(30,117,449)**	**0**	**0**	**0**
		(30,117,449)			0
	(26,878,108)				0
(2,255,517)	**270,765,863**	**82,622,604**	**(218,671)**	**65,790,351**	**1,234,004,990**

(2,255,517)	**353,388,467**	**0**	**(218,671)**	**65,790,351**	**1,234,004,990**
0	**0**	**0**	**0**	**2,233,000**	**2,233,000**
				2,233,000	2,233,000
5,182,313	**0**	**102,640,115**	**(235,156)**	**311,209**	**107,898,481**
		102,640,115		257,427	102,897,542
1,006,900				53,782	1,060,682
4,175,413					4,175,413
			(235,156)		(235,156)
0	**(30,117,449)**	**(39,745,702)**	**0**	**0**	**0**
		(39,745,702)			0
	(30,117,449)				0
2,926,796	**323,271,018**	**62,894,413**	**(453,827)**	**68,334,560**	**1,344,136,471**

5.9 Notes to the consolidated financial statements

5.9.1 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 material 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 assets and liabilities and their management have been disclosed in the business report (section 2.12 Risk management).

Upon recognition, assets and liabilities are carried at historical cost, and after recognition in accordance with the defined valuation method.

(1) Intangible assets and long-term accrued revenue and deferred costs

€ 37,007,791

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 CO_2 emission coupons and computer software.

Goodwill was formed in 2007 as a result of the cost of a long-term investment exceeding the carrying amount of equity of a subsidiary. During this time, no reasons for impairing goodwill have been determined.

Since 1 January 2010, investments in fixed assets of other entities are disclosed under property, plant and equipment due to a change in SAS. For the purposes of comparability, the carrying amount of these investments in 2009 totalling € 718,539 has also been disclosed under property, plant and equipment.

In 2008, two group companies received CO_2 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 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 CO_2 emission coupons that are held for trading purposes.

At the Group level, the opening balance of CO_2 emission coupons amounted to 19,455,572 coupons. In 2010, 1,024,948 CO_2 emission coupons were purchased and 5,759,470 were sold or used. As a result, the company had 14,721,050 CO_2 emission coupons at the end of 2010.

During consolidation, € 3,950,047 worth of CO_2 emission coupons were eliminated on account of intragroup sales.

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

In 2010, CO_2 emission coupons were impaired within the Group, whereas no reasons for impairment were determined in relation to other intangible assets.

Changes in intangible assets and long-term accrued revenue and deferred costs

Intangible assets in €	Long-term property rights	Goodwill	Advances for intangible assets	Long-term deferred development costs	Other long-term accrued revenue and deferred costs	Total
Cost as at 31/12/2009	**34,594,606**	**12,387,056**	**0**	**121,676**	**217,551**	**47,320,889**
Acquisitions	11,672,931		31,418		87,729	11,792,078
Disposals	(13,459,573)			(57,613)	(94,312)	(13,611,498)
Transfers	123,000		(31,418)			91,582
Foreign exchange differences	(71)					(71)
Cost as at 31/12/2010	**32,930,893**	**12,387,056**	**0**	**64,063**	**210,968**	**45,592,980**
Written-down value as at 31/12/2009	**6,086,497**	**0**	**0**	**4,919**	**4,583**	**6,095,999**
Amortisation	1,446,604			614		1,447,218
Disposals, decreases	(11,792)					(11,792)
Revaluation	1,053,775					1,053,775
Foreign exchange differences	(11)					(11)
Written-down value as at 31/12/2010	**8,575,073**	**0**	**0**	**5,533**	**4,583**	**8,585,189**
Carrying amount as at 31/12/2009	**28,508,109**	**12,387,056**	**0**	**116,757**	**212,968**	**41,224,890**
Carrying amount as at 31/12/2010	**24,355,820**	**12,387,056**	**0**	**58,530**	**206,385**	**37,007,791**

(2) Property, plant and equipment
€ 1,567,133,820

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 therefore constitute a significant part of Group's assets.

The most important investments in property, plant and equipment of Group companies in 2010 include finishing works regarding construction of PSP Avče, construction of a HPP on the lower Sava River, investments in replacement Unit 6 at TEŠ and renovation of other production plants. Additional information on Group's investments is available in the business report (section 2.9 Investments).

Since 1 January 2010, investments in fixed assets of other entities are disclosed under property, plant and equipment due to a change in SAS. For the purposes of comparability, the carrying amount of these investments in 2009 totalling € 718,539 has also been disclosed under property, plant and equipment.

In 2009, group companies disclosed advances for property, plant and equipment in gross amounts (VAT included) and the VAT under short-term accrued costs and deferred revenue. In 2010, another option was used to provide for more transparent disclosure, and the value of transfer was taken into account under other transfers for advances in the amount of € -1,111,102.

No reasons for impairment of property, plant and equipment were determined in 2010, however, some write-offs took place. The majority is represented by the write-off of underground constructions and equipment, demolition of constructions to provide space for the building site of Unit 6 and write-offs of worn-out equipment in other production companies that was predominantly replaced with new equipment.

One of the group companies holds property, plant and equipment under a finance lease in the amount of € 47,531. For the purposes of insurance of long-term loans, group companies have also taken out mortgages, namely a mortgage on a piece of land in the amount of € 600,000 and a mortgage on real estate in the amount of € 13,291,038.

Changes in property, plant and equipment

Property, plant and Equipment in €	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 31/12/2009	**36,498,176**	**1,232,794,628**	**1,908,868,540**	**41,410,288**	**258,466,860**	**95,147,891**	**3,573,186,383**
Acquisitions					215,516,517	11,956,247	227,472,764
Transfer from ongoing investments	2,305,174	67,164,869	114,816,534	8,368,449	(192,655,026)		0
Other transfers			67,112	(67,982)	(333,125)	(26,888,207)	(27,222,202)
Disposals	(210,995)	(31,527,529)	(15,875,397)	(895,767)	(203,735)		(48,713,423)
Foreign exchange differences				(1,929)			(1,929)
Cost as at 31/12/2010	**38,592,355**	**1,268,431,968**	**2,007,876,789**	**48,813,059**	**280,791,491**	**80,215,931**	**3,724,721,593**
Written-down value as at 31/12/2009		**693,713,020**	**1,391,421,325**	**30,521,589**			**2,115,655,934**
Acquisitions		1,835					1,835
Depreciation		22,438,927	61,907,505	2,805,193			87,151,625
Disposals		(28,863,619)	(14,732,120)	(1,625,321)			(45,221,060)
Other transfers		(3)	653	118			768
Foreign exchange differences				(1,329)			(1,329)
Written-down value as at 31/12/2010		**687,290,160**	**1,438,597,363**	**31,700,250**			**2,157,587,773**
Carrying amount as at 31/12/2009	**36,498,176**	**539,081,608**	**517,447,215**	**10,888,699**	**258,466,860**	**95,147,891**	**1,457,530,449**
Carrying amount as at 31/12/2010	**38,592,355**	**581,141,808**	**569,279,426**	**17,112,809**	**280,791,491**	**80,215,931**	**1,567,133,820**

(3) Long-term investments
€ 10,592,046

The increase in investments in shares and interests of group companies refers to an increase in investment in the company Golte d.o.o.

In 2010, reasons were determined for impairment of certain long-term investments, as a result of which revaluation operating expenses increased.

Decreases in 2010 refer to the write-off of an investment by the controlling company.

In the process of consolidation, € 1,042,982,553 of long-term investments in Group companies have been eliminated.

In the process of consolidation, the value of investments in associated companies accounted for using the equity method increased by € 83,017.

Changes in long-term investments, excluding loans

Long-term investments, excluding loans in €	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 31/12/2009	**3,025,971**	**1,070,338**	**3,284,287**	**125,065**	**7,505,661**
Acquisitions, increases	3,437,120	135,000		21,488	3,593,608
Disposals, decreases		(555,336)		(320)	(555,656)
Revaluation		84,745	(163,654)		(78,909)
Cost as at 31/12/2010	**6,463,091**	**734,747**	**3,120,633**	**146,233**	**10,464,704**
Written-down value as at 31/12/2009	**0**	**0**	**40,835**	**0**	**40,835**
Disposals			1,294		1,294
Revaluation			263,949		263,949
Written-down value as at 31/12/2010	**0**	**0**	**306,078**	**0**	**306,078**
Carrying amount as at 31/12/2009	**3,025,971**	**1,070,338**	**3,243,452**	**125,065**	**7,464,826**
Carrying amount as at 31/12/2010	**6,463,091**	**734,747**	**2,814,555**	**146,233**	**10,158,626**

(4) Deferred tax assets
€ 10,159,497

In 2010 deferred tax assets were created anew in connection with:

- creation of provisions for jubilee and termination benefits,
- creation of other provisions,
- creation of doubtful receivables,
- impairment of investments,
- fair value 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.

€ 852,289 of the change in deferred tax assets is recognised in the income statement, and € 167,327 in equity.

At the end of 2010, the Group's deferred tax liabilities stood at € 44,526.

The amount of deferred tax assets eliminated in consolidation totalled € 2,922,694.

Changes in deferred tax assets

Deferred tax assets in €	Provisions	Impairment	Amortisation	Other	Total
Value as at 31/12/2009	**7,090,599**	**489,448**	**39,885**	**3,224,409**	**10,844,341**
Creation, increase	337,693	175,751	236,233	7,447	757,124
Utilisation, decrease	(842,229)	(204,839)	(8,452)	(386,448)	(1,441,968)
Value as at 31/12/2010	**6,586,063**	**460,360**	**267,666**	**2,845,408**	**10,159,497**

(5) Inventories
€ 36,439,321

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, and 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 consist of coal, where an impairment of inventories was made due to an excessive carrying amount relative to the net realisable value in the amount of € 2,588,296.

In case of other inventories, net realisable value is not lower than the carrying amount.

During the inventory count, surplus of material determined amounted to € 705,108, while deficit of material amounted to € 463,996.

In 2010, € 96,295 worth of material was written off from inventory due to changes in its quality and value.

No inventories have been used as collateral.

(6) Short-term investments
€ 73,492,305

The majority of the Group's short-term investments refer to deposits with major Slovenian banks; therefore, the exposure to risks is minimal. Deposits with banks have not been secured, while the loans granted have been secured.

In 2010, the company sold two short-term investments (Toplofikatsia – Ruse AD and Hidro Moćnost Makedonija d.o.o.), which were recognised under other shares and interests in 2009.

The amount of short-term loans eliminated in consolidation totalled € 80,300,000.

Types of short-term investments

in €	31/12/2010	31/12/2009
Other shares and interests	0	43,427,521
Deposits with banks	72,712,412	96,957,896
Short-term loans to associates	0	50,000
Short-term loans to others	636,814	9,636,835
Other short-term investments	143,079	1,849
Total	**73,492,305**	**150,074,101**

(7) Receivables
€ 138,031,036

The Group's receivables comprise:

- long-term operating receivables in the amount of € 1,827,101, and
- short-term operating receivables in the amount of € 136,203,935.

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.

The majority of long-term trade receivables are insured.

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 insured, whereas due to their nature, others are not.

€ 2,130,436 worth of allowances for receivables have been created within the Group.

The amount of short-term receivables eliminated during consolidation totalled € 113,798,070.

Long-term operating receivables by maturity date

	Maturity date			
Long-term operating receivables in €	before 31/12/2013	between 1/1/2014 and 31/12/2015	after 1/1/2016	Total
Trade receivables	563,135	68,947	68,947	701,029
Receivables from others	1,014,772	21,023	90,277	1,126,072
Total	**1,577,907**	**89,970**	**159,224**	**1,827,101**

Short-term operating receivables by maturity date

	Breakdown by maturity date						
Short-term operating receivables in €	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	103,745,539	8,397,830	807,761	822,623	1,157,780	581,536	115,513,069
Receivables from others	22,377,342	0	0	60	0	443,899	22,821,301
Total	**126,122,881**	**8,397,830**	**807,761**	**822,683**	**1,157,780**	**1,025,435**	**138,334,370**

(8) Cash
€ 19,998,807

On the balance sheet date, two group companies had in place automatic borrowing facilities in the form of overdrafts on transaction accounts with banks, which amounted to € 23,084,000, but had been not used by 31.12.2010.

(9) Short-term accrued revenue and deferred costs
€ 7,147,212

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 € 5,811,943.

Total equity

in €	31/12/2010	31/12/2009
Share capital	29,558,789	29,558,789
Capital surplus	561,243,185	561,243,185
Other revenue reserves	296,361,537	226,498,386
Revaluation surplus	2,926,796	(2,255,517)
Retained earnings	323,271,019	270,765,863
Net profit or loss for the period	62,894,413	82,622,604
Consolidation equity adjustment	(453,827)	(218,671)
Minority interest	68,334,560	65,790,351
Total	**1,344,136,472**	**1,234,004,990**

Profit or loss of the Group after equity restatement

in €	31/12/2010
Net profit or loss	102,640,115
Equity restatement result	(20,630,403)
Profit or loss after restatement based on consumer prices (1.9% growth)	**82,009,712**

(10) Equity
€ 1,344,136,472

The value of nominal capital and capital surplus remained unchanged in 2010.

Other revenue reserves amount to € 296,361,537 and constitute a portion of retained earnings of the controlling company.

Retained earnings in the amount of € 323,271,019 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 € 62,894,413 and is comprised of accumulated profit of the controlling company in the amount of € 39,745,702, a part of profits of subsidiaries attributable to the controlling company in the amount of € 28,482,247, and a cumulative decrease in profit or loss of € -5,333,536 arising from consolidation, which is mostly a result of reversal of impairments of a short-term investment by a subsidiary, as it was already taken into account in consolidated statements for 2009.

Revaluation surplus in the amount of € 2,926,796 consists of the revaluation surplus determined by the controlling company in the amount of € 2,839,086 and the share of the controlling company in the created revaluation surpluses in subsidiaries in the amount of € 87,710.

Consolidation equity adjustment of € -453,827 represents foreign exchange differences arising from the translation of balance sheet items and income statement items of subsidiaries abroad and foreign exchange difference determined in the process of consolidation.

The minority interest amounts to € 68,334,560.

The amount of subsidiaries' equity eliminated during consolidation totalled € 1,033,518,153.

(11) Provisions and long-term ACDR
€ 96,727,196

Major provisions in the Group comprise provisions for termination and jubilee benefits, provisions for the for closing of 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 31.12.2010 for all group companies in Slovenia.

The actuarial calculation was based on:
- the number of employees in companies as at 31.10.2010 (gender, age, overall and pension qualifying period of service, average net and gross salary for the period August – October 2010),
- the method for calculating termination and jubilee benefits in a group company,
- 3.5% increase in average salary,
- employee turnover by age category.

Provisions for the closing of Škale Pit and the remaining coalmining sites in Velenje have been created on the basis of an internally produced technical paper.

Long-term accrued costs and deferred revenue include provisions for government grants received for acquisition of fixed assets, which were utilised in 2010 in connection with the depreciation charge. This group also includes provisions related to the CO_2 emission coupons received.

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

Provisions and long-term accrued costs and deferred revenue in €	Provisions for termination and jubilee benefits	Other provisions	Long-term ACDR	Total
Value as at 31/12/2009	**13,250,729**	**72,961,757**	**26,198,237**	**112,410,723**
Creation, increases	2,854,738	11,763,988	219,437	14,838,163
Utilisation, reversal	(1,799,733)	(22,179,940)	(6,542,017)	(30,521,690)
Value as at 31/12/2010	**14,305,734**	**62,545,805**	**19,875,657**	**96,727,196**
Creation planned	49,862	8,500,000		8,549,862
Utilisation planned	(25,000)	(5,500,000)	(720,000)	(6,245,000)

Other provisions

in €	2010	2009
Provisions for lawsuits	10,785,607	20,855,175
Provisions for claims	1,016,903	1,343,293
Provisions for closure of coal mining sites	38,811,345	39,573,910
Provisions for closure of quarry	129,290	124,795
Provisions for renovations	3,574,796	0
Provisions created in accordance with legislature on disabled persons organisations	8,220,652	11,057,152
Other provisions	7,212	7,432
Total	**62,545,805**	**72,961,757**

(12) Long-term liabilities
€ 258,128,428

The Group’s long-term liabilities comprise:

- long-term financial liabilities in the amount of € 253,668,459,
- long-term operating liabilities in the amount of € 4,415,443, and
- deferred tax liabilities in the amount of € 44,526.

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 0.95% and 6.06%, depending on the type of the loan, maturity and the timing of borrowing. They also include loans which fall due in a period of more than five years, but not later than 2036.

Long-term loans are mostly intended for the financing of property, plant and equipment.

Long-term loans are secured with bills of exchange, guarantees, mortgages taken out on real estate, receivables, and a guarantee by the controlling company or the Republic of Slovenia.

Long-term loans are disclosed in greater detail in annual reports of individual Group companies.

For a part of the Group's long-term loans interest rate swaps have been concluded in order 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 as negative revaluation surplus.

All liabilities associated with long-term loans are settled within contractual deadlines.

Types of long-term liabilities

in €	31/12/2010	31/12/2009
Long-term financial liabilities to banks	253,148,607	264,340,954
Long-term financial liabilities to others	519,852	1,476,135
Long-term operating trade liabilities	4,201,257	2,350,303
Long-term operating liabilities from advances	14,162	13,460
Long-term operating liabilities to others	200,024	211,378
Deferred tax liabilities	44,526	69,345
Total	**258,128,428**	**268,461,575**

Maturity dates of long-term liabilities

Long-term liabilities in €	Maturity date before 31/12/2013	Maturity date between 1/1/2014 and 31/12/2015	Maturity date after 1/1/2016	Total
Long-term financial liabilities to banks	71,539,998	57,512,279	124,096,330	253,148,607
Long-term financial liabilities to others	519,852			519,852
Long-term operating trade liabilities	4,201,257			4,201,257
Long-term operating liabilities from advances			14,162	14,162
Long-term operating liabilities to others	7,678	76	192,270	200,024
Total	**76,268,785**	**57,512,355**	**124,302,762**	**258,083,902**

(13) Short-term liabilities
€ 192,544,320

The Group's short-term liabilities comprise:
- short-term financial liabilities in the amount of € 59,250,118 and
- short-term operating liabilities in the amount of € 133,294,202.

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 which will fall due within a year after the balance sheet date. They are secured with bills of exchange, guarantees, mortgages taken out on real estate, receivables, and a guarantee by the controlling company or the Republic of Slovenia.

Interest rates charged on short-term loans range between 1.3% and 4%.

Short-term loans are disclosed in greater detail in annual reports of individual group companies.

As at the balance sheet date, short-term operating trade liabilities due totalled € 16,424.

During consolidation, the amount of eliminated short-term financial liabilities and short-term operating liabilities totalled € 80,445,088 and € 113,647,302, respectively.

Types of short-term liabilities

in €	31/12/2010	31/12/2009
Short-term financial liabilities to banks	59,078,706	108,753,988
Short-term financial liabilities to others	171,412	63,388
Short-term trade payables	97,965,525	96,624,612
Short-term operating liabilities to associates		4,388
Short-term operating liabilities arising from advances	248,567	111,062
Short-term operating liabilities to others	35,080,110	40,431,037
Total	**192,544,320**	**245,988,475**

Maturity dates of short-term operating liabilities

Short-term operating liabilities in €	Breakdown by maturity: Not yet due	Breakdown by maturity: Up to 3 months overdue	Total
Short-term trade liabilities	97,949,101	16,424	97,965,525
Short-term liabilities from advances	248,567		248,567
Short-term liabilities to others	35,080,110		35,080,110
Total	**133,277,778**	**16,424**	**133,294,202**

(14) Short-term accrued costs and deferred revenue
€ 8,971,939

The bulk of the Group's short-term accrued costs and deferred revenue refers to accrued costs of unutilised leave and costs of concessions.

In 2009, Group companies' short-term accrued costs and deferred revenue also included VAT on advances paid. Due to transparency, another option of disclosure was used, i.e. at the end of 2010, VAT was also included in the value of advances. In the table of changes, this value is included in the value used, namely in the amount of € 1,111,102.

The amount of short-term accrued costs and deferred revenue arising from accrued costs eliminated during consolidation totalled € 9,771,278.

Changes in short-term accrued costs and deferred revenue

Short-term accrued costs and deferred revenue in €	Short-term accrued costs	Short-term deferred revenue	Total
Value as at 31/12/2009	**13,446,406**	**42,979**	**13,489,385**
Creation, increases	32,529,339	2,134	32,531,473
Utilisation, release	(37,005,607)	(42,979)	(37,048,586)
Foreign exchange differences	(333)		(333)
Value as at 31/12/2010	**8,969,805**	**2,134**	**8,971,939**
Creation planned			200,375
Utilisation planned			1,141,925

Off-balance sheet records

The Group's off-balance sheet records include instruments for collateralisation of payments (given and received) and the values of concluded derivatives. The guarantees given by the controlling company are disclosed in the financial report of the controlling company under Off-balance sheet records.

Within the group, we estimate that the probability of outflows and inflows related to the above is very low; therefore we are only disclosing the general nature of off-balance sheet assets and liabilities purely for informational purposes.

The Group also records contingent liabilities in the amount of € 19,647,297 related to the costs of dismantlement of fixed assets. The provisions have not yet been created as no decision has been made as to the timing and the manner of dismantling.

Type of off-balance sheet record

in €	31/12/2010	31/12/2009
Bank guarantees received and other types of insurance	317,654,642	117,744,851
Bank guarantees issued and other types of insurance	109,806,013	382,854,282
Derivatives	80,337,289	20,748,385
Other	518,421	548,368
Total off-balance sheet records	**508,316,365**	**521,895,886**

5.9.2 Consolidated income statement

General

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

The consolidated income statement has been prepared using Format I as defined in SAS 25.

Revenue

€ 963,442,228

The Groups' revenue is comprised of operating revenue, financial revenue and other revenue.

Types of revenue

in €	2010	2009
Operating revenue	948,722,676	877,157,587
Financial revenue	12,173,213	6,913,774
Other revenue	2,546,339	3,195,001
Total	**963,442,228**	**887,266,362**

Expenses

€ 834,924,122

The Group's expenses are comprised of operating, financial and other expenses.

Types of expenses

in €	2010	2009
Operating expenses	823,564,749	714,963,052
Financial expenses	10,178,852	13,770,211
Other expenses	1,180,521	11,735,043
Total	**834,924,122**	**740,468,306**

Types of operating expenses

in €	2010	2009
Cost of goods sold and costs of materials	466,741,437	373,658,981
Costs of services	62,591,300	61,772,767
Labour costs	142,679,442	136,863,751
Depreciation and amortisation	88,630,047	79,174,657
Revaluation operating expenses associated with intangible assets and property, plant and equipment	1,151,347	1,921,335
Revaluation operating expenses associated with operating current assets	3,744,182	1,640,784
Other operating expenses	58,026,994	59,930,777
Total	**823,564,749**	**714,963,052**

(15) Net sales revenue
€ 908,610,095

Most of the net sales revenue refers to the revenue generated through the sale of electricity.

The amount of net sales revenue eliminated during consolidation totalled € 606,779,072.

(16) Capitalised own products
€ 12,378,025

During consolidation, the value of capitalised own products and services increased by € 8,326,319, which represents the sale of intangible assets and property, plant and equipment within the Group.

(17) Other operating revenue
€ 23,858,407

The majority of other operating revenue is represented by revaluation operating revenue arising from reversal of doubtful receivables, revenue arising from reversal of provisions, revenue arising from the use of assigned assets pursuant to the legislation governing disabled persons' organisations, and revenue from CO_2 emission coupons received from the Republic of Slovenia.

During consolidation, an impairment of a loan in a subsidiary in the amount of € 600,000 was reversed as the reversal had already been taken into account during preparation of consolidated statements for 2009; at the same time, € 28,859 of other operating revenue were eliminated.

(18) Costs of goods, materials and services
€ 529,332,737

The majority of costs of goods and material sold consists 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 € 596,719,289.

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 € 2,945,695.

(19) Labour costs
€ 142,679,442

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
€ 93,525,576

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.

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 utilised and other operating revenue recorded.

With regard to 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 regard to operating current assets it refers to creation of doubtful receivables and impairment of coal inventories to their realisable value.

Write-downs in value

in €	2010	2009
Amortisation of intangible assets	1,447,218	1,421,119
Depreciation of property, plant and equipment	87,151,625	77,723,201
Depreciation of investment property	31,204	30,337
Revaluation operating expenses associated with intangible assets and property, plant and equipment	1,151,347	1,921,335
Revaluation operating expenses associated with operating current assets	3,744,182	1,640,784
Total write-downs in value	**93,525,576**	**82,736,776**

Depreciation/amortisation rates of intangible assets and PPE of the Group

Type of asset	2010
Buildings	1 – 11.33%
Production equipment	1.3 – 33.33%
Other equipment	4 – 50%
Intangible assets	2 – 50%

(21) Other operating expenses
€ 58,026,994

The majority of other operating expenses is comprised of a concession fee paid to the government, contributions for building sites, water charge, environmental charges and creation of provisions.

(22) Financial revenue
€ 12,173,213

The largest part of financial revenue consists of a gain on disposal of a short-term investment by the controlling company, interest on deposits and loans, revenue from default interest and foreign exchange gains.

During consolidation, € 1,423,391 of financial revenue arising from interest on loans given was eliminated.

(23) Financial expenses
€ 10,178,852

The largest part of financial expenses is represented by expenses related to interest on long- and short-term loans, which decreased compared to 2009 due to a lower EURIBOR. Interest on loans for the purchase of property, plant and equipment charged up until they became available for use is disclosed as a part of the value of property, plant and equipment.

The amount of financial expenses eliminated during consolidation totalled € 186,533.

Segments

Business segments

Net sales revenue by business segment in €	2010	2009
Electricity	879,162,254	775,828,679
Other	29,447,841	28,458,398
Total	**908,610,095**	**804,287,077**

Geographic segments

Net sales revenue by geographical segment in €	2010	2009
Domestic market	481,299,462	555,731,387
Foreign market	427,310,633	248,555,690
Total	**908,610,095**	**804,287,077**

Costs by functional group

Overview of costs by functional group

in €	2010	2009
Cost of goods sold or production costs of quantities sold	724,079,804	619,753,961
Costs to sell	14,214,182	13,873,964
General and administrative costs	69,016,589	66,098,043

(24) Corporate income tax
€ 24,768,275

In 2010, seven group companies in Slovenia and four out of seven 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 2010, the group companies' unused tax losses stood at € 30,156,919.

(25) Deferred taxes
€ 852,289

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 2010, group companies disclosed € 2,172,289 in deferred taxes. In the consolidation process, additional € 1,320,000 of deferred tax assets has been eliminated.

(26) Net profit or loss
€ 102,897,542

Net profit represents net profit of the controlling company in the amount of € 79,491,404, profit participation of the controlling company in subsidiaries in the amount of € 28,482,247, cumulative decrease in profit in the amount of € -5,333,536 – mostly referring to the reversal of impairment of a short-term investment in a subsidiary as the impairment was already taken into account when preparing consolidated financial statements for 2009 – and net profit of minority owners in the amount of € 257,427.

Profit or loss of the Group

in €	2010	2009
Operating profit or loss	125,157,927	162,194,535
Profit or loss on ordinary activities	127,152,288	155,338,098
Profit or loss on extraordinary activities	1,365,818	(8,540,042)
Total profit or loss	128,518,106	146,798,056
Net profit or loss for the period	102,897,542	113,841,273
• of which majority owner	102,640,115	112,740,053
• of which minority owner	257,427	1,101,220

5.9.3 Consolidated statement of other comprehensive income

(27) Total comprehensive income
€ 107,898,481

Changes in surplus from revaluation of available-for-sale financial assets in 2010 in the amount of € 1,060,682 (mostly in relation to interest rate swaps and FX forwards) also take into account deferred taxes, namely deferred tax assets in the amount of € 153,106 and deferred tax liabilities in the amount of € 23,092.

The negative effect of conversion of financial statements of entities in other countries, whose official currency is not EUR, and foreign exchange differences arising from elimination of relations within group companies, amounts to € -235,156.

Other components of comprehensive income in the amount of € 4,175,413 represent the value of standardised futures for the purchase of electricity concluded by the controlling company.

Taking into account all of the above, the total comprehensive income at the end of the year totals € 107,898,481, of which the share of the minority owner amounts to € 311,209.

5.9.4 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 €	2010	2009
Cash flows from operating activities	197,638,154	195,692,901
Cash flows from investing activities	(113,712,313)	(226,986,853)
Cash flows from financing activities	(74,208,149)	28,121,899
Net cash flow for the period	**9,717,692**	**(3,172,053)**

5.9.5 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 is prepared in the form of a composite spreadsheet. Accumulated profit is not determined at the Group level.

Changes in equity
The change in minority interest of € 2,233,000 refers to additional contributions of minority owners in one of the subsidiaries.

Total comprehensive income of the reporting period
Total comprehensive income of the reporting period increased by € 107,898,481, with the increase consisting of:

- the net profit for the year in the amount of € 102,640,115, attributable to the controlling company;
- the net profit for the year in the amount of € 257,427, attributable to the minority owner;
- the change in revaluation surplus regarding investments in the amount of € 1,006,900, attributable to the controlling company;
- the change in revaluation surplus regarding investments in the amount of € 53,782, attributable to the minority owner;
- the change in other components of comprehensive income of the controlling company in the amount of € 4,175,413; and
- the loss arising from conversion of financial statements of companies in other countries in the amount of € -235,156.

Changes within equity
In the reporting period, individual items of the Group's equity changed (changes occurred in the controlling company) by € 69,893,151, due to:

- transfer of accumulated profit of the previous year (in accordance with a General Meeting resolution) in the amount of € 30,117,449 to other revenue reserves, and
- allocation of half of the net profit for the year in the amount of € 39,745,702 to other revenue reserves, in accordance with a Supervisory Board decision adopted on the proposal of the company's management.

5.9.6 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 2010 managers, employees who are not subject to the tariff part of the collective agreement and members of the Group's Supervisory Boards did not receive shares of profits under General Meeting resolutions, nor were they approved any advances, loans or guarantees by group companies.

At the end of 2010, 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 annual reports of HSE Group companies totalled € 204,307. The cost of other audit-related services amounted to € 6,082 and the cost of tax advisory services to € 1,795.

Business events after the consolidated balance sheet date

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 2010.

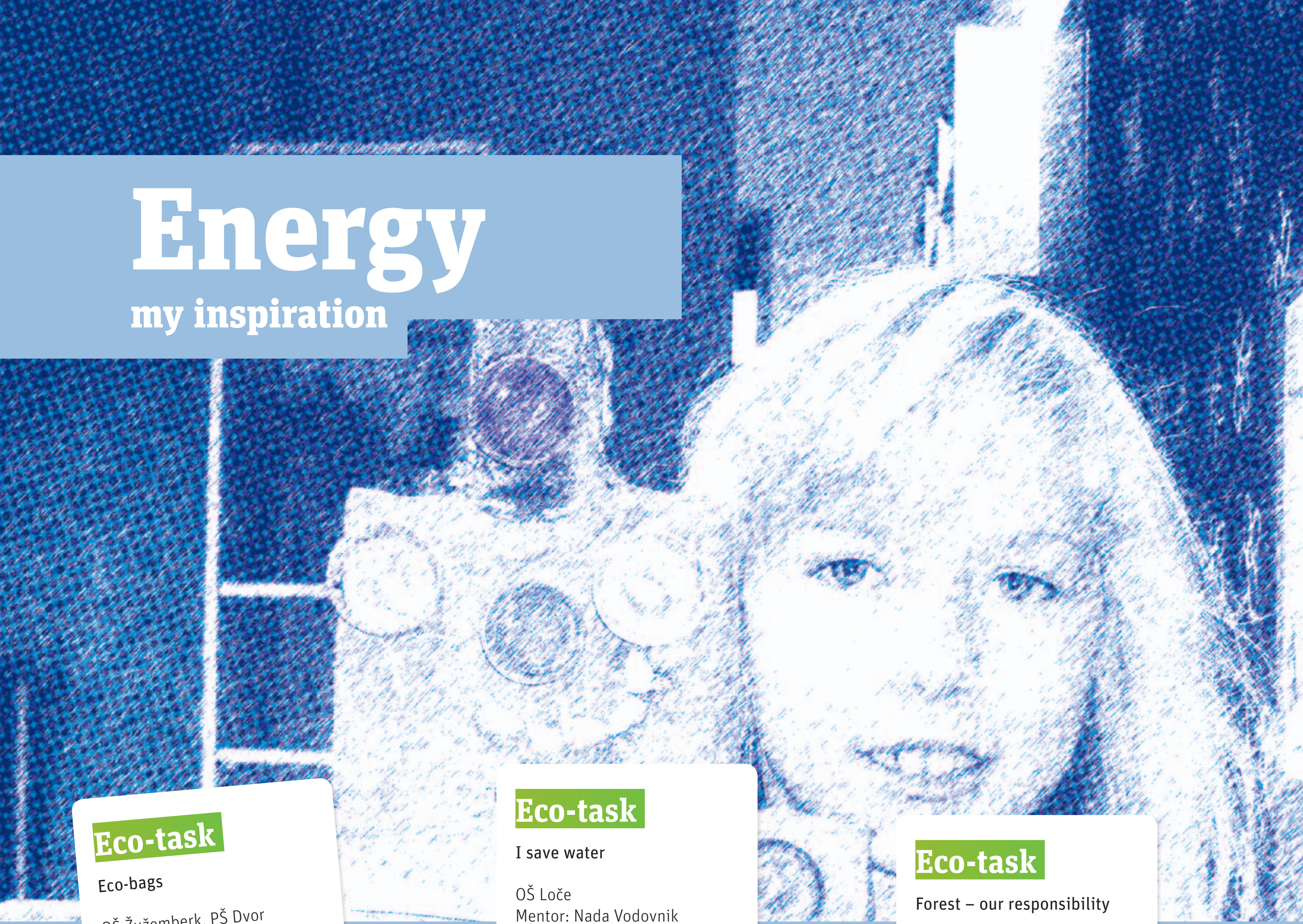
Based on the decision by the Capital Assets Management Agency of the Republic of Slovenia issued at the end of 2010, the Group will be preparing consolidated financial statements in accordance with IFRSs from 2011 onwards.

Remuneration of individual groups of persons

in €	2010	2009
Company management	1,398,870	1,521,426
Employees not subject to the tariff part of the collective agreement	4,661,425	3,949,301
Members of the Supervisory Board	184,708	222,888

Energy

my inspiration



Eco-task

Eco-bags

OŠ Žužemberk, PŠ Dvor
1st – 4th grade
Mentor: Marta Baša

Eco-task

I save water

OŠ Loče
Mentor: Nada Vodovnik

Eco-task

Forest – our responsibility

2. OŠ Slovenska Bistrica
3rd grade
Mentor: Klavdija Rizmal

Eco-task

Bird feeder

OŠ Oskarja Kovačiča, Ljubljana
1st – 3rd grade
Mentor: Mojca Ogrizek Drinovec

Children. With their adorable smiles, sincere words and interesting solutions. With infinite curiosity, thirst for information and straightforward logic. With imagination that has no boundaries and full of life force. Children are our future.

Even with children, HSE is striving to inspire awareness for environmental concerns and the importance of renewable energy sources.

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Abbreviations

€	The euro
ARDC	Deferred costs and accrued revenues
DEP/AM	Depreciation and amortisation
AUKN	Agencija za upravljanje kapitalskih naložb RS (The Capital Assets Management Agency of the Republic of Slovenia)
GDP	Gross domestic product
BIH	Bosnia and Herzegovina
CCS	Carbon capture and storage
CC	Control centre
PSP	Pumped-storage power plant
CBTC	Cross-border transmission capacities
VAT	Value-added tax
DEM	Dravske elektrarne Maribor d.o.o.
NSP	National spatial plan
NA	National Assembly
EBIT	Earnings before interest and taxes
EBITDA	Earnings before interest and taxes, depreciation and amortisation
EE	Electricity
EE TÜV	Organisation for technical control of RES
ES	Electricity system
EEX	European electricity exchange in Leipzig
EFET	European Federation of Energy Traders
EIB	European Investment Bank
EC	European Commission
ELES	Elektro-Slovenija d.o.o.
E-RES	Electricity from renewable sources
ESC	Economic and Social Council
EU	European Union
EURIBOR	Euro interbank offered rate
EXAA	Austrian electricity exchange
EA	Energy Act
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 d.o.o.
HSE	Holding Slovenske elektrarne d.o.o.
IPEX	Italian electricity exchange
ISO	International Organisation for Standardisation
MOF	Ministry of Finance
MOE	Ministry of the Economy
SHPP	Small hydropower plants
MO	Municipality
MESP	Ministry of the Environment and Spatial Planning
MPAL	Medically programmed active leave
IFRS	International Financial Reporting Standards
NEP	National Energy Programme
NKBM	Nova Kreditna banka Maribor d.d.
NLB	Nova ljubljanska banka
SB	Supervisory Board
ODOS	Electronic document system
OHSAS	Occupational health and safety management system
PPE	Property, plant and equipment
OTE	Czech electricity market operator
RES	Renewable energy sources
ACDR	Accrued costs and deferred revenue
BU	Business unit
GO	Guarantees of origin
GSPP	Gas and steam power plant
PDI	Pomurje Development Institute
PV	Premogovnik Velenje d.d.
R&R	Research and development

RECS	Renewable energy certificate system
RS	Republic of Slovenia
SCADA	Supervisory control and data acquisition
WC	Workers' council
SDE	Slovene Power Sector Trade Union
SPP	Solar power plant
SENG	Soške elektrarne Nova Gorica d.o.o.
SPESS	Slovene Union of Coalminers
CPHE	Cogeneration of heat and electricity
TPP	Thermal power plant
TEŠ	Termoelektrarna Šoštanj d.o.o.
TET	Termoelektrarna Trbovlje d.o.o.
GG	Greenhouse gases
TC	Telecommunications
EEU	Efficient energy use
OS	Occupational safety
ZEPP	Zero emission power plants
ZSSS	Association of Free Trade Unions of Slovenia
ZUKN	Zakon o upravljanju kapitalskih naložb RS (Law on corporate governance of state capital investments)

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