WAY UPWARDS

Annual Report of the Company HSE and HSE Group 2011

Holding Slovenske elektrarne d.o.o.

today **rain**
tomorrow **energy**

It is pleasant to feel warm summer's rain on the skin. It gives water to Earth. It cools warmed up bodies. It invites to dance in the rhythm of raindrops which magnificently fall on the ground. Full of energy and filled with loud laughter. Full of life.

In 2011, we concluded the first decade of HSE's operations. Ten years of development, progress and seeking new challenges and solutions. Each day we were striving for better tomorrow. Tomorrow starts today. We are facing a new decade, in which we will continue to strive for tomorrow every day. Stronger, more decisive and oriented towards the bright future.

Contents

today **forrest** tomorrow **energy**

How peaceful are mornings in the morning light gently penetrating through treetops. And how invigorating are walks through thousands of colours and numerous sounds in the late afternoon. The forest gives balance. The forest fills with energy.

1 Introduction

1.1 Foreword by the managing director

Challenges make us stronger

The challenges were ambitiously set also for 2011, while a great deal of exertion, efforts and sacrifice was devoted to their realisation. Within the framework of these endeavours, the time was solely a relative category of measuring intervals between events, which were changing the conditions of trading and electricity production. While simultaneously performing the largest energy investment, it was necessary to make additional endeavours and face challenges besides responding to changing circumstances in ordinary operating conditions.

The construction of replacement Unit 6 at TEŠ was under the spotlight in 2011. In HSE and TEŠ we have been daily facing the critics of the project and responding to dilemmas and issues, explaining figures, denying false statements and arguing facts in favour of investment. Numerous activities were oriented towards ensuring proper conditions to obtain the government guarantee for the loan from the European Investment Bank. The timely acquisition of guarantee is namely extremely important for a stable and costly efficient conclusion of investment in the replacement Unit 6.

It is entirely reasonable that in addition to market permeability and revenue growth, costs are decreasing and economy is increasing since the combination of measures on the level of revenue as well as costs enables long-term competitive capability and consequently good business results. In this regard, we can estimate 2011 as successful, especially if we consider extremely unfavourable natural conditions, which have added a slightly bitter taste to successful electricity trade. Several months of deteriorated hydrologic conditions in the wider area of South-East Europe resulted in a slightly lower electricity production in hydropower plants within the HSE Group, while in the wider region such condition changed price ratios for electricity and costs of cross-border transfer capacities.

We hope that in 2012 nature will be more prone to us and that the draught period will be followed by more extensive precipitation and thus the door will be opened to better product and trade conditions. Even the goals we have set for the current year are full of challenges and we will reach them solely with responsible and enthusiastic work, cooperation of individuals and legal entities within the HSE Group and the support of our owners. HR and professional potential of the HSE Group is exceptional and the time people devote to our projects, their efforts, sacrifice and devotion to group goals are true factors of success. These goals could not be reached without the owner‘s support. The expectations are clear: HSE is co-responsible for safe, reliable and environmentally friendly supply with electricity, which has to be performed with the carefulness of a good manager. We endeavour to realise these expectations and to justify our owner‘s trust and support with our work.

It is also important to cooperate with local communities and other interested public in whose environment we interfere and with whom we create better solutions for energy projects. In this aspect, journalists carefully watch over us and follow our every move.

In 2011, we changed many practices. A very important one is certainly the open nature of access to data and activities tied to project performance. We are aware of our responsibility to each citizen, although we represent the first link in production and supply chain of electricity. Our goal is to produce stable and long-term competitive product regardless of unfavourable weather conditions or in non-market conditions. Such goal is realisable in case two basic conditions are fulfilled at the same time. The first condition is appropriate technological diversification, while the other one is assurance of relevant level of electricity self-supply, both in Slovenia and the region, namely in all weather conditions. All our existing production units as well as projects planned and being performed satisfy these two conditions, thus, the goal will also be reached.

Ljubljana, 17 May 2012

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

1.2 Report of the Supervisory Board

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

- The method and extent of examination of the Company's operations in the 2011 financial year;
- The review and confirmation of the annual report of the company HSE and the HSE Group for 2011;
- The examination of the proposal for allocation of accumulated profit;
- The Supervisory Board's position on the auditor's reports.

In the 2011 financial year, the Supervisory Board included the following owner's representatives: from 1 January 2011 to 31 December 2011, Drago Dolinar, Ph.D., Marjan Ravnikar, M.Sc., and Vekoslav Korošec, M.Sc.; Jadranko Medak participated in the company's Supervisory Board from 1 January 2011 to 19 January 2011, while Igor Šalamun, Ph.D. from 20 January 2011 to 31 December 2011.

The employee representatives were: Rene Jeromel and Mojca Turnšek, M.Sc., from 1 January 2011 to 31 December 2011.

At its 4th regular meeting on 19 January 2011, the Supervisory Board adopted a decision on establishment and structure of the Audit Committee which comprises three members: Marjan Ravnikar, M.Sc., President, Brane Podboršek, who was appointed to the Audit Committee in accordance with the Article 280 of the Companies Act as an independent expert from accounting and tax area, Member, and Rene Jeromel who was appointed by the Worker's Council of the company HSE d.o.o. in accordance with provisions of the Worker Participation in Management Act. Until the end of the year (31 December 2011), the Committee held its meetings in the same structure.

At its 6th regular meeting on 11 March 2011, the Supervisory Board established the Committee for Monitoring Larger Investment Projects of the HSE Group. Vekoslav Korošec, M.Sc., was elected President, while Mojca Turnšek, M.Sc., was elected Member. Their term of office started with the appointment of the third member at the 7th regular meeting as at 19 April 2011, i.e. Peter Groznik, Ph.D.. As at 19 October 2011, Peter Groznik, Ph.D. submitted an irrevocable resignation statement. At its 12th regular meeting, the HSE Supervisory Board established that until the new member of Committee for Monitoring Larger Investment Projects of the HSE Group is appointed, the status of other two Committee members, i.e. Vekoslav Korošec, M.Sc., and Mojca Turnšek, M.Sc., is also dormant, and their term of office will begin on the day of the new member's appointment. In this period, the HSE Supervisory Board does not have the Committee for Monitoring Larger Investment Projects of the HSE Group. The Committee has not held any meeting.

From 1 January 2011 to 31 December 2011, Matjaž Janežič, M.Sc., Managing Director of the company attended the Supervisory Board meetings.

1.2.1 Monitoring and supervision of company operations

The company's Supervisory Board held twenty-one meetings in 2011, of which eleven were regular meetings, one was irregular and nine were correspondence meetings. Supervisory Board members were always fully present at all Supervisory Board 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.

At its meetings, the Supervisory Board was informed on recommendations by the Capital Assets Management Agency of the Republic of Slovenia (AUKN) and discussed them. Most of them were reasonably considered.

Special attention was also devoted to active participation 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 actively monitored all events and realisation of investment in the replacement Unit 6 at TEŠ and got familiar with reports by the Active Project Supervision Committee and quarter reports on investment performance;
- It was acquainted with the review of all studies and copyright contracts having been ordered by Termoelektrarna Šoštanj since 2003;
- It was acquainted with the HSE Comprehensive Report on Investment in the Replacement Unit 6 at TEŠ for the period until 15 January 2011;
- It requested that the management performs the audit of operations in the company Termoelektrarna Šoštanj d.o.o. and got informed on the findings of the PWC d.o.o. report on transaction management at TEŠ d.o.o., legal opinion on activities with regard to PWC d.o.o. report on the review of Unit 6 project and the management's activities. On the basis of findings, it suggested to the management of the company HSE d.o.o. to adequately assess the findings in the context of sound management, take appropriate actions to protect this investment and reports to the Supervisory Board on further measures;
- It was acquainted with the studies and reports related to investment in the replacement Unit 6: final report on coal inventories and study on reorganisation of Units 4 and 5, study reviews and the summary of key findings of the latest studies and opinions related to the project of replacement Unit 6;
- It was acquainted with the position of the Council for Environmental Protection of the Republic of Slovenia regarding the construction of Unit 6 at TEŠ;
- It was acquainted with the course of preparation of the Revised Investment Programme (4th Revision) for the replacement Unit 6 project, key findings of the Revised Investment Programme RIP 4 for the replacement Unit 6 project and the sole Revised Investment Programme for construction of the replacement 600 MW Unit 6 at TEŠ, 4th Revision (RIP4);
- It was acquainted with the material of »Financial/Payment Liabilities of TEŠ in Case of Temporary Suspension of Implementing Contracts Related to Project Unit 6 TEŠ«;
- It granted approvals for confirmation and extension of deadlines for short-term loans to the company TEŠ;

- It required that the company's management informs the Supervisory Board on alternative financing sources in case of longer time delay of the government guarantee for financing of replacement Unit 6 project and got acquainted with information, It was acquainted with the effects of negotiations with the company Alstom;
- It was acquainted with the statement of competent courts in relation to illegality of strike at TEŠ d.o.o.;
- It gave the Managing Director a preliminary approval for capital increase of Termoelektrarna Šoštanj d.o.o. in the amount of € 8,171,900.00 as envisaged in »Construction of the Replacement 600 MW Unit 6 in TEŠ«, Revised Investment Programme, 4th Revision, 18 August 2011«.

Other important matters and issues discussed by the company's Supervisory Board in 2011 are summarised below:

- It was acquainted with orientations of planning conference of the HSE Group for 2011 and it also participated at the conference;
- It discussed and adopted the HSE Business Plan for 2011;
- It was acquainted with possibilities of the purchase of Premogovnik Velenje shares;
- It was acquainted with information on participation of the HSE Group companies in the envisaged capital increase of Nova Ljubljanska banka d.d.;
- It was acquainted with the recall of the Supervisory Board member and appointment of a new member;
- It was acquainted with all decisions adopted by the Supervisory Board of the company HSE d.o.o. from 1 January 2005 onwards;
- It gave approvals for confirmation and extension of loan repayment deadlines within the framework of cash management within the HSE Group;
- It was acquainted with the reports by the Supervisory Board Audit Committee;
- It was acquainted with Acts of The Capital Assets Management Agency of the Republic of Slovenia (AUKN) and discussed Recommendations and requirements of AUKN;
- It adopted the changes in Rules governing the work of the Supervisory Board;
- It was monthly informed on operational results of the companies within the HSE Group and estimates of the HSE operations;
- It was acquainted with the information on unaudited 2010 financial statements for the company HSE and the Report by the Audit Committee of the Supervisory Board of the company HSE in which it establishes that the company's operations in 2010 were successful;
- It approved the proposal by the HSE Managing Director that one half of the company's net profit for 2010 is used for forming other revenue reserves when preparing 2010 financial statements;
- It approved the 2010 Annual Report of the company and HSE Group;
- It approved the material for the General Meeting of the company HSE d.o.o. for 2011;
- It approved the proposals of the changes of HSE d.o.o. Articles of Incorporation;
- It approved the establishment of the company Srednjesavske elektrarne d.o.o. (SRESA);
- It approved signing of the letter of intent with Elektro Celje d.d., Elektro Primorska d.d. and Elektro Maribor d.d.;
- It was acquainted with the information of bankruptcy proceedings of the company Vertesy;
- It was acquainted with information on potential participation of the company HSE d.o.o. in construction of two HPPs on the Kraljuščica River in Bosnia and Herzegovina and gave approval to the Managing Director to sign a contract on providing financing sources for realisation of construction project on the Kraguljščica River (Bosnia and Herzegovina);
- General liability insurance D&O – insurance of members of management and supervisory bodies;
- It gave approval to conclude a contract of members and perform necessary procedures for the entry of company members in SRESA d.o.o.;

- It was acquainted with the method of quarterly reporting on company/group operations to AUKN;
- It gave approval to the company's management to conclude a contract for D&O insurance of the HSE Group companies;
- It was acquainted with legal opinions on the situation of public requestor under the Public Procurement Act with regard to water, energy, transport and post services as well as Directive 2004/17/ES;
- It submitted AUKN the propositions of decisions related to remuneration of the Supervisory Board members, members of SB Committees and external members of SB Committees;
- It was acquainted with measurable performance measures applicable for determining changeable remuneration to the Managing Director for 2010 and adopted new measures;
- It was acquainted with trading activities of the company HSE d.o.o.;
- It was acquainted with tables of consolidated cash flow statements for the period from 2011 to 2020;
- It was acquainted with the intention of the company's management to prepare a comprehensive planning system for the HSE Group;
- It was acquainted with the issue of Termoelektrarne Trbovlje d.o.o. and requested that by the end of the year the company's management prepares a comprehensive plan of solving the issue related to the investment that Termoelektrarna Trbovlje d.o.o. holds in the company, particularly in light of closing the RTH mine and maintaining energy locations;
- It was acquainted with and approved the presentation strategy of selling own production and the purchase of CO2 emission coupons for the purposes of HSE Group thermal production;
- It approved the Constitutional Act on Internal Audit Operations within the Companies of the HSE Group;
- It was acquainted with the Report on Procedures in the selection of ERP provider;
- It approved the Business Plan of the company HSE and the HSE Group for 2012 with additional plan for 2013 and 2014;
- It discussed and was acquainted with the Report of HSE Worker's Council on the implementation of Worker Participation in Management Act in 2010 and in the period from 1 January 2011 to 31 October 2011 within the company Holding Slovenske elektrarne d.o.o.

In 2011, the Audit Committee of the company's Supervisory Board held six regular meetings, at which it discussed various strategic and business issues: All the members of Audit Committee participated at the Commission meetings. In 2011, the Audit Committee discussed the following:

- It was acquainted with key Business Plan assumptions of the company HSE and companies of the HSE Group for 2011;
- It was acquainted with activities for performing the 2010 Annual Report of the HSE Group and discussed the Annual Report of the company HSE and the HSE Group for 2010;
- It was acquainted with the information on the course of preliminary audit and the schedule planner on the course of audit in the company HSE and the companies of HSE Group;
- It was acquainted with the information on transition to IFRS;
- It discussed the Report on Management Review of Individual Transactions at TEŠ;
- It discussed the received proposals for audit of the financial statements of the HSE Group companies for 2011 and 2012 and formed a SB proposal for auditor selection;
- It was acquainted with the information on conclusion of the contract for D&O insurance of the HSE Group companies.

The Supervisory Board's work in 2011 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 the audit report

Pursuant to Article 272, Paragraph 3, of the Companies Act, the company's management submitted to the Supervisory Board the 2011 Annual Report of the company HSE and the HSE Group including the Auditor's Reports on 18 May 2012. The Supervisory Board discussed the Annual Report at its eleventh correspondence meeting on 28 May 2012 and determined that the management prepared the 2011 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 2011 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 2011.

At its 7th regular meeting on 22 March 2012, the HSE SB Audit Committee discussed information on unaudited financial statements for the company HSE d.o.o. for 2011 and estimated that the company was operating in accordance with the expectations in 2011.

The HSE d.o.o. Supervisory Board was also acquainted with the Note – »Emphasis of Matter« where Deloitte, without qualifying its opinion, drew attention to Note 2.12.2 »Business Risks: Investment Activity Risk« of the business report or the Note 4.5.8.8.2 »Liquidity Risk« to financial statements where HSE disclosed that it is exposed to a high operational risk of non-issuing of the government guarantee or risk of time delay in issuing of the government guarantee to EIB for the loan in the amount of € 440 million. The abovementioned risk is connected to high liquidity risk. Management of the abovementioned risks by the management is disclosed in the Note 2.12.2 of the business report or in the Note 4.5.8.8.2 to financial statements. The financial statements do not include potential adjustments that may have been the consequence of this uncertainty.

The Supervisory Board of the company HSE d.o.o. also detected the hazard of liquidity risk in case of possible non-issuing of the government guarantee and during two consecutive meetings (17th regular meeting and 7th irregular meeting) requested that the company‘s management immediately prepares relevant measures of preventing and eliminating the reasons for illiquidity in accordance with sensible use of provisions from Article 31 of ZFPPIPP.«

Based on the review of the 2011 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 2011 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 HSE and the HSE Group as at 31 December 2011 and their financial performance and cash flows for the year 2011 in accordance with International Financial Reporting Standards, and that the business 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 2011 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 2011 with a net profit of € 46,729,618.68.

At its 16th regular meeting held on 23 March 2012, the Supervisory Board agreed with the management's proposal that half of the net profit of 2011 in the amount of € 23,364,809.34 is to be allocated to other revenue reserves as early as during the preparation of financial statements for the year 2011.

The remaining net profit represents the accumulated profit of 2011 and amounts to € 23,364,809.34.

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 2011, which represents the remainder of the net profit of 2011, in the amount of € 23,364,809.34 to be allocated to other revenue reserves.

In addition, the HSE Supervisory Board proposes to the Founder that a discharge from liability should be granted to the management and the Supervisory Board as regards operations in 2011.

The Supervisory Board of the HSE prepared the report in accordance with Article 282 of the Companies Act (ZGD-1). The report is addressed to the company's Founder.

Ljubljana, 28 May 2012

Drago Dolinar, Ph.D.
President of the Supervisory Board HSE d.o.o.

1.3 Electricity production and trading in the HSE Group

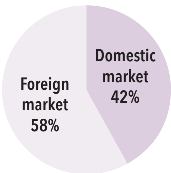
SALES IN FOREIGN MARKETS
13,714 GWh | 58% of sales

SALES IN DOMESTIC MARKET
10,065 GWh | 42% of sales

HSE COMPANY
135 employees as at 31/12/2011 | 23,779 GWh | 100% RS

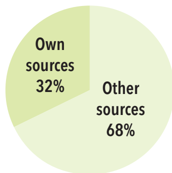
OTHER SOURCES
16,154 GWh | 68% of sources

Sales of electricity



OWN PRODUCTION SOURCES
2,356 employees as at 31/12/2011 | 7,625 GWh 1,855 MW | 32% of sources

Sources of electricity



42% OF

58% OF

HYDRO
444 – employees as at 31/12/2011
3,177 GWh – production
1,000 MW – capacity
71 – no. of turbines

THERMAL
681 – employees as at 31/12/2011
4,448 GWh – production
855 MW – capacity
4 units and 4 gas turbines

PRIMARY SOURCES
1,231 – employees as at 31/12/2011
45,005 TJ – production

DEM	285 employees as at 31/12/2011	2,428 GWh 584 MW 26 turbines	100% HSE
SENG	133 employees as at 31/12/2011	555 GWh 342 MW 39 turbines	100% HSE
HESS**	26 employees as at 31/12/2011	195 GWh 74 MW 6 turbines	84.6% HSE
TEŠ	477 employees as at 31/12/2011	3,779 GWh 687 MW 3 units and 2 gas turbines	100% HSE
TET	204 employees as at 31/12/2011	669 GWh 168 MW 1 unit and 2 gas turbines	81.3% HSE
PV	1.231 employees as at 31/12/2011	45,005 TJ	77.7% HSE

* Net capacity in MW is represented at the end of 2011.
** According to the contract, 15.4% of HESS production is sold outside the HSE Group.

1.4 Operating highlights of the company and the group

In view of general economic situation, conditions in financial markets, safe and reliable electricity supply of Slovenia, activities performed in key development projects of the group and realised net operating profit or loss, the HSE Group successfully finished the financial year 2011.

Relative to 2010, the HSE Group:

- Increased sales quantities by 47%;
- Realised 45% higher net sales revenue;
- Increased assets by 20% due to high group investments;
- Increased equity by 5%; and
- Operated with profit and despite unfavourable hydrology realised net profit or loss in the amount of € 69.8 million, which is 32% less than in the previous year, but 20% more than planned for the same period.

Considering the fact that due to unfavourable hydrology in 2011, the electricity production was lower by 10% or 804 GWh compared to 2010 and that in 2010 sales of TE-TO Rousse was realised with € 8.8 million of sales revenue, we estimate that the HSE Group was operating successfully in the previous year.

Despite adverse economic conditions, HSE Group continued to ensure efficient and secure supply of electricity to its customers in the previous year. 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 emphasized that for the first time since its establishment the HSE Group realised net sales revenue in the amount exceeding € 1 billion.

Throughout the entire 2011, HSE and TEŠ were (while performing investment in the replacement Unit 6) striving to obtain the government guarantee for EIB loan in the amount of € 440 million (for financing). Non-issuing of government guarantee affected the non-drawing of a long-term loan which resulted in a larger short-term indebtedness and delay of payments to suppliers to the replacement Unit 6 and deterioration of operating ratios.

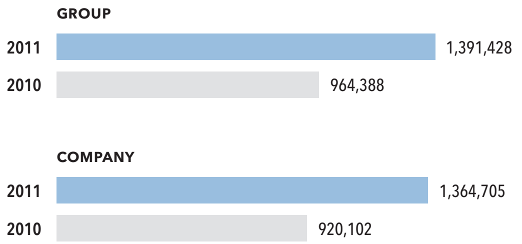
HSE Group

	2011	2010	IND 11 / 10
Net sales revenue (in EUR)	1,327,546,308	913,777,494	↑ 145
Revenue (in EUR)	1,391,427,639	964,387,887	↑ 144
EBIT (in EUR)	96,190,255	126,243,974	↓ 76
EBITDA (in EUR)	188,895,859	214,874,021	↓ 88
Net profit or loss (in EUR)	69,753,103	102,984,128	↓ 68
Assets (in EUR)	2,275,886,031	1,900,508,353	↑ 120
Equity (in EUR)	1,409,097,763	1,344,136,467	↑ 105
Operating cash flow (in EUR)	135,505,458	197,613,262	↓ 69
Added value (in EUR)	336,972,068	359,224,673	↓ 94
Electricity produced (in GWh)	7,625	8,429	↓ 90
Electricity sold (in GWh)	22,508	15,283	↑ 147
Number of employees as at 31 December	3,819	3,824	↑ 100
Number of group companies as at 31 December	31	29	↑ 107

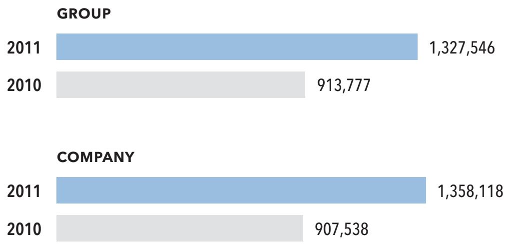
The company HSE d.o.o.

	2011	2010	IND 11 / 10
Net sales revenue (in EUR)	1,358,117,730	907,537,591	↑ 150
Revenue (in EUR)	1,364,704,771	920,102,278	↑ 148
EBIT (in EUR)	55,617,424	91,582,141	↓ 61
EBITDA (in EUR)	57,043,353	92,722,035	↓ 62
Net profit or loss (in EUR)	46,729,619	79,491,404	↓ 59
Assets (in EUR)	1,311,214,398	1,198,207,987	↑ 109
Equity (in EUR)	970,128,945	929,748,299	↑ 104
Operating cash flow (in EUR)	29,798,354	79,653,064	↓ 37
Added value (in EUR)	65,629,910	100,710,791	↓ 65
Electricity sold (in GWh)	23,779	16,007	↑ 149
Number of employees as at 31 December	135	123	↑ 110

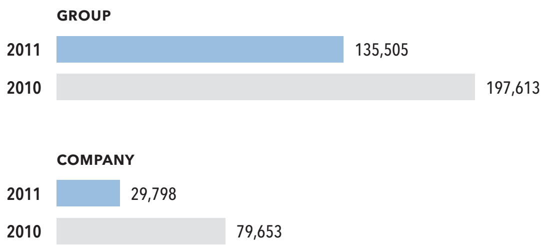
Total revenue (in € thousand)



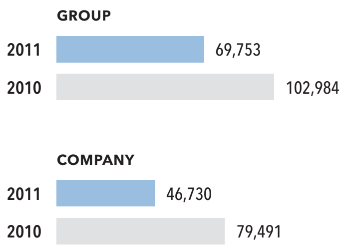
Net sales revenue (in € thousand)



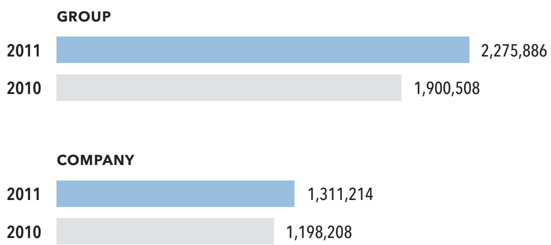
Cash flows from operating activities (in € thousand)



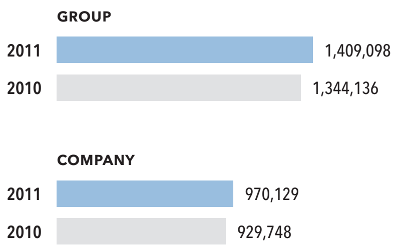
Net profit or loss (in € thousand)



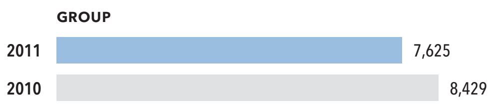
Assets (in € thousand)



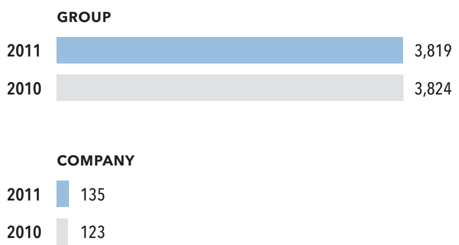
Equity (in € thousand)



Electricity production of HSE Group companies (in GWh)



Employees



1.5 Chronology of major developments in 2011

JANUARY

- On 12 January 2011, a loan agreement with EBRD in the amount of € 200 million was signed for the purposes of financing the construction of the replacement Unit 6;
- On 19 January 2011, the extended project group for the construction of replacement Unit 6 was approved. The new management of the project was appointed. Miran Žgajner, M.Sc., was appointed a director of the project and Branko Debeljak, M.Sc., was appointed his deputy;
- All conditions of drawing a € 110 million loan from EIB were met since the Republic of Slovenia and Austria settled all environmental issues on cross-border effects of the replacement Unit 6.

FEBRUARY

- On 16 February 2011, the Environmental Permit for Operation of the Large Combustion Plant of Unit 6 was obtained;
- On 17 February 2011, the government of the Republic of Slovenia adopted a Decree on National Spatial Plan for PSP Kozjak and power transmission line between the PSP and DTS Maribor; Thus, it spatially planned the facility and enabled the beginning of investment since the Decree enables the acquisition of necessary permits and approvals;
- On 17 February 2011, EIB performed the transaction of the loan for the construction of the replacement Unit 6 at TEŠ;
- At its 4th correspondence meeting on 18 February 2011, HSE's SB adopted the 2011 Business Plan of HSE;
- On 22 February 2011, the international review fully approved information on PV coal inventories, its calorific value and cost manageability;
- On 23 February 2011, an agreement for the construction of HPP Krško reservoir was signed and the construction works began;
- On 23 February 2011, the SB of the company PV adopted its 2011 Business Plan;
- At its 46th regular meeting on 28 February 2011, the SB of HSE Invest adopted the 2011 Business Plan of HSE;
- Within the framework of regular maintenance, annual overhauls and revisions were performed at the operating turbines on the Drava River; Fifteen annual revisions and six regular overhauls were performed as well as all preventive plant maintenances and some improvements, replacements and upgrades of hardware and electric equipment;
- Public presentation of supplemented national detailed plan for the area of HPP Brežice and environmental report in Slovenia and public discussion in Brežice and Krško took place.

MARCH

- At its 54th regular meeting on 3 March 2011, TEŠ's Supervisory Board approved the proposed 2011 Business Plan of the company. The member adopted it on 23 March 2011.
- At its 18th regular meeting on 4 March 2011, SENG's Supervisory Board adopted the 2011 Business Plan, while on 21 April the Business Plan was adopted with the decision by the sole company member;
- At the time of public disclosure of the supplemented draft of the national detailed plan for HPP Brežice and environmental report in Croatia, a public discussion was performed in Zagreb as at 9 March;
- On 17 March 2011, TEŠ obtained a final and legally enforceable building permit for the cooling tower and main technological facility of the replacement Unit 6 at TEŠ;
- On 18 March 2011, DEM's Supervisory Board approved the 2011 Business Plan of the company DEM;

- On 18 March 2011, the operating permit for the HPP Boštanj reservoir was obtained;
- On 28 March 2011, the change of Articles on Incorporation of TEŠ was entered in the Companies Register. By this change the member expanded the number of Supervisory Board's members from current three members to six members, of which four represent the interests of the owner, while two represent the interests of employees; On the basis of this change, the owner appointed two new members as at 6 April, while the other new member was appointed by the Worker's Council of TEŠ as at 10 May;
- An operating permit for the new coal conversion station at TET was issued;
- PSP Avče turbine audit was concluded.

APRIL

- On 8 April 2011, the contractor for works on the cooling tower and main technological facility of the replacement Unit 6 was selected;
- On 13 April 2011, TET's Supervisory Board adopted the 2011 Business Plan;
- On 20 April, the Project Council TEŠ Unit 6 held its first meeting. The representatives of the local community, non-governmental organisations and competent ministries were invited to join the Council. The Project Council was established with the purpose of more transparent and efficient management of investments in the replacement Unit 6 at TEŠ;
- On 22 April 2011, DEM's General Meeting approved the 2011 Business Plan;
- In order to prepare a comprehensive solution and global strategy of the Mura River, a Project Council was established coordinated by the major of Gornja Radgona, which comprises majors of municipalities located on the banks of Mura River and representatives of the Ministry of the Environment and Spatial Planning, Environment Agency of the Republic of Slovenia, the Ministry of Agriculture, Forestry and Food and Pomurje Development Institute Murska Sobota.

MAY

- On 19 May 2011, the overhaul of 345 MW Unit 5 was launched at TEŠ, which was prematurely successfully completed as at 15 July 2011;
- The reconstruction of 110 kV switchyard HPP Dravograd was successfully completed at DEM;
- DEM and Hmezad Jeklo Ruše created a joint company MHE Lobnica in which DEM holds a 65% stake; MHE Lobnica is expected to produce 600 MWh energy per year;
- The construction permit for demolition of boiler part in gas power plants 1 and 2 at TET was obtained.

JUNE

- On 27 June 2011, TET's SB appointed Franc Blaznek as a new director;
- PV signed an agreement on cooperation in modernisation of underground coal extraction in India with the Fairwood Group, where PV will take the role of an engineer, project leader, auditor and consultant.

JULY

- On 6 July 2011, an agreement for establishment of development and research center (Razvojni center energija – »Energy Development Centre«) was signed; The consortium of newly established centre comprises key companies of the Savinje-Šalek Region, including the HSE Group companies: TEŠ, PV, PV Invest and HTZ;
- At the 8th regular General Meeting of HSE Invest on 27 July 2011, two new SB members were appointed; The General Meeting was also acquainted with election of worker representatives to the Supervisory Board;
- The renovation of second HPP Zlatoličje turbine started at DEM; Renovation will increase the power plant's operational reliability.

AUGUST

- The overhaul of Unit 4 will take place in TET between 8 August 2011 and 22 August 2011;
- On 11 August 2011, the District Court of Ljubljana entered a newly established company SRESA in the Companies Register. SRESA was established with the purpose of performing and financing the construction and management of HPP on the middle Sava River;

- On 18 August 2011, TEŠ approved the Revised Investment Programme »Construction of Replacement 600 MW Unit 6 at TEŠ«, 4th Revision;
- On 29 August 2011, the new SB member was appointed at the 9th HESS General Meeting;
- On 30 August 2011, two additional SB members were elected at the 20th TET General Meeting;
- The construction of MHE Markovci which will produce 5,412 MWh electricity per year has begun; The beginning of power plant operations is envisaged in August 2012;
- A failure of generator equipment of PSP Avče occurred at SENG, which resulted in shut-down of operation;
- The installation of turbine 3 equipment in HPP Doblar I was finished at SENG;
- At the HSE General Meeting on 29 August 2011, the Capital Assets Management Agency of the Republic of Slovenia, as the representative of the founder, reviewed the Annual Report of the company and Group for 2010 and agreed with allocation of accumulated profit for 2010 in the amount of € 39,745,702 to other revenue reserves; AUKN also adopted a decision on discharge from liability to the management and SB of the company HSE for the year 2010;
- On 31 August 2011, HSE, as the sole company member, reviewed the Annual Report of TEŠ for the 2010 financial year and adopted a decision to allocate the total accumulated profit of TEŠ for 2010 in the amount of € 3,992,285.60 to other revenue reserves with the purpose of the implementation of development projects and adopted the following decisions: that it does not grant a discharge to TEŠ Managing Director Uroš Rotnik, Ph.D. for the period from 1 January 2010 to 11 November 2011, that it grants discharge to TEŠ Managing Director Simon Tot, M.Sc. for the period from 11 November 2010 to 31 December 2010 and that it grants a discharge to SB members of the company TEŠ for the period from 1 January 2010 to 31 December 2010.

SEPTEMBER

- On 7 September 2011, the companies HSE, SEL and GEN energija signed the Agreement on Cooperation in the Construction Project of HPPs on the middle Sava River;
- On 28 September 2011, the National Assembly of the Republic of Slovenia started a discussion on the proposal of the Act on Guarantee of the Republic of Slovenia for Liabilities from the Long-term Loan in the amount of € 440 million in order to finance the construction of replacement 600 MW Unit 6 at TEŠ;
- Ten HPPs DEM were extended by the new solar power plant »Sončni park Zlatočje« at energy facility in Zlatoličje, which will produce approximately 75 MWh of energy per year;
- The dismantlement of turbine 2 at HPP Doblar I began at SENG;
- After a prior approval of TEŠ's SB, the director of TEŠ signed an Appendix no. 3 to the Contract for the Supply of Main Technological Equipment (as at 27 June 2008) with Alstom (the supplier). The Appendix finally limits the risk of increase in the price of main technological equipment; According to 2008 contract, the price of main technological equipment has been increasing on daily basis as well as the price of metal, oil and labour costs; For TEŠ this represented a non-manageable risk of increase in the final price of the project. Thus, the signed Appendix capped the price of main technologic equipment for construction of replacement Unit 6.

OCTOBER

- On 5 October 2011, the Committee on Finance and Monetary Policy of the National Assembly of the Republic of Slovenia did not approve the proposal of the Act on Guarantee of the Republic of Slovenia for Liabilities from the Long-term Loan from EIB in the amount of € 440 million in order to finance the construction of replacement 600 MW Unit 6 at TEŠ. Thus, the process of government guarantee acquisition in the National Assembly was temporarily suspended;
- On 11 October 2011, PV, Fairwood Group, Cigler & partners and Chescor Capital signed an agreement on establishment of a joint company Fairwood PV which will operate in the field of coal mining industry in Asian and Pacific Region;
- On 19 October 2011, a highest daily production was realised in PV (12,860 tons) and on the same coal mining site the highest shift production in the history of PV (5,940 tons);

- On 19 October 2010, the National Assembly of the Republic of Slovenia adopted the Act Governing the Conditions of the Concession for the Exploitation of Energy Potential of the Lower Sava River (ZPKEPS-1); The Act introduced certain changes to the relationship between the concession grantor and concessionaire HESS and it will significantly impact the company's operations in the future years;
- On 20 October 2011, the company PV established a branch office in Macedonia;
- HPP Lobnica obtained a construction permit and started construction of the new energy facility on the Lobnica River named HPP Ruše;
- In TET they have finally managed to obtain the contribution to cover eligible costs of electricity production from domestic primary sources that represented more than 16% stake of all revenue planned;
- The public presentation of national spatial plan for GSPP was held in TET;
- The technical inspection of turbine 3 in HPP Doblar 1 was successfully performed at SENG;
- At SENG the construction permit for extension of PSP Avče surge chamber – ventilation tube was obtained and the new rotor of PSP Avče generator was launched.

NOVEMBER

- On 17 November 2011, the HSE Group celebrated the first decade of operation in the Slovenian Philharmonic Hall of Ljubljana;
- On 25 November 2011, the companies HSE, SEL and GEN energija signed the Contract of Members by which they committed themselves to joint participation in the project of HPP construction on the medium Sava River. HSE has a 60% stake in SRESA, 30% stake in SEL and 10% stake in Gen Energija;
- On 29 November 2011, the Annex no. 4 was signed to the Concession Agreement for Exploitation of the Energy Potential of the lower Sava River;
- The construction of the second solar power plant DEM began, namely at HPP Formin, named the solar power plant Formin. Its total output will amount to 112 kWp, while the envisaged energy production will amount to 119 MWh;
- At DEM, the 60th anniversary of establishment was celebrated;
- At the 16th regular PV's Supervisory Board meeting, a three-member Management Board was appointed. The Management Board included Milan Medved, Ph.D. (Management Board President), Vladimir Malenković, Ph.D. (Management Board Member) and Sonja Kugonič (Management Board Member – Worker Director).

DECEMBER

- On 12 December 2011, PV and subsidiary HTZ Velenje received an international ISO 50001 certificate for Energy Management;
- On 8 December 2011, DEM received a certificate »Family-friendly company«;
- On 15 December 2011, the 10th HESS General Meeting was held where the company members were deciding upon appointment of new SB members;
- At its 14th regular meeting on 20 December 2011, HSE's SB adopted the Business Plan of the company and Group for 2012 with additional plan for 2013 and 2014;
- On 21 December 2011, the operating permit for the HPP Blanca reservoir was obtained;
- On 21 December 2011, PV's SB approved the 2012 Business Plan at its 17th regular meeting with the additional plan for 2013 and 2014;
- On 23 December 2011, TEŠ and Alstom consortium signed the Appendix 4 to the Contract for the Supply of Main Technological Equipment for Replacement Unit 6 at TEŠ;
- HSE performed a capital increase of TEŠ in the amount of € 8.2 million.

1.6 Important events after the end of the period

- On 3 January 2012, TEŠ signed an agreement on the method of paying liabilities in the period until the issue of government guarantee with Alstom; On 15 February 2012, TEŠ handed over the boiler room area of the replacement Unit 6 to Alstom and Alstom started with preparations for installation; On 13 March 2012, Alstom started with the installation of main steel construction of the boiler room at Unit 6.

- At the end of December 2011, HSE and TEŠ signed two agreements on bridging loan for investment in the replacement Unit 6 at TEŠ in the total amount of € 159.4 million that started to be drawn as at 3 January 2012 with the repayment deadline of 31 July 2012. Here, HSE obtained assets by borrowing from commercial banks and in the context of borrowing within the HSE Group (cash management).

- Due to liquidity management of the HSE Group, the SB granted an approval for taking-out a short-term loan in the amount of € 102 million for the period from 1 January 2012 to 31 December 2012. In January, the company drew assets in the amount of € 100 million.

- On 30 January 2012, Igor Šalamun, Ph.D. resigned from the post of the member of the HSE's SB.

- At two meetings held by the end of February, the Government discussed the proposal of issuing a government guarantee for EIB loan in the amount of € 440 million for the investment of replacement Unit 6 at TEŠ; In its opinion the Government of the Republic of Slovenia expressed general support to the Act on Government Guarantee, while at the same time it requested that the investor satisfies certain conditions which shall be defined in the special agreement between the Government of the Republic of Slovenia and TEŠ; TEŠ still faces the risk of non-issuing the guarantee within the proper deadline.

- In February 2012, the Supreme Court refused the request by the TEŠ Trade Union to audit the verdict of the Higher Labour and Social Court in Ljubljana, which approved the verdict of the Celje Labour Court that the strike which took place at TEŠ in November 2010 was illegal.

- In February 2012, a gala opening of the renewed Planina boiler plant took place at Planina in Kranj; By performing all three investments (modernisation of heating stations and optimisation of hot-water network, boiler replacement and construction of cogeneration of heat and electricity), Planina boiler room became a contemporary boiler room equipped with the latest technological equipment from the perspective of optimal and particularly more rational production and distribution of heat and its direction and management.

- In March 2012, the company HSE BH signed a preliminary contract for the purchase of Amitea 2 which is the concessionaire for 3 HPPs.

- On 22 March 2012, the Worker's Council recalled the members of worker representatives from SB of TEŠ.

- At the end of March 2012, a decision was adopted by the HSE, as the founder and sole owner, stating that as at 1 April 2012 the procedure of voluntary liquidation of the subsidiary HSE Hungary Kft. Begins.

- At the end of March 2012, HSE adopted a decision on closing the HSE representative office in Belgrade, Republic of Serbia. As at 18 April 2011, the representative office was deleted from the registry.

- As a result of generator failure reparation, PSP Avče was out of operation by 17 April 2012.

- Credit rating agencies Moody's Investor Services Inc and Fitch Ratings Limited have decreased the credit rating of banks NKBM and NLB and thus today they do not meet the conditions required for the guarantor under the Loan Agreement with EIB; As a result, the European Investment Bank (EIB) issued a request on establishing the right to request the replacement of guarantors who lost their status.

- On 19 April 2012, the National Assembly of the Republic of Slovenia assessed that the proposal of the Act on Government Guarantee for EIB loan in the amount of € 440 million for the construction of the replacement Unit 6 at TEŠ is suitable for further consideration; The proposal of the Act will be submitted to the Committee on Finance and Monetary Policy of the National Assembly of the Republic of Slovenia.

Numerous fairy-tale forms and playful moments, blushing cheeks and snowy pearls in the hair … The first snowflake is the most beautiful. The second one, third one … and the last one. Each of them has its power, the power to accelerate numerous beats and fill hearts with energy.

today **snow**
tomorrow **energy**

2 Business report 2011

2.1 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 31/12/2011

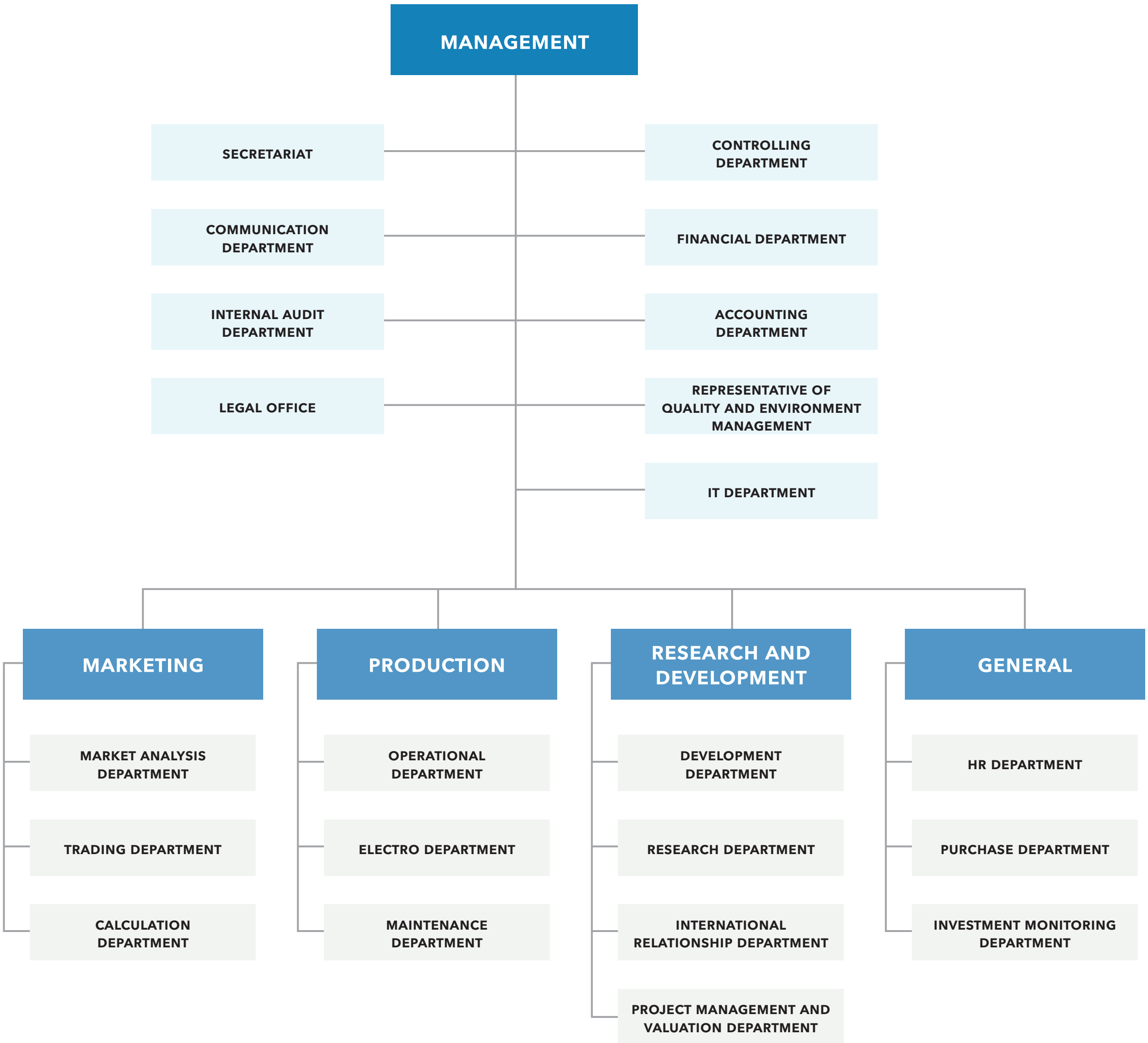
FULL COMPANY NAME	Holding Slovenske elektrarne d.o.o.
ABBREVIATED NAME	HSE d.o.o.
LEGAL FORM	Limited liability company
ADDRESS	Koprska ulica 92, 1000 Ljubljana, Slovenia
TELEPHONE	01 470 41 00
FAX	01 470 41 01
ENTRY NO.	1/35036/00, registered with the District Court in Ljubljana
NOMINAL CAPITAL IN €	29.558.789
SIZE	Large company
OWNERSHIP STRUCTURE	100% Republic of Slovenia
YEAR OF ESTABLISHMENT	2001
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	Drago Dolinar, Ph.D.

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

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

2.1.2 Organisational structure of the controlling company

The company's organisational chart as at 31/12/2011



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. In Maribor, the centre of managing production, investments and telecommunications is located. The business establishment in Velenje is responsible for 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 1/1/2011

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

Governing bodies of the controlling company as at 31/12/2011

GENERAL MEETING	SUPERVISORY BOARD	MANAGING DIRECTOR
COMPANY MEMBERS	OWNER'S REPRESENTATIVES	
RS – 100% stake	Drago Dolinar, Ph.D. (President)	Matjaž Janežič, M.Sc.
Representative: The Capital Assets Management Agency of the Republic of Slovenia	Marjan Ravnikar, M.Sc. (Deputy)	
	Vekoslav Korošec, M.Sc.	
	Igor Šalamun, Ph.D.	
	EMPLOYEE REPRESENTATIVES	
	Mojca Turnšek, M.Sc.	
	Rene Jeromel	
	AUDIT COMMITTEE	
	Marjan Ravnikar, M.Sc. (President)	
	Brane Podboršek	
	Rene Jeromel	

Changes in HSE's Supervisory Board in 2011

Between 1 January 2011 and 19 January 2011, the owner's representatives were:

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

Between 20 January 2011 and 31 December 2011, the owner's representatives were:

- Drago Dolinar, Ph.D., President;
- Marjan Ravnikar, M.Sc., Deputy;
- Vekoslav Korošec, M.Sc.;
- Igor Šalamun, Ph.D..

2.1.4 Corporate governance statement

The company Holding Slovenske elektrarne d.o.o., Koprska ulica 92, 1000 Ljubljana in accordance with Paragraph 5 of Article 70 of the Companies Act (ZGD-1) expresses a Corporate Governance Statement. The statement refers to the period from 1 January 2011 to 31 December 2011.

As the Managing Director of the company HSE, I hereby declare that the governance of the company was in line with acts and other regulations, applicable Articles of Incorporation of the limited liability company HSE, internal company's acts and in accordance with good business practice.

As the Managing Director of the company HSE, I hereby declare in accordance with Article 60.a of the Companies Act that the annual report and all its integral parts, including the corporate governance statement, is prepared and published in accordance with the Companies Act and International Financial Reporting Standards.

1. Statement of compliance with the Corporate Governance Code for Companies with State Capital Investments

As the Managing Director of HSE d.o.o., Matjaž Janežiš, M.Sc., I hereby declare that the governance of the HSE company in 2011 was in accordance with recommendations from the Corporate Governance Code for Companies with State Capital Investments (Code) adopted by the Capital Assets Management Agency of the Republic of Slovenia (AUKN) and published as at 18 January 2011 at AUKN websites (www.auknrs.si), while respecting Reporting Guidelines of the Companies with State Capital Investments and individual applicable recommendations of AUKN.

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.

2. Company management bodies

In accordance with the Articles of Incorporation of HSE, the founder manages the company directly and through the company's bodies. The company bodies are the Supervisory Board and the Managing Director.

2.1 Founder

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;

- The use of accumulated profit;
- Granting a discharge from liability to the Managing Director and the Supervisory Board;
- Allocation and termination of interests;
- Changes in the company‘s nominal capital;
- Changes to the status and dissolution of the company;
- Election and dismissal of members of the company’s Supervisory Board;
- Appointment of the company’s auditor;
- Appointment of the company’s procurator and other authorised persons; and
- Other matters in accordance with regulations and the Articles of Association.

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

2.2 Managing Director

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.

2.3 Supervisory Board

The Companies Act, Articles of Incorporation of HSE and the Rules governing the work of the Supervisory Board define the competences and decision-making procedures of the SB, organisation of work and other issues of significant importance to its operations.

The Articles of Incorporation of HSE defines the structure of the Supervisory Board. The Supervisory Board consists of six members, of which four members represent the interests of the owner and are appointed and dismissed by the owner, while two members represent the interests of employees and are appointed and dismissed in accordance with the Worker Participation in Management Act. Supervisory Board members are appointed for a term of four years and can be re-appointed when their term of office expires.

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

- It supervises the management of the company;
- It examines the structure of the annual report and the proposal for 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 or 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 the 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, selling, 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, transactions related to short-term cash management within the HSE Group and transactions for short-term investing of assets in the form of deposits at commercial banks.

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

2.4 Audit committee

The Audit Committee was established in accordance with the Companies Act and it ensures professional support to the SB. Tasks and competences of the Audit Committee are determined by the Companies Act and SB decisions:

- Monitoring of financial reporting procedure;
- Monitoring of internal control efficiency within the company, internal audit and risk management systems;
- Monitoring of statutory audit of annual and consolidated financial statements;
- Reviewing and monitoring of auditor's independence for the company's annual report, particularly assuring additional non-audit services;
- Proposing SB the appointment of the candidate for the auditor of the company's annual report;
- Supervising the integrity of financial information prepared by the company;
- Assessing the preparation of annual report and decision for the Supervisory Board;
- Participating in the definition of the more important audit areas;
- Participating in preparation of the contract between the auditor and the company;
- Performing other tasks determined by the Articles of Association or SB Decision and
- Cooperating with the auditor in the audit of the company's annual report, particularly with mutual informing on main issues related to audit.

The structure and operations of SB and Audit Committee are presented in the SB report.

3. Internal controls and risk management within the company in relation to the financial reporting procedure

Under the company's internal control system we understand planned and systematic establishment of procedures and methods which, in the course of their operation, assure punctuality, reliability and completeness of data and information, accurate and fair preparation of financial statements, prevent and detect deficiencies in the system and assure compliance with acts and other regulations and internal governing documents of the company.

With the intention of ensuring greater transparency, efficiency and responsible operations, the company established an operating system of internal controls and risk management through the company's organisational structure, standard of quality management ISO 9001, OHSAS 18001 standard, information security management as required by ISO/IEC 27001 and internal governing documents of the company with a precisely prepared reporting system per individual organisational units. The internal control system is supported with IT control system which also ensures relevant limitations and control over the network as well as precise, up-to-date and complete data processing.

The company established the advisory body HSE Risk Management Committee in order to establish the comprehensive risk management system within the company, to provide quality basis of company management and governance to the company's management and founder and with the purpose of achieving the goals planned. Organisation, structure, method of work and its tasks are defined in the Rules governing the work of Risk Management Committee of HSE d.o.o.

The company established the Internal Audit in order to assure constant and comprehensive examination of regularities and legalities as well as economy and regularity of business operations. The Internal Audit is an independent organisational unit directly subordinated to the company's Managing Director. It performs independent and objective audit activity within the company.

The Managing Director is responsible for establishment, operation, control and constant improvement of internal control system and accuracy and completeness of data.

Ljubljana, 17 May 2012

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

2.1.5 Report on implementation of AUKN recommendations in 2011

In 2011, the company HSE regularly monitored recommendations by AUKN and informed the HSE's SB of the given recommendations on regular basis. The company reasonably considered the given recommendations in its operations.

2.2 Profile of the HSE Group

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

THE GROUP'S ACTIVITY

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.

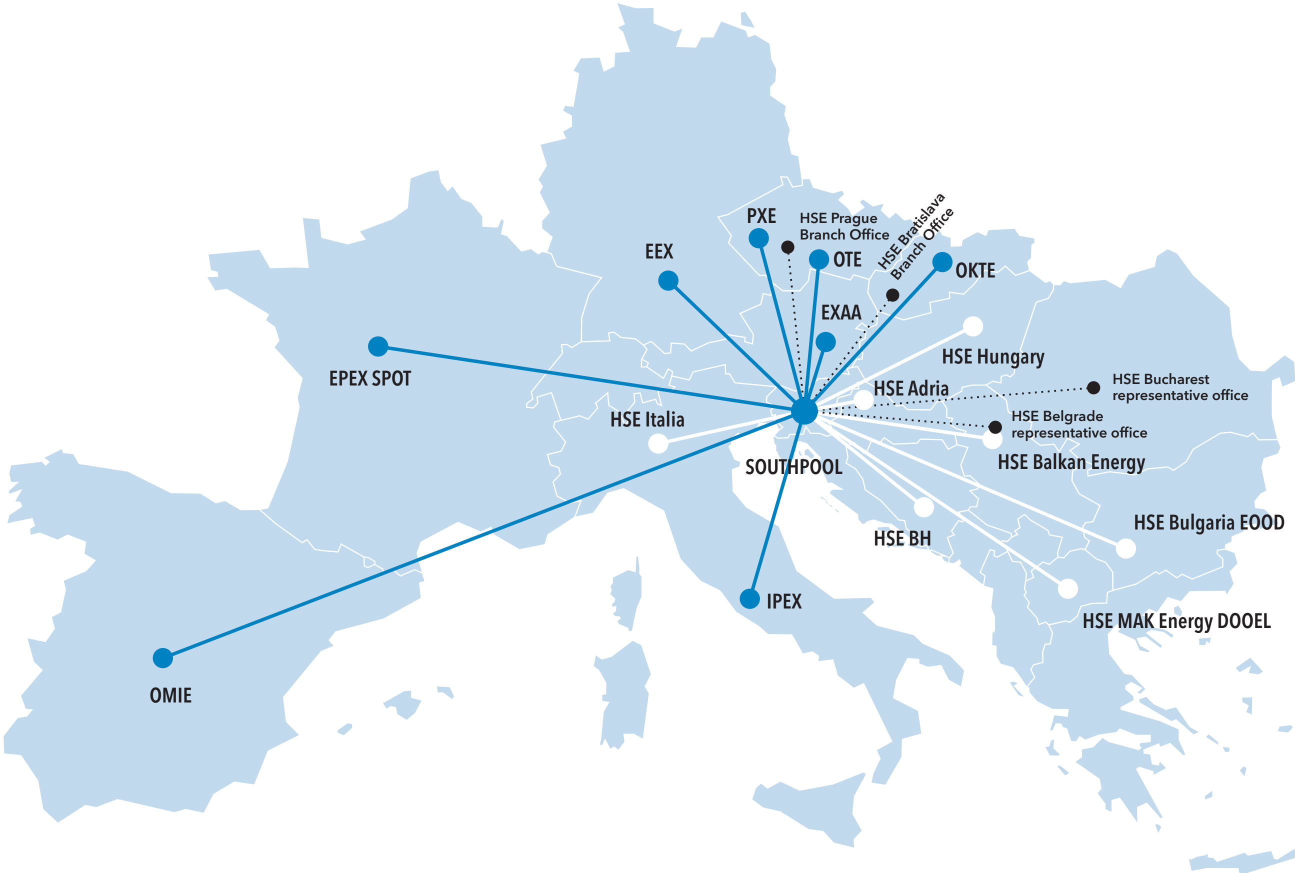
Its main activities are electricity production and trading, which is why the HSE Group seeks to take advantage of synergies associated with the wide spectrum of production capacities in order to maximise its operating efficiency. Because different production units have different operational and cost characteristics, a more cost-effective electricity supply can be achieved through 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 2011, 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 one subsidiary and one associate;
- Soške elektrarne Nova Gorica d.o.o. with a subsidiary,
- Hidroelektrarne na spodnji Savi d.o.o.,
- Srednjesavske elektrarne d.o.o.;
- Termoelektrarna Šoštanj d.o.o. with an associate;
- Termoelektrarna Trbovlje d.o.o.;
- Premogovnik Velenje d.d. with eight independent companies, three associated companies and Branch Office in Macedonia;
- 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

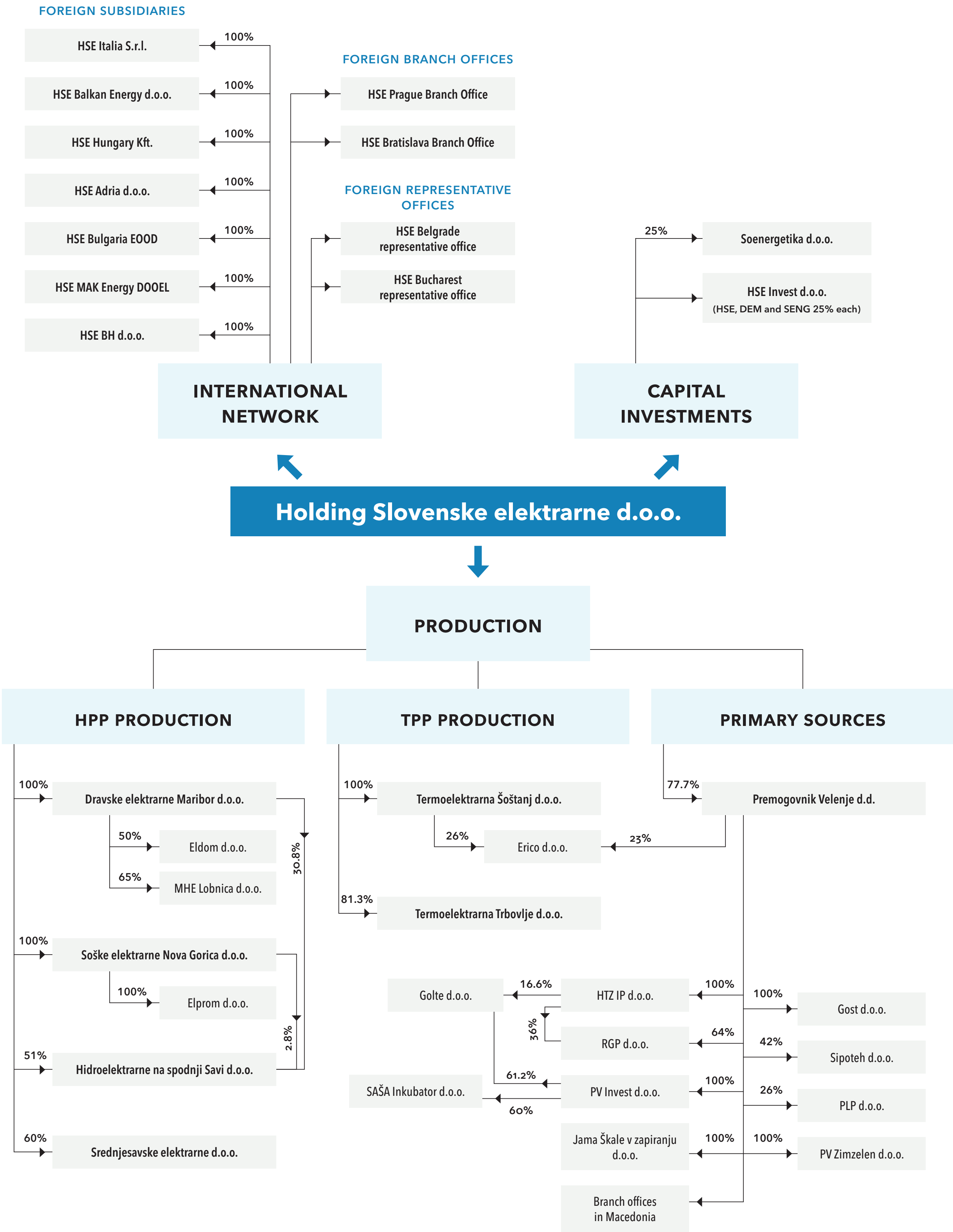


HSE has registered companies, branches and representative offices in Slovenia, Croatia, Serbia, Italy, Hungary, Bulgaria, Bosnia and Herzegovina, Czech Republic, Slovakia, Romania and Macedonia. It is a member of the German energy exchange EPEX, Austrian energy exchange EXAA, French power exchange Powernext, Italian power exchange IPEX, Czech energy exchange OTE, Prague-based energy exchange PXE, Hungarian energy exchange HUPIX, regional energy exchange Southpool and Slovak stock exchange OKTE. In Greece, HSE obtained an electricity trading licence on behalf of the controlling company; it also holds a trading licence in Poland. In 2011, HSE finished the registration procedure in Spanish market and became the member of the Spanish stock exchange OMIE.

The HSE Group's other trading markets include:

- Albania;
- Montenegro;
- Switzerland; and
- Kosovo.

Related companies of the HSE Group as at 31/12/2011



Hydro production

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

Managing Director	Viljem Pozeb, M.Sc.
Main activity	Electricity production in HPP
Supervisory Board composition as at 01/01/2011	Stanislava Boban (President) Simon Tot, M.Sc. Marjan Kirbiš
Supervisory Board composition as at 31/12/2011	Stanislava Boban (President) Đorđe Žebeljan, M.Sc. Marjan Kirbiš

With eight HPPs on Drava River (HPP Dravograd, HPP Vuzenica, HPP Vuhred, HPP Ožbalt, HPP Fala, HPP Mariborski otok, HPP Zlatoličje, HPP Formin), two small HPPs (Small HPP Melje and Small HPP Ceršak) and with two SPPs (SPP Zlatoličje and SPP formin) the company DEM produces almost one quarter of all Slovenian electricity. The average annual production of the company DEM, which amounts to 2,660 GWh, represents 80% of Slovenian electricity which complies with criteria of renewable sources and standards of the internationally accepted RECS certificate (Renewable Energy Certificates System). The total net output of DEM power plants amounts to 584 MW.

The operations of the company that performs most of its activities on the Drava River are based on effective processes which are performed with minimum burden on sources and environment. Significant operating principles are reliability of partner cooperation in all areas and adaptability to the challenges of employees, owners and external environment. In the area of hydropower activity the company fully controls and markets all processes, while the care for environment is always criterion of assessing working and economic success at existing capabilities and those that it still intends to establish. Efficiency, reliability, adaptability, completeness and environmental responsibility represent the basic values of the company DEM.

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.

MHE Lobnica d.o.o. is a company that was established in May 2011 with the purpose of electricity production.

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

Managing Director	Bogdan Barbič
Main activity	Electricity production in HPP
Supervisory Board composition as at 01/01/2011	Janez Keržan, M.Sc. (President) Jožef Hebar Primož Stropnik Nikola Galeša Vladimir Gabrijelčič
Supervisory Board composition as at 31/12/2011	Janez Keržan, M.Sc. (President) Andrej Kovač Primož Stropnik Nikola Galeša Vladimir Gabrijelčič

The company HESS was established in 2008, particularly with the purpose of construction, operation and maintenance of HPP chain on the lower Sava River in accordance with the provisions of Concession Agreement for the Exploitation of Energy Potential of the Lower Sava River and the Act Governing the Conditions of the Concession.

The project of HPP construction on the lower Sava River classifies HESS as one of the largest investors of RES construction in the Republic of Slovenia and wider area.

The company manages the construction of new HPPs Krško, Brežice and Mokrice (HPP Boštanj and HPP Blanca are already constructed) in terms of time schedule and financing by providing optimal and rational technical solutions. In addition to investments, the company also established the system of operation and maintenance of HPP Boštanj and HPP Blanca, which enables optimization of HPP chain operation while assuring adequate safety and reliability.

With regard to EU countries' demands and commitments for the RES share of the largest possible extent, the company HESS contributes an important part of this energy to the Republic of Slovenia. In addition to already built HPP Boštanj and HPP Blanca, the construction of HPP Krško is in its final stage and it will be finished in 2012. Beginning of construction of HPP Brežice and HPP Mokrice which are in the process of adopting NSP is planned for 2013 or 2014.

The company HESS displays its mission in rational construction of new hydro-production facilities as well as reliable, competent, safe and environmentally friendly electricity production.

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

Managing Director	Vladimir Gabrijelčič
Main activity	Electricity production in HPP
Supervisory Board composition as at 31/12/2011	Tomaž Štokelj, Ph.D. (President) Irena Stare Silvester Medvešček

For 65 years the basic mission of the company SENG has been electricity production from renewable water source. In the basin of the Soča River and its tributaries it produces so-called blue energy of 6 large and 21 small HPPs, while in 2010 the HPP chain on the Soča River was supplemented by PSP Avče. SENG's mission – electricity production from a renewable water source – is performed with the largest extent of responsibility to employees of local and wider community and, last but not least, to the environment in which they operate. This fact is proved by numerous international certificates: ISO for quality and environmental management, OHSAS certificate for occupational safety and health, TÜV certificate for production of electricity from water sources and RECS certificate for production of electricity from renewable sources.

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.

Thus, the multi-purpose use of HPP has been a commitment and reflection of SENG's cooperation with local communities and population for several decades. SENG devotes a great deal of attention to the supply of local population with drinking water, fish farming, fishing, preparation of touristic and recreation areas, maintenance of technical heritage and they contribute to greater flood protection of Posočje and other possibilities for multi-purpose use of hydro power plants.

The company's vision is to optimally exploit the available water potential of the Soča River and its tributaries and produce electricity from other renewable energy sources.

SENG monitors events in the field of energy sector and preparation of new energy facilities, while the rhythm of plan realisation lies within the responsibility of the country.

Srednjesavske elektrarne d.o.o. (SRESA)

Managing Director	Matjaž Janežič, M.Sc.
Main activity	Electricity production in HPP

The company SRESA d.o.o. was established in 2011 with its registered office on the location of the company TET. It was established with the purpose of constructing HPP chain and exploitation of water energy potential for electricity production on the part of Sava water body from Ježica to Suhadol. The company's operation will be particularly defined with the concession agreement (which has not been concluded yet) on the basis of which the company will manage the construction of new power plants Tacen, Gameljne, Šentjakob, Zalog, Jevnica, Kresnice, Ponoviče, Renke, Trbovlje, Suhadol in terms of time schedule and financing by providing optimal and rational technical solutions.

TPP production

Termoelektrarna Šoštanj d.o.o. (TEŠ)

Managing Director	Simon Tot, M.Sc.
Main activity	Production of electricity in thermal power plants
Supervisory Board composition as at 01/01/2011	Đorđe Žebeljan, M.Sc. (President) Franc Rosec Janez Keržan, M.S.c.
Supervisory Board composition as at 31/12/2011	Janez Keržan, M.Sc. (President) Franc Rosec Dean Besednjak, Ph.D. Vladimir Malenković, Ph.D. Aljoša Tomaž Branko Sevčnikar

TEŠ is the largest production facility in the HSE Group. Its main activity is the production of electricity and thermal energy for the purposes of district heating.

With a net output of 779 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 production of electricity ranges between 3,500 and 3,800 GWh. The average annual production of thermal energy for district heating of Šalek Valley ranges from 400 to 450 GWh. Moreover, TEŠ also provides system services (primary regulation, secondary regulation, rotating reserve …). Since the useful life of existing TEŠ Units 1 to 5 is already coming to an end as they are worn-out, uneconomical, technologically obsolete and environmentally less appropriate (and environmentally inappropriate after 2016), we are building the replacement 600 MW Unit 6 which will assure electricity and thermal energy production in the scope of the existing production and perform all abovementioned system services.

The main long-term goal of TEŠ is construction of the replacement Unit 6, which is connected with the further TEŠ development in future years and maintenance of posts at TEŠ, PV and related activities.

Termoelektrarna Trbovlje d.o.o. (TET)

Managing Director	Franc Blaznek
Main activity	Production of electricity in thermal power plants
Supervisory Board composition as at 01/01/2011	Drago Skornšek (President) Jaroslav Vrtačnik, M.Sc. Mojca Turnšek, M.Sc.
Supervisory Board composition as at 31/12/2011	Drago Skornšek (President) Jaroslav Vrtačnik, M.Sc. Borut Dolanc Zvonko Petan, M.Sc. Samo Moškon Janez Balog

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 2011 stood at 168 MW.

Primary sources

Premogovnik Velenje d.d.

Management Board	Milan Medved, Ph.D. (President) Vladimir Malenković, Ph.D. (Member) Sonja Kugonič (Member, Worker Director)
Main activity	Mining and agglomeration of lignite
Supervisory Board composition as at 01/01/2011	Simon Tot, M.Sc. (President) Irena Stare Miran Božič
Supervisory Board composition as at 31/12/2011	Matjaž Janežič, M.Sc. (President) Irena Stare Miran Božič

PV is a company with more than 137 years of tradition. Technologically advanced extraction equipment and skilled employees, which direct the equipment, place PV among the most up-to-date underground coal mines in the world. With the use of most up-to-date technology, they achieve exceptional production results comparable to the achievements of underground coal mines in Europe and all over the world. The entire process is based on consideration of natural resources, ensuring adequate security and predicting consequences for the environment.

The production is performed in accordance with the principles of sustainable development, where they comply with and operate in accordance with four quality standards: quality management system certificate, environmental management system and occupational safety and health system in accordance with standards ISO 9001, ISO 14001 and OHSAS 18001. With the purpose of more efficient energy management, they obtained the international certificate for ISO 50001 standard and additionally approved energy efficiency in the company as the first coal mine and one of the first energy companies in the world.

In addition to reliable and competitive supply of domestic coal for electricity production, it is also extremely important to transfer their highly professional engineering expertise, technology or know-how out of Slovenia. In opinion of international auditors, PV Velenje is the reference coal mine of Western Europe. Its technological expertise ranks it in the peak of world technology, while the top electrical and mechanical equipment is the result of multiannual development and domestic engineering expertise. Their projects they are present in Asian-Pacific area, particularly in India, Australia, New Zealand and Vietnam, they compete in Turkey, perform projects in Macedonia, work in Bosnia and Herzegovina, Serbia and Montenegro.

Their future ambitions are even higher. In future they will also try to build the environment that they helped to co-create in the past and are still significantly shaping it today.

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 purpose 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.

Sipoteh d.o.o. is engaged in the machinery and production equipment business and in the 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	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 the 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 as at 1/1/2011	Tomaž Štokelj, Ph.D. Irena Stare
Managing directors as at 31/12/2011	Tomaž Štokelj, Ph.D. Borut Meh
Main activity	Electricity trading

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

In 2010, trading activities were transferred to the controlling company. At the beginning of 2012, HSE, as the owner, adopted a decision to begin voluntary liquidation of the company.

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 company acquired both licences for this field.

HSE Prague branch office

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

The main reason for establishing a branch office 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 office 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. After the establishment of a subsidiary in Serbia, all activities were transferred to it, while at the beginning of 2012, HSE received a decision on termination with regard to representative office.

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 31/12/2011	Irena Šlemic (President)
	Alida Rejec, M.Sc.
	Jožef Hebar
	Drago Polak
Supervisory Board composition as at 31/12/2011	Irena Šlemic (President)
	Alida Rejec, M.Sc.
	Andrej Tumpej
	Drago Polak
	Igor Žurga
	Nives Podgornik

HSE Invest d.o.o., a company specialised in engineering and construction of energy plants was established in 2002, at the beginning for the purposes of constructing HPPs on the lower Sava River, while subsequently the company started to cooperate in other energy projects within the HSE Group. In the period from the establishment until today, the company plays an important role in the field of advisory engineering or projecting in the project of constructing HPP chain on the lower Sava River, project of constructing HPP on the middle Sava River, construction of PSP Avče, project of renovation of HPP Zlatoličje, projects of renovation of HPP on the Soča River, project of constructing HPP on the Mura River, project of constructing PSP Kozjak, project of constructing the replacement Unit 6 TEŠ and a larger number of smaller projects, particularly in the area of renewable sources.

The company has its registered office in Maribor and business premises in Ljubljana, Nova Gorica, Sevnica and Šoštanj.

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 Co-generation Planina project, where the municipality of Kranj carried out a tender to grant the right to construct and operate the infrastructure and plants for »Co-generation of heat and electricity in Planina Kranj boiler 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 January 2010.

On 10 February 2010, project partners signed a contract of members establishing a limited liability company.

The objective of the investments is implementation of a project for co-generation of heat and electricity in the area of Planina boiler plant. The boiler plant will be fitted with two co-generation motors with a power of 999 kWe (1,177 kWt) and 3.3 MWe (3,218 MWt), respectively. The projected total annual production of the motors is 21,000 MWhe and 22,500 MWht.

In 2011, a legally enforceable construction permit was obtained. Activities were carried out in accordance with time schedule and thus an applicable permit for both plants was obtained in January 2012.

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.

When NEP and Strategy of Capital Assets Management of the Republic of Slovenia are adopted, a new Development Plan of the HSE Group will be prepared, in which we will redefine the HSE Group management and consider the written recommendations of AUKN.

The basic goals of introducing CG in the HSE Group were to:

- Ensure greater efficiency of operation;
- 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.

MANAGEMENT BODIES

The majority of subsidiaries in Slovenia are run by a single-member management or management board. The subsidiary PV has a three-member Management Board, while abroad they usually have 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.

ACTIVE SUPERVISION COMMITTEE

As early as in 2009, we have established an Active Supervision Committee responsible for active oversight of investment in the Unit 6 at TEŠ. The committee proved useful also in 2011 and assured better mutual communication with its operations, while it contributed to visibility of investment. The Committee regularly reported to the management of HSE, TEŠ, SB, ME, AUKN and others.

WORKER PARTICIPATION IN MANAGEMENT

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

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 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 the 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

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

VISION

HSE Group 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.

HSE VALUES

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

- Providing satisfaction of HSE service users;
- Building responsible, long-term partnerships with business partners;
- Environment protection, being conscious of carbon imprint and use of RES;
- Striving to achieve 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

The HSE Group is bound to contribute its share to solve the key challenge of European and thus national energetics: assure safe, competent and sustainable energy supply to users. This challenge demands that we remain active in light of achieving ambitious goals in all priority areas: RES exploitation, reducing CO_2 emissions and providing efficient and reliable supply of domestic users. This framework also contains our long-term investments in new production facilities that we always assess also from the perspective of contribution to long-term commitments of the State in the climate and environmental area.

In future, the HSE Group wishes to:

- Maintain the position of the largest E-RES producer in Slovenia;
- Contribute to significant reduction in CO_2 emission in electricity production;
- Provide stable supply to users in a competitive manner through exploitation of the sole domestic primary energy product;
- Develop the centre for new energy technologies;
- Maintain the position of leading electricity trader in the region;
- Expand its role in SE Europe.

These demanding goals can only be achieved by coordinated actions of the entire group. Reinforcement of coordinated actions was present in all our activities. Our short-term and long-term goals are being adapted to the new economic situation which indicates great challenges for the HSE Group the future. Nowadays, timely identification and interpretation of influential factors and a prompt, but deliberate, reaction are strategically important in order to maintain a leading role in the country and strengthen our position in foreign markets of the region.

In 2011, we continued to perform the planned investment projects since the provision of undisturbed electricity production is indispensable for safe and reliable supply to users. However, for the purpose of further growth of operations, it is necessary to ensure constant growth of production capacities, increase the volume of trading quantities and expand new business fields. In 2011, we have realised these policies by continuation of activities on the projects, which are already in process, particularly the construction of HPP chain on the lower Sava River, the replacement Unit 6 at TEŠ and a new exportable shaft in PV as well as by performing other projects within this period (HPP on the medium Sava River, PSP Kozjak etc.).

The HSE Group currently operates in very unstable circumstances, which are not connected solely to recuperation of national economy, but also with the absence of national energy strategy for the following medium and long-term period. Thus, our activities depended on dynamics of adopting the new NEP, which will outline the key orientations and investments in Slovene energetics until 2013. A new legal arrangement of energy area is in the course of preparation, which should be entirely prescribed by the new Energy Act that was publicly discussed in the second half of 2011 besides the Act Amending the Energy Act. All the abovementioned key documents should be adopted as early as in 2011, but since the adoption was delayed, the HSE Group has faced the fact that clearer time schedule and the volume of some long-term projects shall not be defined before the adoption of new NEP. Therefore, the adoption of revised long-term Development Plan of the company is still in preparation, although the draft of revised Development Plan was already prepared in 2010.

The activities of achieving more efficient coordination between the controlling company and subsidiaries within the group with the goal to maximize the available group potentials and exploit mutual synergy effects had begun as early as in 2010, while they intensively continued in 2011. These activities were also enforced through clearly and qualitatively defined politics and larger unification of business functions and through more consistent operations on all levels within the group. All the areas of HSE operations in 2011 penetrated by the aim to achieve greater unification within the group and exploit synergies.

EUROPEAN GLOBAL FRAMEWORK

The Europa 2020 strategy remained of key importance for our operations on the level of Europe. The strategy determines 5 key goals until 2020, while two of them directly affect our operations – the first one is to achieve goals 3x20 in the area of environment and energetics, while the other one is to achieve 3% GDP of the European Union for research and development. The year 2011 was also marked by the adoption of new Action Plan for energy efficiency, which also affects the efficiency of electricity production, while the EU plan for low carbon economy until 2050 was also presented.

At the end of 2011, a new global climate conference was held in Durban (South Africa), where the world leaders reached the turning point agreement that by 2015 all 195 Member States of United Nations Climate Change Convention will adopt a binding agreement for decrease in emissions which would become effective in 2020 at latest. They also reached an agreement on second Kyoto target period that will begin on 1 January 2013.

FOREIGN INVESTMENTS

In addition 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 HSE Group by assuming a more important role within the SE European region. These markets offer 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 and unconsolidated 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.

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. The decision of National Assembly on the Act on Guarantee will be of key importance to the HSE Group. Until the Act is adopted, TEŠ, HSE and the HSE Group are exposed to significant risk.

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.

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 2011 have been achieved. We have started the works on preparation of unified rules of procedure of the HSE Group. System procedures were amended and supplemented. Employees were trained in the area of management systems. We have performed a recertification audit for OHSAS 18001:2007 certificate, while regular audits were performed for others.

In the previous year, internal and external audits were carried out and successfully completed, as was the external audit of RES production at HPP chains at DEM, SENG and HESS (HPP Boštjan and HPP Blanca) according to the criteria of EE TÜV SÜS and RECS. In 2011, EE+ (Certificate for production of E-RES by providing guarantee of operations and efficiency) was added to the certificate.

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 2011, 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 2011, 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;
- Updated risk assessment for all IT resources, paper documents, services (contracts) and people;
- 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;
- 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 27001:2005.

2.5.5 Family-friendly company

The certificate was granted to the HSE company pursuant to decision of Audit Committee as at 10 May 2010. After the certificate was obtained, the Managing Director appointed the team for coordination of professional and family life which continues to work on certificate in accordance with measures. Since September 2011 the internal portal of HSE contains the section FFC (Family Friendly Company) where employees can find basic information and documents referring to activities within the framework of Family Friendly Company certificate.

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	HESS	TEŠ	TET	PV	HSE Invest
ISO 9001	√	√	√		√	√	√	√
ISO 14001	√	√	√		√	√	√	
OHSAS 18001	√	√	√		√	√	√	√
ISO 27001	√	√			√			
ISO 50001							√	
EE TÜV	√	√	√	√				
EE + TÜV	√	√	√	√				
RECS	√	√	√	√				
HACCP					√	√		
GOO		√	√	√				
FFP	√	√						

ISO 9001
Quality management system under standard requirements

ISO 14001
Environment management system under standard requirements

OHSAS 18001
Occupational health and safety system under standard requirements

ISO 27001
Information security management system under standard requirements

ISO 50001
Energy Management system – Requirements with instructions

EE TÜV
(CMS Standard 83: Erzeugungb EE (04/2011))

EE + TÜV
Certification assessment in accordance with TÜV TMS criteria for electricity production from renewable sources by providing guarantee of operations and efficiency (CMS Standard 87: Erzeugungb EE+ (04/2011))

RECS
Renewable Energy Certificate System = International certification system of electricity produced from renewable sources of energy

HACCP
Hazard Analysis Critical Control Point = Analysis of critical control point risk Standard for measuring labs

GOO
Guarantee of origin

FFP
Family-friendly company

2.6 Market position

2.6.1 Characteristics of Slovenian economic climate in 2011

DECREASE IN GDP

The drop of economic activity in Slovenia additionally deteriorated in the last quarter of 2011, particularly due to decrease in domestic consumption, while GDP decreased by 0.2% in 2011. The 4% decrease in final domestic consumption stood out since the consumption by households and State was lower in the middle of the year. In addition to further drop of gross investments in fixed assets, the change in inventories also negatively affected the GDP volume in the last quarter of 2011 contrary to first three quarters of 2011. Due to the abovementioned facts, the growth risks for 2012 have increased. Uncertainties in international environment remain high and they decelerate growth of foreign demand, while at the same time the trust in Slovenian economy remains low.

ANNUAL INFLATION OF 2.1%

In 2011, the increase in consumer prices of Euro-zone was larger than in 2010 and it was more extensive than in Slovenia. The key reason was the increase in prices of energy products due to the impact of increased oil prices at the beginning of 2011 and food prices at the end of 2010 in world markets. In Slovenia, the inflation in 2011 amounted to 2.1% and it was on a similar level than in the previous year. Despite key inflation factors that remain the same as in Euro-zone, inflation is lower in Slovenia, particularly due to the impact of weaker economic activity.

PRICES OF IMPORTED PRODUCTS INCREASED BY 1.8% IN A YEAR

In the period from December 2010 to December 2011, the growth of imported products amounted to 1.8%. Prices of products supplied from the Euro-zone countries increased by 1.9% in this period, while the prices of products imported from the countries outside the Euro-zone increased by 1.6%.

HIGHER PRICES OF ENERGY PRODUCTS AND RAW MATERIALS

In 2011, the import prices of energy products increased by 13.3%, while the import prices of raw materials increased by 8.5%. They are followed by prices of non-durable consumer goods (by 5.7%) and the prices of consumer products (by 4.1%). On the other hand, the import prices of investment products decreased by 1.9% and durable consumer goody by 1.0% in 2011.

THE RATE OF REGISTERED UNEMPLOYED AS HIGH AS 12.1%

In 2011, the deterioration of labour market conditions continued. At the end of 2011, the number of registered unemployed reached 112,754; the unemployment rate in Slovenia thus amounted to 12.1% and increased by 2.5% relative to the end of 2010.

A DECREASE IN THE NUMBER OF EMPLOYED OF 0.2%

Compared to December 2010, the number of employed in 2011 decreased by 0.2%, mostly in construction and processing industry activities.

LARGER EXPORT AND IMPORT IN 2011 THAN IN 2010

In the period January to December 2011, the export increased by 12.2% and import by 11.2% compared to the same period in 2010; export to import ratio amounted to 92.5%.

GOVERNMENT DEFICIT 6.4% GDP

In 2011, the total government revenue increased nominally by 1.2%, while total expenses increased by 2.0% more. Therefore, the government deficit in 2011 was larger than in the previous year: In 2011, it amounted to € 2,289 million or 6.4% GDP, while in 2010 it amounted to € 2,124 million or 6.0% GDP.

LOWER INDUSTRY PRODUCTION ONLY IN THE MINING AREA

Compared to 2010, the value of industry production throughout the entire 2011 was lower only in the area of mining (by 8.0%), while it was higher in the remaining two activities.

2.6.2 Market environment of the electricity industry

After the recuperation of European economy in 2010, the European debt crisis came to the forefront in 2011. However, this was not a surprise since the national debts of individual EU member states in the period after the financial crisis exceeded the maintained levels, which also reflected in mistrust of the market with regard to debt repayment capabilities. When it was clear that Greece cannot repay its debts, speculations on possible solutions for the current situation followed each other. The European debt crisis arose. This affected the impaired euro currencies against American dollar, which on one hand improved the competitiveness of European exporters in the world market, while on the other hand it increased the prices of energy products within the EU quoted in American dollars.

In addition to the impact on impaired European currencies, the discovery that Greece will not be able to repay its debts negatively affected the European banking sector. The expected large write-downs in Greek national debt could also mean the collapse of several European banks. Thus, the activities in the European interbank market slowed down in the second half of 2011, while non-functioning of the banking system was also transferred to real sector at the end of the year. This was reflected in reduced industry production and consequently in lower electricity consumption in the second half of 2011.

With regard to the 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. The allocation of daily cross-border transfer capabilities to Slovenian – Italian border was performed with the help of market coupling as of 1 January 2011, which increased the volume of electricity trade in the Slovenian electricity exchange.

One of significant changes in the Slovenian retail market was elimination of market share of distribution companies on the basis of European legislation requirements to separate market and regulatory activity in the area of electricity supply. Thus, the electricity distribution companies eliminated the market activity and transferred it to newly established subsidiaries. With the intention to establish stable sales channels in the domestic electricity market, HSE launched activities for capital entry into four newly established companies. At the end of 2011, the application for notification to the Competition Protection Office was submitted, while the procedures are currently in progress.

Liquidity crunch in European area and recession have also affected the market of emission coupons. As a result of liquidity crunch, the companies preferred to sell their extra emission coupons rather than save them for future needs, while on the basis of recession and lower demand for products, the need for emission coupons decreased. On the basis of the abovementioned factors and general mistrust in European commercial scheme, the price of emission coupons decreased from € 17/t CO_2 to € 12/t CO_2 in the middle of 2011. After this radical drop, the decrease in prices continued also in the second half of 2011. At the end of the year, EIB started with the sale of 20 million emission coupons per month on the basis of NER300 programme implementation, which additionally increased the offer of emission coupons and due to this fact their price slightly exceeded 7 €/t CO_2 at the end of the year. With regard to current price levels of emission coupons, it is perfectly clear that the industry sector is not sufficiently stimulated to reduce the greenhouse gas emissions.

2.6.3 Situation in electricity markets in 2011

In 2011, HSE continued to increase the volume of sales and significantly exceeded ambitiously set goals. High trade amounts were followed by profit growth. The main reason was the accident in the nuclear power plant in Fukushima. European public responded to possible consequences of accidents in nuclear facilities in various ways. German public decided to close nuclear power plants with political support, which reflected in smaller amounts offered in the market and consequently higher price. Thus, in France they did not decide to adopt such drastic measures. German price exceeded the French one and the conditions in our most liquid purchase market have changed. The weather also played an important role (long-lasting drought since August).

As a result of closing the Nuclear power plant, also Japan was forced to purchase larger amounts of Liquified Natural Gas. The amount of gas in world markets decreased, while the price increased. The increase in price of primary energy product in Italy (over 50% of electricity is produced from gas) also resulted in increased price in the Italian market, which continued throughout the entire 2011, while the trend has not changed. The energy consumption was increasing during the year; however, high prices mostly resulted from the price of oil.

SLOVENIA

Slovenia is located on the intersection of three liquid energy markets: German, Italian and Hungarian. This puts it into good strategic position with regard to exploitation of differences in price and structure of products in electricity market. Electricity price in the Hungarian market has exceeded the price in the German market, particularly due to poor hydrologic conditions and lack of energy in SE Europe in the second half of the year, which consequently affected the increase in the prices of cross-border transfer capacities from Austria to Slovenia.

In 2011, the electricity production in Slovenia decreased by 647 GWh. The main reason of this decrease is a low HPP production. On the other hand, the production of NPP in Slovenian part increased by 264 GWh, which mostly results from lower production in 2010, when the regular overhaul was performed. The entire Slovenian electricity production in 2011 thus amounted to 11,194 GWh.

While the production in 2011 decreased relative to 2010, the use increased from 12,435 GWh to 12,882 GWh. This resulted from the increased consumption of Talum, which used 487 GWh more electricity. No larger changes occurred with regard to take-over of distributions from the transfer network.

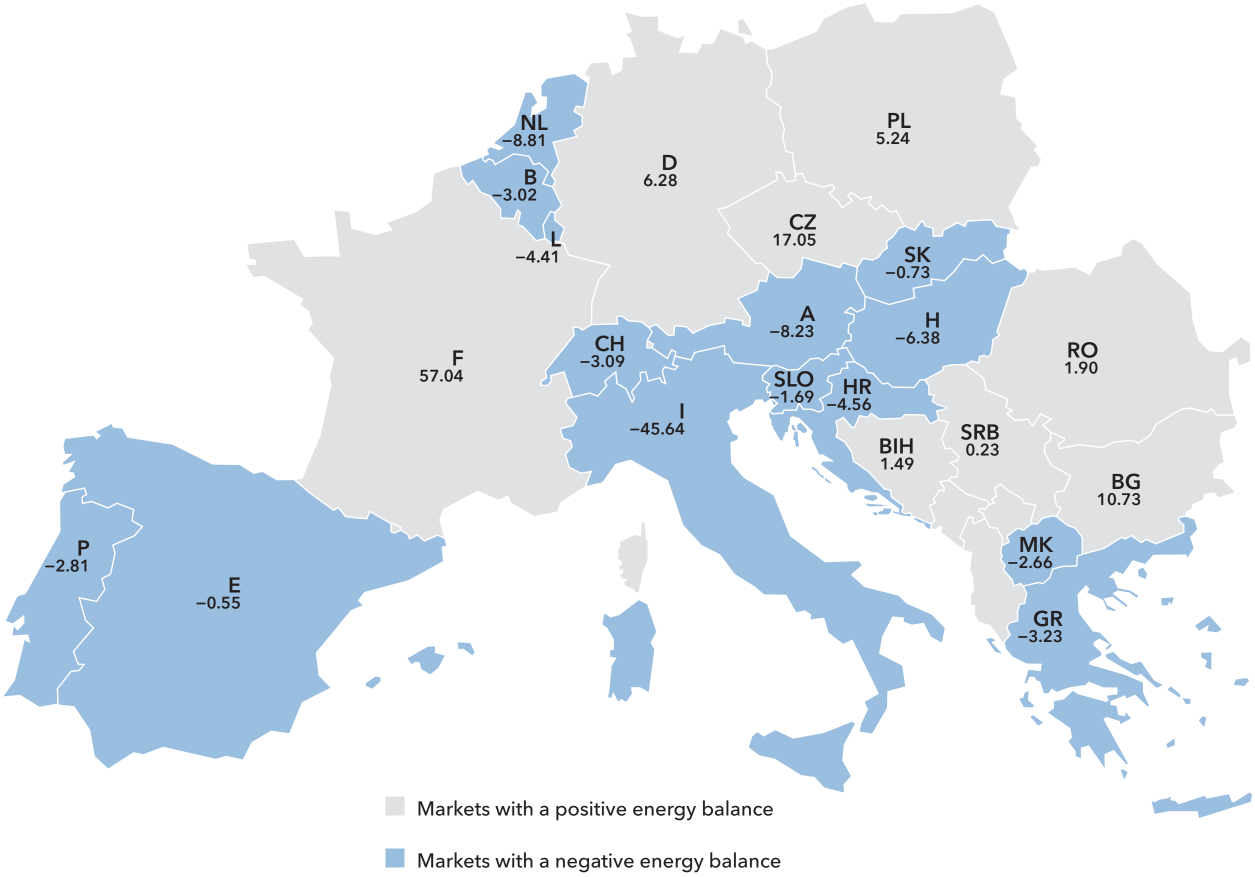
In 2011, we have again recorded a larger energy import than export in Slovenia. According to ELES data, the energy was mainly imported from Austria and Croatia. The average price of daily capacities of energy import from Austria to Slovenia amounted to 3.88 €/MWh compared to solely 0.18 €/MWh in the previous year. The higher price is mainly a reflection of longer drought period, which lasts from the summer onwards and affects poor hydrologic conditions in the entire area of SE Europe. Such condition was also reflected in prices of daily capacities from Croatia to Slovenia, which have decreased from 1.26 €/MWh to 0.05 €/MWh.

As regards energy export, in 2011 we noticed an increase in export to Italy and Croatia, while the export to Austria decreased. Decrease in export to Austria was so extensive that due to increase of export in other two directions, 2,683 GWh less energy was exported compared to 2010 or 5,348 GWh in total. Decreased export indeed affected the low prices of export capacities towards Austria, which amounted to 0.03 €/MWh on average daily level in 2011, while towards Croatia they amounted to 0.09 €/MWh.

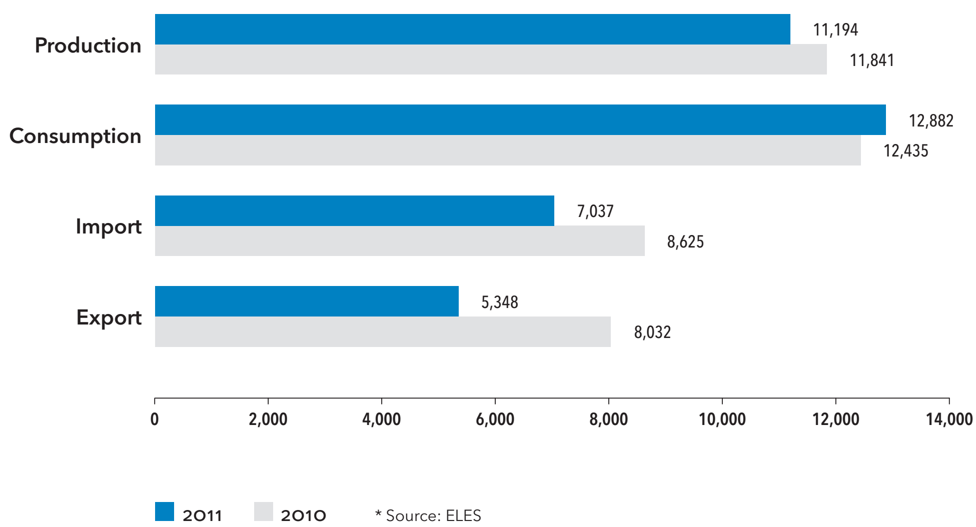
The flexibility of HPP production was used to our advantage by allocating a significant portion of energy to more expensive peak hours and, depending on the price levels or economic purpose, selling it on the liquid Italian and German markets and on the market of SE Europe in the second half of the year. 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 HSE Group 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 method of own production sale contributes to larger stability of group revenue.

Balance of European electricity markets in 2011 (in TWh)

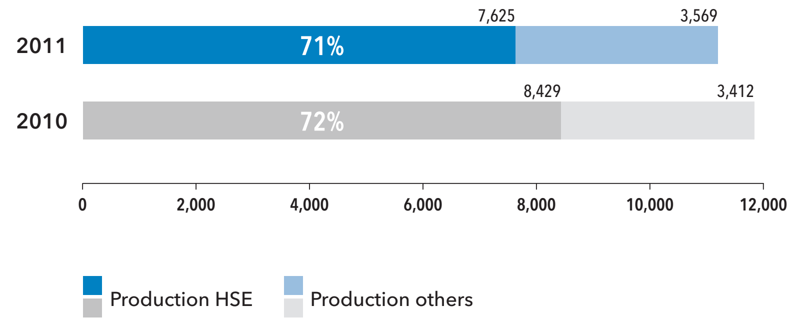


Slovene electricity market in 2011 and 2010 (in GWh)

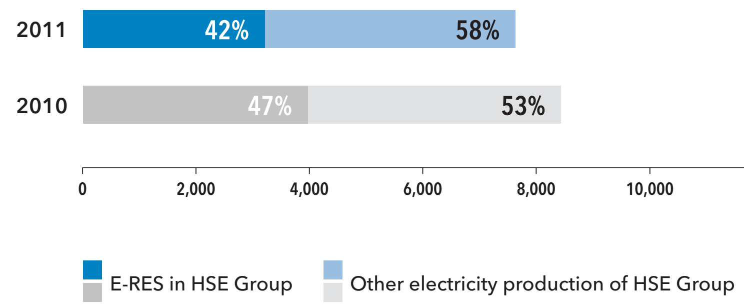


* Source: ELES

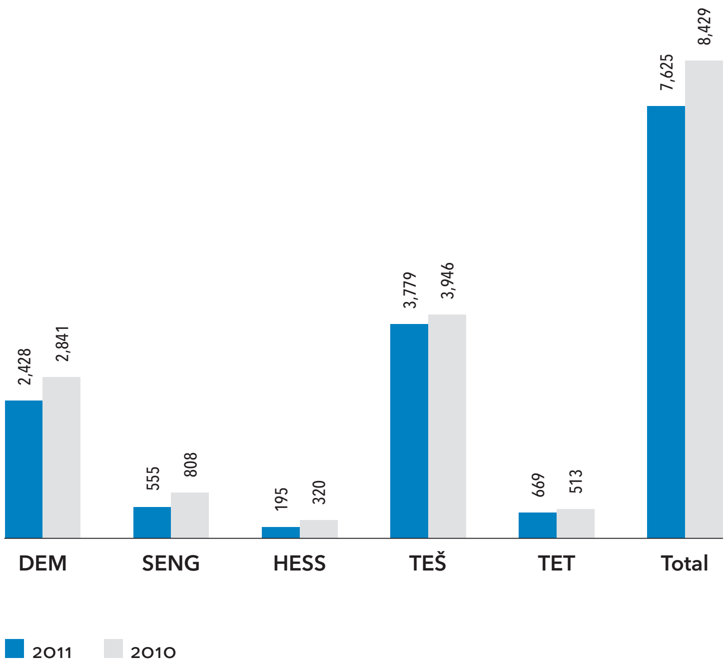
Share of HSE Group's production in total electricity production in Slovenia in 2011 and 2010 (in GWh)



Share of electricity produced from RES in production of HSE Group



Net electricity production of the HSE Group in 2011 and 2010 (in GWh)



CONTINENTAL EUROPE

In 2011, the energy sector was mostly subject to political interventions which suddenly changed the border conditions of energy company operations and indirectly affected the European energy market. The event in Fukushima resulted in a wave of second thoughts on the closing of the existing nuclear power plants in SE Europe. Germany went so far with its decision that it immediately shut down the operation of eight oldest nuclear power plants, the useful life of certain nuclear power plants was shortened, projects of constructing new nuclear power plants were terminated or they received an adverse opinion, while in Italy the moratorium related to decision of nuclear option was again extended and the procedures of stress tests of nuclear power plants started throughout Europe. This caused an immediate leap of electricity supply prices in March 2011, both in daily and forward markets. In the second half of the year, the prices of supply were decreasing due to deterioration of debt crisis in Europe and expected recession.

The market of continental Europe represents the market in which we generate a large part of our turnover, while the 2011 turnover was additionally increased. This market is exploited particularly due to high liquidity for price risk management in trading in other regional markets.

In 2011, we maintained the same presence in the Czech market as in 2010. This market was exploited for the purchase of electricity which we placed in the German and Hungarian market. Market coupling was one of the factors that balanced the electricity price in Czech and Slovak market. In the Czech Republic we trade with short-term and long-term energy contracts, while in Slovakia we trade solely on daily level due to poor liquidity of long-term contracts. The trading quantities realised in Slovakia are lower than in Czech Republic, while in 2011 we maintained the same presence in Slovak market as in 2010.

SE EUROPE

In 2011, the recession in the area of SE Europe additionally deteriorated, which had a significant impact on trading with electricity. Electricity prices remained low in the first half of the year 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 result, SE European markets experienced lower liquidity which also disturbed trading. 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.

The second half of 2011 in SE Europe was marked by drought causing the lack of energy which caused the increase in electricity prices. As a result, the prices of cross-border transfer capacities towards Balkans increased. We took good advantage of the situation and thus the planned trading quantities were exceeded in Serbia as well as in Bosnia and Herzegovina.

In 2011, HSE participated – directly or through its subsidiaries abroad – in most auctions for cross-border capacities in SE Europe. Hungary remained the most important market, with trading reaching a little less than a half of the whole SE Europe portfolio.

In Romania, HSE traded mostly on daily levels, where we took advantage of current conditions and non-balances in neighbouring markets. Romania was mainly used as transit state in the direction from Hungary towards Serbia.

Due to financial problems of Greece in this market, in 2011 HSE limited trade and thus the exposure and the related risk. Even in other markets it carefully watched over the financial situation of partners. However, the activities were performed without interruption. The subsidiary HSE MAK Energy mostly performed the transit from Bulgaria towards Serbia and thus contributed added value. Bulgaria was particularly interesting in the second half of the year since it enabled the purchase of energy which was not sufficient in the region due to drought.

In 2011, HSE was successful in the annual call for tender of the company EPCG for the purchase of electricity and thus created a long-term position that significantly contributed to realisation of plans set. Subsidiary HSE BH in Bosnia and Herzegovina was used for the purchase of cheap water surpluses in Bosnia and Herzegovina, particularly at the beginning of the year. Subsequently the company was devoted to electricity transit and connection of markets. Even in 2011, HSE Adria presented a significant link within the HSE Group, since it connects the domestic market with the markets of SE Europe.

SWITZERLAND AND SPAIN

Volume of trade in Swiss market increased in 2011, while the planned values were not realised. The reason is a relative non-liquidity of the market, which is evident in large differences between the purchase and selling price on all significant products. Therefore, the market price is extremely unclear and unpredictable. The consumption chart has also been changing. It puts Switzerland in the position of an extremely intensive importer for own purposes in winter period and intensive seller in spring/summer period. With 2012 the border between France and the Czech Republic is opening for trading. However, more transparent market situation cannot be expected.

In 2011, we acquired a certificate in Spain with which the Spanish TSO confirms that we are registered as a subject, which can trade with electricity in the Spanish market and on the French-Spanish boarder. We have also obtained a confirmation of technical accreditation by which the same TSO confirms our qualification for nominating timetables using their system e.sios. We have initiated the procedures of registration on the Spanish stock exchange OMEL.

2.7 Sales and customers

ELECTRICITY AND ELECTRICITY PRICES

In 2008 and 2009, we witnessed lower electricity consumption in comparison with previous years, particularly due to deteriorated economic conditions. At the end of 2010 and in 2011, the trend of use increased particularly among direct users, while the trend of increase in distribution network was slightly lower in comparison to direct users.

The data proves that consumption of direct users increased by 37%. The consumption in distribution network increased by approximately one half of percentage point.

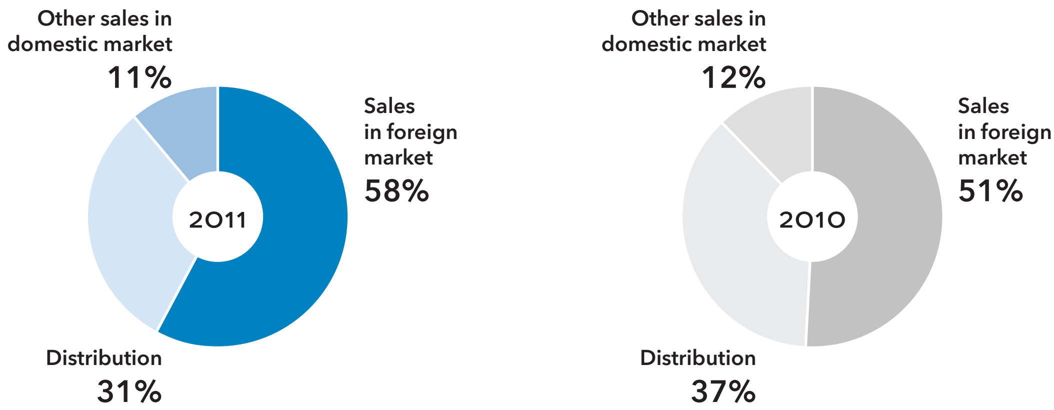
If the hydrology and electricity production from these sources had been favourable until 2011, we can say that in 2011 the situation changed. Within the HSE Group the HPPs sent 79 GWh less than planned to the network. This means that 751 GWh less electricity was produced in HPP than in 2010 or almost 20% less than in the previous year.

SALES VOLUME AND STRUCTURE

The HSE Group sold 23,779 GWh of electricity in 2011. As already mentioned, HSE sold 10,065 GWh of electricity in domestic market or slightly over 42%, while 13,714 GWh of electricity was sold in foreign markets (almost 58%).

In domestic market, 74% of electricity was sold to distribution companies. Large consumers bought 15% of electricity, while 8% of electricity was sold to ELES (energy of secondary and tertiary control, deviations) and other consumers in Slovenia. Electricity was also sold to foreign partners in Slovenia, which reached 3% of all electricity sold in domestic market.

Structure of electricity sales in 2011 and 2010 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 2011:

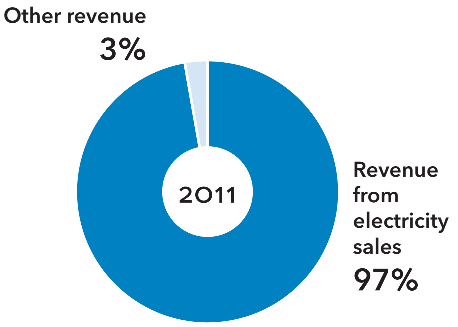
- Secondary frequency control in the regulatory range of ± 77 MW;
- Black start capability;
- Reactive power support;
- Secondary control services.

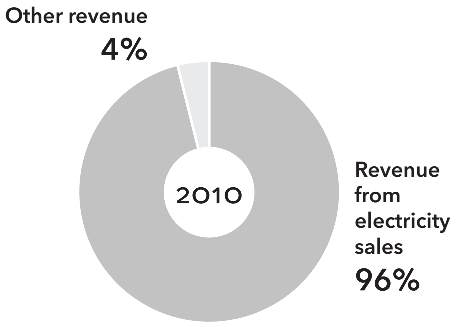
2.7.1 Other activities

NET SALES REVENUE STRUCTURE

The HSE Group generated almost € 1,328 million in net sales revenue in 2011. 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 2011 and 2010





OTHER PRODUCTS AND SERVICES

Other revenue from sales of products and services include revenue from the sales of apartments and rentals, revenue from hospitality services, sales of thermal energy and storage, supply with steam and hot water and disposal of fly ash.

HEAT

In 2011, 367 GWh of heat was produced, which is 10% less than in 2010.

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 2011

DEM

		Dravograd	Vuzenica	Vuhred	Ožbalt	Fala	MB otok	Zlatoličje	Formin	Small HPPs	
	No. of turbines	3	3	3	3	3	3	2	2	2	TOTAL
Net output	MW	26	56	72	73	58	60	120	116	1.3	**582.3**
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	m³/s	405	550	550	550	505	550	463	500		

HESS

		Boštanj	Blanca	
	No. of turbines	3	3	TOTAL
Net output	MW	31.5	42.5	**74**
Rated generator capacity	MVA	43.5	50	**93.5**
Gross head	m	7.6	8.8	**16.4**
Rated flow Qi	m³/s	500	500	

SENG

		Doblar I.	Doblar II.	Plave I.	Plave II.	Solkan	ČHE Avče	Zadlaščica	Small HPPs	
	No. of turbines	3	1	2	1	3	1	2	26	TOTAL
Net output	MW	30	40	15	19	32	180	8	11.4	**335.4**
Rated generator capacity	MVA	48	50	22	23	39	195	10	15.6	**402.6**
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

		GT 51	GT 52	Unit 3	Unit 4	Unit 5	TOTAL
Net output	MW	42	42	50	248	305	687
Rated generator capacity	MVA	56.3	56.3	94	324	377	907.5

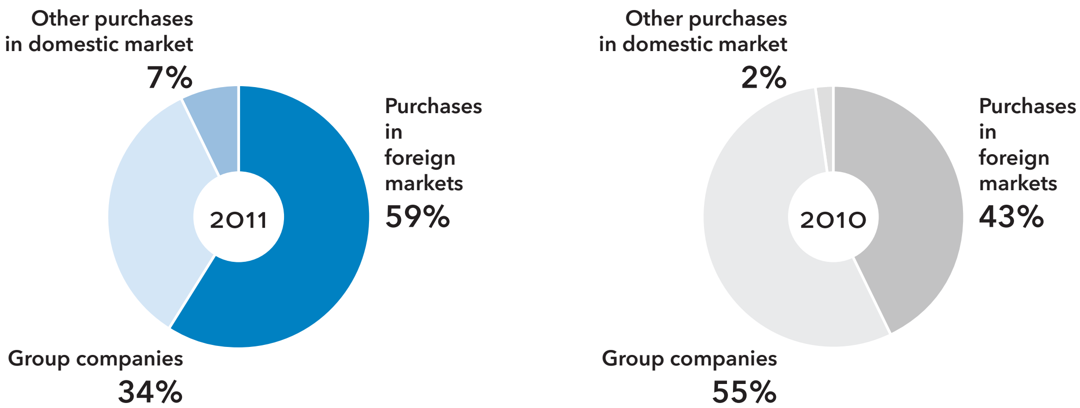
TET

		PB I.	PB II.	Unit 4	TOTAL
Net output	MW	29	29	110	168
Rated generator capacity	MVA	39.7	39.7	156	235.4

STRUCTURE OF SOURCES

Electricity that the HSE Group supplied to its customers in 2011 was purchased in the domestic market from the HSE Group companies (34%), other foreign partners in Slovenia and other electricity suppliers in Slovenia (7%). The remaining energy (59%) was bought in foreign markets by the HSE Group.

Structure of electricity purchases in 2011 and 2010



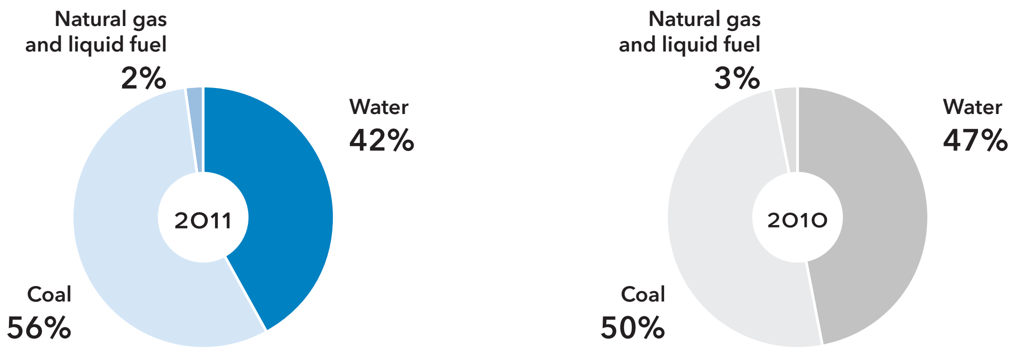
OPTIMISING PURCHASES

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 2011, primary raw materials used in the production of electricity included coal (56%), water potential (42%), and natural gas and extra light heating oil (2%).

Primary raw materials used in electricity production in 2011 and 2010



PURCHASE PRICE

In 2011, the purchase price of electricity was mostly affected by the following factors:

- 1.5% higher than planned electricity production from coal at TEŠ;
- 101.3% of realised electricity production from gas at TEŠ;
- 23.9% higher than planned electricity production at TET;
- conditions in the electricity market.

COAL

At TEŠ, 43,119 TJ of coal was used in the production of electricity and heat. At TET, 7,575 TJ of coal was used for production of electricity.

COAL SUPPLIES

On 31 December 2011, PV's coal supplies totalled 4,553 TJ while at TET they stood at 1,242 TJ.

2.9 Investments

The replacement Unit 6 at TEŠ is currently the largest energy investment in Slovenia and it represents a new chapter in the energy supply of Slovenia. This is a modern, extremely effective unit, which will gradually replace the operating units. With regard to significance of the project, its complexity and value, the key attention of the HSE Group in 2011 was devoted to this project.

Moreover, the HSE Group is always looking for new projects and investments by which it could assure safe, reliable, competitive and environmentally friendly long-term electricity supply to 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 2011 are presented below.

2.9.1 Replacement Unit 6

The replacement Unit 6 at TEŠ will generate 3,500 GWh of electricity per year, for which it will require 2.9 million tonnes of coal, and emit 3.1 million tonnes of CO_2 which is almost one third 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 reduction of approximately 30% 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	2.25 EUR/GJ
hours of operation at full capacity	6,650 hrs/year
number of employees	200
useful life	40 years
CO2 emission	0.87 kg/kWh

In 2011, the Environmental Permit for Operation of the Large Combustion Plant was obtained. This permit means that all the conditions for the issue of a building permit have been met. In March, we received a construction permit from the Ministry of the Environment and Spatial Planning for the construction of cooling tower and main technological facility and construction immediately began. Due to more realistic cost estimate of all project items, changed financing conditions and realisation of government decisions, in April we started to implement RIP 4, which had been approved in August 2011. In addition to the abovementioned facts, the project activities in 2011 were primarily oriented towards the acquisition of sufficient sources for financing of the project.

Due to the delay in obtaining the Environmental Permit, the construction work also started with a delay of several months. By the end of 2011, the cooling tower was constructed up to the height of 58 m, while work is expected to be finished in the first half of 2012 and it will be followed by equipment installation.

The project investor is the company TEŠ.

2.9.2 Srednja Sava

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.

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.

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.

In 2011, the project was developing in a set direction, however, with lower intensity than expected since the Ministry of the Environment and Spatial Planning has not arranged all the amendments to the Regulation (Regulation on concession for the use of water in electricity production in the section of the Sava River between Ježica and Suhadol).

The essential substantive amendment to the Regulation is that construction concession is replaced by the concession of water potential use. Thus, the regulation will not include the definition of HPP number nor the locations (construction principles), but it shall define solely the area of energy potential use (principles of the Companies Act for water use). The proposed solution is more appropriate and less binding for concessionaire, which is of significant importance as the concessionaire obtains more freedom in defining the location of future new facilities, easily complies with CEIA regulations and improves the company economics.

In 2011, the company SRESA was established with the purpose to enable the execution and financing of construction and HPP management on the middle Sava River, while numerous professional bases were performed as well as research, studies and PCD for first three HPPs, including Investment Project Identification Document.

The project investor is the company HSE, to which the concession right was granted.

As at 22 December 2005, HSE was granted a concession right for exploitation of water potential of the middle Sava River (concession right). Despite the fact that concession right was granted to HSE, on this basis HSE does not perform the activity in general interest. Concession agreement has not been concluded yet and therefore the mutual rights and liabilities between the concession grantor and concessionaire have not been agreed yet. Thus, it is evident that on the basis of the concession right granted, the financial relations between the government bodies and HSE, as the owner of this right, have not been established yet.

2.9.3 Hidroelektrarne na spodnji Savi

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 2017, will account for 21% of Slovene HPP production and is expected to cover 6% of total electricity consumption in the country. In addition to 188 MW of additional installed power and 684 GWh of extra average 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.

	Basic technical data	Head (m)	Installed capacity (MW)	Electricity (GWh/year)
1	HPP Boštanj	7.7	32	115
2	HPP Blanca	9.2	38	144
3	HPP Krško	9.2	38	144
4	HPP Brežice	11	46	148
5	HPP Mokrice	7.5	33.7	133.2

In 2011, the construction of **HPP Krško** continued, where a delay of eight months appeared with regard to the time schedule. The work was delayed as a consequence of the floods of the Sava River during the previous years, while a part of delay is reflected on the account of consortium partners and liquidity problems of the leading partner in performance of construction work.

The professional part of NSP and ER (Environmental Report) performance procedure was performed at **HPP Brežice**. At the end of 2011, PCD was also concluded. Various professional bases, studies as well as investment and projection documentation were also performed.

At **HPP Mokrice** a procedure and performance of supplemented NSP and OP draft was performed in 2011. NSP and OP are currently in the procedure of consolidation and preparation of arguments of the most proper version. In 2011, other professional bases, studies as well as investment and projection documentation were also performed.

The project investor is the company HESS. The companies HSE, DEM, SENG 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.

2.9.4 Reconstruction of the second stage of HPPs Doblar and Plave

Within the framework of reconstruction of the second stage of HPPs Plave and Doblar, the turbines at HPP Doblar I are being replaced. Reconstruction of the second stage of HPP Plave will begin after the end of reconstruction at HPP Doblar I. In 2011, turbine 3 was replaced at HPP Doblar, which was then subject to contractual trial run. The works continued at turbine 2, where dismantlement has already been concluded.

The project investor is the company SENG.

2.9.5 NOP II

With realisation of this project, the transport lines from the pit to coal disposal will be shortened from approximately 3.8 km to 1.1 km. As a result of 72% shorter transport line, the realised investment will result in 25% decrease in energy costs and 55% decrease in labour costs and at the same time in reduced risk of production shutdown. In terms of location, the exportable shaft is placed in an optimal way with regard to long-term planned coal shafts. The subject of investment is the renewal of main coal transport from PV pit (new location, new technology), while the aim of investment is to shorten the main transport path, decrease costs of removal and maintenance, reduce adverse effects on environment (noise, dust), move the exportable shaft closer to extraction areas and concentrate facilities within the industry zone as well as to improve and increase reliable operation.

In 2011, preparatory work was performed to set up the shaft plateau as well as electric preparatory work and preparatory work for shaft deepening and manufacturing. Mining works have already begun.

The project investor is the company PV.

2.9.6 TET

The appropriate bases for adopting a decision on a long-term solution of energy location of TET after 2015 were also prepared in 2011.

2.9.7 PSP Kozjak

In 2011, within the project PSP Kozjak on the Drava River the stage of facility spatial planning – NSP was concluded.

Basic technical data	
Qi (max. discharge – turbine oper.)	65 m^3/s
Qp (max. discharge – pumped oper.)	46.1 m^3/s
Hgross max. (maximum gross head)	710.31 m
Pi (median installed capacity in generator operation mode)	400 MW
Pp (median installed capacity in pump operation mode)	352 MW
Eap (annual electricity production)	985 GWh
Eac (annual electricity consumption for pump operation)	1,208 GWh

In 2011, particularly the activities of PCD supplementation and audit and IP revision were performed.

The project investor is the company DEM.

2.10 Informatics

REORGANISATION OF THE HSE GROUP SUPPORT CENTRE

Within the framework of system and application service consolidation, the Support Centre was reorganised in 2011. The centre assures uninterrupted functioning of IT system of the HSE Group (TEŠ, PV, HESS and HSE). The Support Centre employs representatives of individual companies and external partner, which take care of several levels of technical support (accepting reported failures, initial analysis of reported failures, control and management of established IT systems, support to final users etc.). Such approach is important for the controlling company particularly from the perspective of controlling the management of HSE information system and detailed monitoring of related costs.

HSE IT SECURITY POLICY

Within the framework of ISO-27001 standard, in 2011 several security mechanisms were introduced in the area of IT security. They assure a high level of security of electronic documents and at the same time enable tracing of changes.

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 communication 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 with the aim to implement the IT-supported process for consolidation of financial statements of the whole HSE Group. The project was concluded in 2011.

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. The project is continued with the aim to prepare a classification plan which precisely defines types and quantity of documents that individual HSE departments must archive.

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. For this purpose, an inventory of all business processes of the company HSE was performed in 2011, which should enable quality and sufficiently clear preparation of project documentation for implementation of integral information system ERP.

2.11 Business performance analysis

In 2011, the HSE Group realised **NET SALES REVENUE** in the amount of € 1,327,546,308 and exceeded the revenue realised in the same period of the previous year by 45% due to larger sales quantities of controlling companies, particularly in the foreign market.

The realised **OPERATING PROFIT OR LOSS** of the Group in 2011 amounts to € 96,190,255 and represents 76% of profit or loss from 2010. In 2011, the group created a **NET PROFIT** in the amount of € 69,753,103, which is 32% less than in the previous year. Despite trading amounts, which increased by 47%, the decrease in net profit was mostly affected by a lower trading result in the controlling company, which is a consequence of the following factors: lower HPP production, decrease in revenue arising from system services, unfavourable ratio Peak/Pas in daily market due to which a lower added value was created on the basis of optimisation of production per hour.

As at 31 December 2011, the **ASSETS** of the HSE Group amounted to € 2,275,886,031 and were 20% higher compared to the end of 2010, particularly due to high group investments.

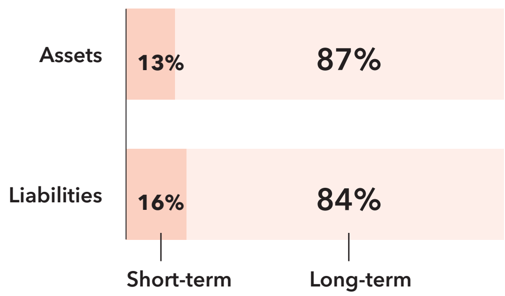
As at 31 December 2011, the HSE Group **EQUITY** amounted to € 1,409,097,763, which is by 5% more than at the end of 2010, particularly due to net profit in 2011.

The HSE Group companies **PRODUCED** 7,625 GWh EE in the reviewed period, which is 10% less than produced in the same period of the previous year due to lower hydrology.

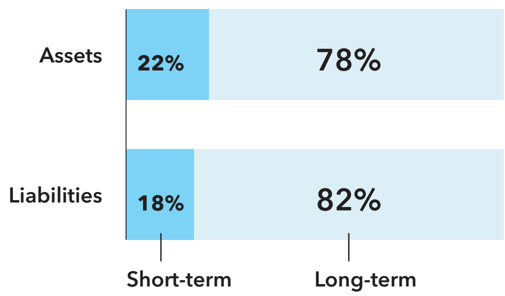
In 2011, the Group realised positive **CASH FLOW** from operating and financing activities, which is of key importance, despite the fact that negative cash flow was realised from investment activities due to financing of extensive HSE Group investments, particularly the investments in the replacement Unit 6 at TEŠ. In 2010, the investments were significantly lower.

Structure of the statement of financial position of the HSE Group and the controlling company as at 31/12/2011

HSE GROUP



CONTROLLING COMPANY



STATEMENT OF FINANCIAL POSITION STRUCTURE

On the basis of the statement of financial position of the HSE Group, it is evident that as at 31 December 2011 the HSE Group provides short-term financing sources for a part of long-term assets. This results from a not yet acquired government guarantee for the replacement Unit 6 at TEŠ. Due to this fact, the planned drawing of a long-term loan from EIB has not been realised yet.

CAPITAL ADEQUACY

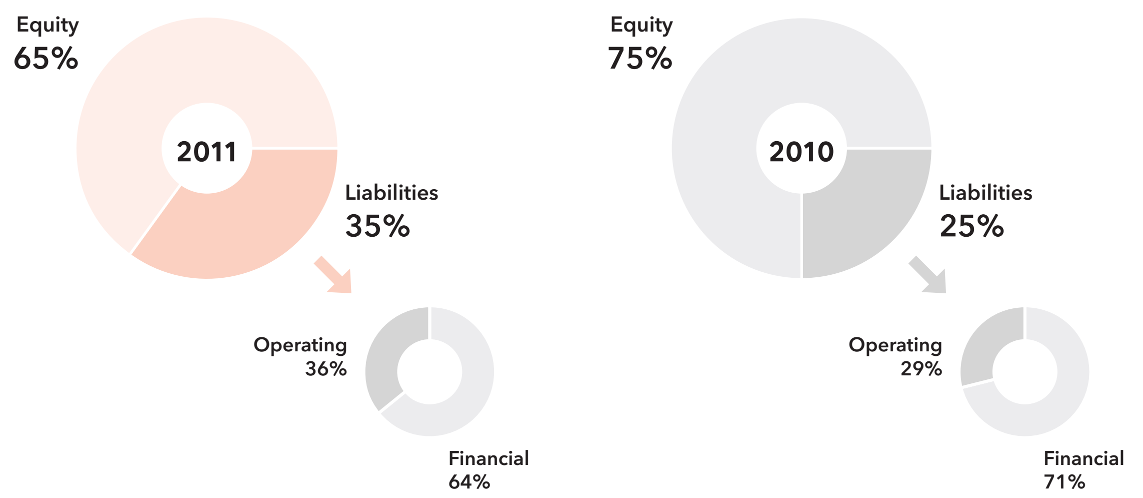
Ensuring capital adequacy is one the most important responsibilities of HSE Group managers. It is estimated that at the end of 2011 the HSE Group companies complied with capital adequacy requirements, since they dispose of sufficient funds given the volume and type of business activities and given the risk, to which they are exposed in pursuit of these activities.

DEBT RATIO

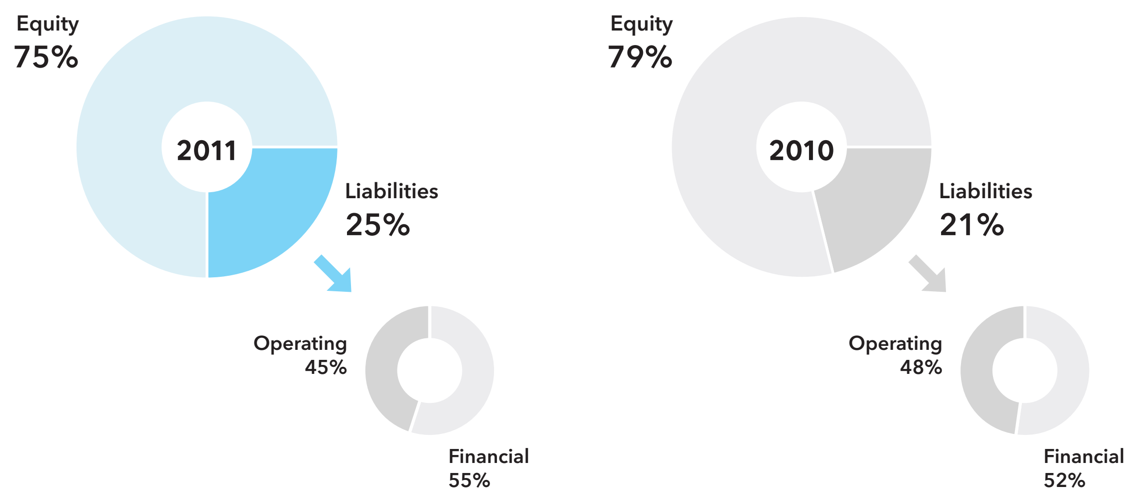
The debt ratio is an important indicator of the business and financial situation. The analysis of the financial position of HSE Group companies reveals that from the perspective of debt the business and financial position of HSE Group companies is under control, with the debt ratios not exceeding the thresholds of safe operation at the end of 2011.

The share of debts (the items of long-term and short-term financial liabilities are taken into account as well as long-term and short-term operating liabilities from the statement of financial position) in the financing of the controlling company amounts to 25% and to 35% within the group. In the debt structure of the parent company and the Group, financial liabilities account for 55% and 64%, respectively. A more detailed structure of liabilities is presented in the financial report of the controlling company HSE and the HSE Group.

HSE Group's equity-to-debt ratio as at 31/12/2011



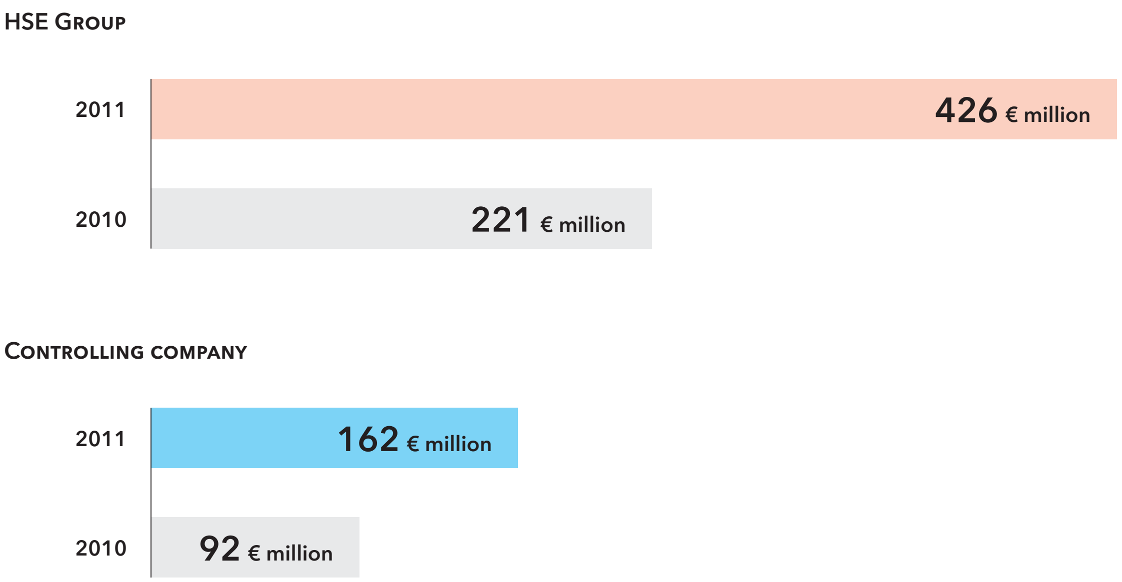
Equity-to-debt ratio within the controlling company as at 31/12/2011



At the end of 2011, the indebtedness of the controlling company to banks was 4% lower than at the end of 2010, while the indebtedness of the Group was 56% higher, particularly due to loans of the company TEŠ for the replacement Unit 6.

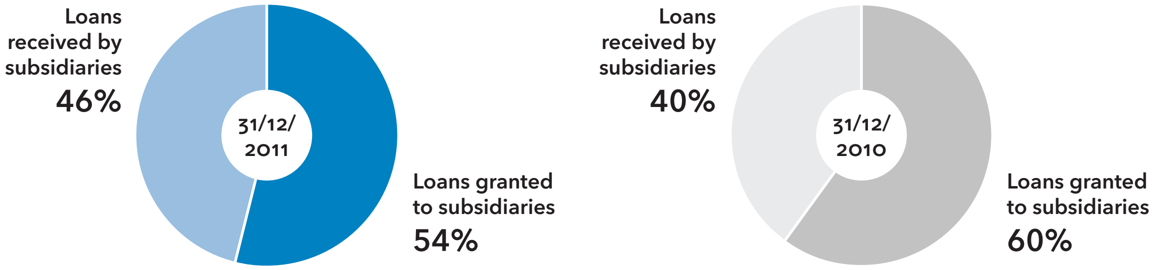
The net financial debt of the controlling company at the end of 2011 was 75% higher than at the end of 2010, while the net financial debt of the Group was 93% higher than in 2010. Thus, the controlling company and Group have taken out the loans for financing of the HSE Group investments.

Net finance debt of the HSE Group and the controlling company as at 31/12/2011



Cash management is established within the HSE Group. Its main goal is the optimisation of liquidity of group companies and it is performed in form of borrowing among the group companies.

Structure of mutual borrowing



The value of assets and total equity as at 31/12/2011 and operating results of HSE Group companies in 2011

Holding Slovenske elektrarne d.o.o.

Total assets in €	1,311,214,398
Total equity in €	970,128,945
Net profit or loss in €	46,729,619

SLOVENIA

Dravske elektrarne Maribor d.o.o.

HSE's stake	100%
Total assets in €	555,414,448
Total equity in €	538,912,014
Net profit or loss in €	10,495,516

Termoelektrarna Šoštanj d.o.o.

HSE's stake	100%
Total assets in €	859,641,851
Total equity in €	362,807,700
Net profit or loss in €	6,060,687

HSE Invest d.o.o.

Direct HSE's stake	25%
Indirect HSE's stake	75%
Total assets in €	2,257,428
Total equity in €	971,092
Net profit or loss in €	154,096

Soške elektrarne Nova Gorica d.o.o.

HSE's stake	100%
Total assets in €	264,669,299
Total equity in €	183,627,872
Net profit or loss in €	6,162,269

Termoelektrarna Trbovlje d.o.o.

HSE's stake	81.3%
Total assets in €	57,353,754
Total equity in €	34,427,841
Net profit or loss in €	52,482

Soenergetika d.o.o.

HSE's stake	25%
Total assets in €	5,484,681
Total equity in €	483,588
Net profit or loss in €	(42,131)

* n 2011, Soenergetika d.o.o. performed activities of constructing cogeneration Planina.

Hidroelektrarne na spodnji Savi d.o.o.

Direct HSE's stake	51%
Indirect HSE's stake	84.6%
Total assets in €	260,473,830
Total equity in €	252,318,722
Net profit or loss in €	447,057

Premogovnik Velenje d.d.

HSE's stake	77.7%
Total assets in €	215,489,400
Total equity in €	111,436,464
Net profit or loss in €	1,010,389

Srednjesavske elektrarne d.o.o.

HSE's stake	60%
Total assets in €	100,168
Total equity in €	99,110
Net profit or loss in €	(890)

ABROAD

HSE Italia S.r.l.

HSE's stake	100%
Total assets in €	2,680,300
Total equity in €	120,787
Net profit or loss in €	1,608

HSE Hungary Kft.

HSE's stake	100%
Total assets in €	4,357,728
Total equity in €	3,178,841
Net profit or loss in €	1,236,094

HSE Balkan Energy d.o.o.

HSE's stake	100%
Total assets in €	3,656,659
Total equity in €	1,280,115
Net profit or loss in €	170,307

HSE Adria d.o.o.

HSE's stake	100%
Total assets in €	5,001,745
Total equity in €	1,488,557
Net profit or loss in €	370,392

HSE Bulgaria EOOD

HSE's stake	100%
Total assets in €	963,145
Total equity in €	486,202
Net profit or loss in €	43,068

HSE BH d.o.o.

HSE's stake	100%
Total assets in €	1,697,604
Total equity in €	599,987
Net profit or loss in €	107,551

HSE MAK Energy DOOEL

HSE's stake	100%
Total assets in €	253,688
Total equity in €	44,563
Net profit or loss in €	36,913

2.11.1 Controlling company's ratios

Equity financing rate

in EUR	31/12/2011	31/12/2010
1. Equity and liabilities	1,311,214,398	1,198,207,987
2. Equity	970,128,945	929,748,299
Equity financing rate = 2 / 1	**73.99**	**77.59**

At the end of the year, the company's equity constituted almost 74% of its total liabilities. Compared to 2010, the equity financing rate decreased despite the increase in equity due to the net profit realised in 2011. The equity financing rate mostly decreased due to increase in short-term financial liabilities as a result of not yet acquired government guarantee for the replacement Unit 6 project.

Long-term financing rate

in EUR	31/12/2011	31/12/2010
1. Equity	970,128,945	929,748,299
2. Long-term liabilities	108,727,007	116,414,039
3. Total (1+2)	1,078,855,952	1,046,162,338
4. Equity and liabilities	1,311,214,398	1,198,207,987
Long-term financing rate = 3 / 4	**82.28**	**87.31**

The company financed 82% of its assets from long-term sources and 18% from short-term sources. Compared to the end of 2010, the long-term financing rate decreased by 5 p.p. as a result of decrease in long-term loans due to repayments and increase in short-term loans.

Operating fixed assets rate

in EUR	31/12/2011	31/12/2010
1. Property, plant and equipment	12,832,828	9,804,160
2. Intangible assets	19,888,785	6,388,682
3. Total fixed assets at carrying amount (1+2)	32,721,613	16,192,842
4. Assets	1,311,214,398	1,198,207,987
Operating fixed assets rate = 3 / 4	**2.50**	**1.35**

The share of fixed assets among the company's assets amounts to 2.5% and is higher compared to the end of 2010, mostly due to increased inventories of emission coupons.

Long-term assets rate

in EUR	31/12/2011	31/12/2010
1. Property, plant and equipment	12,832,828	9,804,160
2. Intangible assets	19,888,785	6,388,682
4. Long-term investments in subsidiaries	982,338,595	965,079,695
5. Other long-term investments and loans	246,500	246,500
6. Long-term operating receivables	870,313	885,931
8. Total (1+2+3+4+5+6+7)	1,016,177,021	982,404,968
9. Assets	1,311,214,398	1,198,207,987
Long-term assets rate = 8 / 9	**77.50**	**81.99**

Total long-term assets account for almost 78% of its total assets. The ratio decreased compared to the end of 2010, mainly due to an increase in short-term loans granted to the Group companies.

Equity to fixed assets ratio

in EUR	31/12/2011	31/12/2010
1. Equity	970,128,945	929,748,299
2. Property, plant and equipment	12,832,828	9,804,160
3. Intangible assets	19,888,785	6,388,682
4. Total fixed assets at carrying amount (2+3)	32,721,613	16,192,842
Equity to fixed assets ratio = 1 / 4	**29.65**	**57.42**

The ratio stood at 30 at the end of 2011, meaning that all of the company's most illiquid assets were financed from equity. A ratio, which is lower than in 2010, results from the increase in inventories of emission coupons intended for the period after 2012.

Acid test ratio

in EUR	31/12/2011	31/12/2010
1. Cash and cash equivalents	18,203,132	39,443,839
2. Short-term investments and loans	109,317,324	48,336,904
3. Total liquid assets (1+2)	127,520,456	87,780,743
4. Short-term liabilities	232,358,446	152,045,649
Acid test ratio = 3 / 4	**0.55**	**0.58**

The acid test ratio describes the relationship between liquid assets and short-term liabilities. At the end of 2011, 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 2010, the ratio remains on the same level.

Quick ratio

in EUR	31/12/2011	31/12/2010
1. Cash and cash equivalents	18,203,132	39,443,839
2. Short-term investments and loans	109,317,324	48,336,904
3. Short-term operating receivables	150,285,915	118,253,895
4. Total (1+2+3)	277,806,371	206,034,638
5. Short-term liabilities	232,358,446	152,045,649
Quick ratio = 4 / 5	**1.20**	**1.36**

The quick ratio stood at 1.2 at the end of 2011, meaning that the company provides short-term financial sources also for a part of long-term liabilities. Compared to the end of 2010, the ratio is lower, particularly due to higher short-term financial liabilities, as a result of not yet acquired government guarantee for the replacement Unit 6 project.

Current ratio

in EUR	31/12/2011	31/12/2010
1. Short-term assets	291,420,090	212,662,680
2. Short-term liabilities	232,358,446	152,045,649
Current ratio (short-term liabilities) =1 / 2	**1.25**	**1.40**

The current ratio amounted to 1.25 at the end of 2011, which indicates the company is solvent as it was able to cover all its short-term liabilities with current assets. Compared to the end of 2010, the ratio is lower, particularly due to higher short-term financial liabilities, as a result of not yet acquired government guarantee for the replacement Unit 6 project.

Controlling company's ratios

Operating efficiency ratio

in EUR	2011	2010
1. Operating revenue	1,359,019,422	910,086,570
2. Operating expenses	1,303,401,998	818,504,429
Operating efficiency ratio = 1 / 2	**1.04**	**1.11**

The company's operating revenue exceeded its operating expenses by 4% in 2011. Compared to 2010, the ratio is somewhat lower since a lower trading result was realised in 2011, mostly due to lower hydrology.

Net return on equity ratio (ROE)

in EUR	2011	2010
1. Net profit for the period	46,729,619	79,491,404
2. Average equity	949,938,622	887,796,468
ROE = 1 / 2	**0.049**	**0.090**

In 2011, the company generated € 5 of net profit per € 100 of equity invested. The value of ratio is lower than in 2010, mainly due to lower net profit realised in 2011 as a result of unfavourable hydrology.

Net return on assets ratio (ROA)

in EUR	2011	2010
1. Net profit for the period	46,729,619	79,491,404
2. Average assets	1,254,711,192	1,187,548,118
ROA = 1 / 2	**0.037**	**0.067**

The return on assets in 2011 of 3.7% was lower compared to the previous year, mainly due to lower net profit realised in 2011 and higher average assets (higher short-term loans granted to group companies).

Added value

in EUR	2011	2010
1. Operating revenue	1,359,019,422	910,086,570
2. Costs of goods, materials and services	1,292,558,665	808,047,751
3. Other operating expenses	830,847	1,328,028
Added value = 1-2-3	**65,629,910**	**100,710,791**

The value added is lower compared to 2010, mostly due to a lower hydrology and consequently a lower trading result.

Added value / employee

in EUR	2011	2010
1. Added value	65,629,910	100,710,791
2. Average number of employees	129	120
Added value/employee = 1/2	**508,759**	**839,257**

The value added per employee is lower compared to 2010 due to a lower value added and a higher average number of employees.

Debt-to-equity ratio

in EUR	2011	2010
1. Short-term financial liabilities	80,108,197	25,311,303
2. Long-term financial liabilities	100,009,595	106,619,094
3. Total financial liabilities (1+2)	180,117,792	131,930,397
4. Equity	970,128,945	929,748,299
Debt-to-equity ratio = 3 / 4	**0.19**	**0.14**

The ratio shows the relationship between the company's debt and equity. The ratio is higher than at the end of 2010 due to larger short-term indebtedness as a result of not yet acquired government guarantee for the replacement Unit 6 project. The ratio complies with the conditions set by the banks.

Total financial liabilities / EBITDA

in EUR	31/12/2011	31/12/2010
1. Short-term financial liabilities	80,108,197	25,311,303
2. Long-term financial liabilities	100,009,595	106,619,094
3. Total financial liabilities (1+2)	180,117,792	131,930,397
4. EBIT – Operating profit or loss	55,617,424	91,582,141
5. Amortisation/depreciation	1,425,928	1,139,894
6. EBITDA (4+5)	57,043,353	92,722,035
Total financial liabilities / EBITDA = 3 / 6	**3.16**	**1.42**

The ratio shows the relationship between the company's debt and EBITDA. Compared to the end of 2010, the ratio is lower due to higher short-term financial indebtedness of the group and due to lower operating profit or loss.

EBITDA / Financial expenses from loans received

in EUR	2011	2010
1. EBIT – Operating profit or loss	55,617,424	91,582,141
2. Amortisation/depreciation	1,425,928	1,139,894
3. EBITDA (1+2)	57,043,353	92,722,035
4. Financial expenses from loans received	3,298,008	2,693,119
EBITDA / Financial expenses from loans received = 3 / 4	**17.30**	**34.43**

Compared to 2010, the ratio is lower, particularly due to lower operating profit or loss and higher expenses for interest which is the consequence of higher indebtedness.

Total financial liabilities / Assets

in EUR	2011	2010
1. Long-term financial liabilities	100,009,595	106,619,094
2. Short-term financial liabilities	80,108,197	25,311,303
3. Total financial liabilities (1+2)	180,117,792	131,930,397
4. Assets	1,311,214,398	1,198,207,987
Total financial liabilities / Assets = 3 / 4	**0.14**	**0.11**

The total financial liabilities to assets ratio increased relative to the end of 2010 due to increased short-term financial liabilities.

DIVIDENDS TO SHARE CAPITAL RATIO

The management and SB of the company HSE proposes to the owner that the 2011 accumulated profit in the amount of € 23.4 million shall be reallocated to other revenue reserves due to high group investments planned. AUKN expects that the dividends to share capital ratio will amount to 1.5% since 2015. With the adoption of new development plan, the target dividends to share capital ratio will be defined. Here, it is important to take into account the equity intensity of activity, high equity share in the structure of financing assets, particularly due to investment cycle which causes additional expenses but not products and services.

2.11.2 HSE Group's ratios

Equity financing rate

in EUR	31/12/2011	31/12/2010
1. Equity and liabilities	2,275,886,031	1,900,508,353
2. Equity	1,409,097,763	1,344,136,467
Equity financing rate = 2 / 1	**61.91**	**70.73**

At the end of 2011, the Group's equity amounted to 62% of its total liabilities. Due to the net profit of the HSE Group in the amount of € 69.8 million, at the end of 2011 the equity is higher than in the previous year. However, the equity financing rate has decreased despite this fact, mostly due to increase in long-term loans of the group for financing of the replacement Unit 6 at TEŠ.

Long-term financing rate

in EUR	31/12/2011	31/12/2010
1. Equity	1,409,097,763	1,344,136,467
2. Long-term liabilities	501,407,398	354,855,625
3. Total (1+2)	1,910,505,161	1,698,992,092
4. Equity and liabilities	2,275,886,031	1,900,508,353
Long-term financing rate = 3 / 4	**83.95**	**89.40**

The Group financed 84% of its assets from long-term sources and 16% from short-term sources. Compared to the end of 2010, the long-term financing rate decreased since the equity increased less than long-term liabilities relative to 2010. Long-term liabilities increased due to financing of the replacement Unit 6 at TEŠ.

Operating fixed assets rate

in EUR	31/12/2011	31/12/2010
1. Property, plant and equipment	1,900,121,752	1,557,286,457
2. Intangible assets	47,817,146	36,801,406
3. Total fixed assets at carrying amount in € (1+2)	1,947,938,898	1,594,087,863
4. Assets	2,275,886,031	1,900,508,353
Operating fixed assets rate = 3 / 4	**85.59**	**83.88**

The share of fixed assets in the Group's total assets stood at 86% at the end of 2011. The operating fixed assets rate increased compared to the end of 2010 as a result of high investments of the Group, particularly in the replacement Unit 6 at TEŠ.

Long-term assets rate

in EUR	31/12/2011	31/12/2010
1. Property, plant and equipment	1,900,121,752	1,557,286,457
2. Intangible assets	47,817,146	36,801,406
3. Investment property	281,019	295,964
4. Long-term investments in subsidiaries	4,378,971	6,461,799
5. Other long-term investments and loans	5,137,980	4,130,247
6. Long-term operating receivables	1,685,613	8,008,393
7. Other long-term assets	632,148	206,385
8. Total (1+2+3+4+5+6+7)	1,960,054,629	1,613,190,651
9. Assets	2,275,886,031	1,900,508,353
Long-term assets rate = 8 / 9	**86.12**	**84.88**

The Group's total long-term assets account for 86% of its total assets. The long-term assets rate increased compared to the end of 2010 as a result of higher investments of the Group.

HSE Group's ratios

Equity to fixed assets ratio

in EUR	31/12/2011	31/12/2010
1. Equity	1,409,097,763	1,344,136,467
2. Property, plant and equipment	1,900,121,752	1,557,286,457
3. Intangible assets	47,817,146	36,801,406
4. Total fixed assets at carrying amount (2+3)	1,947,938,898	1,594,087,863
Equity to fixed assets ratio = 1 / 4	**0.72**	**0.84**

The equity to fixed assets ratio stood at 0.72 at the end of 2011, meaning that the majority of the most illiquid assets were financed from equity. Compared to the balance at the end of 2010, the ratio decreased as the equity increased less than the fixed assets. This results from financing investments with long-term loans.

Acid test ratio

in EUR	31/12/2011	31/12/2010
1. Cash and cash equivalents	67,007,238	92,708,791
2. Short-term investments and loans	1,894,071	782,401
3. Total liquidity assets (1+2)	68,901,309	93,491,192
4. Short-term liabilities	365,380,870	201,516,261
Acid test ratio = 3 / 4	**0.19**	**0.46**

The acid test ratio describes the relationship between liquid assets and short-term liabilities. At the end of 2011, it stood at 0.19, meaning that less than one quarter of the Group's short-term liabilities were covered by liquid assets. Compared to 2010, the ratio deteriorated due to the increase in short-term operating liabilities to the supplier for the replacement Unit 6 at TEŠ as a result of not yet acquired government guarantee and consequently not yet drawn long-term EIB loan.

Quick ratio

in EUR	31/12/2011	31/12/2010
1. Cash and cash equivalents	67,007,238	92,708,791
2. Short-term investments and loans	1,894,071	782,401
3. Short-term operating receivables	188,986,897	137,003,495
4. Total (1+2+3)	257,888,206	230,494,687
5. Short-term liabilities	365,380,870	201,516,261
Quick ratio = 4 / 5	**0.71**	**1.14**

The quick ratio stood at 0.71 at the end of 2011, meaning that the Group finances 71% of all short-term liabilities from current assets. Compared to the end of 2010, the ratio deteriorated due to the increase in short-term operating liabilities to the supplier for the replacement Unit 6 at TEŠ as a result of not yet acquired government guarantee and consequently not yet drawn long-term EIB loan.

Current ratio

in EUR	31/12/2011	31/12/2010
1. Current assets	305,056,555	277,158,205
2. Short-term liabilities	365,380,870	201,516,261
Current ratio = 1 / 2	**0.83**	**1.38**

The current ratio amounted to 0.83 at the end of 2011, meaning that the Group finances 83% of all short-term liabilities from its current assets. Compared to the balance at the end of 2010, the ratio deteriorated due to the increase in short-term operating liabilities to the supplier for the replacement Unit 6 at TEŠ as a result of not yet acquired government guarantee and consequently not yet drawn long-term EIB loan.

Operating efficiency ratio

in EUR	2011	2010
1. Current assets	1,388,711,186	953,548,077
2. Short-term liabilities	1,294,235,872	831,180,252
Current ratio = 1 / 2	**1.07**	**1.15**

The Group's operating revenue exceeded its operating expenses by 7% in 2011. The ratio decreased compared to 2010, mostly due to lower operating profit (lower hydrology and consequently lower trading result of the controlling company).

Net return on equity ratio (ROE)

in EUR	2011	2010
1. Net profit for the period	69,753,103	102,984,128
2. Average equity	1,376,617,115	1,289,070,729
ROE = 1 / 2	**0.051**	**0.080**

Net return on equity ratio – ROE in 2011 amounts to 5.1%, which is less than in 2010 when it amounted to 8%. The ratio decreased due to lower net profit of the Group in 2011. AUKN expects that ROE will amount to 9% after 2015. It is estimated that after 2015, when the replacement Unit 6 will start its full operation, ROE will start increasing due to reduced production costs.

Net return on asset ratio (ROA)

in EUR	2011	2010
1. Net profit for the period	69,753,103	102,984,128
2. Average assets	2,088,197,192	1,887,431,751
ROA = 1 / 2	**0.033**	**0.055**

Net return on assets ratio – ROA in 2011 amounts to 3.3%, which is less than in 2010 when it amounted to 5.5% since the average assets have increased more than net profit of the Group. The average assets have increased due to high investments of the Group.

Added value

in EUR	2011	2010
1. Operating revenue	1,388,711,186	953,548,077
2. Costs of goods, materials and services	995,533,662	533,100,133
3. Other operating expenses	56,205,456	61,223,271
Added value = 1-2-3	**336,972,068**	**359,224,673**

Compared to 2010, the value added of the Group in 2011 was lower by 6%, mostly due to lower operating profit or loss.

Added value / employee

in EUR	2011	2010
1. Added value	336,972,068	359,224,673
2. Average number of employees	3,822	3,828
Added value/employee = 1 / 2	**88,178**	**93,854**

Compared to 2010, the value added per employee of the Group in 2011 was lower by 6%, mostly due to lower value added of the Group.

HSE Group's ratios

Debt-to-equity ratio

in EUR	2011	2010
1. Short-term financial liabilities	81,031,495	60,204,864
2. Long-term financial liabilities	411,791,973	253,668,459
3. Total financial liabilities (1+2)	492,823,468	313,873,323
4. Equity	1,409,097,763	1,344,136,467
Debt-to-equity ratio = 3 / 4	**0.35**	**0.23**

The ratio shows the relationship between the Group's indebtedness and equity. The value of the ratio is higher than at the end of 2010, mostly due to higher long-term indebtedness of the HSE Group as a consequence of financing investment in the replacement Unit 6 at TEŠ. Due to net profit of the HSE Group realised in the amount of € 69.8 million, the equity has also increased. However, the increase in equity is lower than increase in Group indebtedness. The ratio remains within the conditions determined by the banks included in the financing of investments.

Total financial liabilities / EBITDA

in EUR	31/12/2011	31/12/2010
1. Short-term financial liabilities	81,031,495	60,204,864
2. Long-term financial liabilities	411,791,973	253,668,459
3. Total financial liabilities (1+2)	492,823,468	313,873,323
4. EBIT – Operating profit or loss	96,190,255	126,243,974
5. Amortisation/depreciation	92,705,604	88,630,047
6. EBITDA (4+5)	188,895,859	214,874,021
Total financial liabilities / EBITDA = 3 / 6	**2.61**	**1.46**

The ratio shows the relationship between the Group's debt and EBITDA. The ratio is higher than at the end of 2010, mostly due to higher long-term indebtedness of the HSE Group as a consequence of financing investment in the replacement Unit 6 at TEŠ and lower EBITDA. Despite the fact that the ratio is somewhat lower than in the previous year, it complies with the conditions determined by the banks included in financing of investments.

EBITDA / Financial expenses from loans received

in EUR	2011	2010
1. EBIT – Operating profit or loss	96,190,255	126,243,974
2. Amortisation/depreciation	92,705,604	88,630,047
3. EBITDA (1+2)	188,895,859	214,874,021
4. Financial expenses from loans received	8,387,544	7,468,061
EBITDA / Financial expenses from loans received = 3 / 4	**22.52**	**28.77**

The ratio showing the relationship between the indebtedness of the Group and financial expenses from loans is lower than in 2010 due to lower EBITDA and it complies with conditions determined by banks included in the financing of investments.

Total financial liabilities / Assets

in EUR	2011	2010
1. Long-term financial liabilities	411,791,973	253,668,459
2. Short-term financial liabilities	81,031,495	60,204,864
3. Total financial liabilities (1+2)	492,823,468	313,873,323
4. Assets	2,275,886,031	1,900,508,353
Total financial liabilities / Assets = 3 / 4	**0.22**	**0.17**

The ratio showing the relationship between indebtedness and assets of the Group is higher compared to 2010 since the assets have increased more than the Group's indebtedness. The ratio complies with conditions determined by the banks included in the financing of investments.

2.12 Risk management

Within the HSE Group we have established a system of business risk management. Exposure to various risk types that the HSE Group faces in all areas of operations, particularly in the production and marketing of electricity and consequently also in the financial area has been regularly monitored and activities for their management have been performed. Risks can be broadly classified into the following categories:

- Market risk;
- Quantity risk;
- Financial risks;
- Corporative risks;
- Information system risks;
- R&R risks;
- Human resources risk;
- etc.

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.

Based on the analysis of HSE Group's operations in 2011, it is our estimate that risks were managed successfully.

With the purpose to improve control over the risk management system within the HSE Group companies, risk management committees were established in the companies of the HSE Group in the area of Republic of Slovenia and the Constitutional Act on Internal Audit Operations within the companies of the HSE Group was signed.

2.12.1 Report on work of the risk management committee of HSE d.o.o. for the year 2011

Risk Management Committee (hereinafter: the »Committee«) operates as an advisory body of the management established with the purpose of control over the risk management system in the company by providing the management and owner of the company quality bases for management and governing of the company with the purpose to achieve the goals set. The committee operates in accordance with the adopted the HSE Committee Rules of Procedure for risk management.

COMMITTEE MEETINGS

In 2011, the Committee held nine meetings, on which it adopted 170 decisions which have been mostly realised. Decisions still being performed are those whose performance requires a longer period of time and it is tied to realisation of certain preliminary activity or project.

CONTENT OF WORK – WORK PROGRAMME OF THE COMMITTEE

The Committee was operating in accordance with the adopted 2011 Work Programme and within the framework of its competencies actively monitored and suggested decisions and recommendations to the Managing Director, organisational managers, directors of subsidiaries and other individuals responsible for individual areas of all significant risks identified in the course of company operations, while its permanent task was to regularly monitor credit risks and risks detected in current operations of the company HSE and the HSE Group with the following significant contents:

- It was acquainted with 2010 Risk Registry and the signing of the HSE Group risks for 2011;
- It was acquainted with the strategy of electricity marketing in 2011 and 2012;
- It was acquainted with the procedure of RIP 4 for the replacement Unit 6 project at TEŠ and with the amended risks, and it suggested to the HSE management to supplement the document »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« with the new risk assessment;
- It was acquainted with the summary of contractual provisions related to financing of the construction of replacement Unit 6 at TEŠ and resulting obligations for HSE and other signatory companies, instructed heads of local committees of lawyers and financers to include the consideration of obligations to the agenda of both local HSE Group committees and instructed the managing directors of the companies, which signed contracts on financing construction of the replacement Unit 6 at TEŠ, that they should inform the SB of the HSE Group companies on the list of obligations through a precisely determined reporting system on implementing obligations;
- It was acquainted with the quarterly reports on issued and received banking guarantees and parent guarantees and collaterals under the electricity trading contracts;

- It was acquainted with the CO_2 Emission Coupons Trading Strategy for the period 2013-2020 and suggested its approval, and monitored quarterly reporting on concluded transactions with CO_2 coupons and long-term risk management activities in the purchase of CO_2 coupons for the purposes of thermal production of the HSE Group after 2012;
- It was acquainted with the Report on Analysed Risks from the transfer price system – April 2011;
- It suggested to the Managing Director to accelerate all activities in the field of introducing new ERP in the company's business processes;
- It discussed the revision of organisational regulations (Accounting Manual of the HSE Group, Controlling Department Manual, Manual on Project Management, Rules on Preparation, Valuation, Management and Monitoring of the HSE Group companies);
- It discussed and approved the »Implementation Policy of Interest Rate Risk within the HSE Group« with the proposition to the Managing Director of HSE and managing directors of subsidiaries to adopt and approve the policy. The adopted policy is already performed in practice;
- It was acquainted with the Report on Implementation of Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act – ZFPPIPP in 2010;
- It instructed the Committee President to examine (together with heads of organisational units) the possibility to shorten the deadline of preparing the monthly reports on operations from the 20th working day in the current month for the previous month to 5th to 10th working day of the current month;
- It monitored the levels of certainty of the following projects:

  - It discussed the temporary non-audited and shortened financial report of the company HSE for 2010 and annual report of the company HSE and the HSE Group for 2010;
  - the consolidation and IFRS transition project and instructed the project group to prepare »Financial Instruments Disclosure – in accordance with IFRS 7« in 2011 Annual Report;
  - the project »inventory of business processes« and Report of the Project Manager on Established Critical Points in Business Processes established in the course of Project Implementation; and
  - the project Partner Card.

Ljubljana, 17 May 2012

Borut Meh
President of the Risk Management Committee

2.12.2 Business risks

Market risks

In 2011, the energy sector was mostly subject to political interventions which suddenly changed the border conditions of energy company operations and indirectly affected the European energy market. The event in Fukushima resulted in a wave of second thoughts in relation to the closing of the existing nuclear power plants in SE Europe. Germany went so far with its decision that it immediately shut down the operation of eight oldest nuclear power plants, the useful life of certain nuclear power plants was shortened, the projects of constructing new nuclear power plants were terminated or they received an adverse opinion, in Italy the moratoriums on the decision of nuclear option was again extended and the procedures of stress tests started throughout Europe.

An increasing number of parameters proved that the European economy is or it will face recession again. Due to increasing budget issues, the countries adopted decisions on decrease in RES subsidies. As a result of solving bankruptcy of some European countries, the stability of euro currency was also strongly affected and it has been losing in value compared to American dollar since September. This caused the increase in prices of imported goods such as oil, gas and coal, which are important inputs in the production process of European power plants.

Despite recession, the European policy persisted on restraining the policy of greenhouse gas emissions and even ideas arose with regard to decrease in free quotas or decrease in auctioned quantities of emission coupons in the period after 2012. In addition, the electricity market volatility was also impacted by the spring uprising of nations in the Middle East, which strongly affected the oil market and consequently also the gas market.

The change in market structure, increasing RES production, constant price fluctuations of electricity and other primary energy products brought numerous business challenges as well as control of professional management of market risks. Systematic recording, valuation and risk control is a key element of professional risk management which must at the same time enable the seizing of new market opportunities.

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 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 the company HSE. HSE therefore continues its conservative risk management policy.

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 RISK ASSOCIATED WITH MARKET ILLIQUIDITY

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 view of operations and risk management of the company HSE, the illiquid wholesale electricity markets or countries are those where there is no market organiser, nor electricity exchange.

In 2011, the company HSE controlled or managed risks 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 view of operations and risk management of the company HSE, the non-transparent wholesale electricity markets are identical to illiquid markets.

In 2011, 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 exposure of the company HSE to electricity prices depends on **ENTIRE OPEN POSITION OF THE COMPANY** in the given moment. In case the position is closed, this means that purchase and sales transactions coincide with regard to quantity and supply deadline, while the company is not exposed to changes in market prices of electricity. In case the position is open, this means that transactions do not coincide with regard to quantity and maturity deadline and the company is exposed to price risks in the size of open or net position. With regard to the fact that the company HSE operates in various countries, it is necessary to additionally take for granted the net positions, electricity prices in various countries or regional markets and their correlations.

In its trading activities the HSE company takes account of the adopted strategy of selling its own production, according to which the major part of the HSE company position is closed before the beginning of the trading year. Thus, in the current year the company is exposed to price risks in a minimum extent. The share of exposure to price risks can increase solely in case of hydrology below the planned level, unplanned failures of power plants and due to credit exposure (failure of assuming or supply of energy in accordance with concluded contracts, bankruptcies of business partners etc.). The company is thus mostly exposed to price risks at the beginning of the year, while these risks are decreasing towards the end of the calendar year. At the end of calendar year, the company's position is always closed due to the sole nature of electricity (incapability of storage, production or supply must be equal to demand or take-over of electricity in each moment).

PRICES OF CO2 EMISSION COUPONS Being an EU member and subject to Kyoto Protocol, Slovenia committed itself to decrease the greenhouse gas emissions, which did or will also affect the operations of the company HSE since a part of the company's production park is represented by the thermal power plants Šoštanj and Trbovlje. CO_2 emission coupons awarded to TEŠ free of charge by the government were received by the subsidiaries and were intended for use in 2011. In terms of amount, they were not sufficient to cover all CO_2 quantities emitted in 2011. HSE had to cover the difference by the purchase of emission coupons in regulated markets or stock exchanges with emission coupons.

For the purposes of operations of gas units at TEŠ, the company HSE is also exposed to changes in **gas prices** which are significantly correlated with oil prices with a certain time delay. The company has a signed contract on the supply of natural gas for the purposes of gas unit operations; however, the gas price is tied to the package of oil derivatives and it has been changing during the year in a certain time interval.

In 2011, the company HSE was not exposed to the changes in **coal price** since the company TEŠ has a signed contract on the supply of coal at fixed price.

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 in 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. The closed position is not subject to price risks.

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

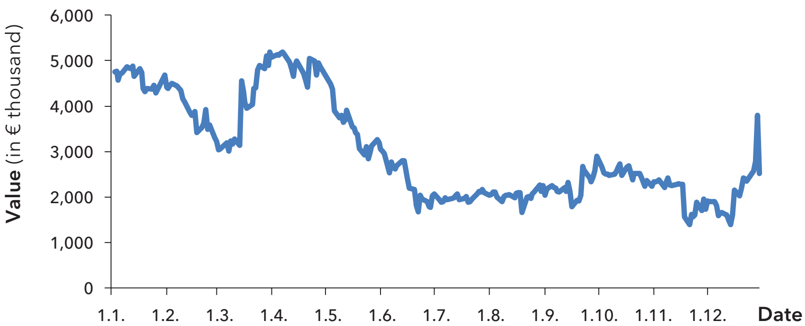
The absolute level of prices can affect the absolute level of market exposure via the volatility rate which is represented in percentage points.

The abovementioned variables are included in the calculation of VaR parameter (Eng. Value-at-Risk), which is the key indicator of company's direct exposure to price fluctuations and indirect exposure to quantity risks (through 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 2011, risks were managed with the following activities and methods:

- Daily monitoring of the market position on group-level and on the level of HSE by countries and individual groups of transactions that have a 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 2011, 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 a 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 AllWoSubsidary scenario for entire trading period in 2011



Source: Internal calculations of HSE.

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 2011, risks were managed with the following activities and methods:

- Daily recording of measurements (actual takeover 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 transfer 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 2011, 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 Slovene 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 predict, identify and quantify them and prevent or mitigate their effects. Laws and other regulations in energetic sector are frequently changed an amended. Therefore, it is necessary to adequately adapt procedures and methods related to the management of regulatory risks. In 2011, risks were managed or controlled mostly 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 response 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;
- Daily monitoring of investment decisions in the EU energy sector and economic policy, and adaptation of market measures;
- Adequate responding to propositions of changes and adopted amendments to legislation.

METHODOLOGY RISKS

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

In 2011, 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.

It is estimated that market risks were appropriately managed in the previous year.

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 in the market. It is also linked to operational risk, which aims to assess the probability and effect of a turbine or any other production unit failing. Particularly important is the impact of uncertain hydrology because a large share of electricity is supplied by hydropower plants;
- 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 to 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 2011, the production of HPPs of the HSE Group was 287 GWh lower than planned, whereas at TEŠ the plan was exceeded by 56 GWh and at TET by 129 GWh. This resulted in the HSE production deficit in the amount of 102 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 2011, TEŠ's unexpected production outage amounted to 5.2%, and TET's to 6.1%.

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 2011, the members of HSE balancing group were production units of the HSE Group, including HPP, PV, larger consumers connected to transmission network, balancing subgroup of four distribution companies, one balancing subgroup SODO and some smaller consumers. The balancing group's deviations include all production and consumption deviations from forecast schedules. The HSE Group estimates that the management of balancing group of the HSE Group in 2011 was successful since deviations arose in the framework of set goals. The capacity was allocated optimally with regard to daily conditions, while all reserve capabilities were timely activated in case of emergencies.

Financial risks

In 2011, the management of financial risks was also characterised by world financial and economic crisis which was extended by the Euro-zone debt crisis. The global crisis mostly affected the financial sector and it was significantly reflected in real economic sector, which is particularly evident in over-indebtedness of companies, deteriorated solvency and delayed payments, incapability of acquiring new financing sources or extension of existing loans and necessary financial restructuring. Therefore, the HSE Group must act with due diligence of the business and financial profession and devote its efforts to ensuring short-term and long-term solvency and capital adequacy.

In 2011, the HSE Group also monitored the 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 Group. 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 rate Euribor and is therefore exposed to interest rate risk. The interest rate risk is adequately managed within the HSE Group, 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 interest risk management is aimed at protecting cash flow of the Group against negative impacts of Euribor growth on the costs of financing loans received and the sole risk dispersion. With regard to the latter, the companies HSE, SENG and PV protected up to 50% of a long-term loan portfolio with interest rate swaps concluded with commercial banks. The company TEŠ adopted a strategy of protecting a long-term loan portfolio by dispersing the loans taken-out at the fixed and variable interest rate in the ratio 50%:50%. The transactions of interest rate hedging are concluded exclusively with the intention to hedge against risks and not for the purposes of speculation. In view of hedge accounting, the concluded transactions of interest rate hedging are considered as highly effective since the concluded interest rate hedging perfectly matches the hedged item (loan) in all characteristics.

The appropriateness and correctness of contracts concluded for interest rate risk hedging is also managed through the monitoring of events in the money market and regular examination of predictions of changes in interest rate.

CURRENCY RISK

Currency risk is a risk associated with transactions involving foreign currencies and is subject to changes in exchange rates. In operations the currency risk is present in a smaller extent and it mainly occurs in trading with electricity in Hungary (in HUF). Currency risk is managed through appropriate hedging strategy with the use of derivatives, namely with currency FX Forward concluded with commercial banks, by which the exchange rate of a foreign currency against the domestic currency is fixed. The fixation of exchange rate ensures stable cash flow and at the same time prevents the impact of changes in foreign currency exchange rate on operations. The transactions of currency hedging are concluded exclusively with the intention to hedge against risks and not for purposes of speculation. The appropriateness and correctness of contracts concluded for currency risk hedging is also managed through the monitoring of macroeconomic events and expectations on changes in exchange rates.

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. The aim of measures of solvency risk management is ensuring optimum solvency of the Group with regard to covering its current obligations, both in normal as well as in more demanding conditions.

In conditions of financial crisis, the management of the solvency risk is of utmost importance, which is why our carefulness in managing solvency risk has additionally increased. The companies within the HSE Group are aware of this fact and therefore they thoroughly and regularly monitor and plan cash flows on daily, monthly and annual level. Cash management is established within the HSE Group and its main goal is the optimisation of liquidity of group companies and it is performed in form of indebtedness among the group companies. The primary source of financing short-term deficits of Group companies is 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. Cash management is performed in accordance with adopted internal regulations of the HSE Group companies for cash management and cash pooling of the HSE Group. In addition to own assets, the group has approved credit lines at commercial banks, where the high liquidity and credit rating of the Group represent the basis of approval of favourable financing conditions.

Short-term surpluses are allocated to safe and liquid short-term deposits at commercial banks. Within the framework of HSE Group, cash pooling is performed in form of 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. Thus, due to cash pooling on the treasury account, a higher positive effect is realised due to higher interest rate on treasury account than the company would realise individually. The basic purpose of cash pooling is optimisation of interest income and efficient liquidity management. Cash pooling is performed in accordance with adopted internal regulations of the HSE Group companies for cash management and cash pooling of the HSE Group.

The solvency risk is assessed as efficiently controlled and it is reduced by the Group's credit rating as a result of good operations, regular coordination of maturity of receivables and liabilities, consistent collection of receivables overdue, liquidity reserve and availability of adequate credit lines and possibility of sustainable creation of operating cash flows.

RISK OF FINANCIAL INDISCIPLINE OF BANKS AND FINANCIAL INSTITUTIONS

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. We assess that the risk is properly controlled since it is managed by respecting the principle of deposit diversification per individual banks, investment of cash for current short-term operations (in form of »overnight« and »redeemable at notice« deposits) and by unification of cash in form of cash pooling service. Transactions of derivatives for protection against interest rate and currency risk are concluded with commercial banks on the basis of standard ISDA contracts and it is estimated that the possibility of failure to fulfil these transactions is minimal.

Moreover, the data on current operations of banks, with which the controlling company cooperates, is also monitored. The controlling company sends subsidiaries within the HSE Group recommendations in relation to investment of free cash.

CREDIT RISK

While performing operations with our partners, suppliers and buyers of electricity and related products as well as buyers and suppliers of services such as financial institutions and other actors in the energy market, we face the risk that contractual obligations will not be fully covered after they fall due (credit risk). The volume of credit risk depends on credit rating of our partners, level of market prices and general economic situation. Therefore, we regularly monitor the abovementioned elements. Credit risk management is regulated by internal regulations which define procedures of accepting the partner, defining its credit limit, monitoring of partner and acceptable forms of insurance if the partner's credit rating is insufficient or decreased.

The credit risk is mostly managed by defining and adopting credit limits on the basis of financial as well as other internal and external available data on our partners, comprehensive arrangement of contractual relations in form of framework EFET agreements and others as well as additional insuring of payments or complying with contractual liabilities by the partner and in the form of cash deposit or banking guarantees.

Most partners with whom we operate are larger companies with an excellent credit rating. In order to estimate credit rating of our partners we use our own assessments as well as the assessments by credit rating firms. A large part of trading activity is generated through stock exchanges, where the certainty of physical and financial settlement with insurance system is provided by clearing firms, which is extremely important for partners with a lower credit rating. The volume of credit risk and balance of open (not) overdue items to our partners is monitored on daily basis, while the process of reminding and collection is also connected with them.

Corporative risks

The following corporative risks of the HSE Group arise from the risk registry:

- Control of the HSE Group management;
- Risk due to non-current Development Plan;
- Control of the HSE company management, too frequent replacement of management and SB; and
- Consolidation of the HSE Group management.

It is estimated that the risks were appropriately managed taking into account additional limitations.

Information system risks

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:

- Decreased possibilities of consistent and optimised common work – the project of renovation of the HSE IT system is in preparation. This project has to assure efficient and standard compatibility to existing business information systems of subsidiaries and at the same time enable reliable expansion if needed;
- Smaller power of negotiations with external providers of IT services and equipment and consequently higher purchase prices of services and equipment – with this intention, in 2011 the purchase of the entire IT infrastructure of subsidiaries was performed and given into the management of the HSE company, which, on the basis of IT unification, already started to decrease costs of maintenance of hardware and software, more definite on the account of quantity discounts;
- Various levels of information security in individual company – within the framework of HR reorganisation of IT departments of individual companies, a thorough reduction of »key« domain administrator was performed (4). In this manner, a high level of security was provided as well as TRANSPARENCY OF SYSTEM SOURCES AND HIGHER LEVEL OF TRUST AT END USERS WAS ACHIEVED;
- Smaller flow of know-how between Group companies;
- In the area of maintenance, in 2011 a pilot project IPS-Energy was established, which will be expanded throughout the entire HSE Group on the basis of results, cost estimate and final technical estimate.

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 etc.

In order to reduce these risks, we have moved the users to a highly available and duplicated computer centre. In this area, in 2011 the project of data centre upgrade was successfully concluded. Pursuant to the HSE strategy, in future it will represent the basis of reliable highly available duplication centre, i.e. »DCR – Disaster Recovery Centre«. In addition, the study on optimisation of the existing situation of data warehouses is in course of preparation and it will be performed in the near future.

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 these facts are reflected in great IS reliability – in September 2011, a test of permeability of HSE ITC network was performed and on the basis of results, one month later we performed the optimisation or upgrade of a part of network which additionally contributed to better responsiveness and stability of communication links.

Short-term future strategy is mostly in the renovation of business information system which currently represents the largest business information system risk of the company HSE.

R&R risk

RISK OF LATE EXECUTION OF PLANNED INVESTMENTS

The basis of planning and performing investment projects is represented by the Development Plan of the HSE Group, Business Plan of individual companies as well as investment and project documentation for individual investment. In order to assure timely performance of planned investments, it is of key significance that all individual stages from the preparation to performance of investment are prepared and approved in a timely manner, which is ensured through procedures and the method of preparation of investment projects and project management in accordance with the internal governing documents and applicable national legislation in all stages of the project.

For this purpose, the responsible project leaders were appointed to perform individual projects. They are responsible for timely preparation of investment documentation and performance of subcontracting procedures. An important aspect is also timely provision of financial sources for the execution of investments and risk management process. The status of all investment projects is monitored on a regular basis, also at the level of development committees, which are periodically held throughout the entire financial year. 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. The control over the preparation of investment documentation is established as well as active monitoring of performing of investment activities and control over the key risks. In case of deviations of key investment parameters and time parameters set, corrective measures are performed.

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 incorporation of such policies into the development and strategic policy of the company and the Group. For this purpose, we regularly monitor the preparation of sector strategies and politics on the national, EU and global level. 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 of the HSE Group. In 2011, drafts of amendments to climate and energy strategy were performed on the national level, which we actively monitored and prepared the assessment of impact on the HSE Group operations. Within the process we initiated as early as in 2010, strategic and development orientations of the HSE Group were updated as a result of the adopted climate and energy EU legislation and orientations of new sector strategy on the national level. The strategic orientations and the proposal of long-term development plan of the HSE Group were updated, but they were not approved by the owner due to non-adoption of national energy policy and sector legislation.

RISK OF KEY PROJECTS OF THE COMPANIES NOT BEING PLACED UNDER NATIONAL PRIORITIES

In the process of continued monitoring of developments in the area of national and EU environmental energy 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 Group 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 at TEŠ.

RISK ASSOCIATED WITH INVESTMENT ACTIVITIES

The key risks of the replacement Unit 6 at TEŠ are:

- Risk related to acquisition of financing sources necessary for Unit 6 construction;
- Risks related to investment value of the project;
- Risks that the project will not be terminated in accordance with time schedule;
- Risk of lack of coal or its quality;
- Market risk related to the price of electricity and emission coupons; and
- Risk that environmental legislation will be deteriorated.

There is a risk of non-issuing the government guarantee to EIB. According to all assurances to financial institutions (No objection letter, Letter of support by the Government of the Republic of Slovenia) cannot be assumed neither by HSE nor investor. Non-issuing of the guarantee would negatively affect the credibility of not solely the HSE Group, but the entire State. After non-issuing of the guarantee, it is difficult to imagine a high international financial credit rating of the State and maintenance of its credibility to international financial institutions. EBRD loans are also related to EIB arrangement.

If in 2010 we estimated that there is a risk of non-issuing of the government guarantee to EIB for the loan in the amount of € 440 million, at the end of 2011 this risk must be exposed. The risk is not solely non-issuing of the guarantee but also delay of issue. In case the guarantee will not be issued before autumn 2012, this could cause liquidity problems not only in HSE, but within the entire Group. In case the guarantee is not issued, the largest risk is certainly assumed by our owner, i.e. the State, which with this action consciously agrees on impairments of its property and consequently adopts liability of capital increase of the company HSE.

Managing risk of delay in acquiring government guarantee is controlled by up-to-date alternative scenarios, short-term borrowing and optimizing liquidity and operations. It is estimated that the risk was appropriately managed in 2011.

Risk of non-issuing government guarantee is controlled by performing scenarios of alternative financing of replacement Unit 6 in TEŠ. It is estimated that the risk was appropriately managed in 2011.

TET STRATEGIC RISK

TPP Trbovlje which has been operating since 1968 has entered the last period of its useful life. Therefore, the key strategic goal is the maintenance of location in TET, namely the construction of new gas power plant and/or replacement of the existing TPP with contemporary and environmentally appropriate power plant on the same location. The decision on further development of TET has not been adopted yet. However, it is planned that energy activity in Trbovlje will be maintained.

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.

Insurance of the HSE group companies responsibility

In 2011, HSE concluded a contract on insurance of responsibility of the management and supervisory body members and managers (D&O insurance), which comprises all companies of the HSE Group, where HSE directly or indirectly holds more than 50% of ownership stake and they are not dormant or in their initial stage of operations. All managements of the HSE Group companies agree that the conclusion of such insurance is needed as it complies with criteria of sound management and principal rules on hedging risks of the company in performing management and supervisory functions. In accordance with requirements of Criteria for remuneration of members of governing bodies in entities representing capital investments by the state, the HSE Group companies arrange D&O insurance with the purpose to insure company interests, particularly in view of risk management of the companies. D&O insurance is concluded as corporate insurance, within the framework of which the responsibility of management and/or supervisory body is insured as a whole, while with regard to D&O insurance conditions the responsibility to managers is also insured. D&O insurance protects the property of the HSE Group companies and personal property of individuals insured at the HSE Group companies. The latter is compliant with currently applicable tax legislation in Slovenia.

Data security

Risk management is aimed at decreasing risks to the acceptable level. Due to significant connection with subsidiaries, it is necessary to continue implementing measures in accordance with ISO 27001 also in subsidiaries.

All risks are stated in the HSE registry of risks per individual year. We have assessed risks of intangible assets, software, data bases, paper documents, people and services.

In 2011, new information assets are recognised with regard to location where significant information assets are placed in relation to which the following risks are recognised: fire, floods, voltage failures/fluctuation, air-conditioning and physical break-in, which could mean the loss of data or incapability of service functioning. Risk management instrument is the establishment of security policies of physical access to important locations (card access, the list of authorised individuals for the access to important server rooms, diary of visits and intervention in server rooms, establishment of video-surveillance system, appropriate organisation of fire security, appropriate flood protection on endangered locations, regular maintenance of air-conditioning devices and UPS device in the safe room and other server rooms).

In the field of personal data protection, in 2011 new personal data catalogues were established and reported to information commissioner of the Republic of Slovenia in accordance with the law. Personal data catalogues are processed in individual HSE departments.

Management system

Within the company HSE, a management system is integrated, which is based on process approach and unites the quality management system certificate in accordance with the requirements of ISO 9001 standard, environmental management system in accordance with the requirements of ISO 14001 standard, occupational safety and health system in accordance with requirements of OHSAS 18001 standard, information security system in accordance with ISO 27001 standard and EMAS certificate. The elements of the abovementioned systems are tightly connected among all business processes within the company and represent a part of company management policy. Their management assures that environmental aspects, risks of occupational safety and health as well as information management and security are properly considered in preforming all procedures.

The company‘s organisational culture is reflected in the certificate Family Friendly Company (FFC).

For the purpose of larger recognition and offer of greater quality, we obtained the following certificates in the market: For production E-RES according to TÜV TMS criteria EE TUV (CMS Standard 83: Erzeugungb EE (04/2011)), for production of E-RES with providing guarantee of functioning and efficiency in accordance with TÜV TMS criteria EE+ TUV (CMS Standard 87: Erzeugungb EE+ (04/2011)), Renewable Energy Certificate System (RECS) and guarantees of origin.

Certificates are mostly assessed on annual basis, while the assessment of certificates is repeated every three years.

Certificates show the credibility of the company‘s organisation. Losing any of the abovementioned certificates would mean an increased risk in organisation of company‘s operations, which refers to the loss of independent reviews and independent confirmation of company‘s operations. Thus, the company would be exposed to greater critical assessments, problems would arise with regard to opening branch offices abroad, negotiating positions related to acquisition of new financial sources would deteriorate and greater problems would appear with regard to optimising processes and integrating new tools and methods of management.

The omission of certificate would cause a decrease in the need to identify good practices among the companies and in the need to mutually coordinate the procedures among individual companies within the framework of the HSE Group and thus in the need for coordination of approaches and improvements within the framework of the HSE Management Council’s operations.

International network

The foreign network is primarily aimed at supporting the HSE Group in the implementation of trading strategy in regional energy markets of Central and SE Europe, while at the same time it allows us to obtain data and enables us the access to new energy projects in individual region. In view of expanding HSE operations to individual European markets, it is necessary to consider national energy legislation which does not enable HSE operations without establishing permanent unit. HSE monitors the adaptation of national energy legislation to EU Directives and launches procedures of acquiring energy licences and consequently redirection of trading directly to HSE. At the end of 2011, the winding-up proceedings of the Hungarian company began since HSE had acquired the Hungarian trading licence and assessed that without entering the Hungarian retail energy market the subsidiary had no possibility to acquire revenue, while the winding-up was envisaged in the first half of 2012.

In 2011, the foreign network maximally ensured the support of HSE marketing function in performance of trading strategy in Central and SE Europe since all the companies with their registered office abroad operated with profit. The companies operate with minimum costs, (normally) without employees and with a professional central support to HSE. An engagement team was established, which is responsible for verification of optimality pf foreign network. In case of change in national energy legislation, it assesses the reasonableness of existence of individual subsidiary.

We assess that the risk is managed.

2.13 External communication

In the tenth year of HSE operations, the general and professional public mostly discussed the replacement Unit 6 at TEŠ. A press conference was organised, several press releases were sent, answers to journalist questions were prepared and we took part in all professional meetings, round tables and media events and prepared a public presentation of the company and Group.

The HSE Group companies have actively communicated the construction of other production facilities of the HSE Group (HPP on the lower Sava River, HPP on the middle Sava River, PSP Avče, PSP Kozjak, renovation of HPP on the Soča and Drava Rivers …) through their websites and internal journals.

In the area of raising awareness on significance of environmental protection among the youngest, we started the year with the action »Small house, large shelter« (»Majhna hišica, veliko zavetje«), by which we promoted creativity and presented the significance of care for birds in winter period among children in kindergartens. For the latter we also prepared a summer action »I Plant a Flower, I Take Care of Nature« (»Rožico posadim, za naravo skrbim«), by which we tried to present the importance of planting new plants, while at the same time it emphasized the benefits of healthy way of life (provided by riding a bike or walking, therefore without a car). Our last action this year intended for children »To Make the Environment Happy« (»Da bo okolje dobre volje«) was intended to getting informed on efficient use of energy.

The success of the first environmental project among the Slovenian primary schools was concluded with the publication of »Blue Book« that contains all Eco Projects and it stimulated us to repeat the project also this year and named it Eco Project 2.

We have also published four issues of environmental magazine for children Modri Jan (»Blue Jan«), which has more and more faithful readers.

We have also updated our website www.modrijan.si by adding an interactive chat room, first of such kind in Slovenia, where children can chat with their peers on the significance of environmental protection under the guidance of moderator. At the company's tenth anniversary, the corporative website www.hse.si was also updated. Other communication activities comprised updating of the website www.modra-energija.si and informing media on all key projects of the HSE Group, both through public releases and press conferences.

2.14 Research and development

The main activities in the area of research and development were orientated towards active monitoring of changes in energy and environmental legislation as well as implementation of the HSE Group investment projects. In accordance with the adopted EU legal framework in the field of environmental and energy policy and energy market liberalisation, in 2011 the changes in legislation and simultaneous adoption of strategic documents in the field of environmental and energy policy of the Republic of Slovenia were planned on the national level. The planned program of changes in national level was not realised in full. All significant drafts of legal proposals and sector politics and strategies were prepared. They were also submitted to public discussion, but they were not finally discussed nor adopted. We have actively monitored the preparation and public discussion of all documents in the European as well as national level. We have prepared a formal position of the HSE Group for all key documents and propositions of amendments and changes.

A significant area of work was represented by activities in the support of realisation of the demanding investment programme of new production facilities whose basic purpose is to increase the electricity production within the HSE Group and ensure safe and reliable market supply. With planned investment programmes we follow the goal of target sustainability of electricity production, increase of share of electricity production from renewable sources, decrease in greenhouse gas emissions and target efficient use in the production and consumption of electricity. Since the HSE Group is in the period of difficult investment cycle, the change and coordination of preparation and implementation of investment projects represents a significant part of development activities.

2.14.1 Coordination of development activities on the HSE group level and revision of the group Development plan

HSE GROUP DEVELOPMENT PLAN

In light of changes in climate and energy policy of the EU and expected revision of national energy strategy, we initiated the activities of revising the HSE Group Development Plan as early as in 2010. The draft of new Development Plan had to be coordinated with priorities of the national energy strategy and commitments of the climate and energy package. The development plan was neither realised nor adopted due to the failure to adopt the National Energy Programme and other strategic documents on the national level. Therefore, this task remains priority in 2012.

CHANGES IN LEGISLATION AND CLIMATE AND ENERGY POLICY

In 2011, the preparation of numerous legislative propositions took place, both on the level of the EU as well as on the national level, where the renovation of climate and energy strategy was performed at the same time. We have actively monitored the preparation and public discussion of all documents. We have carefully examined all the presented drafts (NEP, Sector Policy Energetics, Energy Act EZ-1, Energy Act EZ-E and new European legislation for the area of energetics and energy strategy of the EU) and prepared the draft of key changes and their impact on the HSE Group operations for responsible individuals. For all documents in public discussion we have prepared a formal position of the HSE Group and proposals of changes and amendments that we submitted to the author. We have also participated at public discussions and round tables.

ACQUISITION OF NON-REFUNDABLE FUNDS

Group companies monitor the acquisition of non-refundable funds for implementation of R&D activities in the following European projects:

- CH_2OICE – environmental certification of HPP;
- AQUAVIVA project;
- Projects within the framework of seventh framework EU programme for research and development (7OP);
- Horizon 2020 (Obzorje 2020);
- NER 300;
- Instruments for connecting Europe aimed at filling missing connections in European, energy, transport and digital networks;
- Intelligent European Energy (IEE) aimed at accelerating the growth of RES market in Europe.

COLLABORATION WITH KNOWLEDGE CENTRES

Collaboration with knowledge centres represents a direct form of cooperation of the HSE Group in the projects from the area of technological development. Following the development of latest technologies in electricity production enables the company to adopt timely decisions for the transit to the use of new technologies in production process, which enables competitiveness in the market and assures successful operations. HSE currently cooperates with several knowledge centres and in various organisational forms of R&D project implementation.

Such cooperation is performed as mutual R&D projects in the performance of professional analysis and studies with cooperation at professional conferences etc. Currently we actively participate in the Centre of Excellence Low-carbon Technologies (Center odličnosti nizkoogljične tehnologije – CO NOT), which is a consortium of 22 research-economic companies.

2.15 Plans for the future

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. Thus, in the middle of 2013 Croatia will join the EU, meaning that also in that national market the producers of electricity from fossil fuels will be subject to restrictions arising from greenhouse gas limitation. 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.

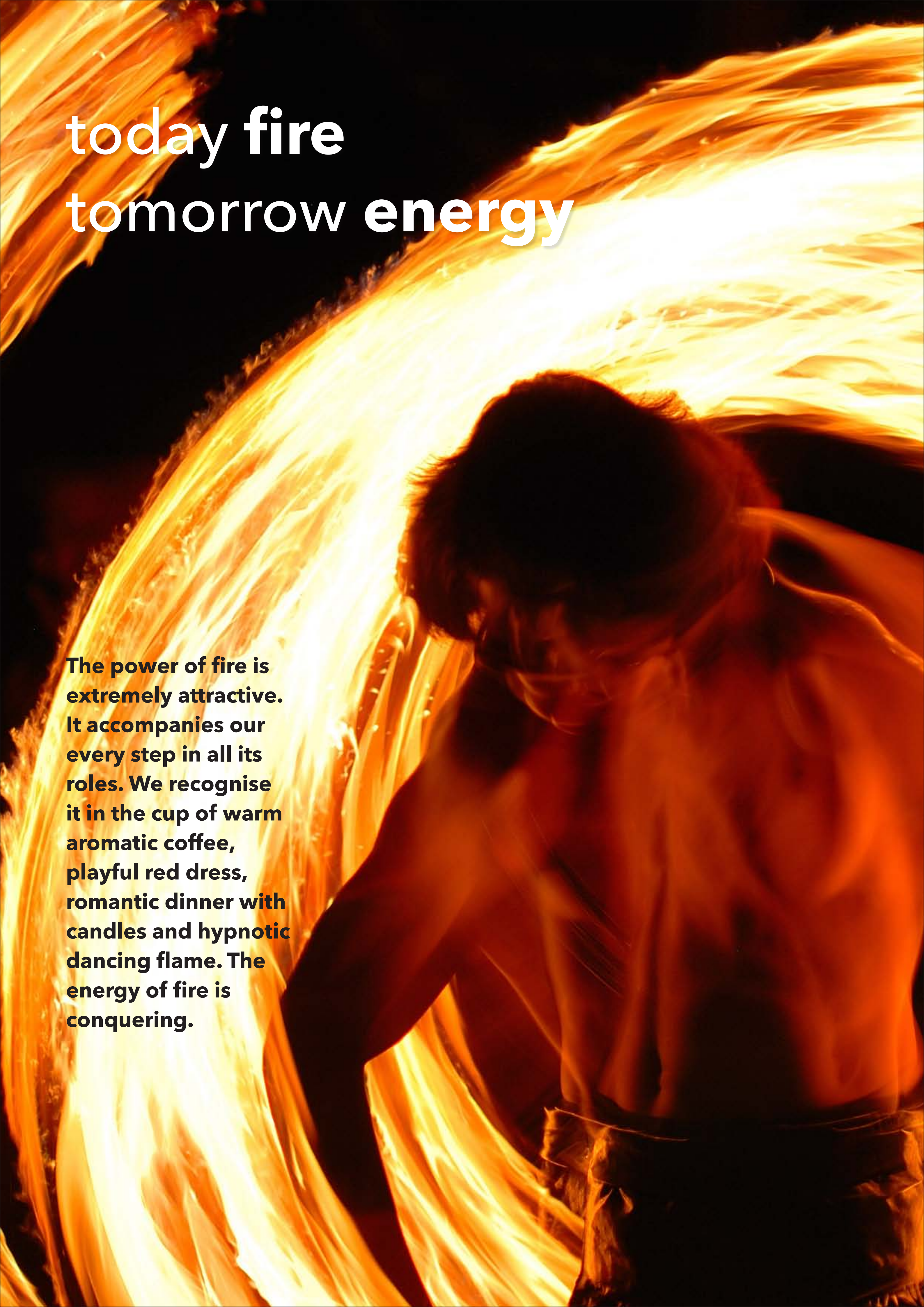
A good understanding of conditions in these markets, capital power of HSE and previous cooperation are the advantages that allow HSE to take part in such joint projects. The construction and acquisition of new production capacities and international trade in electricity contribute significantly to ensuring 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.

Moreover, the HSE Group is looking for new projects and investments by which it could assure safe, reliable, competitive and environmentally friendly long-term supply electricity of Slovenia. The investment projects of the HSE Group are coordinated with orientations of national energy strategy and climate and energy EU policy. They will contribute to the transition to low-carbon economy. Future goals of the HSE Group investment policy are:

- Increase in production and trading quantities of electricity;
- Increase in installed capacity and produced E-RES;
- Technological update of production plants for electricity production from fossil-fuels with the purpose to decrease emissions;
- The construction of new plants and update of the existing ones with the purpose to use the latest technologies, realise highest possible efficiency and thus effective use of energy sources;
- Social responsibility and sustainable operation.

With the purpose of complying with requirements of new energy legislation and goals set until 2020, the HSE Group has strongly orientated towards the implementation of projects that will, in the largest extent possible, help to realise the goals of climate and energy package in the area of RES use, decrease in emissions and EEU. Besides the replacement Unit 6 at TEŠ a significant attention will be devoted to exploitation of HPP. We intend to significantly improve these indicators with the following projects: Termination of HPP chain on the lower Sava River, HPP on the medium Sava River, HPP on the Mura River, HPP on the Idrijca River, renovation of HPP Zlatoličje, HPP Formin, HPP Doblar 1, HPP Plave 1, HPP Učja, HPP Kobarid, HPP Kamno and PSP Kozjak.

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.



today **fire**
tomorrow **energy**

The power of fire is extremely attractive. It accompanies our every step in all its roles. We recognise it in the cup of warm aromatic coffee, playful red dress, romantic dinner with candles and hypnotic dancing flame. The energy of fire is conquering.

3

Social responsibility report 2011

3.1 Responsibility to employees

In 2011, we maintained the planned growth of the company's and 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 an atmosphere that help our employees achieve their personal goals and encourage taking reasonable risks, which is a precondition for being able to develop further and build up strength in uncertain situations as well as to achieve the strategic goals of the HSE Group. We are focused on constant development of our employees on all levels with an emphasis on training and motivation, through which we are able to ensure their satisfaction, confidence and commitment, and their loyalty to the Group, which in turn ensures our future development, synergies and successful performance. We need individuals who are willing to commit to achieving noticeable and measurable operating results and who are dedicated to implementing our business visions and strategies. We are aware that strategies alone do not lead to success. Success is achieved by people and the values guiding them. People are the ones who create a vision, determine the mission, foster culture, set values and choose strategies in order to make them a reality. It is important to be capable of recognising new business opportunities and design relevant products and services. If we are successful in doing so, the possibility of our Group remaining successful will increase.

The key elements of our human resources management strategy remain as follows:

- to support business and strategic goals of the Group;
- to employ highly qualified staff and improve the educational structure;
- to maintain an optimal number of employees;
- to invest in the development and transfer of knowledge and competences of employees, focusing on the development of our own expertise and training of team leaders;
- to 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

EMPLOYING STAFF

The leading position of the HSE Group in the Slovene energy system, which also means being the main vehicle of secure and reliable electricity supply in Slovenia, makes us a very attractive employer: job applications are received both from applicants with established careers as well as those whose careers are only just beginning. The recruitment policy is based on a combination of:

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

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

All of the above is also reflected in recruitment. In the period from January to December 2011, the number of employees increased by 16 compared with 31 December 2011, while 4 employees left the company. As at 31 December 2011 the Company had 135 employees.

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

VOLUNTARY PENSION INSURANCE

HSE has had its pension plan or a voluntary supplementary pension insurance programme in place since 2002 when the first workers were transferred to HSE from its subsidiaries. The programme is managed by Kapitalska družba d.d. and includes most of the employees. At the end of 2011, the company Kapitalska družba d.d. as the current manager of pension fund PP1 restructured and transferred the pension plan PP1 to the newly founded insurance company Modra zavarovalnica d.d. Thus, the collective supplementary pension insurance premium is performed at Modra zavarovalnica d.d. Most employees are subject to this insurance. Offering a long-term form of saving in each individual's personal account, we aim to provide our employees with an additional pension and a higher quality of life when they end their careers.

EMPLOYEES AND THE COMMUNITY

Employees have obligations not only to their employer and themselves but also to the wider community. For this reason, they actively participate in numerous businesses as well as professional and sports associations. Since it cares for their health and well-being, 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.

Structure of all trainings indicates that in 2011 most time was devoted to professional trainings and language courses.

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

PART-TIME STUDIES

HSE currently financially supports studies of 15 employees, mostly in the area of engineering and economy.

SCHOLARSHIPS

The students involved in development activities contribute new ideas and views on solving work-related problems. HSE provides support to students of technical, social and natural sciences both in the form of financing as well as practical training and gradual integration into the organisational environment. In 2011 we had two scholarship holders. One of them successfully finished the studies.

3.1.2 Employees in the HSE Group

At the end of 2011, the HSE Group had 3,819 employees, which is by 5 less than as at 31 December 2010. The number of employees mostly decreased within the PV Group.

Number of HSE Group employees

	31/12/2011	%	31/12/2010	%	IND 11 / 10
Holding Slovenske elektrarne d.o.o.	135	4	123	3	110
Dravske elektrarne Maribor d.o.o.	285	7	282	7	101
Soške elektrarne Nova Gorica d.o.o.	133	3	126	3	106
Termoelektrarna Šoštanj d.o.o.	477	12	488	13	98
Termoelektrarna Trbovlje d.o.o.	204	5	209	5	98
Premogovnik Velenje Group	2,482	65	2,507	66	99
HSE Invest d.o.o.	73	2	59	2	124
Hidroelektrarne na spodnji Savi d.o.o.	26	1	26	1	100
HSE Italia S.r.l.	0	0	0	0	0
HSE Balkan Energy d.o.o.	2	0	2	0	100
HSE Hungary Kft.	0	0	0	0	0
HSE Adria d.o.o.	1	0	1	0	100
HSE Bulgaria EOOD	0	0	0	0	0
HSE Mak Energy DOOEL	0	0	0	0	0
HSE BH d.o.o.	1	0	1	0	100
TOTAL	3,819	100	3,824	100	100

The employee education structure of the HSE Group has been improving over the years. Compared to 2010, in the HSE Group the number of employees with level VII education mostly increased (by 10%) and with level VIII and IX level education (by 9%), while the number of employees with V or lower level education decreased again.

Number of employees as at 31/12/2011 and average number of employees in 2011 by education

	Number of employees as at 31/12/2011		Average number of employees in 2011	
Education level	Controlling company	HSE Group	Controlling company	HSE Group
I.	0	218	0	225
II.	0	153	0	153
III.	0	14	0	14
IV.	1	1,381	1	1,409
V.	17	1,081	17	1,083
VI.	13	370	13	364
VII.	81	551	76	527
VIII. and IX.	23	51	23	49
TOTAL	**135**	**3,819**	**129**	**3,823**

EDUCATION IN THE HSE GROUP

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 2011, we organised two 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, it aims to produce electricity from RES and to use it rationally.

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 (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.

BLUE ENERGY

HSE designed the Blue Energy project in 2004 in collaboration with distribution companies. Blue energy stands for electricity produced from environment-friendly, renewable sources. The project is aimed at encouraging the development of energy production from renewable sources, establishing the market in such energy and selling this energy in Slovenia. The 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. Since 1 July 2007 we offer Blue Energy to business and household consumers.

All hydropower plants of the HSE Group holding the international RECS certificate participate in the Blue Energy project. In Slovenia, HSE and distribution companies sell the energy produced from renewable sources under the 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 2011, Blue Energy was uniformly priced at 0.001 €/kWh. The brand is owned by HSE, which coordinates the project and takes care of communication with the public and the promotion of 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 Blue Energy project partners, the majority of proceeds from the sale of Blue Energy (60%) goes into the 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 Blue Fund were used to construct a Blue solar power plant Gimnazija Velenje at the Centre of Secondary Schools Velenje. 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 (BLUE JAN)

We have thus created a project called Modri Jan (a play on words; translated literally, Modri Jan means Blue Jan, 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.

EFFICIENT 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.

– 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 Blue Energy for Heat Pumps. 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 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 2012, 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 suppliers will supply »Blue Energy« to the buyers of these heat pumps.

– EKOMOBIL

Within the framework of promoting E-RES use, the company HSE set a goal, with regard to the adopted traffic policy in the Republic of Slovenia, to become an energy company which will stimulate the use of E-RES in turnover together with optimisation of traffic system. Therefore, in 2011 HSE started the Ekomobil project with the support of the Government Office of the Republic of Slovenia of Climate Change, MoE, Ministry of Transport and Eco Fund. The Ekomobil project provides environmentally friendly e-mobility and it is a part of campaign »You Are Energy, Be Effective« (»Energija si, bodi učinkovit«). The project devotes special attention to the source of energy for electric vehicle. Therefore, a filling spot was placed in front of the business building, which is charged by Blue Energy. With the presentation of sample electric car and filling spot of the HSE Group, we wish to present the beginning of long-term planned action Ekomobil aimed at promoting environmentally friendly mobility, which is based on renewable energy sources and other advanced technologies of ecological mobility which we wish to establish within the entire HSE Group.

In the following stages of Ekomobil action we expect that the initiation of environmentally friendly mobility will not only be followed by government institutions, but also the companies and establishments which recognise their challenge.

Ekomobil action was initiated by signing the letter of intent as at 18 April 2011 for cooperation in demonstration project of setting filling spots for electric battery vehicles and the purchase of electric vehicles related to the use of RES with the purpose to decrease greenhouse gas emissions in traffic and electricity production. With Ekomobil action, the signatories of the letter wish to establish a common point which will enable the coordination of various interests in the area of use of energy and mobility. Changes in technologies and habits in order to assure environmentally friendly mobility will be gradual. Therefore, the support and cooperation of government institutions and companies is of key importance for achieving the highest possible extent of joint environmental protection effects with group efforts.

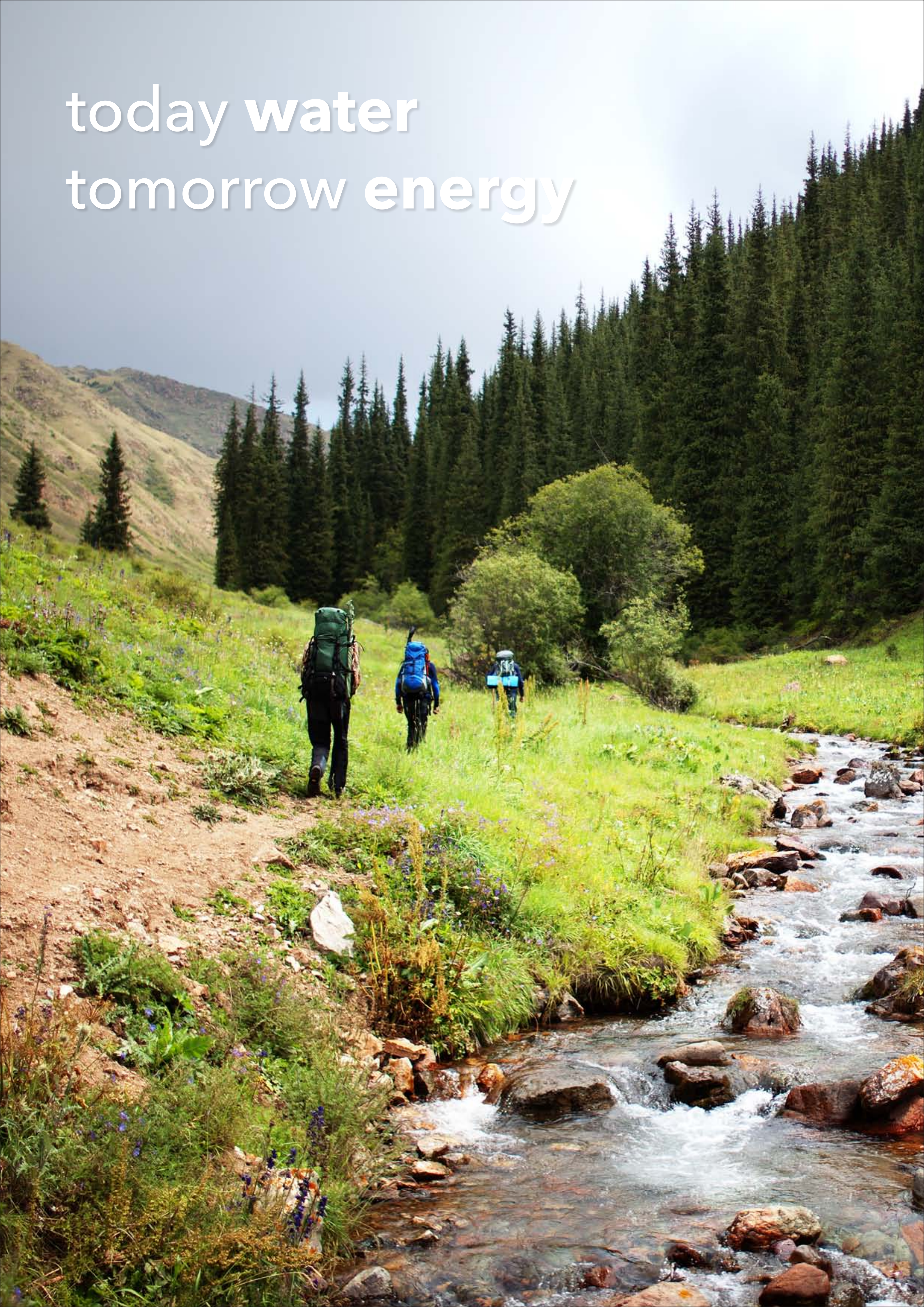
3.3 Responsibility to the broader social community

Not only standards prescribed by the State, but mostly the organisational culture have bound us to socially responsible behaviour from the beginning.

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 23rd international summer camp for recipients of the Zois scholarship and gifted students from other countries.

Throughout the whole year, we have helped organizations, associations, individuals, who especially need help or support, meetings and conferences from the area of EE, RES and EEU in the form of dedicated sponsorships and donations.

We concluded the year with humanitarian action »We Bring Gifts to Safe Houses with Our Letters« (»S pismi obdarujemo, varne hiše nagrajujemo«) in the moderated chat room Blue Jan the visitors of Santa's land wrote letters to the Santa and the company HSE transformed the letters in donation and intended it to safe houses in Slovenia.


today water
tomorrow energy

4

Financial report of the company HSE 2011

4.1 Auditor's Report

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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 unconsolidated financial statements of the company Holding Slovenske elektrarne d.o.o. (hereinafter: the "Company"), which comprise the statement of financial position as at 31 December 2011, 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 preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards as adopted by the EU. 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 company'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 company'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 as at 31 December 2011, and its financial performance, other comprehensive income and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2.12.2 "Operational Risks; Investment Activity Risk" of the business report or Note 4.5.8.8.2 "Liquidity Risk" to financial statements where the Company disclosed that it is exposed to high operational risk of non-issuing of the guarantee or risk of time delay in issuing of the government guarantee to EIB for the loan in the amount of EUR 440 million. The abovementioned risk is connected to high liquidity risk. Management of the abovementioned risks by the management is disclosed in Note 2.12.2 of the business report or in Note 4.5.8.8.2 to financial statements. The financial statements do not include potential adjustments that may have been the consequence of this uncertainty.

Holding Slovenske elektrarne d.o.o. is the controlling company of Holding Slovenske elektrarne Group (hereinafter: the "Group") that prepares consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU. We have audited the consolidated financial statements of the Group and issued an unqualified opinion on 17 May 2012.

Our opinion is not modified in respect of these matters.

Report on Other Legal and Regulatory Requirements

The management is also responsible for the preparation of the business report in accordance with the requirements of the Companies Act (ZGD-1). Our responsibility is to provide an assessment of whether the business report is consistent with the audited financial statements. Our procedures have been conducted in accordance with the International Standard on Auditing 720 and are limited solely to assessing of whether the business report is consistent with the audited financial statements. 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 3

Ljubljana, 17 May 2012

TRANSLATION ONLY – SLOVENIAN ORIGINAL PREVAILS

4.2 Statement of management's responsibility

The Managing Director is responsible to prepare the financial statements for each individual financial year in accordance with the International Financial Reporting Standards (»IFRS«) as adopted by the European Union in a manner that they give a true and fair view of the financial position of the company Holding Slovenske elektrarne d.o.o.

The management reasonably expects that in the foreseeable future the company will have sufficient assets to continue its operations and therefore the financial statements are prepared on a going concern basis.

The management's responsibility in preparation of the financial statements includes the following:

- Accounting policies are appropriately selected and consistently used;
- Judgements and assessments are reasonable and wise;
- Financial statements are prepared in accordance with IFRS adopted by the European Union.

The management is responsible for keeping relevant records, which in each moment represent the company's financial position with a reasonable precision, and for ensuring that the company's financial statements are consistent with IFRS adopted by the EU. The management is also responsible for protecting company's property and preventing and discovering abuses and other irregularities.

The management confirms that the financial statements are prepared in accordance with the provisions of IFRS without reservation when used.

As at 17 May 2012, the Managing Director adopted the financial statements of the company Holding Slovenske elektrarne d.o.o. for the financial year ended as at 31 December 2011.

Ljubljana, 17 May 2012

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

4.3 Introduction to the preparation of financial statements

On the basis of the General Meeting decision of the owner of the company Termoelektrarna Šoštanj as at 29 November 2010, all financial statements and explanatory notes for 2011 are prepared in accordance with the International Financial Reporting Standards (hereinafter: IFRS) as adopted by the EU, for the first time. 1 January 2010 is the date of transition after which the company prepared the opening statement of the financial position in accordance with IFRS. Until 2011, the company had been preparing the financial statements in accordance with the Slovene Accounting Standards and the interpretations by the Slovene Institute of Auditors.

4.4 Financial statements

4.4.1 Statement of financial position

in EUR		Note*	31 December 2011	31 December 2010	1 January 2010
	ASSETS		**1,311,214,398**	**1,198,207,987**	**1,176,888,248**
A.	**LONG-TERM ASSETS**		**1,019,794,308**	**985,545,307**	**976,637,084**
I.	Intangible assets	1	19,888,785	6,388,682	4,166,278
II.	Property, plant and equipment	2	12,832,828	9,804,160	8,523,248
IV.	Long-term investments in subsidiaries	3	982,338,595	965,079,695	957,170,705
V.	Other long-term investments and loans		246,500	246,500	655,350
VI.	Long-term operating receivables		870,313	885,931	2,872,054
VIII.	Deferred tax assets	4	3,617,287	3,140,339	3,249,449
B.	**CURRENT ASSETS**		**291,420,090**	**212,662,680**	**200,251,164**
II.	Inventories		1,324	471	563
III.	Short-term investments and loans		109,317,324	48,336,904	43,427,521
1.	*Short-term investments*		0	143,079	43,427,521
2.	*Short-term financial receivables and loans*	5	109,317,324	48,193,825	0
IV.	Short-term operating receivables	6	150,285,915	118,253,895	119,438,043
V.	Current tax assets	22	6,041,373	1,405	0
VI.	Other short-term assets	7	7,571,022	6,626,166	7,165,751
VII.	Cash and cash equivalents	8	18,203,132	39,443,839	30,219,286

	EQUITY AND LIABILITIES		**1,311,214,398**	**1,198,207,987**	**1,176,888,248**
A.	**EQUITY**	9	**970,128,945**	**929,748,299**	**845,844,637**
I.	Called-up capital		29,558,789	29,558,789	29,558,789
II.	Capital surplus		561,243,185	561,243,185	561,243,185
III.	Revenue reserves		359,472,048	296,361,537	226,498,386
IV.	Fair value reserve		−3,509,887	2,839,086	−1,573,172
V.	Retained earnings		23,364,810	39,745,702	30,117,449
B.	**LONG-TERM LIABILITIES**		**108,727,007**	**116,414,039**	**132,461,777**
I.	Provisions for termination and jubilee benefits	10	734,698	639,825	495,138
II.	Other provisions	11	7,982,714	7,657,477	13,899,743
III.	Other long-term liabilities		0	1,471,334	1,471,334
IV.	Long-term financial liabilities	12	100,009,595	106,619,094	116,595,562
VI.	Deferred tax assets		0	26,309	0
C.	**SHORT-TERM LIABILITIES**		**232,358,446**	**152,045,649**	**198,581,834**
II.	Short-term financial liabilities	13	80,108,197	25,311,303	75,274,272
III.	Short-term operating liabilities	14	146,082,532	116,949,788	111,057,674
IV.	Current tax liabilities		0	3,443,610	10,888,497
V.	Other short-term liabilities	15	6,167,717	6,340,948	1,361,391

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

4.4.2 Income statement

in EUR		Note*	2011	2010
1.	Net sales revenue	17	1,358,117,730	907,537,591
4.	Other operating revenue		901,692	2,548,979
	GROSS RETURN ON OPERATIONS		**1,359,019,422**	**910,086,570**
5.	Costs of goods, materials and services	18	1,292,558,665	808,047,751
6.	Labour costs	19	8,551,082	7,948,873
7.	Write-downs in value		1,461,403	1,179,777
8.	Other operating expenses		830,847	1,328,028
	OPERATING PROFIT OR LOSS		**55,617,425**	**91,582,141**
9.	Financial revenue	20	5,685,349	10,015,708
10.	Financial expenses	21	3,298,008	3,237,347
	TOTAL PROFIT OR LOSS		**2,387,341**	**6,778,361**
	PROFIT OR LOSS BEFORE TAX		**58,004,766**	**98,360,502**
11.	Corporate income tax		11,190,185	18,792,891
12.	Deferred taxes		84,962	76,207
	TAX	22	**11,275,147**	**18,869,098**
13.	**NET PROFIT OR LOSS FOR THE ACCOUNTING PERIOD**	23	**46,729,619**	**79,491,404**

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

4.4.3 Statement of other comprehensive income

in EUR		Note*	2011	2010
13.	**NET PROFIT OR LOSS FOR THE FINANCIAL YEAR**	23	**46,729,619**	**79,491,404**
18.	Net effective part of change in fair value of instrument for cash flow hedging	24	−6,348,973	4,412,258
19.	**TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR**		**40,380,646**	**83,903,662**

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

4.4.4 Cash flow statement

in EUR		2011	2010
A.	**Cash flows from operating activities**		
a)	**Items of income statement**	**35,064,614**	**83,341,946**
	Operating revenue (except from revaluation) and financial income from operating receivables	1,360,553,426	913,724,759
	Operating revenue (except from revaluation and amortisation/depreciation) and financial expenses for operating liabilities	−1,305,269,023	−815,092,745
	Income taxes and other taxes not included in operating expenses	−20,219,789	−15,290,068
b)	**Changes in net operating assets in statement of financial position items**	**−5,266,260**	**−3,688,882**
	Opening less closing operating receivables	−31,850,038	3,127,696
	Opening less closing other assets	−944,856	539,835
	Opening less closing deferred tax assets	−476,948	−32,903
	Opening less closing inventories	−853	92
	Closing less opening operating liabilities	29,640,313	−5,012,584
	Closing less opening other liabilities and provisions	−1,660,187	−2,284,709
	Closing less opening deferred tax liabilities	26,309	−26,309
c)	**Net cash from operating activities**	**29,798,354**	**79,653,064**
B.	**Cash flows from investing activities**		
a)	**Cash receipts from investing activities**	**212,038,811**	**69,168,309**
	Cash receipts from interest	1,757,878	621,379
	Cash receipts from dividends and shares in profits of associates	1,847,040	0
	Cash receipts from intangible assets (including advances)	5,659,866	3,619,343
	Cash receipts from property, plant and equipment (including advances)	19,027	377,315
	Cash receipty from short-term loans	202,755,000	12,090,000
	Cash receipts from other long-term investments	0	183,622
	Cash receipts from other short-term investments	0	52,276,650
b)	**Cash disbursements for investing activities**	**−305,166,831**	**−77,127,278**
	Cash disbursements to acquire intangible assets (including advances)	−19,609,806	−6,424,925
	Cash disbursements to acquire property, plant and equipment (including advances)	−4,543,125	−2,468,363
	Cash disbursements from short-term loans	−263,755,000	−60,190,000
	Cash disbursements from investments in subsidiaries, associates and jointly controlled companies	−17,258,900	−8,043,990
c)	**Net cash from investing activities**	**−93,128,020**	**−7,958,969**
C.	**Cash flows from financing activities**		
a)	**Cash receipts from financing activities**	**187,350,000**	**19,000,000**
	Cash receipts from short-term loans received	187,350,000	19,000,000
b)	**Cash disbursements from financing activities**	**−145,258,629**	**−81,464,573**
	Interest paid on loans received	−3,096,673	−2,777,617
	Cash disbursements from long-term loans received	−9,811,956	−44,686,956
	Cash disbursements from short-term loans received	−132,350,000	−34,000,000
c)	**Net cash from financing activities**	**42,091,371**	**−62,464,573**
D.	**Cash and cash equivalents at the beginning of period**	**39,443,839**	**30,219,286**
	Effects of changes in exchange rates on cash and cash equivalents	−2,412	−4,969
	Increase/(decrease) of cash and cash equivalents	−21,238,295	9,229,522
E.	**Cash and cash equivalents at the end of period**	**18,203,132**	**39,443,839**

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

4.4.5 Statement of changes in equity

in EUR		Called-up capital		Revenue reserves		Retained earnings		
		Share capital	Capital surplus	Other revenue reserves	Fair value reserves	Retained net profit	Net profit or loss f or the year	TOTAL
A.1.	**Balance as at 1/1/2010**	**29,558,789**	**561,243,185**	**226,498,386**	**−1,573,172**	**30,117,449**	**0**	**845,844,637**
B.2.	**Changes in total comprehensive income**	**0**	**0**	**0**	**4,412,258**	**0**	**79,491,404**	**83,903,662**
a)	Net profit or loss for the year						79,491,404	79,491,404
b)	Other changes in total comprehensive income				4,412,258			4,412,258
B.3.	**Changes in equity**	**0**	**0**	**69,863,151**	**0**	**−30,117,449**	**−39,745,702**	**0**
b)	Allocation of portion of net profit for the reporting period to other components of equity in accordance with the decision of management and supervisory bodies			39,745,702			−39,745,702	0
c)	Allocation of a portion of net profit to additional reserves in accordance with the general meeting resolution			30,117,449		−30,117,449		0
C.	**Balance as at 31/12/2010**	**29,558,789**	**561,243,185**	**296,361,537**	**2,839,086**	**0**	**39,745,702**	**929,748,299**
A.2.	**Balance as at 1/1/2011**	**29,558,789**	**561,243,185**	**296,361,537**	**2,839,086**	**39,745,702**	**0**	**929,748,299**
B.2.	**Changes in total comprehensive income**	**0**	**0**	**0**	**−6,348,973**		**46,729,619**	**40,380,646**
a)	Net profit or loss for the year						46,729,619	46,729,619
b)	Other changes in total comprehensive income				−6,348,973			−6,348,973
B.3.	**Changes in equity**	**0**	**0**	**63,110,511**	**0**	**−39,745,702**	**−23,364,809**	**0**
b)	Allocation of portion of net profit for the reporting period to other components of equity in accordance with the decision of management and supervisory bodies			23,364,809			−23,364,809	0
c)	Allocation of a portion of net profit to additional reserves in accordance with a general meeting resolution			39,745,702		−39,745,702		0
C.	**Balance as at 31/12/2011**	**29,558,789**	**561,243,185**	**359,472,048**	**−3,509,887**	**0**	**23,364,810**	**970,128,945**
	ACCUMULATED PROFIT	**0**	**0**	**0**	**0**	**0**	**23,364,810**	**23,364,810**

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

4.5 Notes to the financial statements

4.5.1 Reporting company

Termoelektrarna Šoštanj d.o.o. (hereinafter: the »company«) is a company with its registered office in Slovenia. The address of the registered office is Koprska ulica 92, Ljubljana. The separate financial statements of the company for the year ended 31 December 2011 are presented below.

The company Holding Slovenske elektrarne d.o.o. is the controlling company of Holding Slovenske elektrarne Group in Slovenia.

4.5.2 Basis for preparation

In the preparation of financial statements as at 31 December 2011, the company considered:

- IFRS, which include International Accounting Standards (IAS), Interpretations issued by the Standing Interpretations Committee (SIC), International Financial Reporting Standards (IFRS) and Interpretations issued by International Financial Reporting Interpretations Committee (IFRIC) as adopted by the European Union (hereinafter: the »EU«);
- Companies Act;
- Energy Act;
- Corporate Income Tax Act;
- Corporate Income Tax Act;
- Accounting Rules of the Company; and
- Other applicable legislation.

A) STANDARDS AND INTERPRETATIONS EFFECTIVE IN THE CURRENT PERIOD

- Amendments to IAS 24 »Related Party Disclosures« – Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party, adopted by the EU on 19 July 2010 (effective for annual periods beginning on or after 1 January 2011);
- Amendments to IAS 32 »Financial Instruments: presentation« – Accounting for rights issues, adopted by the EU on 23 December 2009 (effective for annual periods beginning on or after 1 February 2010);
- Amendments to IFRS 1 »First-time Adoption of IFRS« – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters, adopted by the EU on 30 June 2010 (effective for annual periods beginning on or after 1 July 2010);
- Amendments to various standards and interpretations »Improvements to IFRSs (2010)« resulting from the annual improvement project of IFRS published on 6 May 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 18 February 2011 (amendments are to be applied for annual periods beginning on or after 1 July 2010 or 1 January 2011 depending on standard/interpretation);
- Amendments to IFRIC 14 »IAS 19 – The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction« – Prepayments of a Minimum Funding Requirement, adopted by the EU on 19 July 2010 (effective for annual periods beginning on or after 1 January 2011);
- IFRIC 19 »Extinguishing Financial Liabilities with Equity Instruments«, adopted by the EU on 23 July 2010 (effective for annual periods beginning on or after 1 July 2010).

The adoption of these amendments to the existing standards has not led to any changes in the Entity's accounting policies.

B) STANDARDS AND INTERPRETATIONS ISSUED BY IFRIC AND ADOPTED BY THE EU BUT NOT YET EFFECTIVE

- Amendments to IFRS 7 »Financial Instruments: disclosures« – Transfer of assets, adopted by the EU on 22 November 2011 (effective for annual periods beginning on or after 1 July 2011).

The company has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The company anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the company in the period of initial application.

C) STANDARDS AND INTERPRETATIONS ISSUED BY IFRIC BUT NOT YET ADOPTED BY THE EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except from the following standards, amendments to the existing standards and interpretations, which were not endorsed for use as at 17 May 2012.

- IFRS 9 »Financial Instruments« (effective for annual periods beginning on or after 1 January 2015);
- IFRS 10 »Consolidated financial statements« (effective for annual periods beginning on or after 1 January 2013);
- IFRS 11 »Joint Arrangements« (effective for annual periods beginning on or after 1 January 2013);
- IFRS 12 »Disclosures of Involvement with other Entities« (effective for annual periods beginning on or after 1 January 2013);
- IFRS 13 »Fair Value Measurement« (effective for annual periods beginning on or after 1 January 2013);
- IAS 27 (revised in 2011) »Separate Financial Statements« (effective for annual periods beginning on or after 1 January 2013);
- IAS 28 (revised in 2011) »Investments in Associates and Joint Ventures« (effective for annual periods beginning on or after 1 January 2013);
- Amendments to IFRS 1 »First-time Adoption of IFRS« – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after 1 July 2011);
- Amendments to IFRS 7 »Financial Instruments: Disclosures«- Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2013);
- Amendments to IFRS 9 »Financial Instruments« and IFRS 7 »Financial Instruments: Disclosures« – Mandatory Effective Date and Transition Disclosures;
- Amendment to IAS 1 »Presentation of financial statements« – Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012);
- Amendments to IAS 12 »Income Taxes« – Deferred tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012);
- Amendment to IAS 19 »Employee Benefits« – Improvements to the Accounting for Post-employment Benefits (effective for annual periods beginning on or after 1 January 2013);
- Amendments to IAS 32 »Financial Instruments: Disclosures«- Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014);
- IFRIC 20 »Stripping Costs in the Production Phase of a Surface Mine« (effective for annual periods beginning on or after 1 January 2013).

The company anticipates that the adoption of these standards, amendments to the existing standards and interpretations will have no material impact on the financial statements of the company in the period of initial application.

At the same time, hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated.

According to the company's estimates, application of hedge accounting for the portfolio of financial assets or liabilities pursuant to **IAS 39: »Financial instruments: recognition and measurement«**, would not significantly impact the financial statements, if applied as at the balance sheet date.

4.5.3 Basis of measurement

Company's financial statements are prepared on the basis of balance sheet items historical values, except the following assets and liabilities carried at fair value.

4.5.4 Currency reports

4.5.4.1 FUNCTIONAL AND PRESENTATION CURRENCY

The financial statements contained in this Report are presented in euro (€) without cents. The €o has been the functional and presentation currency of the company. Due to the rounding of amounts, minor but insignificant deviations exist in the tables.

4.5.4.2 FOREIGN CURRENCY TRANSLATION

Transactions expressed in a foreign currency are translated into the relevant functional currency at the exchange rate applicable on the date of transaction. Cash and liabilities expressed in a foreign currency at the end of the reporting period are converted into functional currency at then applicable exchange rate. Positive or negative foreign exchange differences are differences between amortised cost in the functional currency at the beginning of the period, which is repaired for the amount of effective interest and payments during the period, as well as amortised cost in foreign currency converted at the exchange rate at the end of the period. Non-cash assets and liabilities expressed in a foreign currency and measured at fair value are converted in the functional currency at the exchange rate on the date when the amount of fair value is determined. Foreign exchange differences are recognised in the income statement, namely according the net principle (difference between positive and negative foreign exchange differences among revenue or difference between negative and positive foreign exchange differences and expenses).

4.5.5 Use of assessments and judgements

The preparation of financial statements requires that the management forms certain assessments and assumptions which affect the disclosed amounts of assets and liabilities, revenue and expenses and disclosures of contingent assets and expenses in the reporting period.

Assessments and judgements are based on past experience and other factors that are considered reasonable in the given circumstances and on the basis of which the judgements on the carrying amount of assets and liabilities are expressed. Since the assessments and assumptions are subject to subjective judgement and certain level of uncertainty, subsequent actual results can differ from assessments. The assessments are examined on regular basis. Changes in accounting estimates are recognised in the period in which the assessments were changed if the change affects only that period or in the period of change and in future periods in case the change affects future periods.

Assessments and assumptions are present at least at the following judgements:

- Assessment of useful life of amortisable assets (disclosures 4.5.7.1 and 4.5.7.2);
- Test of impairment of assets (Disclosure 4.5.8.1 Points 1, 2 and 3);
- Assessment of fair value of derivatives (Disclosures 4.5.8.8.3 and 4.5.8.8.4);
- Assessment of realisable values of receivables (disclosure 4.5.8.8.1);
- Assessment of provisions for jubilee and termination benefits (Disclosure 4.5.8.1 Point 10);
- Assessment of other provisions (Disclosure 4.5.8.1 Point 11); and
- Assessment of contingent liabilities and assets (Disclosure 4.5.8.1 Point 16).

4.5.6 Branch and representative offices

The company has two foreign branch offices in Czech Republic and Slovakia and two representative offices in Serbia and Romania. In 2011, the company did not perform transactions through branch offices since the trade with electricity was transferred to the sole company. The operations of branch and representative offices are included in financial statements of the company.

4.5.7 Significant accounting policies

The company's financial statements are prepared on the basis of accounting policies presented below. The abovementioned accounting policies are used for all years presented, unless otherwise indicated.

The comparative data was adopted when needed so that they are in accordance with the presentation of data in the current year.

4.5.7.1 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 long-term property rights and emission coupons for the purposes of electricity production in the HSE Group. Emission coupons for trading are disclosed among inventories.

Upon initial recognition, an intangible asset is measured at cost. The cost also includes import and non-refundable purchase taxes after the commercial and other discounts have been deducted and all costs directly attributable to preparation of an asset for the intended use.

Intangible assets are subsequently measured using the cost model.

Amortisation is accounted for on a straight-line basis, taking into account the useful life of each individual (integral) part of an intangible asset. The amortisation begins to be calculated from the cost when an asset is available for use.

Emission coupons are not depreciated. The value of the use of emission coupons is calculated on the basis of method of weighted average cost.

The company has no intangible assets, for which it would record the residual value when purchased.

Depreciation methods, useful life and other values of groups of assets are examined at the end of each financial year and adapted if needed.

Individual items of intangible assets have the following useful lives:

Amortisation categories of intangible assets

	Amortisation rate	Useful life
Computer software	10 – 33.33%	3 – 10 years

Subsequent costs in relation to intangible assets are capitalised only in cases when they increase future economic benefits arising from an asset to which the costs refer. All other costs are recognised in profit or loss as expenses as soon as they are incurred.

4.5.7.2 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. Property, plant and equipment comprise land, buildings, production equipment, other equipment and assets in the course of construction.

Property, plant and equipment (hereinafter: »operating fixed assets«) are disclosed at cost less accumulated depreciation and accumulated loss from impairment. Cost includes costs that can be directly attributed to the acquisition of an item of property, plant and equipment. The parts of items of plant and equipment with different useful lives are accounted for as individual assets.

For later measurement of property, plant and equipment the cost model is used.

The company has no intangible assets, for which it would record the residual value when purchased.

Amortisation is calculated on a straight-line basis, taking into account the useful life of individual (integral) part of a fixed asset and residual value. The amortisation begins to be calculated from the cost when an asset is available for use. Assets in the course of construction or production are not depreciated.

Individual items of property, plant and equipment have the following useful lives:

Amortisation categories of property, plant and equipment

	Amortisation rate	Useful life
Buildings	2%	50 years
Production equipment	4%	25 years
Computer equipment	20 – 50%	2 – 5 years
Furniture	10 – 25%	4 – 10 years
Small tools	20 – 33.33%	3 – 5 years
Cars	20%	5 years
Other plants and equipment	20 – 33.33%	3 – 5 years

Depreciation methods, useful life and other values of groups of assets are examined at the end of each financial year and adapted if needed.

The costs of replacement a part of fixed asset are attributed to the carrying amount of this asset in case it is possible that future economic benefits related to a part of this asset will flow to the company and if costs can be reliably measured. All other costs (e.g. regular maintenance) are recognised in profit or loss as expenses as soon as they are incurred.

Gains and losses that occur in disposal of property, plant and equipment are recognised as a difference between the net sales value and carrying amount of a disposed asset and are recognised among other operating revenue or write-downs in value.

4.5.7.3 LONG-TERM INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries are those where the company has the controlling influence and it performs consolidated financial statements for this group of companies.

In financial statements, investments in subsidiaries are valued at cost.

The company recognises revenue from investment in the period when the decision on payment of profit shares was adopted.

Additional inputs in subsidiaries increase the cost of investments.

Any indications of impairment of investments in subsidiaries are determined on an annual basis.

In the event impartial evidence exists that a loss due to impairment was incurred, the amount of loss is measured as the difference between the carrying amount of a financial asset and the present value of estimated future cash flows discounted at the market interest rate for similar financial assets, and recognised as revaluation operating expense.

4.5.7.4 FINANCIAL INSTRUMENTS

Financial instruments include the following assumptions:

- Non-derivative financial assets;
- Non-derivative financial liabilities;
- Derivatives.

4.5.7.4.1 Non-derivative financial assets

Non-derivative financial assets comprise cash and cash equivalents, receivables and loans and investment.

Financial asset is derecognised when contractual rights to cash flows from this asset are discontinued or when the rights to contractual cash flows from the financial asset are transferred on the basis of a transaction in which all risks and benefits from the ownership of financial asset are transferred.

– LOANS AND RECEIVABLES

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

At initial recognition, loans and receivables are disclosed at fair value increased by direct costs of transaction. After initial recognition, loans and receivables are measured at amortised cost and decreased by the loss due to impairment. Loans and receivables are recorded as financial and business assets and include loans received, receivables due from buyers and receivables due from others.

In the books of account loans are recognised in accordance with settlement date, while receivables are recognised in accordance with trading date.

They are included under current assets, except in case of maturities of more than 12 months after the date of the statement of financial position. In such case they are classified under long-term assets.

– CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash, bank deposits up to three months and other short-term quickly realisable investments with original maturity of three months or less. They are carried at cost. Overdrafts on bank accounts are included under short-term financial liabilities.

4.5.7.4.2 Non-derivative financial liabilities

Non-derivative financial liabilities comprise operating, financial and other liabilities. Financial liabilities are initially carried at fair value increased by the costs that are directly attributable to the transaction. After the initial recognition, financial liabilities are measured at amortised cost using the effective interest method.

Among them the company records loans received with interest, liabilities to suppliers and liabilities to others.

Loans received are initially recognised on the date of their settlement (payment), while other non-derivative financial liabilities are recognised on the trade date.

The portion of long-term financial liabilities that falls due within less than a year after the cash flow statement date is disclosed under short-term liabilities.

4.5.7.4.3 Derivatives

Derivatives are used for the hedging of company's exposure against interest rate risks. The company has concluded interest and currency swaps as well as forward contracts for the purchase of electricity in the following years.

They are financial instruments that do not require initial financial investment, while their value is changing due to change in interest rate.

Derivatives are initially recognised at fair value, namely according to net principle, which means that the sole value of transaction concluded is not disclosed in financial statements.

After the initial recognition, derivatives are measured at fair value, while the corresponding changes are considered in the following manner:

- When a derivative is defined as hedging in case of exposure to changeability of cash flows that may be attributed to an individual risk related to recognised asset, liability or very probable envisaged transactions, which can affect the profit or loss, the successful portion of changes in fair value of derivative is recognised in comprehensive income and disclosed in risk hedging reserve. Unsuccessful portion of changes in the fair value of financial instrument is directly recognised in the income statement. The company shall discontinue prospectively the hedge accounting if the hedge no longer meets the criteria for hedge accounting, if the hedging instrument is sold, terminated or exercised. The accumulated profit

or loss recognised in comprehensive income remains recorded in the hedging reserve until the envisaged transaction impacts the profit or loss. If the envisaged transactions cannot be expected any more, the amount recognised in other comprehensive income must be directly recognised in profit or loss. In other cases, the amount recognised as comprehensive income is transferred to profit or loss for the same period in which the protected item affects the profit or loss.
- Effects of other derivatives, which are not determined as risk hedges in case of exposure to cash flow changeability or cannot be attributed to individual risk related to recognised asset or liability, are recognised in profit or loss.

4.5.7.5 INVENTORIES

Inventories mostly include emission trading coupons (at the end of 2011, emission coupons were not in inventory).

Inventories are carried at the lower of the two: historical cost or net realisable value. The historical cost includes cost that is composed of purchase price, import duties and direct costs of purchase. The purchase price is reduced by discounts received. Direct costs of purchase are costs of transport services, costs of loading, cargo handling and unloading, costs of monitoring of goods and other costs that can be attributed to directly obtained merchandise, materials and services. Purchase price discounts comprise discounts indicated in the invoice as well as discounts that are received later and refer to individual purchase.

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

Net realisable value is assessed on the basis of selling price in the normal course of business reduced by the estimated costs of completion and sales.

At least once per year, namely as at the date of preparation of annual financial statements, the evidence on impairment of inventories is assessed. The impairment of inventories is assessed for each individual type of inventories. Individual types of inventories are classified as groups of inventories with similar characteristics on the basis of time component of changes in inventories. In the assessment of impairment for an individual group, the criteria of professional assessment, further utilisation or sale are used.

4.5.7.6 IMPAIRMENT OF ASSETS

4.5.7.6.1 Financial assets

A financial asset is considered impaired if there is objective evidence from which it is evident that, due to one or more events, the expected future cash flows arising from this assets that can be reliably measured have been decreased.

Objective evidence on the impairment of financial assets can be: non-compliance or violation by the debtor, deterioration of borrowers' solvency, signs that the debtor will bankrupt and disappearance of active market for such instrument.

– IMPAIRMENT OF RECEIVABLES AND LOANS

The company individually assesses the evidence on impairment of receivables.

Whether it is assessed that the carrying amount of receivable has exceeded its fair value (realisable value), the receivable is impaired.

Doubtful receivables from others are those which are not settled within 180 days after their due date.

Disputed receivables are those which comply with one of the following conditions:

- The legal collection procedure began at the court;
- The decision on beginning of enforcement settlement, liquidation or bankruptcy is published.

For subsequent write-offs of receivables relevant documents of proof are needed: legally enforceable decisions of enforced settlement, bankruptcy proceeding, court ruling or other relevant document.

In case all actions were performed with the carefulness of a good manager, with intention to repay certain unsettled receivable and in case that due to the amount of receivable, it would not be economic for the company to enter the collection procedure through court, receivables are finally written down in full based on the management's decision.

The company assesses evidence on loan impairment for each significant loan.

Loss due to impairment related to financial asset carried at amortised cost is calculated as difference between the carrying amount of an asset and expected cash flows discounted at historical interest rate. Loss is recognised in profit or loss.

4.5.7.6.2 Non-financial assets

On each reporting date the company verifies the carrying amount of significant non-financial assets with the purpose to establish whether there are any signs of impairment. If such signs exist, the recoverable amount of the asset is estimated.

The recoverable amount of an asset or cash-generating unit is the higher of the two: value in use or fair value less costs of sale. When determining the value of an asset in use, the expected future cash flows are discounted to their current value by using the discount rate before tax that reflects regular market assessments of the time value of money and risks that typically occur in relation to the asset. For the purpose of impairment test, the assets that cannot be individually tested are classified in the smallest possible group of assets that generate cash flows from further use and are mostly independent from receipts of other assets and groups of assets (cash-generating unit).

The impairment of an asset or the cash-generating unit is recognised when its carrying amount exceeds its recoverable amount. Impairment is disclosed in the income statement.

At the end of the reporting period, the company evaluates losses due to impairment in previous periods and thus establishes whether the loss has decreased or even disappeared. Loss due to impairment is reversed in case there has been a change in assessments, on the basis of which the company defines the recoverable amount of an asset. The impairment loss is reversed to the amount up to which the asset's increased carrying amount does not exceed the carrying amount that would have been determined net of depreciation had no impairment loss been recognised for the asset in prior periods.

4.5.7.7 EQUITY

Total equity of the company represents its liability to owners which falls due if the company ceases to operate, whereby the amount of equity is adjusted with respect to the then attainable price for the company's net assets. It is determined by both the amounts invested by owners and the amounts generated in the course of operation that belong to the owners. It is decreased by the loss incurred in the course of operations and increased by the profit in the period.

Nominal capital and capital surplus represent owner's cash contributions and contributions in kind.

As at 31 December 2002, the general equity revaluation adjustments included the revaluation of share capital before 2002 in accordance with then applicable Slovene Accounting Standards. The adjustment due to the transfer to new Slovene Accounting Standards has been transferred to capital surplus. The amount can only be used for increase in share capital.

Other reserves are amounts, which are purposely retained earnings from the previous years. They are created on the basis of the decision by relevant management and supervisory body.

Fair value reserve represents the revaluation amounts of individual categories of assets.

Unallocated profit of the current year is disclosed in retained earnings.

4.5.7.8 PROVISIONS FOR JUBILEE AND TERMINATION BENEFITS

In accordance with legal regulations, collective agreement and internal rules, the company is obliged to pay jubilee benefits to employees and termination benefits on their retirement for which long-term provisions are created. There are no other existing pension liabilities.

Provisions are created in the amount of estimated future payments for termination and jubilee benefits discounted at the end of the financial year. The calculation is prepared for each employee by taking into account the costs of termination benefits on retirement and costs of all expected jubilee benefits until retirement. The calculation with the use of projected unit is prepared by actuary. Payments for termination benefits on retirement and jubilee benefits decrease the created provisions.

4.5.7.9 OTHER PROVISIONS

Provisions are recognised when the company has a legal or constructive obligations arising from past event, which can be reliably assessed, and when it is likely that that an outflow of resources embodying economic benefits will be required to settle the liability.

The amount of the provision must be equal to the present value of the expenditure expected to be required to settle the liability. Since provisions are intended for covering probable, but not certain obligations, the amount recognised as a provision is merely the best estimate of the expenditure needed for the settlement of obligation existing on the date of the statement of financial position. In reaching the best estimate of a provision, the risks and uncertainties that inevitably surround the events and circumstances are taken into account.

Provisions are directly decreased by costs or expenses, for which they were created to cover. This means that in the financial year such costs or expenses do not appear in the profit or loss anymore.

Whether the expected liabilities do not appear, the reversal of created provisions is charged against operating expenses.

4.5.7.10 OTHER ASSETS AND LIABILITIES

Other assets include long-term and short-term deferred costs and accrued revenue.

Deferred costs or expenses are amounts incurred but not yet charged against the profit or loss. Accrued revenue is revenue that is taken into account in the profit or loss, although they have not been charged yet.

Other liabilities include long-term and short-term accrued costs and deferred revenue.

Accrued costs are amounts that have not occurred yet, but they will in the future and are already influencing the profit or loss.

Deferred revenue is deferred revenue that will cover estimated expenses during a period of more than one year.

4.5.7.11 CONTINGENT LIABILITIES AND ASSETS

Contingent liability is:

- A possible liability arising from past events and whose existence is confirmed solely by the occurrence or non-occurrence of one or more uncertain future events that the company does not fully control; or
- a present obligation arising from past events, which is not recognised, since it is not probable that the outflow of resources embodying economic benefits will be required to settle the obligation or the amount of obligation cannot be reliably measured.

A contingent asset is a possible asset arising from past events and whose existence is confirmed solely by the occurrence or non-occurrence of one or more uncertain future events that the company does not fully control.

The company does not recognise contingent assets and liabilities in the statement of financial position.

4.5.7.12 REVENUE

The sales revenue is recognised at fair value of the received payment of receivables, namely decreased by discounts. The revenue is disclosed when the buyer assumes all significant types of risks and benefits related to the ownership of the asset, when there is a certainty in relation to recoverability of a fee and related costs or possibility of repayment of products and when the company stops deciding on products sold.

Sale of goods is recognised when the company delivers the products to the client. The client accepts the products, while the collectability of associated receivables is reasonably ensured. In case the company has more positive than negative operating foreign exchange differences, they are recorded as net revenue from the sales of merchandise.

Sale of services is recognised in the accounting period in which the services are performed as regards the conclusion of the transaction estimated on the basis of actually performed service as the proportional portion of all services performed.

Revenue arising from **default interest** charges and related receivables are recognised upon occurrence if it is probable that the economic benefits related to transaction will inflow to the company. On the contrary, default interest charges are recorded as contingent assets and are recognised in the company's books of account upon payments. Recording of default interest is considered individually.

Other operating revenue related to products and services is revenue from the reversal of provisions, gains arising from sales of fixed assets, reversal of impairment of receivables, received compensations and contractual penalties and similar revenue.

Financial revenue comprises revenue from investment shares, interest of loans and deposits granted and revenue from parent guarantees granted.

4.5.7.13 EXPENSES

Expenses are recognised if a decrease in economic benefits in the accounting period gives rise to a decrease in assets or increase in debt and this decrease can be reliably measured.

Operating expenses are recognised once the merchandise has been sold.

Costs of goods sold includes expenses related to the sales of electricity, trading emission coupons and dependent costs of electricity. In case the company has more negative than positive operating foreign exchange differences, they are recorded as costs of goods sold.

Costs of materials are historical costs of materials purchased, namely costs of protection equipment, small tools, whose useful life does not exceed one year, electricity and fuel, office material, technical literature and other materials.

Costs of services are historical costs of services purchased, namely maintenance services, advertising services, entertainment, insurance premiums, payment transaction and other banking services (except interest), rentals, advisory services, business travels and similar services.

Write-downs in value include amortisation/depreciation costs related to consistent transfer of value of amortisable intangible assets and property, plant and equipment.

Write-downs in value also include impairments, write-downs and losses from the sales of intangible assets and property, plant and equipment as well as impairments or write down of receivables.

Labour costs are historical costs that refer to salaries and similar values in gross amounts as well as duties that are calculated from this basis and are not an integral part of gross amounts.

Other operating expenses occur in relation to creation of provisions, environmental charges and other duties.

Financial expenses comprise borrowing costs, including related derivatives and losses from trading with emission coupons.

4.5.7.14 INCOME TAX

Taxes include current and deferred tax liabilities. Current tax is included in the income statement. The deferred tax is recorded in the income statement and the statement of financial position.

Current tax assets are based on taxable profit for the period. The taxable profit defers from net profit reported in the profit or loss, since it excludes the items of revenue or expenses that are taxable or deductible in other years as well as items that are never taxable or deductible. The company's current tax liabilities are calculated with tax rates that are applicable on the reporting date. In case the current tax liability is lower than advances paid, the current tax receivable is incurred.

Deferred tax is completely disclosed using the liabilities method after the statement of financial position for temporary differences arising between the tax base of assets and liabilities and their carrying amounts in financial statements. Deferred income tax is defined using tax rates (and legislation) applicable on the date of financial position and for which it is expected to be in use when the receivable for deferred tax is realised or the liability for deferred tax is settled.

A deferred tax asset is recognised if there is a possibility that a taxable profit will be available in the future, from which it will be possible to utilise temporary differences. It represents the amount of the calculated corporate income tax on deductible temporary differences.

4.5.7.15 STATEMENT OF OTHER COMPREHENSIVE INCOME

The company does not present deferred taxes arising from items of other comprehensive income separately in the statement, but it discloses the amount of tax for each individual item in the explanatory notes.

4.5.7.16 CASH FLOW STATEMENT

Cash flow statement represents changes in cash and cash equivalents of the financial year, for which it is prepared. The part of cash flow statement related to operations is prepared according to direct method based on data of the statement of financial position, while the part related to investment and financing activities is prepared according to indirect method.

4.5.7.17 SEGMENT REPORTING

The company does not disclose operations by segments in the annual report. Segment reporting must be disclosed by the companies whose treasury or debt securities are traded in the market and companies which are issuing treasury or debt securities in public security markets.

4.5.7.18 COMPARABLE DATA

In 2011, the company prepared financial statements in accordance with IFRS for the first time. In accordance with the provisions of IFRS 1, 1 January 2010 is considered as the transition date. Therefore, it was necessary to convert financial statements for 2010 or reallocate them and prepare in accordance with IFRS in order to assure comparability as one of basic IFRS principles. Impacts of conversions or transition from SAS to IFRS are presented below.

4.5.7.19 SPECIFICATION OF IFRS TRANSITION EFFECTS

According to the provisions of IFRS 1, the group has prepared the opening statement of financial position upon the transition to IFRS, in which all assets and liabilities whose recognition is required by IFRS are disclosed. The values of differences have not been identified. However, individual items of assets and liabilities, revenue and expenses in the financial statements in accordance with IFRS are presented differently than in the financial statements in accordance with SAS. These reclassifications are:

A) INCOME STATEMENT FOR 2010

- Operating foreign exchange differences recorded under financial revenue and expenses are set off and disclosed under net sales revenue;
- Default interest to buyers, which were disclosed under financial revenue, are recorded under other operating revenue;
- Default interest to suppliers, which were disclosed under financial expenses, are recorded under other operating expenses;
- Other revenue is disclosed under other operating revenue;
- Other expenses are disclosed under other operating expenses.

Changes in income statement items due to transition to IFRS

Type of revenue or expense according to SAS	in EUR	Type of revenue or expense according to IFRS	in EUR	Disclosure
Financial revenue	530,219	Net sales revenue	386,334	Foreign exchange differences from received and issued invoices
Financial expenses	−143,885			
Financial revenue	401,294	Other operating revenue	401,294	Revenue from default interest to customers
Other revenue	1,443,373	Other operating revenue	1,443,373	Compensations, subsidies, other revenue
Other expenses	−5,254	Other operating expenses	−5,254	Other expenses
Financial expenses	−5,990	Other operating expenses	−5,990	Expenses for default interest
TOTAL	**2,219,757**		**2,219,757**	

B) THE STATEMENT OF FINANCIAL POSITION AS AT 1/1/2010

- Deposits up to three months, which were disclosed under short-term investments, are part of cash;
- Interest on loans received, which were disclosed under short-term operating liabilities, are part of short-term financial liabilities (together with loan);
- Current tax liabilities, which were disclosed under other operating liabilities, are separately disclosed in the statement of financial position;

Changes in statement of financial position items due to transition to IFRS

Type of asset or liability according to SAS	in EUR	Type of asset or liability according to IFRS	in EUR	Disclosure
Short-term loans to others	28,040,000	Cash and cash equivalents	28,040,000	Deposits up to three months
Short-term operating liabilities	−587,315	Short-term financial liabilities	−587,315	Interest on loans
Short-term operating liabilities	−10,888,497	Current tax liabilities	−10,888,497	Separate disclosure of current tax assets
TOTAL	**16,564,188**		**16,564,188**	

C) CASH FLOW STATEMENT FOR 2010

- Receipts and disbursements for acquisition or disposal of short-term financial investments (deposits up to three months), which were disclosed under cash flows from investment activities, are set off and included under cash;
- Initial cash balance is increased by all deposits up to three months, which were open as at 1 January 2010;
- Disbursements and receipts for acquisitions or disposals of short-term loans are presented under a separate item among disbursements and receipts from investing activities, separately from other cash flows from short-term financial investments;
- Receipts for acquisition of short/term loans are disclosed under a separate item among receipts from financing activities;
- Disbursements for repayment od received long/term and short/term loans are presented under a separate item among disbursements from financing activities;
- Foreign exchange differences accounted on the balance of cash at the end of 2010, which were disclosed among operating expenses, are presented separately among effects of changes in foreign exchange rates.

Changes of cash flow statements items due to transition to IFRS

Type of revenue or expense according to SAS	v EUR	Type of revenue or expense according to IFRS	v EUR	Disclosure
Cash disbursements to acquire short-term investments	−286,500,000	Cash and cash equivalents	−7,680,000	Deposits tied up to three months are disclosed among cash
Cash receipts from disposal of short-term investments	278,820,000			
Cash disbursements to acquire short-term investments	−60,190,000	Cash disbursements from short-term loans granted	−60,190,000	Separate disclosure of cash disbursements for short-term loans granted
Cash receipts from disposal of short-term investments	12,090,000	Cash receipts from short-term loans	12,090,000	Separate disclosure of cash receipts for short-term loans granted
Cash receipts for acquisition of short-term financial liabilities	19,000,000	Cash receipts for acquisition of short-term loans	19,000,000	Separate disclosure of cash receipts for short-term loans received
Cash repayments of long-term financial liabilities	−44,686,956	Cash disbursements from long-term loans received	−44,686,956	Separate disclosure of cash disbursements for long-term loans received
Cash repayments of short-term financial liabilities	−34,000,000	Cash disbursements from short-term loans received	−34,000,000	Separate disclosure of disbursements for short-term loans received
Operating expenses	−4,969	Effects of change in foreign exchange rates	−4,969	Separate disclosure of effects of change in foreign exchange rates
TOTAL	**−115,471,925**		**−115,471,925**	

4.5.7.20 FAIR VALUE DEFINITION

Financial instruments are disclosed at their fair value. Fair value is the amount by which an asset can be sold, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

When determining fair value of financial instruments, the following hierarchy of fair value defining levels is considered:

- First level comprises quoted prices (unmodified) in active markets for equal assets or liabilities;
- Second level comprises inputs besides quoted prices included in the first level that are directly (i.e. as prices) or indirectly (i.e. as derived from prices) evident for asset or liability;
- Third level comprises input data for an asset or liability that are not based on evident market data.

In order to determine the fair value of interest and currency swaps we use information submitted to the company by the bank where it has concluded an individual swap. Values are verified in the company's financial department.

4.5.7.21 MANAGEMENT OF FINANCIAL RISKS

Detection and management of financial risks is determined in more detail in the business report.

In notes to financial statements, the financial risks are presented in connection with items in financial statements (Point 4.5.8.8 Financial Instruments and Risks).

4.5.8 Disclosures to the company's financial statements

4.5.8.1 STATEMENT OF FINANCIAL POSITION

(1) Intangible assets

Intangible assets

in EUR	31 December 2011	31 December 2010	1 January 2010
Emission coupons	17,981,378	4,318,112	2,244,000
Other long-term property rights	1,907,407	2,070,570	1,922,278
INTANGIBLE ASSETS	**19,888,785**	**6,388,682**	**4,166,278**

Intangible assets comprise emission coupons for the purposes of electricity production within the HSE Group and software.

In 2011, 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.

Changes in intangible assets

in EUR	Emission coupons	Other long-term property rights	TOTAL
COST AS AT 1/1/2010	**2,641,000**	**4,170,558**	**6,811,558**
Acquisitions	10,380,631	560,341	10,940,972
Disposals	−7,649,744	−154	−7,649,898
COST AS AT 31/12/2010	**5,371,887**	**4,730,745**	**10,102,632**
WRITTEN-DOWN VALUE AS AT 1/1/2010	**397,000**	**2,248,280**	**2,645,280**
Amortisation	0	412,049	412,049
Disposals	−397,000	−154	−397,154
Impairments	1,053,775	0	1,053,775
WRITTEN-DOWN VALUE AS AT 31/12/2010	**1,053,775**	**2,660,175**	**3,713,950**
CARRYING AMOUNT AS AT 1/1/2010	**2,244,000**	**1,922,278**	**4,166,278**
CARRYING AMOUNT AS AT 31/12/2010	**4,318,112**	**2,070,570**	**6,388,682**
COST AS AT 1/1/2011	**5,371,887**	**4,730,745**	**10,102,632**
Acquisitions	27,377,412	286,674	27,664,086
Disposals	−14,767,921	0	−14,767,921
COST AS AT 31/12/2011	**17,981,378**	**5,017,419**	**22,998,797**
WRITTEN-DOWN VALUE AS AT 1/1/2011	**1,053,775**	**2,660,175**	**3,713,950**
Amortisation	0	449,837	449,837
Disposals	−1,053,775	0	−1,053,775
WRITTEN-DOWN VALUE AS AT 31/12/2011	**0**	**3,110,012**	**3,110,012**
CARRYING AMOUNT AS AT 1/1/2011	**4,318,112**	**2,070,570**	**6,388,682**
CARRYING AMOUNT AS AT 1/1/2011	**17,981,378**	**1,907,407**	**19,888,785**

(2) Property, plant and equipment

Property, plant and equipment

in EUR	31 December 2011	31 December 2010	1 January 2010
Buildings	1,469,574	1,502,449	1,695,415
Production equipment	121,930	127,010	0
Other equipment	4,099,328	2,168,151	2,343,847
Property, plant and equipment being acquired	7,141,996	6,006,550	4,483,986
PROPERTY, PLANT AND EQUIPMENT	**12,832,828**	**9,804,160**	**8,523,248**

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.

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

The company has not established any reasons for impairment of property, plant and equipment in 2011.

Changes in property, plant and equipment

in EUR	Buildings	Production equipment	Other equipment	Property, plant and equipment being acquired	TOTAL
COST AS AT 1/1/2010	**1,948,127**	**0**	**6,221,782**	**4,483,986**	**12,653,895**
Acquisitions	0	0	0	2,285,309	2,285,309
Disposals	−303,372	0	−328,701	0	−632,073
Transfers from ongoing investments	86,455	127,010	549,280	−762,745	0
COST AS AT 31/12/2010	**1,731,210**	**127,010**	**6,442,361**	**6,006,550**	**14,307,131**
WRITTEN-DOWN VALUE AS AT 1/1/2010	**252,712**	**0**	**3,877,935**	**0**	**4,130,647**
Depreciation	38,999	0	688,846	0	727,845
Disposals	−62,950	0	−292,571	0	−355,521
WRITTEN-DOWN VALUE AS AT 31/12/2010	**228,761**	**0**	**4,274,210**	**0**	**4,502,971**
CARRYING AMOUNT AS AT 1/1/2010	**1,695,415**	**0**	**2,343,847**	**4,483,986**	**8,523,248**
CARRYING AMOUNT AS AT 1/1/2010	**1,502,449**	**127,010**	**2,168,151**	**6,006,550**	**9,804,160**
COST AS AT 1/1/2011	**1,731,210**	**127,010**	**6,442,361**	**6,006,550**	**14,307,131**
Acquisitions	0	0	0	4,045,147	4,045,147
Disposals	0	0	−364,725	0	−364,725
Transfers from ongoing investments	2,074	0	2,907,627	−2,909,701	0
COST AS AT 31/12/2011	**1,733,284**	**127,010**	**8,985,263**	**7,141,996**	**17,987,553**
WRITTEN-DOWN VALUE AS AT 1/1/2011	**228,761**	**0**	**4,274,210**	**0**	**4,502,971**
Depreciation	34,949	5,080	936,062	0	976,091
Disposals	0	0	−324,337	0	−324,337
WRITTEN-DOWN VALUE AS AT 31/12/2011	**263,710**	**5,080**	**4,885,935**	**0**	**5,154,725**
CARRYING AMOUNT AS AT 1/1/2011	**1,502,449**	**127,010**	**2,168,151**	**6,006,550**	**9,804,160**
CARRYING AMOUNT AS AT 31/12/2011	**1,469,574**	**121,930**	**4,099,328**	**7,141,996**	**12,832,828**

(3) Long-term investments in subsidiaries

in EUR	31 December 2011	31 December 2010	1 January 2010
DEM d.o.o.	387,058,979	387,058,979	387,058,979
SENG d.o.o.	152,692,249	152,692,249	152,692,249
HESS d.o.o.	127,029,548	118,002,548	110,607,548
TEŠ d.o.o.	224,289,677	216,117,777	216,117,777
TET d.o.o.	24,503,340	24,503,340	24,503,340
PV d.d.	60,408,543	60,408,543	60,408,543
HSE Invest d.o.o.	80,000	80,000	80,000
HSE Italia S.r.l.	29,690	29,690	29,690
HSE Hungary Kft.	4,004,965	4,004,965	4,004,965
HSE Balkan Energy d.o.o.	1,025,063	1,025,063	1,025,063
HSE Adria d.o.o.	102,553	102,553	102,553
HSE Bulgaria EOOD	513,220	513,220	513,220
HSE MAK Energy DOOEL	26,778	26,778	26,778
HSE BH d.o.o.	513,990	513,990	0
SRESA d.o.o.	60,000	0	0
TOTAL	**982,338,595**	**965,079,695**	**957,170,705**

Majority of company's assets is represented by long-term investments in subsidiaries. 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.

Subsidiary			Activity	% ownership	% voting rights
DEM d.o.o.	Obrežna ulica 170	Maribor, Slovenia	Hydroelectricity generation	100%	100%
SENG d.o.o.	Erjavčeva ulica 20	Nova Gorica, Slovenia	Hydroelectricity generation	100%	100%
HESS d.o.o.	Cesta bratov Cerjakov 33a	Brežice, Slovenia	Hydroelectricity generation	51%	51%
TEŠ d.o.o.	Cesta Lole Ribarja 18	Šoštanj, Slovenia	Electricity production at thermal power plants	100%	100%
PV d.d.	Partizanska cesta 78	Velenje, Slovenia	Mining and agglomeration of lignite	77.73%	77.73%
TET d.o.o.	Ob železnici 27	Trbovlje, Slovenia	Electricity production at thermal power plants	81.33%	81.33%
HSE Invest d.o.o.	Obrežna ulica 170a	Maribor, Slovenia	Other project engineering and technical consulting	25%	25%
SRESA d.o.o.	Ob železnici 27	Trbovlje, Slovenia	Hydroelectricity generation	60%	60%
HSE Italia S.r.l.	Via Roma 20	Gorizia, Italy	Electricity trading	100%	100%
HSE Hungary Kft.	Karolyi Mihaly u. 12	Budapest, Hungary	Electricity trading	100%	100%
HSE Balkan Energy d.o.o.	Bulevar Mihaila Pupina 117	Beograd, Serbia	Electricity trading	100%	100%
HSE Adria d.o.o.	Miramarska 24	Zagreb, Croatia	Electricity trading	100%	100%
HSE Bulgaria EOOD	45a Bulgaria Blvd., Triaditza Region	Sofia, Bulgaria	Electricity trading	100%	100%
HSE MAK Energy DOOEL	Belasica no. 2	Skopje, Macedonia	Electricity trading	100%	100%
HSE BH d.o.o.	Ul. Bulevar Meše Selimovića br. 16	Sarajevo, Bosnia and Herzegovina	Electricity trading	100%	100%

Significant amounts from statements of subsidiaries for 2011

in EUR	Assets	Liabilities (without equity)	Revenue	Net profit or loss for the year	TOTAL equity
DEM d.o.o.	555,414,448	16,502,434	72,088,287	10,495,516	538,912,014
SENG d.o.o.	264,669,299	81,041,427	40,299,632	6,162,269	183,627,872
HESS d.o.o.	260,473,830	8,155,108	9,988,642	447,057	252,318,722
TEŠ d.o.o.	859,641,851	496,834,151	244,751,465	6,060,687	362,807,700
PV d.d.	215,489,400	104,052,936	123,763,459	1,010,389	111,436,464
TET d.o.o.	57,353,754	22,925,913	52,681,665	52,482	34,427,841
HSE Invest d.o.o.	2,257,428	1,286,336	6,628,412	154,096	971,092
SRESA d.o.o.	100,168	1,058	9	–890	99,110
HSE Italia S.r.l.	2,680,300	2,559,513	4,813,643	1,608	120,787
HSE Hungary Kft.	4,357,728	14,758	3,446,685	1,164,128	4,342,970
HSE Balkan Energy d.o.o.	3,656,659	2,376,543	18,545,496	173,462	1,280,116
HSE Adria d.o.o.	5,001,744	3,513,190	65,987,412	366,608	1,488,554
HSE Bulgaria EOOD	963,146	476,943	2,482,365	43,058	486,203
HSE MAK Energy DOOEL	253,689	209,125	1,830,241	36,591	44,564
HSE BH d.o.o.	1,697,578	1,097,599	13,674,347	107,551	599,979
TOTAL	**2,234,011,022**	**741,047,034**	**660,981,760**	**26,274,612**	**1,492,963,988**

In 2011, the increased values of investments in subsidiaries comprised the following changes:

Changes in long-term investments

in EUR	2011
Increase in investment in the company HESS d.o.o.	9,027,000
Capital increase of the company TEŠ d.o.o.	8,171,900
Establishment of the company SRESA d.o.o.	60,000
TOTAL	**17,258,900**

No subsidiary is quoted on the stock exchange. Therefore, the reasons for possible impairment could not be established on the basis of stock exchange prices. But the company did check potential reasons for impairment by comparing the difference between the carrying amount of the company's long-term investments with the proportionate share of the carrying amount of subsidiaries' and associates' total equity. No reasons for impairment were identified, as in the majority of companies the carrying amount of total equity is higher than the carrying amount of long-term investments.

The audit of Slovenian subsidiaries for 2011 was performed by the audit company Deloitte revizija d.o.o., while the companies HSE Hungary, HSE Balkan Energy, HSE Adria in HSE BH were audited abroad. Other foreign companies are not audited due to incompliance with auditing criteria under the local legislation.

The company SRESA was also not audited in 2011 since it discloses solely the founding contribution, while the activity has not been performed yet.

Changes in long-term investments in subsidiaries

in EUR	2011	2010
Balance as at 1 January	965,079,695	957,170,705
Acquisitions, increases	17,258,900	7,908,990
BALANCE AS AT 31 DECEMBER	**982,338,595**	**965,079,695**

(4) Deferred tax assets

Deferred tax assets are created from expenses, which affect the profit or loss of individual year, but are not deductible for tax purposes in the current year, and the fair value of derivatives disclosed in the reserve for fair value and does not yet affect the profit or loss.

In 2011, changes in deferred tax receivables amount to € 476.948. In the income statement it is disclosed in the amount of € 84,962 and in the statement of financial position in is disclosed in the amount of € 561,910.

Changes in deferred tax assets

in EUR	Provisions	Impairment	Amortisation/ depreciation	Derivatives	TOTAL
Balance as at 1/1/2010	84,470	3,097,493	34,585	32,901	3,249,449
In debit/(credit) of profit or loss	10,334	−83,015	−3,528	0	−76,209
In debit/(credit) of other comprehensive income	0	0	0	−32,901	−32,901
BALANCE AS AT 31/12/2010	94,804	3,014,478	31,057	0	3,140,339
BALANCE AS AT 1/1/2011	94,804	3,014,478	31,057	0	3,140,339
In debit/(credit) of profit or loss	7,925	−85,792	−7,095	0	−84,962
In debit/(credit) of other comprehensive income	0	0	0	561,910	561,910
BALANCE AS AT 31/12/2011	102,729	2,928,686	23,962	561,910	3,617,287

(5) Short-term loans

Short-term financial receivables and loans

in EUR	31 December 2011	31 December 2010	1 January 2010
Loans to group companies	109,317,324	48,193,825	0
TOTAL	109,317,324	48,193,825	0

Short-term loans granted to group companies include short term framework loans to subsidiaries. Loans were approved within the framework of cash management within the HSE Group – indebtedness among the HSE Group companies.

The larger portion of loan is the loan for replacement investment in Unit 6 at TEŠ and has not been secured with collateral. The repayment deadline is July 2012, while the interest rate is one-month €IBOR plus a minimum mark-up. Interest is calculated on monthly basis with the due date on the 20th day of the current month for the previous month.

As at 31 December 2011, the company discloses € 109,100,000 of loans granted and € 217,324 of not yet due interest charged.

Changes in short-term loans

in EUR	31 December 2011	31 December 2010
BALANCE AS AT 1 JANUARY	48,193,825	0
Increase	265,213,040	60,795,259
Repayments	−204,089,541	−12,601,434
BALANCE AS AT 31 DECEMBER	109,317,324	48,193,825

(6) Current operating receivables

Short-term operating receivables

in EUR	31 December 2011	31 December 2010	1 January 2010
From group companies	9,676,573	8,754,920	1,880,440
From buyers	132,818,196	98,128,112	102,994,225
Allowance for receivables from buyers	−10,569	−15,252	−29
Advances given	99,175	51,087	6,804
From government and other institutions	5,450,488	11,064,362	14,042,821
From others	2,271,448	714,336	1,387,748
Allowance for receivables from others	−19,396	−443,670	−873,966
TOTAL	**150,285,915**	**118,253,895**	**119,438,043**

Current operating receivables to group companies in the amount of € 9,676,573 represent receivables from electricity sold, receivables from services of performing certain functions for subsidiaries (trading, financial function etc.) and receivables arising from rentals.

Short-term operating receivables to group companies

in EUR	31 December 2011	31 December 2010
Dravske elektrarne Maribor d.o.o.	0	9,000
Soške elektrarne Nova Gorica d.o.o.	23,102	3,688,478
Premogovnik Velenje d.d.	861,889	409,918
HESS d.o.o.	58,529	103,969
Termoelektrarna Trbovlje d.o.o.	0	4,464
Termoelektrarna Šoštanj d.o.o.	1,768,948	313,319
HSE Invest d.o.o.	3,120	0
Golte d.o.o.	486	0
Gost d.o.o.	465	0
HSE Balkan Energy d.o.o.	1,886,090	589,990
HSE Hungary Kft.	1,737	3,011
HSE Adria d.o.o.	3,116,204	2,504,650
HSE Bulgaria EOOD	3,821	6,069
HSE BH d.o.o.	17,422	1,566
HSE Italia S.r.l.	1,932,278	1,112,605
HSE MAK Energy DOOEL	2,482	7,881
TOTAL	**9,676,573**	**8,754,920**

Short-term trade receivables (excluding group companies) in the amount of € 132,807,627 are predominantly comprised of receivables from the sale of electricity in Slovenia and abroad.

The company had no receivables due from management and Supervisory Board members at the end of 2011.

The section on credit risk includes disclosures in relation to maturity of receivables, allowances for receivables and insuring receivables.

(7) Other short-term assets

Other short-term assets comprise short-term deferred costs and short-term accrued revenue, mostly related to electricity trade.

Other short-term assets

in EUR	31 December 2011	31 December 2010	1 January 2010
Deferred costs	5,081,798	5,015,247	4,962,988
Accrued revenue	2,489,224	1,610,919	2,202,763
TOTAL	**7,571,022**	**6,626,166**	**7,165,751**

(8) Cash and cash equivalents

Cash and cash equivalents

in EUR	31 December 2011	31 December 2010	1 January 2010
Cash in bank accounts	2,690,360	3,198,890	1,471,634
Overnight deposits	17,332	3,277	0
Deposits redeemable at notice	7,195,440	521,672	707,652
Deposits tied up to three months	8,300,000	35,720,000	28,040,000
TOTAL	**18,203,132**	**39,443,839**	**30,219,286**

With transition to IFRS the company changed the accounting policy and among cash it discloses deposits tied up to three months. Before it disclosed deposits under short-term investments.

(9) Equity

Equity

in EUR	31 December 2011	31 December 2010	1 January 2010
Called-up capital	29,558,789	29,558,789	29,558,789
Capital surplus	561,243,185	561,243,185	561,243,185
Revenue reserves	359,472,048	296,361,537	226,498,386
Fair value reserve	–3,509,887	2,839,086	–1,573,172
Retained earnings	23,364,810	39,745,702	30,117,449
TOTAL EQUITY	**970,128,945**	**929,748,299**	**845,844,637**

The value of **nominal capital** and **capital surplus** remained unchanged in 2011.

Other revenue reserves increased by € 63,110,511, namely:

- by a portion of accumulated profit for 2008 in the amount of € 26,878,108 in accordance with the General Meeting's resolution; and
- by a portion of net profit for 2011 amounting to € 26,878,107 in accordance with a Supervisory Board decision taken on the management's proposal.

Under **fair value reserve** in the total amount of € 3,509,887, at the end of 2011, the company discloses:

- Results of standard futures for electricity (forward contracts);
- Fair value of currency changes; and
- Fair value of interest rate swaps.

Fair value reserve decreased by € 6,348,973 in total, which is mostly the result of closing transactions in standard futures and negative fair value of currency and interest swaps.

Electricity futures are concerned with closing of deals on purchase of electricity on a foreign stock exchange for the period from 2012 to 2014, thus securing the already concluded deals for the sale of electricity in the same period. Fair value reserve decreased by the amounts of electricity purchases in 2011 that were hedged using futures and the cost of goods sold in the income statement decreased cumulatively by € 1,021,718. On the basis of electricity fluctuations on stock exchange, a cumulative negative financial effect in the amount of € -2,974,379 was realised in forwards concluded in 2011. The negative final amount of fair value reserve at standard futures for electricity in the period from 2012 to 2014 is a result of lower electricity prices on the stock exchange at the end of 2011 than in the period of conclusion of futures for electricity purchase and it amounts to € 1,262,247.

At the end of March 2011, the company closed out an interest swap, the negative fair value of which at the end of 2011 amounted to € -1,998,986 (taking into account deferred taxes).

At the end of 2011, the company discloses negative fair value of currency swaps in the amount of € -248,654 (including deferred taxes).

Change in fair value reserve

in EUR	Standard futures for electricity	Forward contracts for emission coupons	Interest rate swaps	Currency swaps	TOTAL
BALANCE AS AT 1/1/2010	**–1,441,563**	**0**	**–131,609**	**0**	**–1,573,172**
Creation, increase	6,833,847	69,408	0	105,236	7,008,491
Decrease	–3,871,216	–70,998	131,609	0	–3,810,605
Transfer to expenses	1,212,782	0		0	1,212,782
Transfer to revenue		1,590		0	1,590
BALANCE AS AT 31/12/2010	**2,733,850**	**0**	**0**	**105,236**	**2,839,086**
BALANCE AS AT 1/1/2011	**2,733,850**	**0**	**0**	**105,236**	**2,839,086**
Creation, increase	16,994,711	0	–1,998,986	–248,654	14,747,071
Decrease	–19,969,090	0	0	–105,236	–20,074,326
Transfer to expenses	–1,021,718	0	0	0	–1,021,718
BALANCE AS AT 31/12/2011	**–1,262,247**	**0**	**–1,998,986**	**–248,654**	**–3,509,887**

Retained net earnings comprises the company's accumulated profit in the amount of € 23,364,810.

(10) Provisions for termination and jubilee benefits

At the end of 2011, the company discloses **provisions for termination and jubilee benefits** in the amount of € 734,698 created on the basis of actuarial calculation as at 31 December 2011.

The actuarial calculation was based on:

- The number of employees in the company as at 31 December 2011 (gender, age, overall and pension qualifying period of service, average net and gross salary for the period July – September 2011);
- Method for calculating termination and jubilee benefits in the company;
- 3.5% increase in average salary;
- Discount interest rate of 5.1% p.a.;
- Employee turnover by age category.

Changes in provisions for termination and jubilee benefits

in EUR	Provisions for termination benefits	Provisions for jubilee benefits	TOTAL
BALANCE AS AT 1/1/2010	**369,994**	**125,144**	**495,138**
Creation, increase	136,922	49,102	186,024
Decrease – drawing	–27,013	–14,324	–41,337
BALANCE AS AT 31/12/2010	**479,903**	**159,922**	**639,825**
BALANCE AS AT 1/1/2011	**479,903**	**159,922**	**639,825**
Creation, increase	67,594	42,901	110,495
Decrease – drawing	0	–15,622	–15,622
BALANCE AS AT 31/12/2011	**547,497**	**187,201**	**734,698**

(11) Other provisions

Other provisions comprise provisions for lawsuits, namely:

- Provision for a required fee for the limited area use that the company created in 2007 since seven lawsuits were filed by the recipients of the fee for the limited area use. On the basis of two from seven procedures on the court, the company received a legally enforceable decision in 2011, in which the court rejected the plaintiffs' claim; For these two lawsuits the reservation was eliminated; Despite this fact, it is impossible to predict the outcome of lawsuits in the five remaining procedures; Therefore, for them the company has created provisions with default interest.
- Provision for lawsuits filed by the company TDR-Metalurgija d.d. – in bankruptcy proceeding, and its related companies and employees that the company created in 2008. The default interest is also included in the amount.

Changes of other provisions

in EUR	For lawsuits
BALANCE AS AT 1/1/2010	**13,899,742**
Creation, increase	979,564
Decrease – drawing	–7,221,829
BALANCE AS AT 31/12/2010	**7,657,477**
BALANCE AS AT 1/1/2011	**7,657,477**
Creation, increase	554,761
Decrease – drawing	–229,524
BALANCE AS AT 31/12/2011	**7,982,714**

(12) Long-term financial liabilities

Long-term financial liabilities

in EUR	31 December 2011	31 December 2010	1 January 2010
To banks	97,510,862	106,619,094	116,431,050
Other	2,498,733	0	164,512
TOTAL	**100,009,595**	**106,619,094**	**116,595,562**

The company's long-term liabilities include the following **long-term financial loans** to banks, namely:

- The long-term financial loan taken out with a syndicate of Slovene banks in 2003 for the period of 12 years;
- The long-term financial loan taken out with a Slovene bank in 2007 for the period of 10 years;
- The 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 2012 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 2011 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 €IBOR 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 €IBOR 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.

In 2011, the company concluded a transaction of interest rate hedging with derivative interest rate swap (IRS) for the amount of € 50 million. The initial hedging date is 30 March 2011 and the maturity date is 1 March 2016. The assessed fair value of interest rate swap as at 31 December 2011 in the amount of € -2,498,733 is disclosed among **other long-term financial liabilities** and the fair value reserve. More detailed disclosures are in section 4.5.8.8 in interest rate risk disclosure.

Changes in long-term financial liabilities

in EUR	Loans received	Fair value of derivatives	TOTAL
Balance as at 1 January	106,619,094	0	106,619,094
Acquisitions	0	2,498,733	2,498,733
Transfer to short-term part	−9,108,232	0	−9,108,232
BALANCE AS AT 31 DECEMBER	**97,510,862**	**2,498,733**	**100,009,595**

Maturity deadlines of long-term liabilities are disclosed in item 4.5.8.8 under liquidity risk.

(13) Short-term financial liabilities

Short-term financial liabilities

in EUR	31 December 2011	31 December 2010	1 January 2010
To group companies	50,099,536	7,082	0
To banks	29,697,845	25,292,687	75,274,272
Other	310,816	11,534	0
TOTAL	**80,108,197**	**25,311,303**	**75,274,272**

The value of **short-term financial liabilities to banks** comprises a portion of principles of long-term loans which fall due in 2012 and short-term loans taken out in 2011.

Short-term loans are repayable in November 2012. The agreed-upon interest rate is the 1-month EURIBOR plus a minimal mark-up. The loans are secured with blank bills of exchange.

Not yet due interest on loans received and interest from interest swap (IRS) amount to € 689,149, while the deferred costs and accrued revenue comprise accrued interest for which we have not yet received the calculation in the amount of € 441,369 from the banks.

Other short-term financial liabilities comprise negative fair value of currency swaps in the amount of € 310,816.

Changes in short-term financial liabilities

in EUR	Loans received	Fair value of derivatives	TOTAL
Balance as at 1 January	25,299,769	11,534	25,311,303
Acquisitions	190,599,164	310,816	190,909,980
Transfer to short-term part	9,108,232	0	9,108,232
Repayments	−145,209,784	0	−145,209,784
Other	0	−11,534	−11,534
BALANCE AS AT 31 DECEMBER	**79,797,381**	**310,816**	**80,108,197**

(14) Short-term operating liabilities

Short-term operating liabilities

in EUR	31 December 2011	31 December 2010	1 January 2010
To group companies	61,178,574	78,306,822	81,089,140
To suppliers	81,210,143	36,938,021	28,744,589
Advances	355,977	135,726	1,250
To employees	757,824	710,930	588,212
To government and other institutions	2,539,361	825,319	627,053
Other	40,653	32,970	7,430
TOTAL	**146,082,532**	**116,949,788**	**111,057,674**

The company's **short-term operating liabilities to group companies** in the amount of € 61,178,574 mainly relate to liabilities associated with the electricity purchased from subsidiaries.

Short-term operating liabilities to group companies

in EUR		31 December 2011	31 December 2010
Termoelektrarna Šoštanj d.o.o.	Slovenia	33,785,172	40,415,619
Dravske elektrarne Maribor d.o.o.	Slovenia	9,299,893	15,921,263
Soške elektrarne Nova Gorica d.o.o.	Slovenia	4,974,527	9,293,906
Termoelektrarna Trbovlje d.o.o.	Slovenia	8,029,239	6,899,515
HESS d.o.o.	Slovenia	1,222,254	1,269,250
HSE Invest d.o.o.	Slovenia	142,408	79,843
HTZ VELENJE I.P. d.d.	Slovenia	37,137	29,869
Premogovnik Velenje d.d.	Slovenia	53,572	10,977
HSE Adria d.o.o.	Croatia	2,426,788	2,949,507
HSE Italia S.r.l.	Italy		1,013,438
HSE Balkan Energy d.o.o.	Serbia	211,642	421,670
HSE Hungary Kft.	Hungary		1,965
HSE BH d.o.o.	Bosnia and Herzegovina	798,907	0
HSE Bulgaria EOOD	Bulgaria	195,300	0
GOST d.o.o.	Slovenia	1,735	0
TOTAL		**61,178,574**	**78,306,822**

The company's **short-term operating liabilities to suppliers** (excluding group companies) in the amount of € 81,210,143 mainly relate to liabilities associated with the electricity purchased in Slovenia and abroad.

(15) Other current liabilities

Other short-term liabilities

in EUR	31 December 2011	31 December 2010	1 January 2010
Accrued costs	6,167,717	6,340,948	1,361,391
TOTAL	**6,167,717**	**6,340,948**	**1,361,391**

Under other short-term liabilities the company discloses accrued costs mostly connected with the purchase of electricity and related contingent costs.

(16) Contingent liabilities and assets

Contingent liabilities

in EUR	31 December 2011	31 December 2010	1 January 2010
Bank guarantees granted and other forms of loans	44,521,473	31,975,164	35,636,422
Standard futures – electricity purchase	55,397,388	61,648,764	20,748,385
Other	1,375,200	664,127	33,519
TOTAL*	**101,294,061**	**94,288,055**	**56,418,326**

*Besides, a part of the company's contingent liabilities are guarantees granted and parent guarantees for independent companies in Slovenia.

The tax authorities have the right to audit the company's operations within 5 years after the year in which the tax has been levied, which can subsequently lead to additional tax charges, penalty interest charges and penalties arising from corporate income tax, value added tax and other taxes and duties.

The Management Board is not aware of any circumstances that could give rise to possible material liability in this respect.

Guarantees and parent guarantees granted to subsidiaries in Slovenia

Beneficiary	Debtor	Guarantee type	Basic legal transaction	From	To	Value in EUR million	Contingent liability in EUR as at 31/12/2011
European Investment Bank/ bank consortium	SENG	Guarantee for bank guarantee	Guarantee Facility Agreement as at 15/02/2006	15.2.2006	Effective for the period of agreement applicability	Total EUR 43 million + interest + costs	37,550,000
Geoplin d.o.o.	TEŠ	Guarantee statement	Long-term purchase and sales agreement for natural gas no. 277 between TEŠ and Geoplin as at 23/11/2006, 17/02/2010	23.11.2006	Effective for the period of agreement applicability	For the period 2011-2015 total EUR 96 million + costs + interest	91,083,000
Alstom consortium	TEŠ	Parent guarantee	Agreement between TEŠ d.o.o. and Alstom consortium (Contract on the design, procurement and erection of the power island for the facility called "Sostanj Unit 6"),as at 27/06/2008, 19/10/2009	25.11.2009	Effective for the period of agreement applicability	Total EUR 695 million + escalation clause + installation (ca. € 80 million + 25% commission) + interest + costs	467,300,000
European Investment Bank/ bank consortium	TEŠ	Guarantee for bank guarantee	Guarantee Facility Agreement as at 24/11/2010	24.11.2010	Effective for the period of agreement applicability	Total EUR 88 million + interest + costs	88,000,000
UniCredit Slo, SID	TEŠ	Guarantee for bank loan	Loan agreement no. K 1967/07-SIN-107/07 as at 21/12/2007, 24/11/2010	21.12.2007	Effective for the period of agreement applicability	Total EUR 24 million + interest + costs	9,870,967
EBRD	TEŠ	Guarantee for EBRD loan	Agreement on guarantee and loss reimbursement between HSE and EBRD as at 12/01/2011	12.1.2011	Effective for the period of loan agreement applicability	Total EUR 160 million + interest + costs	66,000,000
TOTAL CONTINGENT LIABILITIES FROM GUARANTEES AND PARENT GUARANTEES GRANTED TO SUBSIDIARIES							**759,803,967**

Contingent assets include banking guarantees received and a principle of penalty, which it paid in 2009 as the controlling company of then operating subsidiary TDR Metalurgija, when it was accused of cartel agreement. The company filed a judicial review at the European Commission for repayment of penalty in the amount of € 9,100,000. The final outcome cannot be predicted.

Contingent assets

in EUR	31 December 2011	31 December 2010	1 January 2010
Bank guarantees received and other forms of loans	46,980,832	37,195,173	69,326,054
Lawsuit before EU Commission	9,100,000	9,100,000	0
Other	165,494	230,608	1,218,145
TOTAL	**56,246,326**	**46,525,781**	**70,544,199**

4.5.8.2 INCOME STATEMENT

(17) Net sales revenue

The company generates net sales revenue mostly through sale of electricity. The revenue from the sale of electricity accounts for 99% of all net sales revenue. € 1,344,809,509.

Revenue from merchandise is represented by the sales value of emission coupons for trading.

Revenue from services performed in the amount of € 6,012,299 was generated through electricity services (profit in the sales of emission coupons for electricity production within the HSE Group, guarantee of origin, sales of border capacities, charged manipulative costs), services performed for foreign subsidiaries and rentals.

Net sales revenue

in EUR	2011	2010
A) IN DOMESTIC MARKET	**568,940,352**	**452,705,149**
Electricity	565,983,279	451,981,993
Merchandise	1,062,344	20,675
Services	1,894,729	702,481
B) IN FOREIGN MARKET	**789,177,378**	**454,832,442**
Electricity	778,826,230	446,726,838
Merchandise	6,233,578	3,918,940
Services	4,117,570	4,186,664
TOTAL NET	**1,358,117,730**	**907,537,591**

(18) Costs of goods, materials and services

The **cost of goods sold**, which accounts for 99% of total operating expenses or € 1,286,285,191, consists of expenses for the purchase of electricity and emission coupons for trading as well as contingent costs of electricity purchases.

This value includes positive result from concluded transactions of securing electricity purchases with standard futures, namely in the amount of € 1,021,718.

Costs of materials in the amount of € 213,105 are mostly represented by costs of fuel, office materials and technical literature.

Costs of services in the amount of € 6,060,369 are mostly represented by the costs of intellectual services, costs of fixed assets maintenance, sponsorships, advertising and costs of banking guarantees.

Costs of goods, materials and services

in EUR	2011	2010
Cost of goods sold	1,245,037,346	756,739,460
Contingent costs of goods sold	41,247,845	45,524,276
TOTAL COST OF GOODS SOLD	**1,286,285,191**	**802,263,736**
COSTS OF MATERIALS	**213,105**	**184,120**
COSTS OF SERVICES	**6,060,369**	**5,599,895**
COSTS OF GOODS, MATERIALS AND SERVICES	**1,292,558,665**	**808,047,751**

Costs of auditor

in EUR	2011	2010
Audit of annual reports	25,270	30,064
Other non-audit services	4,800	0
TOTAL	**30,070**	**30,064**

(19) Labour costs

Costs of labour comprise costs of salaries and other receipts by employees, including employer's contributions. The costs of compensations for unutilised leaves (which can be utilised until 30 June 2012) in 2011 are also charged.

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.

Labour costs

in EUR	2011	2010
Salaries	6,570,563	6,090,291
Pension insurance costs	838,709	768,672
Other insurance costs	490,457	460,519
Other labour costs	651,353	629,391
TOTAL	**8,551,082**	**7,948,873**

(20) Financial revenue

Financial revenue from shares comprise the paid profit of the subsidiary.

Financial revenue from interest is mostly comprised of interest on loans granted within the company in the amount of € 1,458,040 and interest charged on bank deposits in the amount of € 423,338.

In 2011, € 1,951,855 was charged to subsidiaries for parent guarantees granted.

Financial revenue

in EUR	2011	2010
From dividends and other shares of profit	1,847,040	8,849,129
Interest on loans and deposits granted	1,886,454	716,790
Other	1,951,855	449,789
TOTAL	**5,685,349**	**10,015,708**

(21) Financial expenses

Financial expenses for interest mainly comprise the interest on received long-term and short-term loans from banks in the amount of € 2,168,273, interest on received short-term loans of the companies within the HSE Group in the amount of € 598,844 and interest on interest rate swaps in the amount of € 530,750.

Financial expenses

in EUR	2011	2010
From loans received	3,298,008	2,693,119
From sales of available-for-sale financial assets	0	544,228
TOTAL	**3,298,008**	**3,237,347**

(22) Tax

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. In 2011, in both branch offices an application for termination of liability to pay value added tax was submitted to the tax office. In Czech Republic we have already received the decision on termination of liability to pay value added tax, while in Slovakia we are still waiting for it.

In accordance with the Corporate Income Tax Act, the tax for 2011 amounted to 20% of the taxable base reported in the company's tax return. The current tax of the company for 2011 amounts to € 11,190,185. Based on the 2011 tax assessment, the company paid € 742,496 in advance income tax payments in 2010. Its income tax liability thus amounted to € 6,041,373 at the end of 2011.

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

In establishing the basis for current tax, revenue and expenses established in accordance with IFRS were corrected in terms of decrease and increase in tax base.

Tax calculation

in EUR	2011	2010
Profit or loss before tax	58,004,766	98,360,502
Tax calculated at applicable tax rate (20%)	11,600,953	19,672,100
Tax from revenue reducing tax base	–407,215	–982,572
Tax from tax breaks	–79,002	–67,263
Tax from expenses reducing tax base	–62,147	–8,457
Tax from non-deductable expenses	122,250	143,104
Tax from other changes in tax calculation	15,346	35,979
TAX	**11,190,185**	**18,792,891**
EFFECTIVE TAX RATE	**19.29%**	**19.11%**

(23) Net operating profit or loss

The company ended the year 2011 with total profit of € 46,729,619.

Profit or loss of the company

in EUR	2011	2010
Gross return on operations	1,359,019,422	910,086,570
Operating profit or loss	55,617,425	91,582,141
Net cash	2,387,341	6,778,361
Profit or loss before tax	58,004,766	98,360,502
NET PROFIT OR LOSS FROM THE PERIOD	**46,729,619**	**79,491,404**

4.5.8.3 STATEMENT OF OTHER COMPREHENSIVE INCOME

The statement of other comprehensive income includes results of standard futures for the purchase of electricity and fair value of interest and currency swaps in the total amount of € 6,348,973.

Results arising from realised and newly concluded standard futures for electricity in 2011 amount to € -3,996,097. More detailed disclosures are presented under equity disclosure. As a result, the company did not account for deferred taxes since upon the realisation it will pay the price agreed-upon when the transaction was concluded.

In 2011, the company concluded an interest rate swap for which the net effect of fair value amounts to € -1,998,986, which means negative fair value of interest rate swap in the amount of € -2,498,733, of which the company accounted for € 499.747 of deferred tax assets.

In 2011, the company closed the currency swap transactions whose fair value as at 31 December 2010 amounted to € -105.236 taking into account deferred taxes. At the end of 2011, the fair value of currency swaps concluded in 2011 amounts to € 310,817, of which the company accounted for € 62,163 of deferred tax assets. Thus, the net effect amounts to € -248,654.

Taking into account all of the above, the total comprehensive income at the end of 2011 amounts to € 40,380,646.

4.5.8.4 CASH FLOW STATEMENT

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:

- Decrease arising from standard future for electricity on the fair value reserve and business expenses;
- Decrease arising from fair value of interest rate and currency swap on fair value reserve and disbursements from financing activities.

Cash flows

in EUR	2011	2010
Operating cash flows	29,798,354	79,653,064
Cash flows from investing activities	–93,128,020	–7,958,969
Cash flows from financing activities	42,091,371	–62,464,573
CASH FLOW FOR THE PERIOD	**–21,238,295**	**9,229,522**

4.5.8.5 STATEMENT OF CHANGES IN EQUITY

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 spread sheet.

In 2011, no transactions took place that would result in changes in equity.

Total comprehensive income of the reporting period increased by € 40,380,646, with the increase consisting of:

- The net profit for the year in the amount of € 46,729,619;
- Change in other components of comprehensive income in the amount of € -6,348,973 (value of standardised futures for the purchase of electricity).

In the reporting period, individual items of equity changed by € 63,110,511, due to:

- Transfer of accumulated profit of the previous year (in accordance with a General Meeting resolution) in the amount of € 39,745,702 to other revenue reserves; and
- Allocation of half of the net profit for the year in the amount of € 23,364,809 to other revenue reserves, in accordance with a Supervisory Board decision adopted on the proposal of the company's management.

Accumulated profit for 2011 totals € 23,364,810 which represents half of net profit for the period. The decision regarding allocation of accumulated profit is made by the owner.

Accumulated profit

in EUR	2011	2010
Net profit or loss for the current year	46,729,619	79,491,404
Increase in revenue reserves according to the Management Board decision (legal reserves, reserves for own shares and statutory reserves)	–23,364,809	–39,745,702
ACCUMULATED PROFIT	**23,364,810**	**39,745,702**

4.5.8.5 RELATED PARTIES

Transactions with associates

in EUR	Sales	Purchases	Loans granted	Loans received	Revenue from parent guarantees granted
DEM d.o.o.	0	67,532,221	0	50,085,796	0
SENG d.o.o.	7,182,123	38,995,218	6,807,004	0	240,731
HESS d.o.o.	183,141	8,173,185	0	0	0
TEŠ d.o.o.	2,378,419	227,619,184	102,509,393	0	1,711,124
TET d.o.o.	152,035	43,150,783	0	5,546	0
PV d.d.	3,391,218	178,840	851	0	0
HSE Invest d.o.o.	13,000	640,946	0	0	0
HSE Italia S.r.l.	4,061,730	0	77	0	0
HSE Hungary Kft	1,850,683	20,395	0	8,193	0
HSE Balkan Energy d.o.o.	9,749,851	7,085,049	0	0	0
HSE Adria d.o.o.	61,873,151	58,068,656	0	0	0
HSE Bulgaria EOOD	244,050	1,197,451	0	0	0
HSE MAK Energy DOOEL	8,191	906,948	0	0	0
HSE BH d.o.o.	160,642	8,902,729	0	0	0
TOTAL GROUP COMPANIES	**91,248,234**	**462,471,605**	**109,317,325**	**50,099,535**	**1,951,855**
ERICO d.o.o.	0	2,400	0	0	0
TOTAL ASSOCIATES	**0**	**2,400**	**0**	**0**	**0**
Soenergetika d.o.o.	15,040	0	0	0	0
TOTAL CONTROLLED COMPANIES	**15,040**	**0**	**0**	**0**	**0**
TOTAL	**91,263,274**	**462,474,005**	**109,317,325**	**50,099,535**	**1,951,855**

The columns sales and purchases represent the turnover of all transactions (excl. VAT), including interest of loans received and granted among the associates of the HSE Group in 2011. For loans granted and received the balance at the end of 2011 is presented (loan with interest). Revenue from parent guarantees granted in 2011 are separately disclosed, namely in the net value (excl. VAT). The values of parent guarantees are disclosed under contingent liabilities.

The balance of open operating receivables with related parties is disclosed under short-term operating receivables, while the balance of open operating liabilities is disclosed under short-term operating liabilities.

Transactions with the Republic of Slovenia and legal entities which are directly or indirectly owned by the Republic of Slovenia

in EUR	Open receivables as at 31/12/2011	Open liabilities as at 31/12/2011	Expenses in 2011	Revenue in 2011
Elektro-Slovenija	3,970,479	2,237,470	15,978,590	26,177,405
Elektro Maribor d.d. / Elektro Maribor Energija plus d.o.o.	7,871,358	0	95,490	70,150,309
Elektro Ljubljana d.d. / Elektro energija d.o.o.	20,436,668	1,750,040	17,226,995	186,596,851
Elektro Primorska d.d. / E3, energetika, ekologija, ekonomija d.o.o.	14,153,600	307,469	2,162,726	63,412,378
Elektro Celje d.d. / Elektro Celje Energija d.o.o.	7,133,362	157,492	1,755,131	69,230,491
Elektro Gorenjska d.d. / Elektro Gorenjska Prodaja d.o.o.	4,233,226	157,063	1,749,338	40,580,836
Talum d.d.	3,834,572	0	0	36,087,323
GEN-I d.d.	1,063,627	359,145	7,798,559	10,144,728

HSE is fully owned by the Republic of Slovenia. In 2011, the company did not conclude any transactions with the government.

The table presents transactions with legal entities which are directly or indirectly majority owned by the Republic of Slovenia and perform energy activity or they are majority owned by these companies and are important for HSE from the perspective of significance of transactions. Other transactions with companies, ministries, agencies and other legal entities, where the Republic of Slovenia is a majority or minority owner are important in terms of reporting. All transactions with the abovementioned legal entities are concluded in accordance with market conditions effective for conclusion of transactions with other business partners.

4.5.8.5 REMUNERATION

Remuneration of managers and employees who are not subject to the tariff part of the collective agreement comprises:

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

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 2011.

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.

Receipts of the management, Supervisory Board members and employees who are not subject to the tariff part of the collective agreement

in EUR	Salary	Other receipts	Bonuses	Travel cost reimbursement	TOTAL
Management	134,655	13,194	5,535	1,721	**155,105**
Supervisory Board and Audit Committee members	0	71,992	247	4,585	**76,824**
Employees who are not subject to the tariff part of the collective agreement	1,808,205	261,457	52,664	41,417	**2,163,743**
TOTAL RECEIPTS	**1,942,860**	**346,643**	**58,446**	**47,723**	**2,395,672**

On the basis of recommendation 12 of The Capital Assets Management Agency of the Republic of Slovenia, the remunerations of Management Board and Supervisory Board members are presented in the following table:

Receipts of the management in 2011

in EUR	Gross salary	Net salary	Other receipts – bonus for working performance in 2010	Other receipts – recourse	Voluntray supplementary pension insurance	Bonus use of car	Bonus D&O insurance	Cost reimbursement	TOTAL
Matjaž Janežič	134,655	70,362	8,811	1,700	2,683	5,412	123	1,721	**155,105**

Receipts of the Supervisory Board members in 2011

in EUR	Gross attendance fee	Net attendance fee	Travel costs	Educational cost	D&O bonus	TOTAL
Dolinar Drago	12,834	11,882	2,603	0	82	**15,437**
Jeromel Rene	9,846	7,548	0	0	82	**9,846**
Korošec Vekoslav	9,846	7,797	321	247	82	**10,414**
Medak Jadranko	1,502	1,178	19	0	0	**1,521**
Ravnikar Marjan	10,137	7,902	165	0	82	**10,303**
Šalamun Igor	8,691	6,846	249	0	82	**8,940**
Turnšek Mojca	9,846	8,344	1,065	0	82	**10,910**
TOTAL	**62,701**	**51,498**	**4,422**	**247**	**493**	**67,370**

Receipts of the Audit Committee members in 2011

in EUR	Gross attendance fee	Net attendance fee	Travel costs	Educational cost	D&O bonus	TOTAL
Jeromel Rene	2,324	1,801	0	0	0	**2,324**
Ravnikar Marjan	3,101	2,463	76	0	0	**3,177**
TOTAL	**7,749**	**6,132**	**163**	**0**	**0**	**7,912**

Receipts of members for monitoring investment projects in 2011

in EUR	Gross attendance fee	Net attendance fee	Travel costs	Educational cost	D&O bonus	TOTAL
Korošec Vekoslav	661	512	0	0	0	**661**
Turnšek Mojca	440	341	0	0	0	**440**
TOTAL	**1,542**	**1,195**	**0**	**0**	**0**	**1,542**

4.5.8.8 FINANCIAL INSTRUMENTS AND RISKS

This section is connected with the section 4.3.6 of the financial report as well as with the section 2.11 on financial risks in the business report.

4.5.8.8.1 Credit Risk

The major part of activity, where we face the risk of non-compliance by the counterparty, results from trading and financial activity where the majority of these activities are represented by contractual relations with partners with high credit rating. We decide upon the form of business relationship with other partners on the basis of prior analysis of partner's credit rating, which further defines the possible volume and time horizon of operations, elements of contractual relationship and particularly the necessary volume of additional collaterals for complying with contractual liabilities in form of banking guarantees, advances received and other adequate forms of insurance. In forming contractual relationship and selecting insurance we particularly consider possible limitations of partner's local legislation, since it is significant in the procedure of collection of possible unfulfilled obligations or realisation of insurance received.

Credit risk at partners is monitored on daily basis and managed by adopting limits of operations and timely demands to submit possible additional insurances in case we assess that the partner's credit rating has deteriorated or the increase in credit rating was a result of increase in general (expected) level of market prices.

Unsecured part of receivables is the sum of portion of sales to partners on open account within the framework of defined loan limits. The sales on open account are in accordance with internal regulations possible within the framework of approved limits to partners with regard to their financial capacity and risk. Among unsecured risks the most frequent are receivables to partners with good credit rating and to partners which belong to a highly regulated activity and are frequently owned by the state. The latter also include the providers of system services, where the acquisition of insurance risks is not possible similarly as for stock exchange, while they belong to credit rating category with a low risk of non-compliance.

Regardless the estimated low risk of the partners each credit rating class represents higher or lower average risk of loss due to non-payment or non-compliance with contractual liabilities. Even the secured receivables carry a certain risk of non-compliance with regard to credit rating class of guarantor. Both are monitored with the rating of value of possible loss due to non-compliance.

In 2011, our partners have regularly complied with their obligations with rare exceptions.

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 2011 refer to invoices issued for electricity sold that have already been settled by the time this report was prepared.

At the end of 2011, the company has € 29,965 of doubtful receivables.

In 2011, the company received € 184,412 from the company TDR Metalurgija d.d. – in bankruptcy proceedings, by which it fully repaid the created doubtful receivable from payment of benefits to ex-employees of the company. It also received € 4,623 of doubtful receivables paid for electricity.

In 2011, the company finally wrote-off € 259,258 of short-term receivables, namely on the basis of legally enforceable decision on conclusion of bankruptcy proceedings of the company TDR-INVAP d.o.o.

Changes in allowances for short-term receivables

in EUR	2011	2010
Balance as at 1 January	458,922	873,996
Written-off receivables collected	–189,035	–430,296
Allowances for receivables	19,336	15,251
Final write-down of receivables	–259,258	–29
BALANCE AS AT 31 DECEMBER	**29,965**	**458,922**

Receivables by maturity date

in EUR	Not yet due	Up to 3 months	From 3 to 6 months	From 6 to 12 months	Over one year	TOTAL
Short-term operating receivables	113,157,442	5,094,670	1,783	0	458,922	118,712,817
Short-term financial receivables	48,193,825	0	0	0	0	48,193,825
Long-term operating receivables	885,931	0	0	0	0	885,931
BALANCE AS AT 31/12/2010	**162,237,198**	**5,094,670**	**1,783**	**0**	**458,922**	**167,792,573**
Short-term operating receivables	142,868,760	7,417,155	0	29,965	0	150,315,880
Short-term financial receivables	109,317,324	0	0	0	0	109,317,324
Long-term operating receivables	870,313	0	0	0	0	870,313
BALANCE AS AT 31/12/2011	**253,056,397**	**7,417,155**	**0**	**29,965**	**0**	**260,503,517**

4.5.8.8.2 Liquidity risk

The company has been successfully managing the liquidity risk and thus ensures optimal solvency in the settlement of its current liabilities. The company's liquidity risk actively manages with:

- Regular monitoring of cash flows on daily, monthly and annual level;
- Cash management on the level of the group, whose main goal is optimisation of liquidity of group companies through exploitation of synergy effects of the Group as a whole;
- Assuring liquidity reserve in form of credit lines approved at commercial banks (in form of framework loans and limits on bank accounts);
- Allocation of short-term liquidity surpluses in form of safe and liquid short-term deposits at commercial banks and cash pooling on the level of the Group;
- Active relationship to financial markets.

In conditions of financial crisis, the management of the solvency risk is of utmost importance, which is why our carefulness in managing solvency risk has additionally increased. The company devotes special attention to efficient cash flow planning, which enables timely prediction of possible liquidity surpluses and deficits and their optimal management.

The company timely settles its liabilities.

Maturity dates of long-term liabilities as at 31/12/2010

	Maturity date			
in EUR	Up to 2 years after the date of the statement of financial position	From 3 to 5 years after the date of the statement of financial position	Over 5 years after the date of the statement of financial position	TOTAL
Long-term financial liabilities to banks	18,216,464	24,943,737	63,458,893	106,619,094
TOTAL	**18,216,464**	**24,943,737**	**63,458,893**	**106,619,094**

Maturity dates of long-term liabilities as at 31/12/2011

	Maturity date			
in EUR	Up to 2 years after the date of the statement of financial position	From 3 to 5 years after the date of the statement of financial position	Over 5 years after the date of the statement of financial position	TOTAL
Long-term financial liabilities to banks	11,350,657	27,186,161	58,974,044	97,510,862
TOTAL	**11,350,657**	**27,186,161**	**58,974,044**	**97,510,862**

There is a risk of non-issuing the government guarantee to EIB. According to all assurances to financial institutions (No objection letter, Letter of support by the Government of the Republic of Slovenia) cannot be assumed neither by HSE nor investor. Non-issuing of the guarantee would negatively affect the credibility of not solely the HSE Group, but the entire State. After non-issuing of the guarantee, it is difficult to imagine a high international financial credit rating of the State and maintenance of its credibility to international financial institutions. EBRD loans are also related to EIB arrangement.

If in 2010 we estimated that there is a risk of non-issuing of the government guarantee to EIB for the loan in the amount of € 440 million, at the end of 2011 this risk must be exposed. The risk is not solely non-issuing of the guarantee but also delay of issue. In case the guarantee will not be issued before autumn 2012, this could cause liquidity problems not only in HSE, but within the entire Group. In case the guarantee is not issued, the largest risk is certainly assumed by our owner, i.e. the State, which with this action consciously agrees on impairments of its property and consequently adopts liability of capital increase of the company HSE.

Managing risk of delay in acquiring government guarantee is controlled by up-to-date alternative scenarios, short-term borrowing and optimizing liquidity and operations. It is estimated that the risk was appropriately managed in 2011.

Risk of non-issuing government guarantee is controlled by performing scenarios of alternative financing of replacement Unit 6 in TEŠ. It is estimated that the risk was appropriately managed in 2011.

4.5.8.8.3 Currency risk

The company is exposed to currency risk in a lesser extent since the majority of inflows and outflows are related to domestic currency euro. Currency risk occurs particularly in trading with electricity in Hungary (purchase of electricity in HUF). For the purpose of risk management, the company hedged against the changes in foreign exchange risk with derivatives, namely FX Forward. By fixation of the foreign exchange rate the company ensures the requested and known electricity price in € and at the same time the already known cash flow from payments in foreign currency. Currency swap transactions are concluded on the basis of standard contracts ISDA with commercial banks and it is estimated that the possibility of non-performing these transactions is minimal.

Other currencies are present in minimum extent and therefore the company does not perform sensitivity analysis for the change in foreign exchange rates, since the change in exchange rate would not significantly affect the profit or loss.

The following exchange rates were used to convers assets and liabilities:

Country	Currency designation	Closing exchange rate in EUR for 2011	Closing exchange rate in EUR for 2010
Czech Republic	CZK	25.7870	25.0610
Bulgaria	BGN	1.9558	1.9558
Bosnia and Herzegovina	BAM	1.95583	1.95583
Croatia	HRK	7.5370	7.3830
Hungary	HUF	314.5800	277.9500
Macedonia	MKD	62.0600	60.9770
Romania	RON	4.3233	4.2620
Srbia	RSD	103.6300	107.4700
Switzerland	CHF	1.2156	1.2504
USA	USD	1.2939	1.3362

Type of financial instruments as at 31/12/2010

in EUR	EUR	HUF	Other currencies	TOTAL
Short-term operating receivables	118,253,887	0	8	118,253,895
Short-term financial receivables and loans	48,193,825	0	0	48,193,825
Long-term operating receivables	686,418	0	199,513	885,931
Short-term operating liabilities	–115,807,136	–329,566	–813,086	–116,949,788
Short-term financial liabilities	–25,311,303	0	0	–25,311,303
Long-term financial liabilities	–106,619,094	0	0	–106,619,094
NET EXPOSURE OF THE STATEMENT OF FINANCIAL POSITION	**–80,603,403**	**–329,566**	**–613,565**	**–81,546,534**

Type of financial instruments as at 31/12/2011

in EUR	EUR	HUF	Other currencies	TOTAL
Short-term operating receivables	150,207,417	0	78,498	150,285,915
Short-term financial receivables and loans	109,317,324	0	0	109,317,324
Long-term operating receivables	676,417	0	193,896	870,313
Short-term operating liabilities	–143,891,732	–2,135,327	–55,473	–146,082,532
Short-term financial liabilities	–80,108,197	0	0	–80,108,197
Long-term financial liabilities	–100,009,595	0	0	–100,009,595
NET EXPOSURE OF THE STATEMENT OF FINANCIAL POSITION	**–63,808,366**	**–2,135,327**	**216,921**	**–65,726,772**

Contracts concluded for currency swaps by maturity

in EUR	31 December 2011	31 December 2010
Up to 12 months	3,961,257	17,999,708
From 1 to 5 years	0	688,817
TOTAL	**3,961,257**	**18,688,525**

4.5.8.8.4 Interest rate risk

The company is exposed to interest rate risk in financial liabilities since it has contracts concluded at variable interest rate tied to Euribor which changes on daily basis. In accordance with the adopted »Implementation Policy of Interest Rate Risk Management within the HSE Group« the company has up to 50% of long-term loan portfolio hedged against interest rate risk. For this purpose, the company has a transaction of interest rate hedging with derivative interest swap (IRS). The concluded transaction of interest rate swap is highly efficient since the interest rate hedging in all its characteristics fully complies with the hedged item. The purpose of interest rate hedging is solely hedging against risks and achieving unchangeable cash flow. The hedged ratio was formally determined and documented at the beginning of hedging. The interest rate hedging strategy was set as well as the hedged item, hedging instrument and the manner of testing hedging efficiency. Since the hedging was successful, the changes in fair value are directly recognised in equity. Interest rate hedging transaction was concluded on the basis of standard contract ISDA with the first-class commercial bank and it is estimated that the possibility of not meeting the transaction is minimal.

Contracts concluded for interest rate swaps by maturity

in EUR	31 December 2011	31 December 2010
From 1 to 5 years	50,000,000	0
TOTAL	**50,000,000**	**0**

– **SENSITIVITY ANALYSIS OF CASH FLOW AT FINANCIAL INSTRUMENTS WITH A VARIABLE INTEREST RATE**

The change in interest rate for 50 basis points on the reporting date would increase (decrease) the net profit or loss for the values stated below. Analysis prepared for both years assumes that all variables, particularly foreign currency rates, remain unchanged. In the calculation, the receivables/liabilities are at variable interest rate decreased by the total amount of transactions of interest rate swaps (IRS) concluded.

Financial instruments

	Net profit or loss 2011		Net profit or loss 2010	
in EUR	Increase by 50 b.p.	Decrease by 50 b.p.	Increase by 50 b.p.	Decrease by 50 b.p.
FINANCIAL INSTRUMENTS AT VARIABLE INTEREST RATE				
Financial assets	256,231	–256,231	83,590	–83,590
Financial liabilities	–429,434	429,434	–693,279	693,279

4.5.8.8.5 Price risk

– FORWARD CONTRACTS FOR ELECTRICITY

The company has an adopted strategy and all other internal governing documents, by which it assured long-term trading with electricity and thus taking advantage of favourable market opportunities, which ensure better company's operations and increase in market shares in electricity markets, while at the same time it defined the measures of price risk assessment and limits of company's exposure to the abovementioned risks.

One form of long-term electricity trading are also futures, which have two completely diametric basic purposes: position trading or insurance against price risks. The company trades with futures with the purpose to insure long-term transactions against price risks. In sales and purchase of electricity with physical purchase after 2011 (operations through OTC market, bilateral conclusion of contracts) the company simultaneously concludes future with the position contrary quantity and the same maturity. Thus, the company financially fixes the revenue from sold or purchased transaction, meaning that loss arising from the purchase of forward contracts is compensated with revenue arising from physical contract on sales of electricity.

The purchase or sales of forward contract with the purpose of position trading increases the price exposure of the company since it is concluded with the intention to create larger revenue on the account of changes in the prices of electricity, while it is not closed in terms of position with position contra forward contract. The prise exposure is decreased solely in case of concluding position contra forward contract.

In 2011, the company concluded solely forward contracts for insurance against price fluctuation of already concluded contracts with physical supply of electricity after 2011.

Disclosures of transactions with forward contracts are discussed in fair value reserve (equity) and other comprehensive income.

– EMISSION COUPONS

The company has the adopted strategy of selling own production with the purpose to ensure long-term stable revenue from the sales of electricity. The basis for performing strategy of selling own production is expected electricity production of subsidiaries. Thus, the company sells electricity to subsidiary for some years in advance. The main goal of the strategy is the insurance against price risks.

Slovenia as the EU member and the signatory of Kyoto protocol committed itself to decrease CO_2 emissions. The largest burden of decrease in CO_2 emissions will be carried by energy companies or those companies that use carbon energy sources in electricity production (coal, gas, mazut, ELKO etc.). However, the cost of reducing CO_2 emissions in the first (2005-2007) and second (2008-2012) trading period was not significant since the abovementioned production companies covered a larger part of CO_2 emissions with CO_2 coupons received from the State. In 2013, drastic changes will appear in energy sector with regard to the manner of allocating coupons since the abovementioned power plants will have to fully cover all CO_2 emissions with the purchase of CO_2 coupons in the free market. This will increase operating costs of power plants and the risk of change in market value of CO_2 coupon with each sales of electricity from the abovementioned production companies without simultaneous purchase of CO_2 coupons with regard to emission factor CO_2/MWh. This also applies to our two subsidiaries.

In 2011, the company decided to partly protect itself against risks of change in the price of CO_2 coupons by adopting the Strategy of the Purchase of CO_2 Emission Coupons for the purposes of own production after 2012. The strategy stipulates that the company has to buy a certain share of emission coupons from thermal production subsidiaries in a certain deadline from the sales of own electricity production. As a result, in 2011 an Agreement on Emission Coupon Portfolio Management was signed with the two subsidiaries, which stipulates that the company manages the emission coupons of both companies and takes care for the sufficient amount of coupons to cover liabilities to the State.

By the end of 2011, the company purchased a certain amount of CO_2 coupons which the subsidiaries will need after 2012. With the purchase of the relevant coupons the HSE company secured a part of profit from long-term sold own production of the abovementioned subsidiaries against changes in price of CO_2 coupon.

4.5.8.8.6 Capital management

The main purpose of capital management is to ensure the best credit rating possible and capital adequacy for the purposes of financing operations and investments. An adequate volume of capital enables the company the trust of creditors and market as well as maintains the future development of activities.

The company monitors changes in equity using the financial leverage ratio calculated by splitting net liabilities with the total amount of net liabilities and total amount of equity. In terms of net liabilities, the company includes received notices and other financial liabilities less cash.

The ratio shows the relationship between the company's debt and equity. Compared to the end of 2010, the ratios is higher due to higher short-term indebtedness as a result of not yet acquired government guarantee for the project of replacement Unit 6 at TEŠ. Ratio complies with conditions determined by banks.

Capital management

in EUR	31 December 2011	31 December 2010
Long-term financial liabilities	100,009,595	106,619,094
Short-term financial liabilities	80,108,197	25,311,303
TOTAL FINANCIAL LIABILITIES	**180,117,792**	**131,930,397**
Total equity	970,128,945	929,748,299
FINANCIAL LIABILITIES/EQUITY	**0.19**	**0.14**
Net financial liability	161,914,660	92,486,558
NET DEBT/EQUITY	**0.17**	**0.10**

4.5.8.9 FAIR VALUE

The company estimates that the carrying amount is sufficient approximation for its financial instruments, except derivatives, which are recorded at fair value.

Financial instruments

	31 December 2011		31 December 2010	
in EUR	Carrying amount	Fair value	Carrying amount	Fair value
NON-DERIVATIVE FINANCIAL ASSETS AT FAIR VALUE	**246,500**	**246,500**	**389,579**	**389,579**
Available-for-sale financial assets	246,500	246,500	246,500	246,500
Derivatives (assets)	0	0	143,079	143,079
NON-DERIVATIVE FINANCIAL ASSETS AT AMORTISED COST	**278,676,684**	**278,676,684**	**206,777,490**	**206,777,490**
Financial receivables	109,317,324	109,317,324	48,193,825	48,193,825
Operating receivables	151,156,228	151,156,228	119,139,826	119,139,826
Cash	18,203,132	18,203,132	39,443,839	39,443,839
TOTAL NON-DERIVATIVE FINANCIAL ASSETS	**278,923,184**	**278,923,184**	**207,167,069**	**207,167,069**
NON-DERIVATIVE FINANCIAL LIABILITIES AT FAIR VALUE	**2,809,549**	**2,809,549**	**11,534**	**11,534**
Derivatives (liabilities)	2,809,549	2,809,549	11,534	11,534
NON-DERIVATIVE FINANCIAL LIABILITIES AT AMORTISED COST	**323,390,775**	**323,390,775**	**248,868,651**	**248,868,651**
Bank loans	177,308,243	177,308,243	131,918,863	131,918,863
Operating liabilities	146,082,532	146,082,532	116,949,788	116,949,788
TOTAL NON-DERIVATIVE LIABILITIES	**326,200,324**	**326,200,324**	**248,880,185**	**248,880,185**

Financial assets carried at fair value by hierarchy

in EUR	31 December 2011	31 December 2010
Financial assets at second-level fair value	0	143,079
Financial assets at third-level fair value	246,500	246,500
TOTAL FINANCIAL ASSETS AT FAIR VALUE	**246,500**	**389,579**

4.5.8.10 OTHER DISCLOSURES

In 2011, the company started producing electricity in SPP Velenje, meaning that besides electricity trading it also performs the production activity. With regard to provisions of Electricity Act, the company separately monitors the electricity production activity in SPP. In 2011, the company thus created € 7,306 of sales revenue, while the sole power plant is disclosed as production equipment in the context of the company's property, plant and equipment.

4.5.8.11 EVENTS AFTER THE REPORTING DATE

After the date of statement of financial position, no events in the company occurred that could affect consolidated financial statements for 2011 and related disclosures.


today **forrest**
tomorrow **energy**

5

Financial report of HSE Group 2011

5.1 Auditor's report for HSE group

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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 the group Holding Slovenske elektrarne (hereinafter: the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated 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 consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU. 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 company'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 company'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 the Group as at 31 December 2011, and its financial performance, other comprehensive income and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2.12.2 "Operational Risks: Investment Activity Risk" of the business report or Note 5.5.8.8.2 "Liquidity Risk" to consolidated financial statements where the Group disclosed that it was exposed to high operational risk of non-issuing of the government guarantee or risk of time delay in issuing of the government guarantee to EIB for the loan in the amount of EUR 440 million. The abovementioned risk is connected to high liquidity risk. Management of the abovementioned risks by the management is disclosed in Note 2.12.2 of the business report or in Note 5.5.8.8.2 to consolidated financial statements. The financial statements do not include potential adjustments that may have been the consequence of this uncertainty.

Our opinion is not modified in respect of this matter.

Report on Other Legal and Regulatory Requirements

The management is also responsible for the preparation of the business report in accordance with the requirements of the Companies Act (ZGD-1). Our responsibility is to provide an assessment of whether the business report is consistent with the audited financial statements. Our procedures have been conducted in accordance with the International Standard on Auditing 720 and are limited solely to assessing of whether the business report is consistent with the audited consolidated financial statements. In our opinion, the business report is consistent with the audited consolidated 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 3

Ljubljana, 17 May 2012

TRANSLATION ONLY – SLOVENIAN ORIGINAL PREVAILS

5.2 Statement of management's responsibility

The Managing Director is responsible to prepare the financial statements for each individual financial year in accordance with the International Financial Reporting Standards (»IFRS«) as adopted by the European Union in a manner that they give a true and fair view of the financial position of the company Holding Slovenske elektrarne d.o.o.

The management reasonably expects that in the foreseeable future the company will have sufficient assets to continue its operations and therefore the financial statements are prepared on a going concern basis.

The management's responsibility in preparation of the financial statements includes the following:

- Accounting policies are appropriately selected and consistently used;
- Judgements and assessments are reasonable and wise;
- Financial statements are prepared in accordance with IFRS adopted by the European Union.

The management confirms that the financial statements are prepared in accordance with the provisions of IFRS without reservation when used.

As at 17 May 2012, the Managing Director adopted the consolidated financial statements of the company Holding Slovenske elektrarne d.o.o. for the financial year ended as at 31 December 2011.

Ljubljana, 17 May 2012

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

5.3 Introduction to the preparation of financial statements

On the basis of the General Meeting decision of the owner of the company Termoelektrarna Šoštanj as at 29 November 2010, all financial statements and explanatory notes for 2011 are prepared in accordance with the International Financial Reporting Standards (hereinafter: IFRS) as adopted by the EU, for the first time. 1 January 2010 is the date of transition after which the company prepared the opening statement of the financial position in accordance with IFRS. Until 2011, the company had been preparing the financial statements in accordance with the Slovene Accounting Standards and the interpretations by the Slovene Institute of Auditors.

5.4 Consolidated financial statements

5.4.1 Consolidated statement of financial position

in EUR		Note*	31 December 2011	31 December 2010	1 January 2010
	ASSETS		**2,275,886,031**	**1,900,508,353**	**1,874,355,148**
A.	**LONG-TERM ASSETS**		**1,970,829,476**	**1,623,350,148**	**1,513,726,565**
I.	Intangible assets	1	47,817,146	36,801,406	41,011,922
II.	Property, plant and equipment	2	1,900,121,752	1,557,286,457	1,442,670,731
III.	Investment property		281,019	295,964	1,065,418
IV.	Long-term investments in subsidiaries	3	4,378,971	6,461,799	3,024,971
V.	Other long-term investments and loans	4	5,137,980	4,130,247	4,874,984
VI.	Long-term operating receivables	5	1,685,613	8,008,393	10,021,230
VII.	Other long-term assets		632,148	206,385	212,968
VIII.	Deferred tax assets	6	10,774,847	10,159,497	10,844,341
B.	**CURRENT ASSETS**		**305,056,555**	**277,158,205**	**360,628,583**
I.	Assets held for sale		213,830	210,556	210,556
II.	Inventories	7	33,177,324	36,224,926	37,798,852
III.	Short-term investments and loans	8	1,894,071	782,401	87,131,282
IV.	Short-term operating receivables	9	188,986,897	137,003,495	151,648,396
V.	Current tax assets	32	6,814,899	3,080,824	3,009,653
VI.	Othershort-term assets	10	6,962,296	7,147,212	7,554,436
VII.	Cash and cash equivalents	11	67,007,238	92,708,791	73,275,408
	EQUITY AND LIABILITIES		**2,275,886,031**	**1,900,508,353**	**1,874,355,148**
A.	**EQUITY**	12	**1,409,097,763**	**1,344,136,467**	**1,234,004,990**
I.	Called-up capital		29,558,789	29,558,789	29,558,789
II.	Capital surplus		561,243,185	561,243,185	561,243,185
III.	Revenue reserves		359,472,047	296,361,536	226,498,386
IV.	Fair value reserve		−4,292,977	2,763,640	−2,255,517
V.	Retained earnings		392,977,563	386,328,588	353,388,467
VI.	Consolidation equity adjustmen		−823,705	−453,831	−218,671
VII.	Minority interest		70,962,861	68,334,560	65,790,351
B.	**LONG-TERM LIABILITIES**		**501,407,398**	**354,855,625**	**380,872,298**
I.	Provisions for termination and jubilee benefits	13	14,010,145	14,305,734	13,250,729
II.	Other provisions	14	53,403,922	62,545,806	72,961,757
III.	Other long-term liabilities	15	18,131,459	19,875,657	26,198,237
IV.	Long-term financial liabilities	16	411,791,973	253,668,459	265,817,089
V.	Long-term operating liabilities	17	4,068,412	4,415,443	2,575,141
VI.	Deferred tax assets		1,487	44,526	69,345
C.	**SHORT-TERM LIABILITIES**		**365,380,870**	**201,516,261**	**259,477,860**
II.	Short-term financial liabilities	18	81,031,495	60,204,864	109,948,976
III.	Short-term operating liabilities	19	273,158,937	126,323,400	120,841,771
IV.	Current tax liabilities	32	1,388,703	6,012,557	15,197,728
V.	Other short-term liabilities	20	9,801,735	8,975,440	13,489,385

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

5.4.2 Consolidated income statement

in EUR		Note*	2011	2010
1.	Net sales revenue	22	1,327,546,308	913,777,494
2.	Changes in inventories of products and work in progress	23	1,714,941	3,876,149
3.	Capitalised own products and own services	24	32,264,464	12,378,025
4.	Other operating revenue	25	28,900,414	27,392,558
	GROSS RETURN ON OPERATIONS		**1,390,426,127**	**957,424,226**
5.	Costs of goods, materials and services	26	995,533,662	533,100,133
6.	Labour costs	27	146,313,727	143,331,195
7.	Write-downs in value	28	96,183,027	93,525,653
8.	Other operating expenses	29	56,205,456	61,223,271
	OPERATING PROFIT OR LOSS		**96,190,255**	**126,243,974**
9.	Financial revenue	30	2,716,453	10,839,810
10.	Financial expenses	31	11,461,164	8,479,092
	TOTAL PROFIT OR LOSS		**−8,744,711**	**2,360,718**
	PROFIT OR LOSS BEFORE TAX		**87,445,544**	**128,604,692**
11.	Corporate income tax		17,563,285	24,768,275
12.	Deferred taxes		129,156	852,289
	TAX	32	**17,692,441**	**25,620,564**
13.	**NET PROFIT OR LOSS FOR THE ACCOUNTING PERIOD**	33	**69,753,103**	**102,984,128**
	Majority owner's net profit or loss for the year		69,759,487	102,707,417
	Minority owner's net profit or loss for the year		−6,384	276,711

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

5.4.3 Consolidated statement of other comprehensive income

in EUR		Note*	2011	2010
13.	**NET PROFIT OR LOSS FOR THE FINANCIAL YEAR**	33	**69,753,103**	**102,984,128**
16.	Gains and losses arising from translation of financial statements of entities located abroad	12	−369,873	−235,156
17.	Net profit (loss) for the sales of available financial assets	4	−108,266	343,586
18.	Net effective part of change in fair value of instrument for cash flow hedging	12	−7,079,467	4,805,919
19.	**TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR**		**62,195,497**	**107,898,477**
	Majority owner's total comprehensive income for the year		62,332,996	107,587,268
	Minority owner's total comprehensive income for the year		−137,499	311,209

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

5.4.4 Consolidated cash flow statement

in EUR		2011	2010
A.	**Cash flows from operating activities**		
a)	**Items of consolidated income statement**	**133,802,117**	**200,425,535**
	Operating revenue (except from revaluation) and financial income from operating receivables	1,354,779,496	949,842,243
	Operating revenue (except from revaluation and amortisation/depreciation) and financial expenses for operating liabilities	−1,194,232,263	−727,033,493
	Income taxes and other taxes not included in operating expenses	−26,745,116	−22,383,215
b)	**Changes in net operating assets in statement of financial position items**	**1,703,341**	**−2,812,273**
	Opening less closing operating receivables	−47,632,525	11,731,423
	Opening less closing other assets	−39,147	1,010,255
	Opening less closing deferred tax assets	−472,448	1,694,969
	Opening less closing assets (disposal groups) held for sale	−3,274	0
	Opening less closing inventories	1,068,825	−1,158,251
	Closing less opening operating liabilities	54,538,913	2,042,564
	Closing less opening other liabilities and provisions	−5,768,409	−18,057,523
	Closing less opening deferred tax liabilities	11,406	−75,710
c)	**Net cash from operating activities**	**135,505,458**	**197,613,262**
B.	**Cash flows from investing activities**		
a)	**Cash receipts from investing activities**	**23,694,020**	**215,966,463**
	Cash receipts from interest	1,526,945	1,248,246
	Cash receipts from dividends and shares in profits of others	523	3,719
	Cash receipts from intangible assets (including advances)	619,244	3,634,131
	Cash receipts from property, plant and equipment (including advances)	607,560	2,854,207
	Cash receipts from investment property (including advances)	21,377	0
	Cash receipty from short-term loans	20,429,670	155,756,503
	Cash receipts from other long-term investments	488,701	191,930
	Cash receipts from other short-term investments	0	52,277,727
b)	**Cash disbursements from investing activities**	**−359,818,894**	**−319,846,724**
	Cash disbursements to acquire intangible assets (including advances)	−20,548,497	−7,592,938
	Cash disbursements to acquire property, plant and equipment (including advances)	−318,666,285	−196,081,513
	Cash disbursements from investment property (including advances)	0	−142,441
	Cash disbursements from short-term loans	−18,491,488	−112,424,930
	Cash disbursements from investments in subsidiaries, associates and jointly controlled companies	−348,717	0
	Cash disbursements from other long-term investments	−1,763,907	−3,604,902
c)	**Net cash from investing activities**	**−336,124,874**	**−103,880,261**
C.	**Cash flows from financing activities**		
a)	**Cash receipts from financing activities**	**407,599,511**	**181,974,335**
	Cash receipts from paid-in capital	2,765,800	2,233,000
	Cash receipts from long-term loans received	197,214,363	32,299,211
	Cash receipts from short-term loans received	207,619,348	147,442,124
b)	**Cash disbursements from financing activities**	**−232,280,577**	**−256,182,125**
	Interest paid on loans received	−8,309,626	−8,241,686
	Cash disbursements from long-term loans received	−41,560,579	−66,165,811
	Cash disbursements from short-term loans received	−182,410,372	−181,774,628
c)	**Net cash from financing activities**	**175,318,934**	**−74,207,790**
D.	**Cash and cash equivalents at the beginning of period**	**92,708,791**	**73,275,408**
	Effects of changes in exchange rates on cash and cash equivalents	−401,071	−91,828
	Increase/(decrease) of cash and cash equivalents	−25,300,482	19,525,211
E.	**Cash and cash equivalents at the end of period**	**67,007,238**	**92,708,791**

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

5.4.5 Consolidated statement of changes in equity

	in EUR	Called-up capital		Revenue reserves		Retained earnings				
		Share capital	Capital surplus	Other revenue reserves	Fair value reserves	Retained net profit	Net profit or loss for the year	Consolidation equity adjustment	Minority interest	TOTAL
A.1.	**Balance as at 1/1/2010**	**29,558,789**	**561,243,185**	**226,498,385**	**−2,255,517**	**353,388,468**	**0**	**−218,671**	**65,790,351**	**1,234,004,990**
	Transition to IFRS				**−95,854**	**95,854**				**0**
A.2.	**Balance as at 1/1/2010**	**29,558,789**	**561,243,185**	**226,498,385**	**−2,351,371**	**353,484,322**	**0**	**−218,671**	**65,790,351**	**1,234,004,990**
B.1.	**Transactions with owners**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**2,233,000**	**2,233,000**
d)	Additional paid-in capital								2,233,000	2,233,000
B.2.	**Changes in total comprehensive income**	**0**	**0**	**0**	**5,115,011**	**0**	**102,707,417**	**−235,160**	**311,209**	**107,898,477**
a)	Net profit or loss for the year						102,707,417		276,711	102,984,128
b)	Other changes in total comprehensive income				5,115,011			−235,160	34,498	4,914,349
B.3.	**Changes in equity**	**0**	**0**	**69,863,151**	**0**	**−30,117,449**	**−39,745,702**			**0**
b)	Allocation of portion of net profit for the reporting period to other components of equity in accordance with the decision of management and supervisory bodies			39,745,702			−39,745,702			0
c)	Allocation of a portion of net profit to additional reserves in accordance with the general meeting resolution			30,117,449		−30,117,449				0
C.	**Balance as at 31/12/2010**	**29,558,789**	**561,243,185**	**296,361,536**	**2,763,640**	**323,366,873**	**62,961,715**	**−453,831**	**68,334,560**	**1,344,136,467**
A.2.	**Balance as at 1/1/2011**	**29,558,789**	**561,243,185**	**296,361,536**	**2,763,640**	**386,328,588**	**0**	**−453,831**	**68,334,560**	**1,344,136,467**
B.1.	**Transactions with owners**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**2,765,800**	**2,765,800**
a)	Subscription of called-up nominal capital								40,000	40,000
d)	Additional paid-in capital								2,725,800	2,725,800
B.2.	**Changes in total comprehensive income**	**0**	**0**	**0**	**−7,056,617**	**0**	**69,759,487**	**−369,874**	**−137,499**	**62,195,497**
a)	Net profit or loss for the year						69,759,487		−6,384	69,753,103
b)	Other changes in total comprehensive income				−7,056,617			−369,874	−131,115	−7,557,606
B.3.	**Changes in equity**	**0**	**0**	**63,110,511**	**0**	**−39,745,702**	**−23,364,809**	**0**	**0**	**0**
b)	Allocation of portion of net profit for the reporting period to other components of equity in accordance with the decision of management and supervisory bodies			23,364,809			−23,364,809			0
c)	Allocation of a portion of net profit to additional reserves in accordance with a general meeting resolution			39,745,702		−39,745,702				0
C.	**Balance as at 31/12/2011**	**29,558,789**	**561,243,185**	**359,472,047**	**−4,292,977**	**346,582,886**	**46,394,678**	**−823,705**	**70,962,861**	**1,409,097,764**

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

5.5 Notes to the consolidated financial statements

5.5.1 Reporting group

Consolidated financial statements for the HSE Group are prepared by the controlling company Holding Slovenske elektrarne d.o.o. (hereinafter: »the controlling company«). The registered office of the controlling company is located at Koprska ulica 92, Ljubljana, where consolidated financial statements are available as a part of Group's annual report.

The separate financial statements of the company for the year ended 31 December 2011 are presented below.

5.5.1.1 COMPANIES WITHIN THE HSE GROUP

Prior to the consolidation of the HSE Group, the Premogovnik Velenje 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. The consolidated annual report of the company PV is available at the registered office of the company Premogovnik Velenje d.d., Partizanska cesta 78, Velenje.

Companies included in consolidated financial statements of PV group

Title of the company	Country of residence of the company
Premogovnik Velenje d.d.	Slovenia
GOST, podjetje za gostinstvo, turizem in trgovino d.o.o.	Slovenia
HTZ, Harmonija tehnologije in znanja, invalidsko podjetje d.o.o.	Slovenia
PV Invest, Naložbe, urejanje okolja, geodetske storitve d.o.o.	Slovenia
PV Center starejših Zimzelen d.o.o.	Slovenia
RGP, Rudarski gradbeni programi d.o.o.	Slovenia

Hereinafter the term »Group« (or »group«) refers to HSE Group companies that are included in the consolidated financial statements. In addition to PV group, fifteen more companies are included in the group.

In 2011, the consolidated financial statements for the first time included the company Srednjesavske elektrarne d.o.o. established in 2011.

Companies and groups included in consolidated financial statements of HSE group

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

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

5.5.1.2 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%.

Associated companies

Title of the company	Country of residence of the company
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
Sipoteh, strojna in proizvodna industrija d.o.o.	Slovenia

5.5.1.3 JOINTLY CONTROLLED COMPANIES

Investments in jointly controlled companies are investments in which the company controls the operations of such companies together with other owners, namely on the basis of contractually agreed division of control.

Jointly controlled companies

	Country of residence of the company	Co-owner – HSE group company
Soenergetika d.o.o.	Slovenia	Holding Slovenske elektrarne d.o.o.

5.5.2 Basis for preparation

In the preparation of financial statements as at 31 December 2011, the company considered:

- IFRS, which include International Accounting Standards (IAS), Interpretations issued by the Standing Interpretations Committee (SIC), International Financial Reporting Standards (IFRS) and Interpretations issued by International Financial Reporting Interpretations Committee (IFRIC) as adopted by the European Union (hereinafter: the »EU«);
- Companies Act;
- Energy Act;
- Mining Act;
- Accounting Rules of the Company and
- Other applicable legislation.

A) STANDARDS AND INTERPRETATIONS EFFECTIVE IN THE CURRENT PERIOD

- Amendments to IAS 24 »Related Party Disclosures« – Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party, adopted by the EU on 19 July 2010 (effective for annual periods beginning on or after 1 January 2011);
- Amendments to IAS 32 »Financial Instruments: presentation« – Accounting for rights issues, adopted by the EU on 23 December 2009 (effective for annual periods beginning on or after 1 February 2010),
- Amendments to IFRS 1 »First-time Adoption of IFRS« – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters, adopted by the EU on 30 June 2010 (effective for annual periods beginning on or after 1 July 2010);
- Amendments to various standards and interpretations »Improvements to IFRSs (2010)« resulting from the annual improvement project of IFRS published on 6 May 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording (most amendments are to be applied for annual periods beginning on or after 1 January 2011, depending on standard/note);
- Amendments to IFRIC 14 »IAS 19 – The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction« – Prepayments of a Minimum Funding Requirement, adopted by the EU on 19 July 2010 (effective for annual periods beginning on or after 1 January 2011);
- IFRIC 19 »Extinguishing Financial Liabilities with Equity Instruments«, adopted by the EU on 23 July 2010 (effective for annual periods beginning on or after 1 July 2010).

The adoption of these amendments to the existing standards has not led to any changes in the Entity's accounting policies.

B) STANDARDS AND INTERPRETATIONS ISSUED BY IFRIC AND ADOPTED BY THE EU BUT NOT YET EFFECTIVE

- Amendments to IFRS 7 »Financial Instruments: disclosures« – Transfer of assets, adopted by the EU on 22 November 2011 (effective for annual periods beginning on or after 1 July 2011).

The company opted not to adopt these standards, amendments and interpretations before they enter into force. The company anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Entity in the period of initial application.

C) STANDARDS AND INTERPRETATIONS ISSUED BY IFRIC BUT NOT YET ADOPTED BY THE EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except from the following standards, amendments to the existing standards and interpretations, which were not endorsed for use as at 17.5.12.

- IFRS 9 »Financial Instruments« (effective for annual periods beginning on or after 1 January 2015);
- IFRS 10 »Consolidated financial statements« (effective for annual periods beginning on or after 1 January 2013);
- IFRS 11 »Joint Arrangements« (effective for annual periods beginning on or after 1 January 2013);
- IFRS 12 »Disclosures of Involvement with other Entities« (effective for annual periods beginning on or after 1 January 2013);
- IFRS 13 »Fair Value Measurement« (effective for annual periods beginning on or after 1 January 2013);
- IAS 27 (revised in 2011) »Separate Financial Statements« (effective for annual periods beginning on or after 1 January 2013);
- IAS 28 (revised in 2011) »Investments in Associates and Joint Ventures« (effective for annual periods beginning on or after 1 January 2013);
- Amendments to IFRS 1 »First-time Adoption of IFRS« – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after 1 July 2011);
- Amendments to IFRS 7 »Financial Instruments: Disclosures«- Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2013).
- Amendments to IFRS 9 »Financial Instruments« and IFRS 7 »Financial Instruments: Disclosures« – Mandatory Effective Date and Transition Disclosures;
- Amendment to IAS 1 »Presentation of financial statements« – Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012);
- Amendments to IAS 12 »Income Taxes« – Deferred tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012),
- Amendment to IAS 19 »Employee Benefits« – Improvements to the Accounting for Post-employment Benefits (effective for annual periods beginning on or after 1 January 2013);
- Amendments to IAS 32 »Financial Instruments: Disclosures«- Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014).
- IFRIC 20 »Stripping Costs in the Production Phase of a Surface Mine« (effective for annual periods beginning on or after 1 January 2013).

The Group anticipates that the adoption of these standards, amendments to the existing standards and interpretations will have no material impact on the financial statements of the Group in the period of initial application.

At the same time, hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated.

According to the company's estimates, application of hedge accounting for the portfolio of financial assets or liabilities pursuant to **IAS 39: »Financial instruments: recognition and measurement**«, would not significantly impact the financial statements, if applied as at the balance sheet date.

5.5.3 Basis of measurement

The company's financial statements are prepared on the basis of historical values of balance sheet items except the following assets and liabilities carried at fair value:

- Derivatives.
- Available-for-sale financial assets (in case the fair value can be determined).

5.5.4 Currency reports

5.5.4.1 FUNCTIONAL AND PRESENTATION CURRENCY

The financial statements contained in this Report are presented in €o (€) without cents. The €o has been the functional and presentation currency of the company. Due to the rounding of amounts, minor but insignificant deviations exist in the tables.

5.5.4.2 FOREIGN CURRENCY TRANSLATION

Transactions expressed in a foreign currency are translated into the relevant functional currency at the exchange rate applicable on the date of transaction. Cash and liabilities expressed in a foreign currency at the end of the reporting period are converted into functional currency at then applicable exchange rate. Positive or negative foreign exchange differences are differences between amortised cost in the functional currency at the beginning of the period, which is repaired for the amount of effective interest and payments during the period, as well as amortised cost in foreign currency converted at the exchange rate at the end of the period. Non-cash assets and liabilities expressed in a foreign currency and measured at fair value are converted in the functional currency at the exchange rate on the date when the amount of fair value is determined. Foreign exchange differences are recognised in the consolidated income statement, namely according the net principle (difference between positive and negative foreign exchange differences among revenue or difference between negative and positive foreign exchange differences and expenses).

In translation of financial statements of subsidiaries abroad, whose functional value is not equal to presentation value of the group, the following exchange rates are used:

- Assets and liabilities »except equity« translated according to the exchange rate on the reporting date;
- Equity according to historical exchange rate;
- Revenue and expenses according to average exchange rate in the year of reporting.

5.5.5 Use of assessments and judgements

The preparation of financial statements requires that the management forms certain assessments and assumptions which affect the disclosed amounts of assets and liabilities, revenue and expenses and disclosures of contingent assets and expenses in the reporting period.

Assessments and judgements are based on past experience and other factors that are considered reasonable in the given circumstances and on the basis of which the judgements on the carrying amount of assets and liabilities are expressed. Since the assessments and assumptions are subject to subjective judgement and certain level of uncertainty, subsequent actual results can differ from assessments. The assessments are examined on regular basis. Changes in accounting estimates are recognised in the period in which the assessments were changed if the change affects only that period or in the period of change and in future periods in case the change affects future periods.

Assessments and assumptions are present at least at the following judgements:

- Assessment of useful life of amortisable assets (Point 1, 2);
- Test of impairment of assets (Disclosure 5.5.8.1. – Point 1, 2, 3, 4);
- Assessment of fair value of derivatives (Disclosures 5.5.8.8.3 and 5.5.8.8.4);
- Assessment of realisable values of receivables;
- Assessment of net realisable value of inventories; – Point 7);
- Assessment of provisions for jubilee and termination benefits; – Point 13);
- Assessment of other provisions (Disclosure 5.5.8.1. – Point 14); and
- Assessment of contingent liabilities and assets (Disclosure 5.5.8.1. – Point 21).

5.5.6 Branch and representative offices

The company has two foreign branch offices in Czech Republic and Slovakia and two representative offices in Serbia and Romania. In 2011, the group companies did not perform transactions through subsidiaries. The operations of branch and representative offices are included in financial statements of the Group.

5.5.7 Significant accounting policies

The company's financial statements are prepared on the basis of accounting policies presented below. The abovementioned accounting policies are used for all years presented, unless otherwise indicated.

The comparative data was adopted when needed so that they are in accordance with the presentation of data in the current year.

5.5.7.1 BASIS FOR CONSOLIDATION

Consolidated financial statements comprise financial statements of the controlling company and subsidiaries. Subsidiaries are companies controlled by the Group. This means that the Group is able to decide on financial and business orientations of the company for obtaining benefits from its operations. Financial statements of subsidiaries are included in consolidated financial statements from the date when the controlling begins to the date when it stops.

Transactions with the owners of non-controlling share are considered in a same way as transactions with external partners. Profits and losses of the owners of non-controlling share are disclosed in the consolidated income statement. The equity of non-controlling share owners in the consolidated statement of financial position is disclosed separately from other equity items. Losses that refer to non-controlling shares in subsidiary are allocated in the item non-controlling shares, although the item discloses negative balance.

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.

Consolidated financial statements do not include balances of receivables and liabilities among the group companies, revenue and expenses and unrealised profits and losses from transactions within the group.

Foreign exchange differences from translation of financial statements of subsidiaries, whose functional currency is not the same as presentation currency of the Group, are recognised in consolidated equity adjustment or other comprehensive income.

5.5.7.2 INTANGIBLE ASSETS

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

Intangible assets comprise long-term property rights (also emission coupons), goodwill and other intangible assets.

Upon initial recognition, an intangible asset is measured at cost. The cost also includes import and non-refundable purchase taxes after the commercial and other discounts have been deducted and all costs directly attributable to preparation of an asset for the intended use. Borrowing costs that are directly allocated to the purchase, construction or production of a qualifying asset, i.e. until the capitalisation of an asset, are recognised as a part of cost of such an asset.

Intangible assets are subsequently measured using the cost model.

Amortisation is accounted for on a straight-line basis, taking into account the useful life of each individual (integral) part of an intangible asset. The amortisation begins to be calculated from the cost when an asset is available for use.

Emission coupons are not depreciated. The value of the use of emission coupons is calculated on the basis of method of weighted average cost. Emission coupons received from the State are initially valuated as 1 euro per coupon at simultaneous increase in long-term deferred revenue.

Goodwill appears in consolidation and it represents a surplus of cost over the company's share in fair value of recognisable assets acquired, liabilities and contingent liabilities of the company on the date of acquisition. Goodwill is recognised as asset and is examined at least once per year due to impairment. Individual impairment is immediately recognised in the consolidated income statement and is not subsequently reversed. In case of disposal of subsidiary, the adequate amount of goodwill is included in the establishment of profit/loss in sales and effect on the Group's profit or loss.

The Group has no intangible assets, for which it would record the residual value when purchased.

Depreciation methods, useful life and other values of groups of assets are examined at the end of each financial year and adapted if needed. In case the useful life is extended, the costs of amortisation in the financial year are decreased, while in case of shortening of useful life they increase. The adjustment of useful life has to be calculated in a manner that the asset will be depreciated in the new predicted useful life. The change in useful life is considered as a change in accounting estimate and it affects solely the period in which the accounting estimate was changed and every following period of the remaining useful life.

Individual items of intangible assets have the following useful lives:

Amortisation categories of intangible assets

Intangible assets	Amortisation rate	Useful life
Computer software	7.6 – 50%	2 – 13 years
Licences	10 – 50%	2 – 10 years
Concession rights	2%	50 years
Other long-term property rights	10 – 25%	4 – 10 years
Other intangible assets	10%	10 years

Subsequent costs in relation to intangible assets are capitalised only in cases when they increase future economic benefits arising from an asset to which the costs refer. All other costs are recognised in profit or loss as expenses as soon as they are incurred.

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.

5.5.7.3 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.

Property, plant and equipment comprise land, buildings, production equipment, other equipment and assets in the course of construction.

Property, plant and equipment (hereinafter: »operating fixed assets«) are disclosed at cost less accumulated depreciation and loss from impairments. Cost includes costs that can be directly attributed to the acquisition of an item of property, plant and equipment. Cost includes borrowing costs related to the acquisition of an item of property, plant and equipment up until the asset is in working condition. The cost does not include the costs incurred upon the dismantling or renovation of items of property, plant and equipment.

The parts of items of plant and equipment with different useful lives are accounted for as individual assets. 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. They include repairs that are usually carried out every few years (periodically) and require substantial resources.

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.

For later measurement of property, plant and equipment the cost model is used.

Group companies have no intangible assets, for which it would record the residual value when purchased.

Assets acquired free-of-charge are not amortised/depreciated, while at the same time a part of long-term deferred revenue is transferred to other operating revenue. This part is equal to the value of depreciation/amortisation charged.

Amortisation is calculated using the straight-line amortisation method, taking into account the useful life of individual (integral) part of an intangible asset. The amortisation begins to be calculated from the cost when an asset is available for use. Land, quarries and assets in course of construction or preparation are not depreciated.

Individual items of property, plant and equipment have the following useful lives:

Amortisation categories of property, plant and equipment

Property, plant and equipment	Amortisation rate	Useful life
Buildings	1 – 10%	10 – 100 years
Parts of buildings	2.5 – 20%	5 – 40 years
Production equipment	1.3 – 20%	5 – 77 years
Parts of production equipment	5 – 33%	3 – 20 years
Computer equipment	20 – 50%	2 – 5 years
Furniture	10 – 25%	4 – 10 years
Small tools	12.5 – 33.33%	3 – 8 years
Cars	10 – 20%	5 – 1 years
Other vehicles	4 – 25%	4 – 25 years
Other plants and equipment	4 – 33.33%	3 – 25 years

Depreciation methods, useful life and other values of groups of assets are examined at the end of each financial year and adapted if needed. In case the useful life is increased, the amortisation costs in the financial year decrease, while in case of shortened useful life, they increase. The adjustment of useful life has to be calculated in a manner that the asset will be depreciated in the new predicted useful life. The change in useful life is considered as a change in accounting estimate and it affects solely the period in which the accounting estimate was changed and every following period of the remaining useful life.

The costs of replacement a part of fixed asset are attributed to the carrying amount of this asset in case it is possible that future economic benefits related to a part of this asset will flow to the company and if costs can be reliably measured. All other costs (e.g. regular maintenance) are recognised in profit or loss as expenses as soon as they are incurred.

Gains and losses that occur in disposal of property, plant and equipment are recognised as a difference between the net sales value and carrying amount of a disposed asset and are recognised among other operating revenue or write-downs in value.

5.5.7.4 ASSETS LEASED

Lease is classified as finance lease in case significant risks of ownership benefits are transferred to the lessee with lease conditions.

5.5.7.5 LONG-TERM INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries are investments in which the company has a majority stake.

Consolidated financial statements do not include investments in subsidiaries, except in case of companies, which are not important from the Group's perspective. These are carried at cost.

Group companies recognise revenue from investment in the period when the decision on payment of profit shares was adopted. Additional inputs in subsidiaries increase the cost of investments.

Any indications of impairment of investments in subsidiaries are determined on an annual basis. In the event impartial evidence exists that a loss due to impairment was incurred, the amount of loss is measured as the difference between the carrying amount of a financial asset and the present value of estimated future cash flows discounted at the market interest rate for similar financial assets, and recognised as revaluation operating expense.

5.5.7.6 INVESTMENTS IN ASSOCIATES AND JOINTLY CONTROLLED COMPANIES

Investments in associates are investments in which the company has an important influence and usually its stake in such company ranges between 20 and 50%.

Investments in jointly controlled companies are investments in which the company controls the operations of such companies together with other owners, namely on the basis of contractually agreed division of control.

In the company's financial statements investments in associates and investments in jointly controlled companies are carried at cost.

In consolidated financial statements the investments in associates and jointly controlled companies are accounted for with capital method.

5.5.7.7 FINANCIAL INSTRUMENTS

Financial instruments include the following assumptions:

- Non-derivative financial assets;
- Non-derivative financial liabilities;
- Derivatives.

5.5.7.7.1 Non-derivative financial assets

Non-derivative financial assets of the Group include available-for-sale financial assets, receivables and loans and cash and cash equivalents.

Financial asset is derecognised when contractual rights to cash flows from this asset are discontinued or when the rights to contractual cash flows from the financial asset are transferred on the basis of a transaction in which all risks and benefits from the ownership of financial asset are transferred.

– AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables or financial assets at fair value through profit or loss.

Available-for-sale financial assets are recognised after the trading date.

They are carried at fair value if the fair value can be established and the profit and loss in valuation is recognised directly in other comprehensive income or equity, except loss due to impairment. These are recognised so that the possible accumulated loss which is prior recognised in other comprehensive income and disclosed in fair value reserve, transferred to profit or loss. Subsequent increase in fair value of impaired available-for-sale equity security is recognised under the fair value reserve.

At derecognition of investment, the accumulated profit and loss recorded in the comprehensive income are transferred to profit or loss.

In case the fair value cannot be reliably measured since the range of justified fair value assessments is of significant importance and the probability of various assessments is difficult to be assessed, but it assesses the signs of impairment, the company measures the financial asset at cost.

– **LOANS AND RECEIVABLES**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

At initial recognition, loans and receivables are disclosed at fair value increased by direct costs of transaction. After initial recognition, loans and receivables are measured at amortised cost and decreased by the loss due to impairment. Loans and receivables are recorded as financial and business assets and include loans granted, deposits, receivables due from buyers and receivables due from others.

In the books of account loans are recognised in accordance with settlement date, while receivables are recognised in accordance with trading date.

They are included under current assets, except in case of maturities of more than 12 months after the date of the statement of financial position. In such case they are classified under long-term assets.

– **CASH AND CASH EQUIVALENTS**

Cash and cash equivalents comprise cash, bank deposits up to three months and other short-term quickly realisable investments with original maturity of three months or less. They are carried at cost. Overdrafts on bank accounts are included under short-term financial liabilities.

5.5.7.7.2 Non-derivative financial liabilities

Non-derivative financial liabilities comprise operating, financial and other liabilities. Financial liabilities are initially carried at fair value increased by the costs that are directly attributable to the transaction. After the initial recognition, financial liabilities are measured at amortised cost using the effective interest method.

Under this item group companies record loans received with interest, other financial liabilities, liabilities to suppliers and liabilities to others.

Loans received are initially recognised on the date of their settlement (payment), while other non-derivative financial liabilities are recognised on the trade date.

The portion of long-term financial liabilities that falls due within less than a year after the cash flow statement date is disclosed under short-term liabilities.

5.5.7.7.3 Derivatives

Derivatives are used for the hedging of company's exposure to interest rate risks. Group companies have concluded interest rate and currency swaps and forward contracts for the purchase of electricity in the following years.

They are financial instruments that do not require initial financial investment, while their value is changing due to change in interest rate.

Derivatives are initially recognised at fair value, namely according to net principle, which means that the sole value of transaction concluded is not disclosed in financial statements.

After the initial recognition, derivatives are measured at fair value, while the corresponding changes are considered in the following manner:

- when a derivative is defined as hedging in case of exposure to changeability of cash flows that may be attributed to an individual risk related to recognised asset, liability or very probable envisaged transactions, which can affect the profit or loss, the successful portion of changes in fair value of derivative is recognised in comprehensive income and disclosed in risk hedging reserve; Unsuccessful portion of changes in the fair value of financial instrument is directly recognised in the income statement; The company shall discontinue prospectively the hedge accounting if the hedge no longer meets the criteria for hedge accounting, if the hedging instrument is sold, terminated or exercised. The accumulated profit or loss recognised in comprehensive income remains recorded in the hedging reserve until the envisaged transaction impacts the profit or loss. If the envisaged transaction cannot be expected any more, amount recognised in other comprehensive income shall be recognised directly in the profit or loss. In other cases, the amount recognised as comprehensive income is transferred to profit or loss for the same period in which the protected item affects the profit or loss.
- effects of other derivatives, which are not determined as risk hedges in case of exposure to cash flow changeability or cannot be attributed to individual risk related to recognised asset or liability, are recognised in profit or loss.

5.5.7.8 INVENTORIES

Inventories are carried at the lower of the two: historical cost or net realisable value. The historical cost includes cost that is composed of purchase price, import duties and direct costs of purchase. The purchase price is reduced by discounts received. Direct costs of purchase are costs of transport services, costs of loading, cargo handling and unloading, costs of monitoring of goods and other costs that can be attributed to directly obtained merchandise, materials and services. Purchase price discounts comprise discounts indicated in the invoice as well as discounts that are received later and refer to individual purchase.

The value of finished products and unfinished production includes total production costs in General production costs are costs of material, services, salaries and amortisation which are charged in the framework of production process, but cannot be directly connected to products or services being produced or rendered. A part of production costs in purchased costs (materials, services, labour costs and amortisation) are established once per year on the basis of data from the previous year.

If the prices of the items that are purchased anew in the accounting period differ from the prices of inventory items of the same class, the first-in first-out (FIFO) method is applied to decrease the quantities of inventories during the year. Another subsidiary valuates the inventories according to the method of weighted average prices of inventory. However, in terms of value this does not represent a significant deviation from accounting policies of the Group and therefore the adjustment is not performed on the group level.

Net realisable value is assessed on the basis of selling price in the normal course of business reduced by the estimated costs of completion and sales. The write-downs of damaged, expired and useless inventories are regularly performed during the year by individual items;

At least once per year, namely as at the date of preparation of annual financial statements, the evidence on impairment of inventories is assessed. The impairment of inventories is assessed for each individual type of inventories. Individual types of inventories are classified as groups of inventories with similar characteristics on the basis of time component of changes in inventories. In the assessment of impairment for an individual group, the criteria of professional assessment, further utilisation or sale are used.

5.5.7.9 IMPAIRMENT OF ASSETS

5.5.7.9.1 Financial assets

A financial asset is considered impaired if there is objective evidence from which it is evident that, due to one or more events, the expected future cash flows arising from this assets that can be reliably measured have been decreased.

Objective evidence on the impairment of financial assets can be: non-compliance or violation by the debtor, deterioration of borrowers' solvency, signs that the debtor will bankrupt and disappearance of active market for such instrument.

– IMPAIRMENT OF RECEIVABLES AND LOANS GRANTED

The company individually assesses the evidence on impairment of receivables.

Whether it is assessed that the carrying amount of receivable has exceeded its fair value (realisable value), the receivable is impaired.

Doubtful receivables from others are those which are not settled within 180 days after their due date.

Disputed receivables are those which comply with one of the following conditions:

- The legal collection procedure began at the court;
- The decision on beginning of enforcement settlement, liquidation or bankruptcy is published.

For subsequent write-offs of receivables relevant documents of proof are needed: legally enforceable decisions of enforced settlement, bankruptcy proceeding, court ruling or other relevant document.

In case all actions were performed with the carefulness of a good manager, with intention to repay certain unsettled receivable and in case that due to the amount of receivable, it would not be economic for the group companies to enter the collection procedure through court, receivables are finally written down in full based on the management's decision.

The group companies assess evidence on loan impairment for each significant loan.

Loss due to impairment related to financial asset carried at amortised cost is calculated as difference between the carrying amount of an asset and expected cash flows discounted at historical interest rate. Loss is recognised in profit or loss.

5.5.7.9.2 Non-financial assets

On each reporting date the company verifies the carrying amount of significant non-financial assets with the purpose to establish whether there are any signs of impairment. If such signs exist, the recoverable amount of the asset is estimated.

The recoverable amount of an asset or cash-generating unit is the higher of the two: value in use or fair value less costs of sale. When determining the value of an asset in use, the expected future cash flows are discounted to their current value by using the discount rate before tax that reflects regular market assessments of the time value of money and risks that typically occur in relation to the asset. For the purpose of impairment test, the assets that cannot be individually tested are classified in the smallest possible group of assets that generate cash flows from further use and are mostly independent from receipts of other assets and groups of assets (cash-generating unit).

The impairment of an asset or the cash-generating unit is recognised when its carrying amount exceeds its recoverable amount. Impairment is disclosed in the income statement.

At the end of the reporting period, the company evaluates losses due to impairment in previous periods and thus establishes whether the loss has decreased or even disappeared. Loss due to impairment is reversed in case there has been a change in assessments, on the basis of which the company defines the recoverable amount of an asset. The impairment loss is reversed to the amount up to which the asset's increased carrying amount does not exceed the carrying amount that would have been determined net of depreciation had no impairment loss been recognised for the asset in prior periods.

5.5.7.10 EQUITY

Nominal capital and capital surplus represent cash contributions and in-kind contributions made by the owner of the controlling company.

As at 31 December 2002, the general equity revaluation adjustments included the revaluation of share capital before 2002 in accordance with then applicable Slovene Accounting Standards. The adjustment due to the transfer to new Slovene Accounting Standards has been transferred to capital surplus. The amount can only be used for increase in share capital.

Other reserves are amounts, which are purposely retained earnings of the controlling company from the previous years. They are created on the basis of the decision by relevant management and supervisory body.

Fair value reserve represents signs of revaluation of derivatives and available-for-sale financial-assets of group companies.

The retained earnings include profits or loss of the group companies in the previous years and in the current year.

The consolidated equity adjustment includes exchange rate differences from translations of items in financial statements of the group companies operating abroad.

Minority interest represents the share of minority owners in the total equity of subsidiaries.

5.5.7.11 PROVISIONS FOR JUBILEE AND TERMINATION BENEFITS

In accordance with legal regulations, collective agreement and internal rules, the company is obliged to pay jubilee benefits to employees and termination benefits on their retirement for which long-term provisions are created. There are no other existing pension liabilities.

Provisions are created in the amount of estimated future payments for termination and jubilee benefits discounted at the end of the financial year. The calculation is prepared for each employee by taking into account the costs of termination benefits on retirement and costs of all expected jubilee benefits until retirement. Calculation with the use of projected unit is prepared by actuary for all group companies. Payments for termination benefits on retirement and jubilee benefits decrease the created provisions.

5.5.7.12 OTHER PROVISIONS

Provisions are recognised when the company has a legal or constructive liability arising from a past event, and when it is likely that that an outflow of resources embodying economic benefits will be required to settle the liability.

The amount of the provision must be equal to the present value of the expenditure expected to be required to settle the liability. Since provisions are intended for covering probable, but not certain obligations, the amount recognised as a provision is merely the best estimate of the expenditure needed for the settlement of obligation existing on the date of the statement of financial position. In reaching the best estimate of a provision, the risks and uncertainties that inevitably surround the events and circumstances are taken into account.

Provisions are directly decreased by costs or expenses for covering of which they were created. This means that in the financial year such costs or expenses do not appear in the profit or loss anymore.

Whether the expected liabilities do not appear, the reversal of created provisions is charged against operating expenses.

5.5.7.13 OTHER ASSETS AND LIABILITIES

Other assets include long-term and short-term accrued revenue and deferred costs.

Deferred costs or expenses are amounts incurred but not yet charged against the profit or loss. Accrued revenue is revenue that is taken into account in the profit or loss, although they have not been charged yet.

Other liabilities include long-term and short-term accrued costs and deferred revenue.

Accrued costs are amounts that have not occurred yet, but they will in the future and are already influencing the profit or loss.

Deferred revenue is deferred revenue that will cover estimated expenses during a period of more than one year.

5.5.7.14 CONTINGENT LIABILITIES AND ASSETS

Contingent liability is:

- A possible liability arising from past events and whose existence is confirmed solely by the occurrence or non-occurrence of one or more uncertain future events that the company does not fully control; or
- A present obligation arising from past events, which is not recognised, since it is not probable that the outflow of resources embodying economic benefits will be required to settle the obligation or the amount of obligation cannot be reliably measured.

A contingent asset is a possible asset arising from past events and whose existence is confirmed solely by the occurrence or non-occurrence of one or more uncertain future events that the company does not fully control.

5.5.7.15 REVENUE

Sales revenue is recognised at fair value of received payment or receivable decreased by discounts. The revenue is disclosed when the buyer assumes all significant forms of risk and benefits related to the ownership of the asset when there exists certainty with regard to collectability of compensation and related costs and when the group company stops deciding upon products sold.

Sales of goods is recognised when the company delivers the products to the client. The client accepts the products, while the collectability of associated receivables is reasonably ensured. In case the group companies have more positive than negative operating foreign exchange differences, they are recorded as net revenue from the sales of merchandise.

Sales of services is recognised in the accounting period in which the services are performed as regards the conclusion of the transaction estimated on the basis of actually performed service as the proportional portion of all services performed.

Revenue arising from **default interest** charges and related receivables are recognised upon occurrence if it is probable that the economic benefits related to transaction will inflow to the company. On the contrary, default interest charges are recorded as contingent assets and are recognised in the company's books of account upon payments. Recording of default interest is considered individually.

Other operating revenue related to products and services is revenue from the reversal of provisions, revenue from utilisation of deferred revenue, gains arising from sales of fixed assets, reversal of impairment of receivables, received compensations and contractual penalties, subsidies, grants, recourses, premiums and similar revenue.

State aid is considered as deferred revenue that the company strictly consistently and wisely recognises as other operating revenue over the useful life of the relevant asset (on the other hand, the company discloses the amortisation/depreciation cost of this asset among operating expenses).

Financial revenue comprise revenue from investment shares, interest on loans granted and deposits, positive difference of exchange rates from financing activities and revenue of associates.

5.5.7.16 EXPENSES

Expenses are recognised if a decrease in economic benefits in the accounting period gives rise to a decrease in assets or increase in debt and this decrease can be reliably measured. Operating expenses are recognised once costs are no longer held in inventories of products and work in progress or once merchandise has been sold. Costs that cannot be held in inventories of products and work in progress are recognised as operating expenses upon its occurrence.

Costs of goods sold includes expenses related to the sales of electricity, trading emission coupons and dependent costs of electricity. In case group companies have more negative than positive operating foreign exchange differences, they are recorded as costs of goods sold.

Costs of materials are historical costs of materials purchased that are directly used for creating products and services (direct costs of material) as well as costs of material that do not have such nature and are included in relevant purpose (functional) groups of indirect operating costs. The first subgroup includes costs of raw materials, other materials and purchased parts and semi-finished products whose consumption can be related to creating products and services. The second group includes costs of auxiliary materials for maintenance of property, plant and equipment, small tools whose useful life does not exceed one year, spare parts for servicing of products after their sale, office supplies, specialised literature and other items. Costs of materials cover also the accrued costs of shrinkage, spilling, breakage and failure.

Costs of services are historical costs of purchased services that are directly used for creating products and services (costs of direct services) as well as costs of services that do not have such nature and are included in adequate purpose (functional) groups of indirect operating costs. The first group mostly includes the costs of services for production of goods, while the second group includes mainly the costs of transport services, maintenance services, services of fairs, marketing and entertainment, costs of insurance premiums, payment transactions and other banking services (except interest), rents, advisory services, business travels and similar services.

Write-downs in value include amortisation/depreciation costs related to consistent transfer of value of amortisable intangible assets and property, plant and equipment and investment property.

Write-downs in value also include impairments, write-downs and losses from the sales of intangible assets and property, plant and equipment as well as impairments or write down of receivables and inventories.

Labour costs are historical costs that refer to salaries and similar values in gross amounts as well as duties that are calculated from this basis and are not an integral part of gross amounts. These costs can be directly charged against creation of products and services (costs of direct work) or they have the nature of indirect costs and are comprised in relevant purpose (functional) groups of indirect costs.

Other operating expenses occur in relation to creation of provisions, environmental charges and other duties.

Financial expenses comprise borrowing costs, including related derivatives, impairments of investments and losses of associates.

5.5.7.17 INCOME TAX

Taxes include current and deferred tax liabilities. Current tax is included in the income statement. Deferred tax is disclosed in consolidated income statement and statement of financial position.

Current tax assets are based on taxable profit for the period. The taxable profit defers from net profit reported in the profit or loss, since it excludes the items of revenue or expenses that are taxable or deductible in other years as well as items that are never taxable or deductible. The company's current tax liabilities are calculated with tax rates that are applicable on the reporting date. In case the current tax liability is lower than advances paid, the current tax receivable is incurred.

Deferred tax is completely disclosed using the liabilities method after the statement of financial position for temporary differences arising between the tax base of assets and liabilities and their carrying amounts in financial statements. Deferred income tax is defined using tax rates (and legislation) applicable on the date of financial position and for which it is expected to be in use when the receivable for deferred tax is realised or the liability for deferred tax is settled.

A deferred tax asset is recognised if there is a possibility that a taxable profit will be available in the future, from which it will be possible to utilise temporary differences. It represents the amount of the calculated corporate income tax on deductible temporary differences.

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.

5.5.7.18 CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

The Group does not present deferred taxes arising from items of other comprehensive income separately in the statement, but it discloses the amount of tax for each individual item in the explanatory notes.

5.5.7.19 CONSOLIDATED CASH FLOW STATEMENT

Cash flow statement represents changes in cash and cash equivalents of the financial year, for which it is prepared. The part of cash flow statement related to operations is prepared according to direct method based on data of the statement of financial position, while the part related to investment and financing activities is prepared according to indirect method.

5.5.7.20 SEGMENT REPORTING

The Group does not disclose operations by segments in the annual report. Segment reporting must be disclosed by the companies whose treasury or debt securities are traded in the market and companies which are issuing treasury or debt securities in public security markets.

5.5.7.21 COMPARABLE DATA

In 2011, the consolidated financial statements were for the first time prepared in accordance with IFRS. In accordance with the provisions of IFRS, 1 January 2010 is considered as the transition date. Therefore, it was necessary to convert financial statements for 2010 or reallocate them and prepare in accordance with IFRS in order to assure comparability as one of basic IFRS principles. Impacts of conversions or transition from SAS to IFRS are presented below.

5.5.7.22 SPECIFICATION OF IFRS TRANSITION EFFECTS

According to the provisions of IFRS 1, the Group has prepared the opening statement of financial position upon the transition to IFRS, in which all assets and liabilities whose recognition is required by IFRS are disclosed. The values of differences have not been identified. However, individual items of assets and liabilities, revenue and expenses in the financial statements in accordance with IFRS are presented differently than in the financial statements in accordance with SAS. These reclassifications are:

A) CONSOLIDATED INCOME STATEMENT FOR 2010

- Operating foreign exchange differences recorded under financial revenue and expenses are set off and disclosed under net sales revenue in the amount of € 434,675;
- Default interest to buyers, which were disclosed under financial revenue, is recorded under other operating revenue in the amount of € 586,511.
- Default interest to suppliers, which was disclosed under financial expenses, is recorded under other operating revenue in the amount of € 7,549.
- Other revenue is disclosed under other operating revenue in the amount of € 2,546,339;
- Other expenses are disclosed under other operating expenses in the amount of € 1,180,521.
- Revenue of associates disclosed in the fair value reserve are transferred to financial revenue in the amount of € 86,586, which positively affected the disclosed net profit of the Group according to IFRS compared to SAS.

At the same time, with the transfer to IFRS the chart of accounts was unified in group companies, particularly in recording costs. This fact was taken into account by the companies in preparation of comparable data for 2010 (e.g. transfer of part costs of services to other operating expenses).

B) CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 1/1/2010

- Long-term accrued costs and deferred revenue disclosed among intangible assets represent a part of other long-term assets in the amount of € 212.968;

- The advances for property, plant and equipment, which were disclosed as part of property, plant and equipment, are part of long-term or short-term operating receivables (depending on envisaged utilisation) in the amount of € 14,859,718;
- Advances for inventories disclosed within inventories are part of short-term operating receivables in the amount of € 70,514;
- Deposits up to three months, which were disclosed among short-term investments, are part of cash in the amount of € 62,994,293;
- Interest on loans granted, which were disclosed as short-term operating receivables, are part of short-term financial liabilities (together with loan) in the amount of € 51,474;
- Current tax assets disclosed under other operating receivables are disclosed as an individual item in the consolidated statement of financial position in the amount of € 3,009,653;
- Current tax liabilities disclosed under other operating liabilities are disclosed as an individual item in the consolidated statement of financial position in the amount of € 15,197,728;
- Revenue of associates disclosed in fait value reserve was transferred to retained earnings in the amount of € 95,854.

C) CONSOLIDATED CASH FLOW STATEMENT FOR 2010

- Initial cash balance is increased by all deposits up to three months, which were open as at 1 January 2010 in the amount of € 62,994,293;
- Disbursements and receipts for acquisitions or disposals of short-term loans are presented under a separate item among disbursements and receipts from investing activities, separately from other cash flows from short-term financial investments;
- Disbursements and receipts for acquisitions or disposals of short-term and long-term loans received are presented under a separate item among disbursements and receipts from investing activities, separately from other cash flows from long-term or short-term financial liabilities;
- Foreign exchange differences accounted on the balance of cash at the end of 2010, which were disclosed among operating expenses, are presented separately among effects of changes in foreign exchange rates in the amount of € 4,969;

D) CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS AT 1/1/2010

- Revenue of associates disclosed in fair value reserve was transferred to retained earnings in the amount of € 95,854 (no impact on equity value in accordance with IFRS compared to SAS).

5.5.7.23 FAIR VALUE DEFINITION

Financial instruments are disclosed at their fair value. Fair value is the amount by which an asset can be sold, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

When determining fair value of financial instruments, the following hierarchy of fair value defining levels is considered:

- First level comprises quoted prices (unmodified) in active markets for equal assets or liabilities;
- Second level comprises inputs besides quoted prices included in the first level that are directly (i.e. as prices) or indirectly (i.e. as derived from prices) evident for asset or liability;
- Third level comprises input data for an asset or liability that are not based on evident market data.

Quoted prices are used as a basis for determining fair value of financial instruments. In case the financial instrument is not quoted on the regulated market or the market is assessed as inactive, the second and third level input data is used to assess the fair value of financial instrument.

In order to determine fair value of interest rate and currency swaps, data is used, which is submitted to group companies by the banks where they have concluded individual swaps. Values are examined in financial departments of the companies.

5.5.7.24 MANAGEMENT OF FINANCIAL RISKS

Detection and management of financial risks is determined in more detail in the business report.

In the notes to consolidated financial statements, financial risks are presented in relation with items in the consolidated financial statements (point 5.5.8.8. Financial Instruments and Risks).

5.5.8 Notes to the consolidated financial statements

5.5.8.1 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(1) Intangible assets

Intangible assets

in EUR	31 December 2011	31 December 2010	1 January 2010
Long-term property rights	35,365,667	24,355,820	28,508,109
Goodwill	12,387,056	12,387,056	12,387,056
Other intangible assets	64,423	58,530	116,757
INTANGIBLE ASSETS	**47,817,146**	**36,801,406**	**41,011,922**

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

In 2008, two of the group companies received emission coupons (for the period 2008-2012) on the basis of the Environment Protection Act, Ordinance on the National Plan for the Allocation of Emission Coupons and Decision on Emission Coupons. These coupons are disclosed in value 1 €/coupon, while on the other hand long-term deferred revenue is disclosed in the same amount. Emission coupons are also disclosed by the controlling company, namely for the purposes of electricity production in the group in the following years.

Initial balance of emission coupons in the Group amounts to 14,359,096 or € 14,727,161. In 2011, 2,463,407 emission coupons were purchased and 6,168,384 emission coupons were sold or used. Thus, at the end of 2011 the company has 10,654,199 emission coupons, whose value amounts to € 26,128,868. The majority of increase in property rights is represented by the purchases of emission coupons in the controlling company for the following years.

Goodwill in the amount of € 12,387,056 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.

Other intangible assets comprise long-term deferred development costs.

During consolidation, € 1,305,800 worth of emission coupons was eliminated on account of intragroup sales.

In 2011, no reasons for impairment of intangible assets were identified in the Group, or reasons to change the assessment of useful life of intangible assets which are amortised.

In 2011, the group companies did not allocate interest from purchase before making available for use to the cost of intangible assets.

Changes in intangible assets

in EUR	Long-term property rights	Goodwill	Other intangible assets	TOTAL
COST AS AT 1/1/2010	**34,594,606**	**12,387,056**	**121,676**	**47,103,338**
Acquisitions	11,672,931	0	0	11,672,931
Disposals	−13,459,573	0	−57,613	−13,517,186
Transfers – re-entries	123,000	0	0	123,000
Foreign exchange differences	−71	0	0	−71
COST AS AT 31/12/2010	**32,930,893**	**12,387,056**	**64,063**	**45,382,012**
WRITTEN-DOWN VALUE AS AT 1/1/2010	**6,086,497**	**0**	**4,919**	**6,091,416**
Amortisation	1,446,604	0	614	1,447,218
Disposals	−11,792	0	0	−11,792
Impairments	1,053,775	0	0	1,053,775
Foreign exchange differences	−11	0	0	−11
WRITTEN-DOWN VALUE AS AT 31/12/2010	**8,575,073**	**0**	**5,533**	**8,580,606**
CARRYING AMOUNT AS AT 1/1/2010	**28,508,109**	**12,387,056**	**116,757**	**41,011,922**
CARRYING AMOUNT AS AT 31/12/2010	**24,355,820**	**12,387,056**	**58,530**	**36,801,406**
COST AS AT 1/1/2011	**32,930,893**	**12,387,056**	**64,063**	**45,382,012**
Acquisitions	27,717,545	0	58,568	27,776,113
Disposals	−15,532,610	0	−52,060	−15,584,670
Transfers – re-entries	709	0	0	709
Foreign exchange differences	−1,650	0	0	−1,650
COST AS AT 31/12/2011	**45,114,887**	**12,387,056**	**70,571**	**57,572,514**
WRITTEN-DOWN VALUE AS AT 1/1/2011	**8,575,073**	**0**	**5,533**	**8,580,606**
Amortisation	1,529,467	0	615	1,530,082
Disposals	−354,415	0	0	−354,415
Foreign exchange differences	−905	0	0	−905
WRITTEN-DOWN VALUE AS AT 31/12/2011	**9,749,220**	**0**	**6,148**	**9,755,368**
CARRYING AMOUNT AS AT 1/1/2011	**24,355,820**	**12,387,056**	**58,530**	**36,801,406**
CARRYING AMOUNT AS AT 31/12/2011	**35,365,667**	**12,387,056**	**64,423**	**47,817,146**

(2) Property, plant and equipment

Property, plant and equipment

in EUR	31 December 2011	31 December 2010	1 January 2010
Land	38,667,781	38,592,355	36,498,176
Buildings	568,214,238	581,141,808	539,081,608
Production equipment	557,041,519	569,406,436	517,447,215
Other equipment	22,144,302	16,985,799	10,888,699
Property, plant and equipment being acquired	714,053,912	351,160,059	338,755,033
PROPERTY, PLANT AND EQUIPMENT	**1,900,121,752**	**1,557,286,457**	**1,442,670,731**

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. Thus, property, plant and equipment represent the largest share of group assets.

The most important investments in property, plant and equipment of group companies in 2011 include finishing works regarding construction of PSP Avče, construction of HPP on the lower Sava River, investments in 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).

In 2011, the companies included € 3,906,517 of borrowing costs to the cost of property, plant and equipment.

In 2011, the company reviewed the useful lives of major intangible assets, determining that the useful lives were appropriate given the current expectations regarding the usability of these assets. In the group of properties, which includes apartments, it was established that the initially estimated useful life significantly defers from the expected useful life. Due to the abovementioned fact, this group of assets was again depreciated in financial year 2011, while the effect is decreased depreciation in the amount of € 172,770.

No reasons for impairment of property, plant and equipment were determined in 2011; however, some write-offs took place. The majority is represented by write-offs of overhauls of Unit 5 and write-offs of worn-out equipment in other production companies, which are mostly replaced with new equipment.

One of the group companies holds equipment under a finance lease in the amount of € 32,609. The company has mortgages on property up to the total amount of € 24,065,765 (of which the mortgage on buildings amounts up to € 21,983,000, the mortgage on land amounts up to € 600,000 and the mortgage on equipment up to € 1,482,765). Precise balance of mortgages depends on the current balance of loan exposure and conditions of banks with regard to mortgage collateral.

Changes in property, plant and equipment

in EUR	Land	Buildings	Production equipment	Other equipment	Property, plant and equipment being acquired	TOTAL
COST AS AT 1/1/2010	**36,498,176**	**1,232,794,628**	**1,908,868,540**	**41,410,288**	**338,755,033**	**3,558,326,665**
Acquisitions		0	0	0	193,740,964	193,740,964
Disposals	−210,995	−31,527,529	−15,875,397	−895,767	−203,735	−48,713,423
Transfers from ongoing investments	2,305,174	67,164,869	114,943,544	8,241,439	−180,799,078	11,855,948
Other transfers			67,112	−67,982	−333,125	−333,995
Foreign exchange differences				−1,929		−1,929
COST AS AT 31/12/2010	**38,592,355**	**1,268,431,968**	**2,008,003,799**	**48,686,049**	**351,160,059**	**3,714,874,230**
WRITTEN-DOWN VALUE AS AT 1/1/2010	**0**	**693,713,020**	**1,391,421,325**	**30,521,589**	**0**	**2,115,655,934**
Depreciation	0	22,438,927	61,907,505	2,805,193	0	87,151,625
Acquisitions	0	1,835	0	0	0	1,835
Disposals	0	−28,863,619	−14,732,120	−1,625,321	0	−45,221,060
Other transfers	0	−3	653	118	0	768
Foreign exchange differences	0	0	0	−1,329	0	−1,329
WRITTEN-DOWN VALUE AS AT 31/12/2010	**0**	**687,290,160**	**1,438,597,363**	**31,700,250**	**0**	**2,157,587,773**
CARRYING AMOUNT AS AT 1/1/2010	**36,498,176**	**539,081,608**	**517,447,215**	**10,888,699**	**338,755,033**	**1,442,670,731**
CARRYING AMOUNT AS AT 31/12/2010	**38,592,355**	**581,141,808**	**569,406,436**	**16,985,799**	**351,160,059**	**1,557,286,457**
COST AS AT 1/1/2011	**38,592,355**	**1,268,431,968**	**2,008,003,799**	**48,686,049**	**351,160,059**	**3,714,874,230**
Acquisitions	0	0	0	6,381	437,347,916	437,354,297
Disposals	−15,202	−605,561	−34,132,188	−5,420,521	−168,918	−40,342,390
Transfers from ongoing investments	164,758	11,276,152	52,222,686	10,828,426	−74,469,109	22,913
Other transfers	−74,130	−710,360	−1,066,569	1,258,293	183,964	−408,802
Foreign exchange differences	0	0	0	600	0	600
COST AS AT 31/12/2011	**38,667,781**	**1,278,392,199**	**2,025,027,728**	**55,359,228**	**714,053,912**	**4,111,500,848**
WRITTEN-DOWN VALUE AS AT 1/1/2011	**0**	**687,290,160**	**1,438,597,363**	**31,700,250**	**0**	**2,157,587,773**
Depreciation	0	23,270,942	64,055,911	3,833,723	0	91,160,576
Acquisitions	0	0	0	0	0	0
Disposals	0	−344,555	−33,689,935	−3,289,353	0	−37,323,843
Other transfers	0	−38,586	−977,130	969,909	0	−45,807
Foreign exchange differences	0	0	0	397	0	397
WRITTEN-DOWN VALUE AS AT 31/12/2011	**0**	**710,177,961**	**1,467,986,209**	**33,214,926**	**0**	**2,211,379,096**
CARRYING AMOUNT AS AT 1/1/2011	**38,592,355**	**581,141,808**	**569,406,436**	**16,985,799**	**351,160,059**	**1,557,286,457**
CARRYING AMOUNT AS AT 31/12/2011	**38,667,781**	**568,214,238**	**557,041,519**	**22,144,302**	**714,053,912**	**1,900,121,752**

(3) Long-term investments in subsidiaries

Long-term investments in subsidiaries

in EUR Subsidiary	31 December 2011	31 December 2010	1 January 2010
ELPROM d.o.o.	9,066	9,110	9,402
MHE Lobnica d.o.o.	374,613	0	0
GOLTE d.o.o.	3,989,292	6,446,689	3,009,569
SAŠA INKUBATOR d.o.o.	6,000	6,000	6,000
TOTAL	**4,378,971**	**6,461,799**	**3,024,971**

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 2011, reasons were determined for impairment of certain long-term investments, as a result of which revaluation operating expenses increased. Impairment was performed on the basis of valuation in the amount of € 2,457,397.

In the process of consolidation, € 1,066,188,653 of long-term investments in Group companies has been eliminated.

Information on subsidiaries as at 31/12/2011

Subsidiary			Activity	Owner or co-owner company	% ownership
ELPROM d.o.o.	Erjavčeva ulica 20	Nova Gorica, Slovenia	Electricity production	SENG d.o.o.	100%
MHE Lobnica d.o.o.	Obrežna ulica 170	Maribor, Slovenia	Hydroelectricity generation	DEM d.o.o.	65%
GOLTE d.o.o.	Radegunda 19c	Mozirje, Slovenia	Ski resort activity	PV Invest d.o.o. HTZ d.o.o.	61.24% 16.55%
JAMA ŠKALE v zapiranju d.o.o.	Partizanska cesta 78	Velenje, Slovenia	Land preparatory works	PV d.d.	100%
SAŠA INKUBATOR d.o.o.	Koroška cesta 62b	Velenje, Slovenia	Other company and business counselling	PV Invest d.o.o.	60%

Significant amounts from financial statements of subsdiaries for 2011

in EUR Subsidiary	Assets	Liabilities (without equity)	Revenue	Net profit or loss for the year	TOTAL equity
ELPROM d.o.o.	9,082	16	172	–44	9,066
MHE Lobnica d.o.o.	624,170	136,845	297	–1,981	487,325
GOLTE d.o.o.	14,637,830	7,919,161	1,727,145	–765,072	6,718,669
JAMA ŠKALE v zapiranju d.o.o.	8,082	6	8	–104	8,078
SAŠA INKUBATOR d.o.o.	38,470	25,978	166,732	515	12,492
TOTAL	**15,317,634**	**8,082,006**	**1,894,354**	**–766,686**	**7,235,630**

Changes in long-term investments in subsidiaries

in EUR	2011	2010
Balance as at 1 January	6,461,799	3,024,971
Acquisitions, increases	374,613	3,437,120
Transfers	0	–292
Impairments	–2,457,441	0
BALANCE AS AT 31 DECEMBER	**4,378,971**	**6,461,799**

(4) Other long-term investments and loans

Other long-term investments

in EUR	31 December 2011	31 December 2010	1 January 2010
In associates	802,184	599,747	1,070,338
In jointly controlled companies	120,897	131,430	0
Available-for-sale financial assets	3,879,701	2,817,917	3,243,452
Other long-term investments	2,000	2,000	126,065
TOTAL	**4,804,782**	**3,551,094**	**4,439,855**

In the process of consolidation, the value of investments in associated companies on the basis of using the equity method increased by € 173,902.

Changes in long-term investments

in EUR	2011	2010
Balance as at 1 January	3,551,094	4,439,855
Acquisitions	1,742,200	489,996
Transfers	–10,101	–143,573
Disposals	–33,070	–559,109
Increases	169,367	86,587
Impairments	–614,708	–762,662
BALANCE AS AT 31 DECEMBER	**4,804,782**	**3,551,094**

Information on associates as at 31/12/2011

Associate			Activity	Co-owner company	% co-owership
ELDOM d.o.o.	Vetrinjska ulica 2	Nova Gorica, Slovenia	Property management for payment or under contract	Dravske elektrarne Maribor d.o.o.	50%
ERICO d.o.o.	Koroška cesta 58	Maribor, Slovenia	Ecologic research, monitoring	Termoelektrarna Šoštanj d.o.o. Premogovnik Velenje d.d.	26% 23%
PLP d.o.o.	Partizanska cesta 78	Velenje, Slovenia	Timber activity	Premogovnik Velenje d.d.	26%
SIPOTEH d.o.o.	Partizanska cesta 79	Velenje, Slovenia	Production of technological and mining equipment	Premogovnik Velenje d.d.	42%

Significant amounts from statements of associates for 2011

in EUR Associate	Assets	Liabilities (without equity)	Revenue	Net profit or loss for the year	TOTAL equity
ELDOM d.o.o.	424,773	200,794	1,199,059	6,713	223,979
ERICO d.o.o.	1,789,843	522,469	2,318,248	34,980	1,267,374
PLP d.o.o.	1,869,170	1,196,757	2,694,791	32,313	672,413
SIPOTEH d.o.o.	3,061,963	2,719,485	3,075,637	36,383	342,478

Amounts of long-term investments in associates

in EUR Associate	31 December 2011	31 December 2010
ELDOM d.o.o.	111,992	106,712
ERICO d.o.o.	370,655	230,250
PLP d.o.o.	135,480	127,079
SIPOTEH d.o.o.	184,057	168,776
ROBINOKS d.o.o.	0	–33,070
TOTAL	802,184	599,747

Changes in long-term investments in associates

in EUR	2011	2010
Balance as at 1 January	599,747	1,070,338
Disposals	33,070	–555,336
Increases	169,367	86,587
Impairments	0	–1,842
BALANCE AS AT 31 DECEMBER	802,184	599,747

Long-term financial receivables and loans

in EUR	31 December 2011	31 December 2010	1 January 2010
To others	24,000	433,420	435,129
Long-term deposits to others	309,198	145,733	0
TOTAL	333,198	579,153	435,129

(5) Long-term operating receivables

Long-term operating receivables

in EUR	31 December 2011	31 December 2010	1 January 2010
To associates	551,582	689,477	827,373
Advances given	192,465	6,277,756	5,977,393
To others	941,566	1,041,160	3,216,464
TOTAL	1,685,613	8,008,393	10,021,230

The subsidiary discloses long-term operating receivables to associate from sales of equipment with deferred payment deadline.

Compared to 2010, long-term advances granted decreased due to transfer among short-term due to the envisaged utilisation in the period shorter than one year.

The largest part of long-term operating receivables is represented by deposits granted as collateral for trading with electricity at the controlling company and they are disclosed among other long-term operating receivables.

(6) Deferred tax assets

In 2011 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 values of derivatives,
- Differences between operating and tax depreciation and amortisation.

The utilisation of or decrease in deferred tax assets was a result of:

- Use of provisions for jubilee and termination benefits,
- Reversal and use of other provisions,
- Reversal of doubtful receivables,
- Utilisation of differences between operating and tax depreciation and amortisation.

In the income statement a change in deferred tax assets of € 129,156 is recognised and of € 167,327 in equity.

The amount of deferred tax assets eliminated in consolidation totalled € 2,922,694.

Changes in deferred tax assets

in EUR	Provisions	Impairment	Amortisation/ depreciation	Other	TOTAL
BALANCE AS AT 1/1/2010	**7,090,599**	**489,448**	**39,885**	**3,224,409**	**10,844,341**
In debit/(credit) of profit or loss	−504,536	−1,706,945	227,781	−188,472	−2,172,172
In debit/(credit) of other comprehensive income	0	1,677,857	0	−190,529	1,487,328
BALANCE AS AT 31/12/2010	**6,586,063**	**460,360**	**267,666**	**2,845,408**	**10,159,497**
BALANCE AS AT 1/1/2011	**6,586,063**	**460,360**	**267,666**	**2,845,408**	**10,159,497**
In debit/(credit) of profit or loss	−221,167	114,103	−17,334	−4,784	−129,182
In debit/(credit) of other comprehensive income	0	0	0	744,532	744,532
BALANCE AS AT 31/12/2011	**6,364,896**	**574,463**	**250,332**	**3,585,156**	**10,774,847**

(7) Inventories

Inventories

in EUR	31 December 2011	31 December 2010	1 January 2010
Spare parts and materials	22,614,188	25,548,559	28,410,337
Unfinished production	59,922	51,233	42,222
Finished products and merchandise	10,503,214	10,625,134	9,346,293
TOTAL	**33,177,324**	**36,224,926**	**37,798,852**

The majority of group inventories is represented by the inventory of spare parts, materials and finished products;

The largest amount in the inventories of spare parts and materials is represented by inventories of spare parts and maintenance materials necessary for fast repair of defects of production equipment and thus ensuring reliable production, inventory of coal 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 € 1,828,169;

In case of other inventories, net realisable value is not lower than the carrying amount;

In 2011, € 228,979 worth of material was written off from inventory due to changes in its quality and value;

No inventories have been used as collateral.

Inventory surpluses and deficits

in EUR	2011	2010
Inventory surpluses	43,039	705,108
Inventory deficits	−70,855	−463,996
TOTAL	**−27,816**	**241,112**

(8) Short-term investments and loans

Short-term financial receivables and loans

in EUR	31 December 2011	31 December 2010	1 January 2010
To group companies	1,620,948	472,572	0
To associates	69,893	83	50,000
To others	76,594	166,667	43,653,761
Deposits given to others	126,636	0	0
TOTAL	**1,894,071**	**639,322**	**43,703,761**

Majority of short-term financial receivables and loans is represented by loans granted to subsidiary which is not included in consolidation.

Within the Group, € 449,655 worth of allowances for receivables has been created.

The amount of short-term loans eliminated in consolidation totalled € 159,408,666.

(9) Current operating receivables

Short-term operating receivables

in EUR	31 December 2011	31 December 2010	1 January 2010
To group companies	433,658	51,196	64,683
To associates	203,906	3,453	4,766
To buyers	152,079,207	115,515,051	119,432,692
Adjustment of receivables from buyers	−2,735,681	−1,686,705	−444,931
Advances given	9,168,989	4,015,267	8,952,839
To government and other institutions	24,882,072	18,078,593	21,410,351
To others	4,956,025	1,470,371	3,101,963
Allowances of receivables from others	−1,279	−443,731	−873,967
TOTAL	**188,986,897**	**137,003,495**	**151,648,396**

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.

€ 2,736,960 worth of allowances for receivables has been created within the Group.

The amount of short-term receivables eliminated in consolidation totalled € 97,486,449.

Disclosures in relation to maturity of receivables, allowances for receivables and insuring receivables are represented in the section on credit risk.

(10) Other short-term assets

Other short-term assets

in EUR	31 December 2011	31 December 2010	1 January 2010
Deferred costs	5,603,063	5,669,372	5,376,440
Accrued revenue	1,359,233	1,477,840	2,177,996
TOTAL	**6,962,296**	**7,147,212**	**7,554,436**

Other short-term assets include short-term accrued revenue and deferred costs which mainly refer to transactions connected with electricity trading at the controlling company.

The amount of short-term accrued revenue and deferred costs eliminated in consolidation totalled € 4,605,814.

(11) Cash and cash equivalents

Cash and cash equivalents

in EUR	31 December 2011	31 December 2010	1 January 2010
Cash in bank accounts and cheques	4,782	7,177	7,837
Cash in bank accounts	13,898,960	13,889,825	10,273,281
Deposits tied up to three months	53,103,496	78,811,789	62,994,290
TOTAL	**67,007,238**	**92,708,791**	**73,275,408**

With transition to IFRS the Group changed the accounting policy and among cash it discloses deposits tied up to three months. Before, deposits tied up to three months were disclosed as short-term financial assets.

At the balance sheet date, group companies had in place automatic borrowing facilities in the form of overdrafts on transaction accounts with banks, which amounted to € 2,839,894 but were not used as at 31 December 2011.

(12) Equity

Equity

in EUR	31 December 2011	31 December 2010	1 January 2010
Called-up capital	29,558,789	29,558,789	29,558,789
Capital surplus	561,243,185	561,243,185	561,243,185
Revenue reserves	359,472,047	296,361,536	226,498,386
Fair value reserve	–4,292,977	2,763,640	–2,255,517
Retained earnings	392,977,563	386,328,588	353,388,467
Consolidation equity adjustment	–823,705	–453,831	–218,671
Minority interest	70,962,861	68,334,560	65,790,351
TOTAL EQUITY	**1,409,097,763**	**1,344,136,467**	**1,234,004,990**

The value of nominal capital and capital surplus remained unchanged in 2011.

Other revenue reserves represent a part of retained earnings of the controlling company and they are disclosed in more detail in the consolidated statement of changes in equity.

Fair value reserve comprises values of fair value reserve at the controlling company in the amount of € -3,509,887 (disclosed in more detail in the financial report of the controlling company) and the share of the controlling company in fair value reserve of subsidiaries in the amount of € -783,090 (in majority this is fair value of hedges against the changeability of cash flows).

Retained earnings are comprised of the controlling company's share in retained earnings of subsidiaries in the amount of € 346,582,886, unallocated profit of the current year of the controlling company in the amount of € 23,364,809 and the share of the controlling company in operating profit or loss of the current year of subsidiaries in the amount of € 24,790,380, decreased in consolidation procedure by € 1,760,512, which is disclosed in more detail in the statement of changes of equity.

Consolidation equity adjustment represents foreign exchange differences in translation of financial statements of subsidiaries abroad in presentation currency of the Group.

The equity of minority owners which participate in equity of five subsidiaries is separately presented and is disclosed in more detail in the consolidated statement of changes in equity.

The amount of subsidiaries' equity eliminated during consolidation totalled € 1,056,584,982.

(13) Provisions for termination and jubilee benefits

At the end of 2011, the group companies disclose provisions for termination and jubilee benefits created on the basis of actuarial calculation as at 31 December 2011.

The actuarial calculations were based on the following:

- The number of employees in the company as at 31 December 2011 (gender, age, overall and pension qualifying period of service, average net and gross salary for the period July – September 2011);
- Method for calculating termination and jubilee benefits in the company;
- 3.5% increase in average salary;
- Discount interest rate of 5.1% p.a.;
- Employee turnover by age category.

Changes in provisions for termination and jubilee benefits

in EUR	Provisions for termination benefits	Provisions for jubilee benefits	TOTAL
BALANCE AS AT 1/1/2010	**9,499,594**	**3,751,135**	**13,250,729**
Creation, increase	1,959,238	895,499	2,854,737
Decrease – drawing	−1,303,001	−496,731	−1,799,732
BALANCE AS AT 31/12/2010	**10,155,831**	**4,149,903**	**14,305,734**
BALANCE AS AT 1/1/2011	**10,155,831**	**4,149,903**	**14,305,734**
Creation, increase	721,546	359,502	1,081,048
Decrease – drawing	−839,967	−499,015	−1,338,982
Decrease – reversal	0	−37,655	−37,655
BALANCE AS AT 31/12/2011	**10,037,410**	**3,972,735**	**14,010,145**

(14) Other provisions

Other provisions

in EUR	31 December 2011	31 December 2010	1 January 2010
For lawsuits	12,319,134	10,785,609	19,067,777
For closing Škale pit and other coal mining sites	37,331,283	38,811,344	39,573,910
For compensations	43,293	1,016,903	1,300,000
Other	3,710,212	11,931,950	13,020,070
TOTAL	**53,403,922**	**62,545,806**	**72,961,757**

Provisions for closing the Škale pit and the remaining part of Velenje extraction are created on the basis of internally performed expert reports and are utilised for the costs of mining works, hydrological costs and ecological restoration.

The majority of provisions for lawsuits are represented by provisions created at the controlling company which are disclosed in more detail in its financial report. The creation of provisions in majority refers to increase arising from charging default interest.

Provisions for compensations are mostly represented by compensations of mining losses and were drawn in full on the basis of activities realised in 2011.

The majority of other provisions are represented by provision for restoration of disposal site of waste products at subsidiary.

Transfers include value of contributions of the disability company in the Group, which was transferred to other long-term liabilities.

Changes in other provisions

in EUR	For lawsuits	For closing Škale pit and other coal mining sites	For compensations	Other	TOTAL
BALANCE AS AT 1/1/2010	**19,067,777**	**39,573,910**	**1,300,000**	**13,020,070**	**72,961,757**
Creation, increase	979,564	547,434	43,293	10,219,894	11,790,185
Decrease – drawing	−7,221,829	−1,310,000	−326,390	−11,308,015	−20,166,234
Decrease – reversal	−2,039,902	0	0	0	−2,039,902
BALANCE AS AT 31/12/2010	**10,785,610**	**38,811,344**	**1,016,903**	**11,931,949**	**62,545,806**
BALANCE AS AT 1/1/2011	**10,785,610**	**38,811,344**	**1,016,903**	**11,931,949**	**62,545,806**
Creation, increase	1,763,048	554,576		6,918	2,324,542
Decrease – drawing	−229,524	−2,034,637	−973,610	−8,003	−3,245,774
Transfers	0	0	0	−8,220,652	−8,220,652
BALANCE AS AT 31/12/2011	**12,319,134**	**37,331,283**	**43,293**	**3,710,212**	**53,403,922**

(15) Other long-term liabilities

Other long-term financial liabilities

in EUR	31 December 2011	31 December 2010	1 January 2010
Emission coupons	5,152,334	10,058,110	14,952,074
Quotas for disabled	456,381	464,157	399,355
Others state aids received	12,299,404	7,684,285	9,284,441
Other	223,340	1,669,105	1,562,367
TOTAL	**18,131,459**	**19,875,657**	**26,198,237**

Other State aids received include contributions of the disability company (transferred from other provisions), which are used to cover amortisation/depreciation, a portion of salaries of disabled and losses of the disability company. Besides they also include State aids received in order to acquire fixed assets, which decrease the charged amortisation.

Changes in other long-term liabilities

in EUR	Emission coupons	Quotas for disabled	Other state aids received	Other	TOTAL
BALANCE AS AT 1/1/2010	**14,952,074**	**399,355**	**9,284,441**	**1,562,367**	**26,198,237**
Creation, increase	0	108,991	0	110,445	219,436
Decrease – drawing	−4,893,964	−44,189	−1,600,156	−3,707	−6,542,016
BALANCE AS AT 31/12/2010	**10,058,110**	**464,157**	**7,684,285**	**1,669,105**	**19,875,657**
BALANCE AS AT 1/1/2011	**10,058,110**	**464,157**	**7,684,285**	**1,669,105**	**19,875,657**
Creation, increase	0	36,805	8,377,889	226,311	8,641,005
Decrease – drawing	−4,905,776	−44,581	−11,983,422	−1,672,076	−18,605,855
Transfers	0	0	8,220,652	0	8,220,652
BALANCE AS AT 31/12/2011	**5,152,334**	**456,381**	**12,299,404**	**223,340**	**18,131,459**

(16) Long-term financial liabilities

Long-term financial liabilities

in EUR	31 December 2011	31 December 2010	1 January 2010
To banks	407,863,636	253,148,607	264,340,954
Other	3,928,337	519,852	1,476,135
TOTAL	**411,791,973**	**253,668,459**	**265,817,089**

Long-term financial liabilities of group companies mainly relate to long-term bank loans. Loans have been taken with Slovene and foreign banks, and interest rates range between 1.27% 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 revaluation deficit. More detailed disclosures are presented in the section on interest rate risk.

Maturity deadlines of long-term liabilities are disclosed under liquidity risk.

(17) Long-term operating liabilities

Long-term operating liabilities

in EUR	31 December 2011	31 December 2010	1 January 2010
To suppliers	3,441,001	4,201,257	2,350,303
Advances	67,284	14,162	13,460
Other	560,127	200,024	211,378
TOTAL	**4,068,412**	**4,415,443**	**2,575,141**

Long-term operating liabilities to suppliers particularly refer to insurances concluded for the construction site of the replacement Unit 6 with a deferred payment deadline.

The majority of other long-term operating liabilities are liabilities arising from compensations and co-participation for apartments.

(18) Short-term financial liabilities

Short-term financial liabilities

in EUR	31 December 2011	31 December 2010	1 January 2010
To banks	80,533,337	60,033,452	109,863,835
Other	498,158	171,412	85,141
TOTAL	**81,031,495**	**60,204,864**	**109,948,976**

Short-term financial liabilities to banks comprise a part of long-term loans of group companies, which fall overdue in a year after the date of financial position, and short-term loans of the controlling company.

Short-term financial liabilities to others mostly refer to negative fair value of currency swaps of the controlling company.

Short-term loans are disclosed in more detail in the financial report of the controlling company.

The amount of short-term investments eliminated in consolidation procedure totalled € 159,416,860.

(19) Short-term operating liabilities

Short-term operating liabilities

in EUR	31 December 2011	31 December 2010	1 January 2010
To group companies	80,815	11,614	1,560
To associates	719,192	323,526	7,200
To suppliers	240,448,368	97,630,391	96,620,240
Advances	607,039	248,567	111,062
To employees	11,074,143	8,297,290	9,276,316
To government and other institutions	15,765,379	17,837,908	13,380,024
Other	4,464,001	1,974,104	1,445,369
TOTAL	**273,158,937**	**126,323,400**	**120,841,771**

Short-term operating liabilities to suppliers represent almost one half of liabilities to suppliers for the replacement Unit 6, while one third is represented by the liabilities for the electricity purchased in Slovenia and abroad.

The amount of short-term receivables eliminated in consolidation totalled € 97,379,605.

Maturity of liabilities is disclosed under liquidity risk.

(20) Other current liabilities

Other short-term liabilities

in EUR	31 December 2011	31 December 2010	1 January 2010
Short-term deferred revenue	0	2,134	42,979
Accrued costs	9,801,735	8,973,306	13,446,406
TOTAL	**9,801,735**	**8,975,440**	**13,489,385**

Other short-term liabilities include accrued costs, which in majority represent costs connected with electricity purchases, costs for unutilised leaves and concession costs.

The costs of services eliminated during consolidation totalled € 6,026,037.

(21) Contingent liabilities and assets

Contingent liabilities

in EUR	31 December 2011	31 December 2010	1 January 2010
Bank guarantees granted and other forms of collateral	60,358,187	41,693,691	252,854,282
Forward contracts for electricity purchase	55,397,388	61,648,764	20,748,385
Other contingent liabilities	1,467,440	1,038,240	79,251
CONTINGENT LIABILITIES*	**117,223,015**	**104,380,695**	**273,681,918**

* Besides, a part of contingent liabilities of the Group are guarantees granted and parent guarantees.

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.

The tax authorities have the right to audit the company's operations within 5 years after the year in which the tax has been levied, which can subsequently lead to additional tax charges, penalty interest charges and penalties arising from corporate income tax, value added tax and other taxes and duties.

The Management Board is not aware of any circumstances that could give rise to possible material liability in this respect.

Guarantees and parent guarantees granted

Beneficiary	Debtor	Guarantee type	Basic legal transaction	From	To	Value in EUR million	Contingent liability in EUR as at 31/12/2011
European Investment Bank/ bank consortium	SENG	Guarantee for bank guarantee	Guarantee Facility Agreement as at 15/02/2006	15.2.2006	Effective for the period of agreement applicability	Total EUR 43 million + interest + costs	37,550,000
Geoplin d.o.o.	TEŠ	Guarantee statement	Long-term purchase and sales agreement for natural gas no. 277 between TEŠ and Geoplin as at 23/11/2006, 17/02/2010	23.11.2006	Effective for the period of agreement applicability	For the period 2011-2015 total EUR 96 million + costs + interest	91,083,000
Alstom consortium	TEŠ	Parent guarantee	Agreement between TEŠ d.o.o. and Alstom consortium (Contract on the design, procurement and erection of the power island for the facility called "Sostanj Unit 6"),as at 27/06/2008, 19/10/2009	25.11.2009	Effective for the period of agreement applicability	Total EUR 695 million + escalation clause + installation (ca. € 80 million + 25% commission) + interest + costs	467,300,000
European Investment Bank/ bank consortium	TEŠ	Guarantee for bank guarantee	Guarantee Facility Agreement as at 24/11/2010	24.11.2010	Effective for the period of agreement applicability	Total EUR 88 million + interest + costs	88,000,000
UniCredit Slo, SID	TEŠ	Guarantee for bank loan	Loan agreement no. K 1967/07-SIN-107/07 as at 21/12/2007, 24/11/2010	21.12.2007	Effective for the period of agreement applicability	Total EUR 24 million + interest + costs	9,870,967
EBRD	TEŠ	Guarantee for EBRD loan	Agreement on guarantee and loss reimbursement between HSE and EBRD as at 12/01/2011	12.1.2011	Effective for the period of loan agreement applicability	Total EUR 160 million + interest + costs	66,000,000
TOTAL CONTINGENT LIABILITIES FROM GUARANTEES AND PARENT GUARANTEES GRANTED TO SUBSIDIARIES							**759,803,967**

Contingent assets

in EUR	31 December 2011	31 December 2010	1 January 2010
Bank guarantees received and other forms of collateral	274,688,107	262,584,642	117,744,851
Lawsuit before EU Commission	9,100,000	9,100,000	0
Other	3,418,837	230,608	1,218,145
TOTAL CONTINGENT ASSETS	**287,206,944**	**271,915,250**	**118,962,996**

5.5.8.2 CONSOLIDATED INCOME STATEMENT

(22) Net sales

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 € 697,181,810.

Net sales revenue

in EUR	2011	2010
A) IN DOMESTIC MARKET	598,333,930	482,112,884
Electricity	565,314,612	451,138,579
Thermal energy	4,041,945	4,478,110
Other products	142,177	116,854
Other merchandise and materials	2,134,224	1,209,392
Other services	26,700,972	25,169,949
B) IN FOREIGN MARKET	729,212,378	431,664,610
Electricity	718,633,430	422,869,809
Other products	50,395	0
Other merchandise and materials	6,574,303	4,012,739
Other services	3,954,250	4,782,062
TOTAL	1,327,546,308	913,777,494

(23) Changes in inventories of products and work-in-progress

Change in value of group inventories represents increase in coal inventory in 2011 by 564,882 GJ, which represents the increase in value of € 1,671,611. The increase in coal inventories in 2011 positively affected the result. Moreover, the change in value of inventories was positively affected by the change in inventories of other finished products in the amount of € 43.330.

(24) Capitalised own products

Capitalised own products and services mostly refer to:

- Large-scale overhaul of Unit 5 and gas turbine 2;
- Construction work tied to investment shaft NOP II;
- Construction and engineering work in the construction of HPP on the lower Sava River;
- Construction of the replacement Unit 6;
- Construction of waste water reservoir;
- Performance of transfer lines in the pit and works on pumping stations; and
- Construction of solar power plant.

In consolidation, the value of capitalised own products and services increased by € 18,193,412, which represents the sale of property, plant and equipment within the Group.

(25) Other operating revenue

Other operating revenue is mostly composed of revenue arising from utilisation of assets assigned in accordance with legislation on disability organisations, revenue from emission coupons received by the Republic of Slovenia and revenue from penalties received.

The amount of financial revenue eliminated during consolidation procedure totalled € 200.

Other operating revenue

in EUR	2011	2010
Revenue from reversal of provisions	2,301,815	3,328,837
Drawing of deferred revenue	17,564,413	6,566,727
Profit at sales of fixed assets and reversed impairment of receivables	764,383	1,211,041
Revenue from compensations and contractual penalties	5,007,249	1,707,723
Other operating revenue	3,262,554	14,578,230
TOTAL	28,900,414	27,392,558

(26) Costs of goods, materials and services

The cost of merchandise sold in the amount of € 840,914,670 comprises expenses for electricity purchase, emission coupons for trading and contingent costs of electricity purchase.

The cost of goods and materials sold eliminated during consolidation totalled € 551,936,704.

The majority of costs of materials in the amount of € 88,253,480 is represented by the costs of gas, coal and other energy products, necessary for electricity production, and costs of spare parts and maintenance material.

The costs of services eliminated during consolidation totalled € 126,137,025.

The majority of costs of services in the amount of € 66.365.512 is represented by the costs of services in creating products, costs of maintenance of fixed assets of the group companies, costs of maintenance of property, plant and equipment, insurance premiums and utility services.

The costs of services eliminated during consolidation totalled € 3,285,552.

Costs of goods, materials and services

in EUR	2011	2010
Cost of goods sold	840,914,670	415,701,773
Costs of materials	88,253,480	56,226,745
Costs of services	66,365,512	61,171,615
TOTAL	**995,533,662**	**533,100,133**

In 2011, the audit of financial statements of the companies within the HSE Group in Slovenia was performed by Deloitte revizija d.o.o., which reviewed the companies abroad, which are included in consolidated financial statements, but they were not audited in the country of residence. Four companies registered abroad were audited by the audit companies in their countries, namely four by KPMG and two by Deloitte.

Costs of auditor

in EUR	2011	2010
Audit of annual reports	168,744	204,307
Other audit services	12,996	6,082
Tax advisory services	0	1,795
Other non-audit services	52,800	0
TOTAL	**234,540**	**212,184**

(27) Labour costs

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.). The costs of compensations for unutilised leaves (which can be utilised until 30 June 2012) in 2011 are also charged.

As a result of unified presentation of meal allowances of employees in the group companies where they prepare hot meals, in consolidation process € 639,662 was included among labour costs and on the other hand among net sales revenue. Even the data for 2010 is presented in a similar manner.

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

Labour costs

in EUR	2011	2010
Salaries	105,002,437	102,684,698
Pension insurance costs	18,228,861	17,807,179
Other insurance costs	7,904,988	7,704,531
Other labour costs	15,177,441	15,134,787
TOTAL	**146,313,727**	**143,331,195**

(28) Write-downs in value

The majority of write-downs in value are represented by depreciation of property, plant and equipment.

The Group applies similar rates of depreciation to intangible assets and 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 fixed assets acquired through government grants or free of charge is accounted for separately. For the amount of accumulated depreciation, long-term deferred revenue items are utilised and other operating revenue recorded.

The majority of allowances for receivables and inventories refer to impairments of values of coal inventories to net realisable value and doubtful receivables from operations.

Write-downs in value

in EUR	2011	2010
Amortisation of intangible assets	1,530,082	1,447,218
Depreciation of property, plant and equipment	91,160,576	87,151,625
Depreciation of investment property	14,946	31,204
Allowance for or write-down in receivables and inventories	3,011,550	3,744,260
Sales and write-downs in intangible assets and property, plant and equipment	465,873	1,151,346
TOTAL	96,183,027	93,525,653

(29) Other operating expenses

The majority of other operating expenses are represented by environmental charges (costs of emission coupons and water charges), concession fee payable to the State, contributions for building sites and contractual penalties.

The amount of short-term receivables eliminated in consolidation totalled € 941,826.

Other operating expenses

in EUR	2011	2010
Provisions	2,450,898	6,307,461
Fee for building site use	6,766,799	6,731,105
Concessions	15,398,579	18,989,722
Environmental charges	22,044,550	22,176,564
Donations	1,474,260	1,353,785
Other operating expenses	8,070,370	5,664,634
TOTAL	56,205,456	61,223,271

(30) Financial revenue

Majority of financial revenue is represented by interest on deposits and loans granted.

The amount of financial revenue eliminated during consolidation totalled € 5,798,724.

Financial revenue

in EUR	2011	2010
From dividends and other shares of profit	9,463	8,855,568
Share in profit or loss of associates and joint ventures valued using equity method	202,437	86,586
Interest on loans and deposits granted	1,765,811	1,474,679
Net exchange differences from financing activities	399,026	147,396
Other	339,716	275,581
TOTAL	2,716,453	10,839,810

(31) Financial expenses

Majority of financial expenses is represented by expenses for interest on long-term and short-term loans. 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.

In 2011, group companies impaired part of their investments, while the principle refers to the impairment of the company Golte d.o.o.

The amount of financial expenses eliminated during consolidation totalled € 725,703.

Financial expenses

in EUR	2011	2010
From loans received	8,387,544	7,468,061
Share in profit or loss of associates and joint ventures valued using equity method	10,533	3,570
Change in fair value of investments through profit or loss	3,044,239	398,027
From sales of available-for-sale financial assets	12,945	360,228
Other	5,903	249,206
TOTAL	**11,461,164**	**8,479,092**

(32) Tax

In establishing the basis for current tax, revenue and expenses established in accordance with IFRS were corrected in terms of decrease and increase in tax base.

In 2011, 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.

Current tax of the group companies in 2011 amounts to € 17,563,285. On the basis of current tax at the end of 2011, the group companies disclose € 6,814,899 of current tax assets (higher advances from calculated tax) and € 1,388,703 of current tax liabilities.

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. Deferred taxes comprise deferred tax assets in the amount of € 10,744,847 and € 1,487 of deferred tax liabilities. More detailed disclosures of deferred tax assets are disclosed in Section 6.

At the end of 2011, the group companies' unused tax losses stood at € 30,087,342.

Tax calculation

in EUR	2011	2010
Profit or loss before tax	87,445,544	128,604,692
Tax calculated at applicable tax rate (20%)	17,633,929	25,743,621
Tax from revenue reducing tax base	–847,292	–1,383,705
Tax from tax breaks	–1,484,827	–1,513,770
Tax from expenses reducing tax base	–115,156	–1,177,102
Tax from non-deductable expenses	1,366,736	1,231,343
Tax from other changes in tax calculation	1,009,895	1,867,888
TAX	**17,563,285**	**24,768,275**
EFFECTIVE TAX RATE	**20.08%**	**19.26%**

(33) Net profit or loss

Net operating profit or loss in the amount of € 69,753,103 comprises net profit of the company in the amount of € 46,729,619, the share of the controlling company in the profit or loss of subsidiaries in the amount of € 24,790,380, cumulative decrease in profit or loss in the amount of € -1,760,512, which mostly refers to the exclusion of financial revenue from the shares of subsidiaries in the controlling company, and net loss of minority owners in the amount of € -6,384.

Profit or loss of the company

in EUR	2011	2010
Gross return on operations	1,390,426,127	957,424,226
Operating profit or loss	96,190,255	126,243,974
Net cash	–8,744,711	2,360,718
Profit or loss before tax	87,445,544	128,604,692
NET PROFIT OR LOSS FROM THE PERIOD	**69,753,103**	**102,984,128**

5.5.8.3 CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

The comprehensive income statement records changes in fair value of hedges against changeability of cash flows, the change in fair value of available-for-sale financial assets and foreign exchange differences arising from the translation of financial statements of foreign subsidiaries. In 2011, the total value of change amounted to € -7,557.606.

Change in available-for-sale financial assets amounts to € 108.266.

Change in fair value of hedges against changeability of cash flows amounts to € -7,079,467 and it includes € 744,533 of deferred tax assets.

In 2011, the translation of financial statements in foreign subsidiaries discloses negative effect in the amount of € -369.873.

Considering the abovementioned facts, the total comprehensive income, which includes the net profit or loss in the amount of € 69,753,103 and changes in other comprehensive income in the amount of € 7,557,606, amounts to € 62,195,497 at the end of 2011, of which € 62,332,996 is owned by the majority owner and € -137.499 by the minority owner.

5.5.8.4 CONSOLIDATED CASH FLOW STATEMENT

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 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 EUR	2011	2010
Operating cash flows	135,505,458	197,613,262
Cash flows from investing activities	–336,124,874	–103,880,261
Cash flows from financing activities	175,318,934	–74,207,790
CASH FLOW FOR THE PERIOD	**–25,300,482**	**19,525,211**

5.5.8.5 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

The consolidated statement of changes in equity shows all changes in equity components during a financial year.

Transactions with minority owners in the amount of € 2,765,800 include input of minority owners in the amount of € 40,000 in the company SRESA d.o.o. and additional payments of minority owners to the company HESS d.o.o.

Total comprehensive income of the reporting period increased by € 62,195,497, with the increase consisting of:

- The net profit for the year in the amount of € 69,759,487, attributable to the controlling company;
- The net profit for the year in the amount of € -6,384, attributable to the controlling company;
- Change in other items of total comprehensive income, which is owned by the majority owner in the amount of € -7,056,617;
- Change in other items of total comprehensive income, which is owned by the minority owner in the amount of € -131.115;
- Loss arising from conversion of financial statements of companies in other countries in the amount of € -369,874.

In the reporting period, individual items of the Group's equity changed (changes occurred in the controlling company) by € 63,110,511, due to:

- According to the General Meeting decision, a part of 2010 accumulated profit in the amount of € 39.745.702 was transferred to other revenue reserves;
- According to the Supervisory Board decision on the management's proposition, a part of 2011 net profit or loss in the amount of € 23,364,809 was transferred among other revenue reserves.

Accumulated profit is not determined at the Group level.

5.5.8.6 RELATED PARTIES

Transactions with associates

in EUR	Sales in 2011	Purchases in 2011	Loans granted as at 31/12/2011	Other receivables as at 31/12/2011	Other liabilities as at 31/12/2011
Group companies	744,702	51,758	1,620,948	433,658	80,815
Associates	596,988	1,554,071	69,893	755,488	719,192
Jointly controlled companies	15,040	10,533	0	0	0
TOTAL	**612,028**	**1,564,604**	**69,893**	**755,488**	**719,192**

5.5.8.7 REMUNERATION

Remuneration of managers and employees who are not subject to the tariff part of the collective agreement comprises:

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

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.

In 2011 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.

Receipts of the management, Supervisory Board members and employees who are not subject to the tariff part of the collective agreement

in EUR	Salary	Other receipts	Bonuses	Travel cost reimbursement	TOTAL
Management	1,131,714	153,772	61,483	23,164	**1,370,133**
Supervisory Board and Audit Committee members	0	209,227	1,232	4,659	**215,118**
Employees who are not subject to the tariff part of the collective agreement	3,998,068	549,445	144,171	72,864	**4,764,548**
TOTAL RECEIPTS	**5,129,782**	**912,444**	**206,886**	**100,687**	**6,349,799**

Receivables to employees

in EUR	Interest rate	Repayment dedline	31 December 2011	31 December 2010
Employees who are not subject to the tariff part of the collective agreement	Value of unit used for determining the value of apartments	2020	16,703	19,703

5.5.8.8 FINANCIAL INSTRUMENTS AND RISKS

This section is connected with the section 4.3.6 of the financial report as well as with the section 2.11 on financial risks in the business report.

5.5.8.8.1 Credit Risk

Most group companies sell the majority of its production to the controlling company, which settles its receivables within the set deadline. Thus, the exposure to credit risk is the largest at the controlling company, which is disclosed in its financial report.

Premogovnik Velenje Group manages credit risk through the use of tools, such as: monitoring of customers' credit ratings and information on operating activities of customers, insuring of at-risk receivables (bills of exchange, bank guarantees), limiting exposure to individual business partners and similar.

Group companies have secured approximately 70% of short-term receivables to buyers, which represent the majority of all group receivables. Approximately on third of advances given is secured, while most other receivables do not require the insurance due to their nature.

In 2011, our partners have regularly complied with their obligations with rare exceptions.

In case of delays, the customers in Slovenia and abroad are charged default interest at the contractual rate.

At the end of 2011, group companies have € 449,655 of short-term receivables and € 2,736,960 of doubtful short-term operating receivables.

The allowances from short-term financial receivables refer to the loan granted to associate.

In 2011, the group companies received € 573,464 of doubtful and disputed receivables.

The allowances for operating receivables mainly refer to receivables that the group companies had to construction companies and amount to € 1,499,635 in total.

Finally, € 319,647 of receivables was written-off. The majority of receivables were written-off at the controlling company which explained in more detail in the disclosure of credit risks in the financial report.

Long-term receivables by maturity date as at 31/12/2010

	Maturity date			
in EUR	Up to 2 years after the date of the statement of financial position	From 3 to 5 years after the date of the statement of financial position	Over 5 years after the date of the statement of financial position	TOTAL
Financial receivables from others	433,420	0	0	**433,420**
Financial receivables from deposits given to others	145,733	0	0	**145,733**
Operating receivables from associates	551,583	68,947	68,947	**689,477**
Operating receivables from advances given	6,184,291	11,147	82,318	**6,277,756**
Operating receivables from others	1,023,326	9,876	7,958	**1,041,160**
TOTAL	**8,338,353**	**89,970**	**159,223**	**8,587,546**

Long-term receivables by maturity date as at 31/12/2011

	Maturity date			
in EUR	Up to 2 years after the date of the statement of financial position	From 3 to 5 years after the date of the statement of financial position	Over 5 years after the date of the statement of financial position	TOTAL
Financial receivables from others	24,000	0	0	**24,000**
Financial receivables from deposits given to others	309,198	0	0	**309,198**
Operating receivables from associates	275,791	275,791	0	**551,582**
Operating receivables from advances given	100,000	10,147	82,318	**192,465**
Operating receivables from others	929,376	4,232	7,958	**941,566**
TOTAL	**1,638,365**	**290,170**	**90,276**	**2,018,811**

Short-term receivables by maturity date as at 31/12/2010

in EUR	Not yet due	Due up to 3 months	Due from 3 to 6 months	Due from 6 to 9 months	Due from 9 to 12 months	Due over 1 year	TOTAL
	Breakdown by maturity dates						
Financial receivables from group companies	472,572	0	0	0	0	0	**472,572**
Financial receivables from associates	83	0	0	0	0	449,655	**449,738**
Financial receivables from others	166,667	0	0	0	0	0	**166,667**
Operating receivables from group companies	51,196	0	0	0	0	0	**51,196**
Operating receivables from associates	3,453	0	0	0	0	0	**3,453**
Operating receivables from buyers	103,747,521	8,397,830	807,761	822,623	1,157,780	581,536	**115,515,051**
Operating receivables from advances given	4,001,714	0	13,553	0	0	0	**4,015,267**
Operating receivables from government and other institutions	18,078,593	0	0	0	0	0	**18,078,593**
Operating receivables from others	1,026,412	0	0	60	0	443,899	**1,470,371**
TOTAL	**127,548,211**	**8,397,830**	**821,314**	**822,683**	**1,157,780**	**1,475,090**	**140,222,908**

Short-term receivables by maturity date as at 31/12/2011

in EUR	Not yet due	Due up to 3 months	Due from 3 to 6 months	Due from 6 to 9 months	Due from 9 to 12 months	Due over 1 year	TOTAL
	Breakdown by maturity dates						
Financial receivables from group companies	1,620,948	0	0	0	0	0	**1,620,948**
Financial receivables from associates	69,893	0	0	0	0	449,655	**519,548**
Financial receivables from others	76,594	0	0	0	0	0	**76,594**
Deposits granted to others	126,636	0	0	0	0	0	**126,636**
Operating receivables from group companies	433,658	0	0	0	0	0	**433,658**
Operating receivables from associates	203,906	0	0	0	0	0	**203,906**
Operating receivables from buyers	139,279,089	9,323,511	723,389	469,173	709,266	1,574,779	**152,079,207**
Operating receivables from advances given	9,165,989	0	0	0	0	3,000	**9,168,989**
Operating receivables from government and other institutions	24,882,072	0	0	0	0	0	**24,882,072**
Operating receivables from others	4,938,400	17,477	89	59	0	0	**4,956,025**
TOTAL	**180,797,185**	**9,340,988**	**723,478**	**469,232**	**709,266**	**2,027,434**	**194,067,583**

Changes in allowances for short-term financial receivables and loans

in EUR	2011	2010
Balance as at 1 January	449,655	224,827
Allowances for receivables and loans	0	224,828
BALANCE AS AT 31 DECEMBER	**449,655**	**449,655**

Changes in allowances for short-term receivables

in EUR	2011	2010
Balance as at 1 January	2,130,436	1,318,898
Written-off receivables collected	–573,464	–831,181
Allowances for receivables	1,499,635	1,675,879
Final write-off of receivables	–319,647	–33,160
BALANCE AS AT 31 DECEMBER	**2,736,960**	**2,130,436**

5.5.8.8.2 Liquidity risk

In financial crisis the liquidity risk management is of extreme importance. The group companies have been successfully managing the liquidity risk and thus ensure optimal solvency in the settlement of its current liabilities. For the purpose of optimisation of companies' liquidity, cash management is implemented within the Group. It is performed in accordance with the adopted Internal Regulations of group companies for cash management and cash pooling. Cash management within the Group is performed as borrowing among the group companies: the primary source of financing of short-term deficits of group companies is surpluses of available cash in other group companies. In order to manage liquidity risk, the group companies have credit lines approved at commercial banks in form of framework loans and limits on bank accounts. Short-term liquidity surpluses are allocated to safe and liquid short-term deposits at commercial banks through cash pooling on treasury account.

Maturity dates of long-term liabilities as at 31/12/2010

	Maturity date			
in EUR	Up to 2 years after the date of the statement of financial position	From 3 to 5 years after the date of the statement of financial position	Over 5 years after the date of the statement of financial position	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	0	0	**519,852**
Long-term operating liabilities to suppliers	4,201,257	0	0	**4,201,257**
Long-term operating liabilities based on advances	0	0	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**

Maturity dates of long-term liabilities as at 31/12/2011

	Maturity date			
in EUR	Up to 2 years after the date of the statement of financial position	From 3 to 5 years after the date of the statement of financial position	Over 5 years after the date of the statement of financial position	TOTAL
Long-term financial liabilities to banks	37,912,325	89,670,235	280,281,076	**407,863,636**
Long-term financial liabilities to others	3,128,842	799,495	0	**3,928,337**
Long-term operating liabilities to suppliers	3,441,001	0	0	**3,441,001**
Long-term operating liabilities based on advances	53,122	0	14,162	**67,284**
Long-term operating liabilities to others	401,308	0	158,819	**560,127**
TOTAL	**44,936,598**	**90,469,730**	**280,454,057**	**415,860,385**

There is a risk of non-issuing the government guarantee to EIB. According to all assurances to financial institutions (No objection letter, Letter of support by the Government of the Republic of Slovenia) cannot be assumed neither by HSE nor investor. Non-issuing of the guarantee would negatively affect the credibility of not solely the HSE Group, but the entire State. After non-issuing of the guarantee, it is difficult to imagine a high international financial credit rating of the State and maintenance of its credibility to international financial institutions. EBRD loans are also related to EIB arrangement.

If in 2010 we estimated that there is a risk of non-issuing of the government guarantee to EIB for the loan in the amount of € 440 million, at the end of 2011 this risk must be exposed. The risk is not solely non-issuing of the guarantee but also delay of issue. In case the guarantee will not be issued before autumn 2012, this could cause liquidity problems not only in HSE, but within the entire Group. In case the guarantee is not issued, the largest risk is certainly assumed by our owner, i.e. the State, which with this action consciously agrees on impairments of its property and consequently adopts liability of capital increase of the company HSE.

Managing risk of delay in acquiring government guarantee is controlled by up-to-date alternative scenarios, short-term borrowing and optimizing liquidity and operations. It is estimated that the risk was appropriately managed in 2011.

Risk of non-issuing government guarantee is controlled by performing scenarios of alternative financing of replacement Unit 6 in TEŠ. It is estimated that the risk was appropriately managed in 2011.

5.5.8.8.3 Currency risk

The Group is exposed to currency risk in a lesser extent since the majority of inflows and outflows are performed in domestic currency euro. The exposure to currency risk is related to electricity trade in foreign markets.

The controlling company is mainly exposed to currency risk in electricity trading in Hungary (purchase of electricity in HUF) which is managed by the use of forwards, namely the currency forward swap FX Forward. The exposure to currency risk occurs in operations of subsidiaries in SE Europe. With regard to the fact that operations of subsidiaries in SE Europe represent a smaller segment of operations in comparison with total HSE Group operations, the exposure to currency risk is thus minimum.

Since other currencies are used in smaller extent, the Group does not perform sensitivity analysis to the change in exchange rates of other currencies, since the change in these exchange rate would not significantly affect the Group's profit or loss.

The following exchange rates were used for translation of financial statements of the foreign companies:

Country	Currency designation	Closing exchange rate in EUR for 2011	Closing exchange rate in EUR or 2010
Bulgaria	BGN	1.9558	1.9558
Bosnia and Herzegovina	BAM	1.95583	1.95583
Croatia	HRK	7.5370	7.4600
Hungary	HUF	314.5800	296.2650
Macedonia	MKD	62.0600	61.5185
Serbia	RSD	103.6300	105.5500

Contracts concluded for currency swaps by maturity

in EUR	31 December 2011	31 December 2010
Up to 12 months	3,961,257	17,999,708
From 1 to 5 years	0	688,817
TOTAL	**3,961,257**	**18,688,525**

Type of financial instruments as at 31/12/2010

in EUR	EUR	HUF	RSD	Other currencies	TOTAL
Short-term operating receivables	136,292,467	118,588	559,284	33,156	137,003,495
Short-term financial receivables and loans	639,322	0	0	0	639,322
Long-term operating receivables	7,799,165	0	0	209,228	8,008,393
Long-term financial receivables and loans	579,153	0	0	0	579,153
Short-term operating liabilities	–125,031,692	–339,138	–76,596	–875,974	–126,323,400
Short-term financial liabilities	–60,204,864	0	0	0	–60,204,864
Long-term operating liabilities	–4,415,443	0	0	0	–4,415,443
Long-term financial liabilities	–253,668,459	0	0	0	–253,668,459
NET EXPOSURE OF THE STATEMENT OF FINANCIAL POSITION	**–298,010,351**	**–220,550**	**482,688**	**–633,590**	**–298,381,803**

Type of financial instruments as at 31/12/2011

in EUR	EUR	HUF	RSD	Other currencies	TOTAL
Short-term operating receivables	185,602,941	16,055	2,331,629	1,036,272	188,986,897
Short-term financial receivables and loans	1,846,648	0	0	47,423	1,894,071
Long-term operating receivables	1,491,717	0	0	193,896	1,685,613
Long-term financial receivables and loans	333,198	0	0	0	333,198
Short-term operating liabilities	–270,760,043	–2,139,490	–33,606	–225,798	–273,158,937
Short-term financial liabilities	–81,031,495	0	0	0	–81,031,495
Long-term operating liabilities	–4,068,412	0	0	0	–4,068,412
Long-term financial liabilities	–411,791,973	0	0	0	–411,791,973
NET EXPOSURE OF THE STATEMENT OF FINANCIAL POSITION	**–578,377,419**	**–2,123,435**	**2,298,023**	**1,051,793**	**–577,151,038**

5.5.8.8.4 Interest rate risk

The controlling company and three subsidiaries are exposed to interest rate risk in financial liabilities since they have contracts concluded for long-term loan agreements at variable interest rate tied to Euribor which is changing on daily basis. In accordance with the adopted »Implementation Policy of Interest Rate Risk Management within the HSE Group«, the controlling company and two subsidiaries hedged against the interest rate risk up to 50% of long-term loan portfolio of individual company with interest rate swaps (IRS). The third subsidiary adopted a strategy of interest rate hedging of a long-term loan portfolio by dispersing the loans taken-out at the fixed and variable interest rate in the ratio 50%:50%. The purpose of interest rate hedging in the Group is solely risk hedging and assuring unchangeable cash flow. Therefore, they are highly effective in the aspect of hedge accounting. The abovementioned group companies have concluded transactions of interest rate hedging on the basis of standard contract ISDA with first-class commercial banks and it is estimated that there exists a minimum possibility of not realising the transactions.

Contracts concluded for interest rate swaps by maturity

in EUR	31 December 2011	31 December 2010
Up to 12 months	0	20,000,000
From 1 to 5 years	80,481,250	0
TOTAL	**80,481,250**	**20,000,000**

– **SENSITIVITY ANALYSIS OF CASH FLOW AT FINANCIAL INSTRUMENTS WITH A VARIABLE INTEREST RATE**

The change in interest rate for 50 basis points on the reporting date would increase (decrease) the net profit or loss for the values stated below. Analysis prepared for both years assumes that all variables, particularly foreign currency rates, remain unchanged. In the calculation, the receivables/liabilities are at variable interest rate decreased by the total amount of transactions of interest rate swaps (IRS) concluded.

Financial instruments

	Net profit or loss 2011		Net profit or loss 2010	
in EUR	Increase by 50 b.p.	Decrease by 50 b.p.	Increase by 50 b.p.	Decrease by 50 b.p.
FINANCIAL INSTRUMENTS AT VARIABLE INTEREST RATE				
Financial assets	66,680	–66,680	56,756	–56,756
Financial liabilities	–1,046,132	1,046,132	–1,480,178	1,480,178

5.5.8.8.5 Price risk

From the perspective of the Group, the majority part of price risk is based on controlling company's operations, which is revealed in its financial report.

5.5.8.8.6 Capital management

The main purpose of capital management is to ensure the best possible credit rating and capital adequacy for the purposes of financing operations and investments. An adequate volume of capital enables the company the trust of creditors and market as well as maintains the future development of activities.

The company monitors changes in equity using the financial leverage ratio calculated by splitting net liabilities with the total amount of net liabilities and total amount of equity. In terms of net liabilities, the company includes received notices and other financial liabilities less cash.

The ratio shows the relationship between the Group's indebtedness and equity. The value of the ratio is higher than at the end of 2010, mostly due to higher long-term indebtedness of the HSE Group as a consequence of financing investment in the replacement Unit 6 at TEŠ. Due to net profit of the HSE Group realised in the amount of € 69.8 million, the equity has also increased. However, the increase in equity is lower than increase in Group indebtedness. The ratio complies with conditions determined by the banks included in the financing of investments.

It is estimated that the group companies dispose of adequate capital with regard to their activity..

Capital management

in EUR	31 December 2011	31 December 2010
Long-term financial liabilities	411,791,973	253,668,459
Short-term financial liabilities	81,031,495	60,204,864
TOTAL FINANCIAL LIABILITIES	**492,823,468**	**313,873,323**
Total equity	1,409,097,763	1,344,136,467
FINANCIAL LIABILITIES/EQUITY	**0.35**	**0.23**
Net financial liability	425,816,230	221,164,532
NET DEBT/EQUITY	**0.30**	**0.16**

5.5.8.9 FAIR VALUES

The Group estimates that the carrying amount is a sufficient approximation for its financial instruments, except derivatives, which are recorded at fair value.

Financial instruments

	31 December 2011		31 December 2010	
in EUR	Carrying amount	Fair value	Carrying amount	Fair value
NON-DERIVATIVE FINANCIAL ASSETS AT FAIR VALUE	**3,881,701**	**3,881,701**	**2,962,996**	**2,962,996**
Available-for-sale financial assets	3,881,701	3,881,701	2,819,917	2,819,917
Derivatives (assets)	0	0	143,079	143,079
NON-DERIVATIVE FINANCIAL ASSETS AT AMORTISED COST	**259,907,017**	**259,907,017**	**238,939,154**	**238,939,154**
Financial receivables	2,227,269	2,227,269	1,218,475	1,218,475
Operating receivables	190,672,510	190,672,510	145,011,888	145,011,888
Cash	67,007,238	67,007,238	92,708,791	92,708,791
TOTAL NON-DERIVATIVE FINANCIAL ASSETS	**263,788,718**	**263,788,718**	**241,902,150**	**241,902,150**
NON-DERIVATIVE FINANCIAL LIABILITIES AT FAIR VALUE	**4,230,652**	**4,230,652**	**507,985**	**507,985**
Derivatives (liabilities)	4,230,652	4,230,652	507,985	507,985
NON-DERIVATIVE FINANCIAL LIABILITIES AT AMORTISED COST	**765,820,165**	**765,820,165**	**444,104,181**	**444,104,181**
Bank loans	488,396,973	488,396,973	313,182,059	313,182,059
Other financial liabilities	195,843	195,843	183,279	183,279
Operating liabilities	277,227,349	277,227,349	130,738,843	130,738,843
TOTAL NON-DERIVATIVE LIABILITIES	**770,050,817**	**770,050,817**	**444,612,166**	**444,612,166**

Financial assets carried at fair value by hierarchy

in EUR	31 December 2011	31 December 2010
Financial assets at first-level fair value	328,920	579,222
Financial assets at second-level fair value	2,446,879	2,028,793
Financial assets at third-level fair value	1,105,902	354,981
TOTAL FINANCIAL ASSETS AT FAIR VALUE	**3,881,701**	**2,962,996**

5.5.8.10 EVENTS AFTER THE REPORTING DATE

After the date of consolidated statement of financial position, no events in the group companies occurred that could affect consolidated financial statements for 2011 and related disclosures.


today energy
tomorrow energy

Everything is changing. It grows, spreads, bursts, settles down and fades. The circle of life is concluded. The energy does not disappear. We carry it inside, light it in others and look for it in things. Forever, eternally … The circle of energy is concluded.

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Abbreviations

€	The euro
A	
ACER	European Agency for Cooperation of Energy Regulators
ACI	Active Communications International
AP RES	Action Plan for RES
AUKN	Agencija za upravljanje kapitalskih naložb RS (The Capital Assets Management Agency of the Republic of Slovenia)
B	
BIH	Bosnia and Herzegovina
BU	Business unit
C	
CC	Control centre
CCI	Chamber of Commerce and Industry of Slovenia
CCS	Carbon capture and storage
CD	Conceptual design
CH_2OICE	Certification for Hydro: Improving Clean Energy
CIGRE	International non-government and non-profit association of energetics experts
CO_2SINK	CO_2 Storage by Injection into a Saline Aquifier at Ketzin
CPHE	Cogeneration of heat and electricity
CVPO	Community Plant Variety Office
D	
DD	Detailed design
DEM	Dravske elektrarne Maribor d.o.o.
DIIP	Investment Project Identification Document
DIIP	Investment Project Identification Document
DP	Development plan
DRP	Development research project
E	
EA	Environmental Agency of RS
EA	Energy Act
EBIT	Earnings before interest and taxes
EBITDA	Earnings before interest and taxes, depreciation and amortisation
EBRD	European Bank for Reconstruction and Development
EBRS	Energy balance of the Republic of Slovenia
EC	European Commission
EC	European Community
ECS	Energy Chamber of Slovenia
EE	Electricity
EERP	European Energy Recovery Programme
EEU	Efficient energy use
EEX	European Energy Exchange
EFET	Standard electricity trading contract
EIB	European Investment Bank
EIC	Energy Identification Coding
EIMV	Electric Power Research Institute Elektroinštitut Milan Vidmar
ELES	Elektro – Slovenija d.o.o.
EMAS	The EU Eco-Management and Audit Scheme
ENDUR	Computer programme for electricity trading
EPCG	Elektroprivreda Crne Gore (company)
ER	Environmental report
ERP	Enterprise resource planning
ES	Electricity system
ETS	European trading scheme
EU	European Union
G	
GG	Greenhouse gases
GSPP	Gas and steam power plant
H	
HEO	Hungarian energy office
HEP	Hrvatska elektroprivreda (company)
HERA	Hrvatska energetska regulatorna agencija (Croatian Energy Regulatory Agency)
HESS	Hidroelektrarne na spodnji Savi d.o.o.
HPP	Hydropower plant

HPUSNG	High-pressure underground storage of natural gas
HSE	Holding Slovenske elektrarne d.o.o.
HSE BB	HSE Balkan Energy d.o.o.
HSE BH	HSE BH Energetsko produzeće d.o.o.
I	
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IEA	International Energy Agency
IED	Directive on industry emissions
IEE	Intelligent Energy Europe
IFRIC	Interpretations issued by International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IGCC	Integrated Gasification Combined Cycle
IMAD	Institute of Macroeconomic Analysis and Development
IP	Investment programme
IPPC	Standards in the area of comprehensive prevention and controlling industry pollution
IRENA	The International Renewable Energy Agency
ISO	International Organisation for Standardisation
IT	Information technology
IZVRS	Inštitut za vode RS (Water Institute of the Republic of Slovenia)
L	
LAN	Local area network
LCPs	Large combustion plants
LNG	Liquified Natural Gas
M	
MEPSO	Electricity Transmission System Operator of Macedonia
MESP	Ministry of the Environment and Spatial Planning
MoE	Ministry of the Economy
N	
NA	National Assembly
NAC	Network Access Control
NAP	Network Access Protection
NEK	Nuklearna elektrarna Krško d.o.o.
NEP	National Energy Programme
NKBM	Nova Kreditna banka Maribor d.d.
NLB	Nova Ljubljanska banka d.d.
NPP	Nuclear power plant
NSP	National spatial plan
O	
ODOS	Electronic document system
OG	Official Gazette
OHSAS	Occupational health and safety management system
OS	Occupational safety
OSH	Occupational safety and health
P	
PC	Protection centre
PCD	Preliminary conceptual design
PR	Protection Reley
PSP	Pumped-storage power plant
PT	Project task
PV	Premogovnik Velenje d.d.
R	
RECS	Renewable energy certificate system
RES	Renewable energy sources
RIP	Revised investment programme
RPS	Uninterrupted power supply system
RS	Republic of Slovenia
S	
SAS	Slovene Accounting Standards
SB	Supervisory Board
SCADA	Supervisory control and data acquisition
SCALAR	Slovenski center za avtomatsko lokalizacijo atmosferskih razelektritev (Slovenian Centre for Automatic Localization of Atmospheric Discharges)
SENG	Soške elektrarne Nova Gorica d.o.o.
SET	Strategic energy technologies
SHPP	Small hydropower plants
SI	System instruction
SIC	Interpretations issued by the Standing Interpretations Committee
SIQ	Slovenian Institute of Quality and Metrology
SORS	Statistical Office of the Republic of Slovenia
SPP	Solar power plant
SRC	Scientific research centre
SRESA	Srednjesavske elektrarne d.o.o.
SUVI	System of managing information security
T	
TC	Telecommunications
TEB	Termoelektrarna Brestanica d.o.o.
TEN-E	Trans-European energy Network
TEŠ	Termoelektrarna Šoštanj d.o.o.
TET	Termoelektrarna Trbovlje d.o.o.
TPP	Thermal power plant
TSO	System operator of transmission networks
U	
UN	United Nations
UPIS	Management information system
UVK	Competition Protection Office
V	
VAT	Value-added tax

W	
WA	Water Act
WAN	Wide area network
WC	Workers' council
Z	
ZETePO	Reduction of greenhouse gas emissions in the Slovene energy industry in the post-Kyoto protocol period
ZFPPIPP	Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act
ZGD	Companies Act
ZGO	Construction Act
ZSDU	Zakon o sodelovanju delavcev pri upravljanju
ZUPEVIP	Act on Spatial Planning of Energy Infrastructure

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