ANNUAL REPORT OF THE COMPANY HSE & HSE GROUP 2012

»Opportunities are all around us«

hse

Holding Slovenske elektrarne d.o.o.

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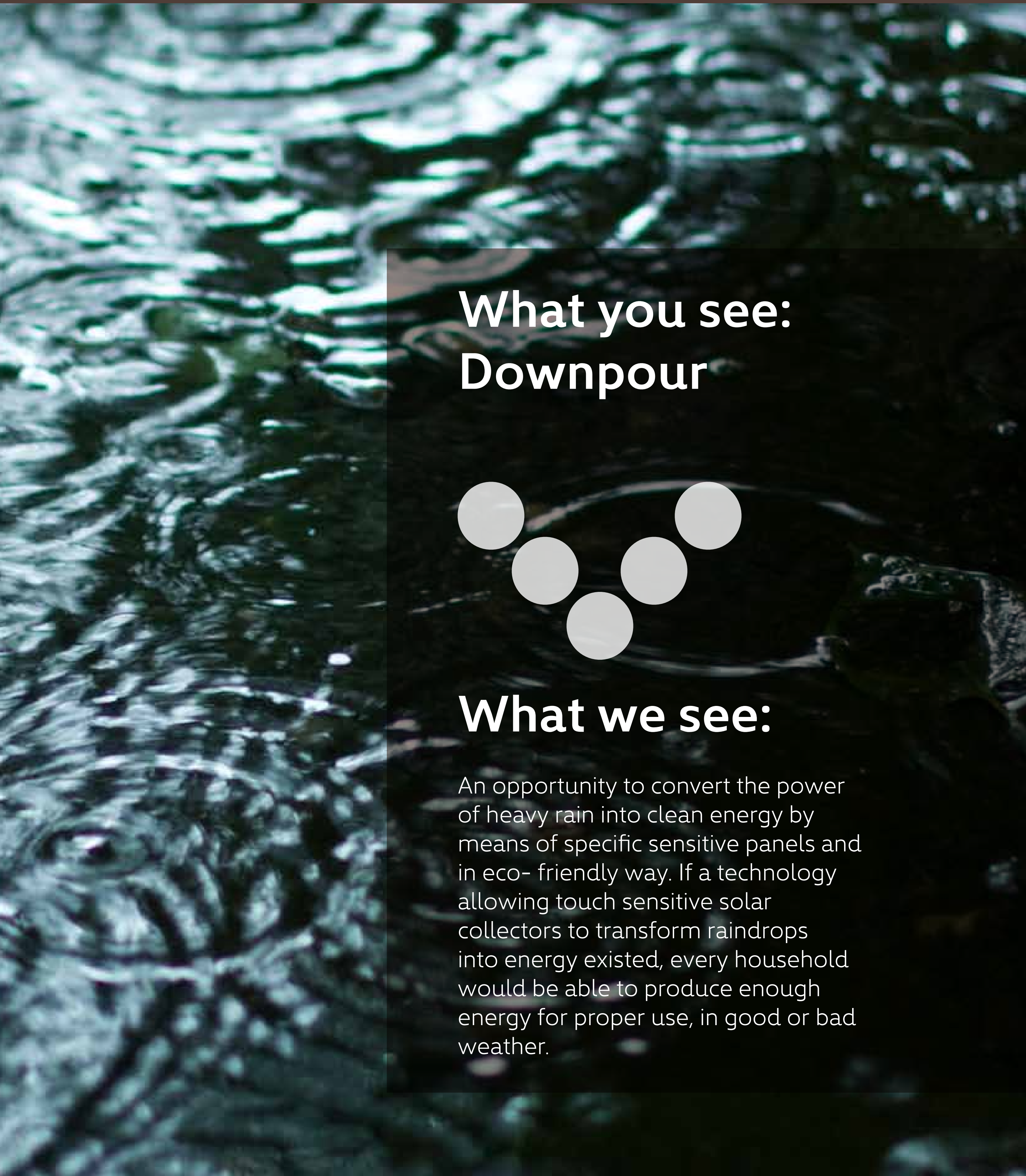
Contents



What you see: Downpour

What we see:

An opportunity to convert the power of heavy rain into clean energy by means of specific sensitive panels and in eco- friendly way. If a technology allowing touch sensitive solar collectors to transform raindrops into energy existed, every household would be able to produce enough energy for proper use, in good or bad weather.

1 INTRODUCTION

Blaž Košorok,
Managing Director
of HSE d.o.o.

1.1 Foreword by the Managing Director

Twelve characterised by its half

2012 was one of the most challenging periods for the HSE company and group in our 11-year history. "Number twelve" was characterised by its half, i.e. number 6 of the TEŠ's replacement Unit 6. And as the project does not condition only the investor, but also the owner, the owner's group and, consequently, the Slovenian energy sector and, finally, the whole country. All this reminds of The Giant Turnip tale and how important it is to join forces in critical situations. It does not matter who was the last straw to break the turnip's back, what matters is that the turnip was pulled out. In this view, it is not important who 'gained' the guarantee for Unit 6 and contributed to drawing the main loan, but the fact that the project can be carried on. Wholeness of deeds, not merit of an individual, matter most. In the energy sector, in business world, in life.

Group thinking and acting, team approach and joining forces will continue to be our guidelines in all future projects of the HSE Group. We often forget, that we are not only Unit 6. We are also the main renewable electricity producer in Slovenia facing demanding challenges with the obstacles of bureaucratic procedures on one side and the environmental restrictions on the other. Nevertheless, we believe that we have enough willpower, knowledge and experience to build a series of new facilities for safe and reliable electricity production within the set deadlines. This is what our country expects from us and this is what we pledged to complete not only with our mission, but also with our responsibility towards every electricity user. So far, we have never failed them and it is our duty to keep it that way.

The 2012 results presented in this Annual report show that we are on the right track: our production, sales, revenue and profit place us at the top of the most successful Slovenian companies. All credit goes to every single employee of the HSE Group who with their knowledge, experience and hard work contributed to another successful business year, to a rich harvest. Although huge, heavy and defiant, the turnip was pulled out thanks to thousands of us.

We entered 2013 with a motto: "Have at least 13 reasons for happiness." We are not superstitious, but we believe in facts, and the fact is that we have the right staff, technological, financial and professional potential to achieve our goals. I strongly believe that upon preparation of the next Annual report, we will have more than thirteen really good reasons for happiness and joy.

Ljubljana, 28 June 2013

Blaž Košorok,
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-1), the Supervisory Board of Holding Slovenske elektrarne d.o.o. hereby informs the Founder of the following:

- method and extent of examination of the Company's management in the 2012 financial year,
- review and confirmation of the annual report of the company HSE and the HSE Group for 2012,
- examination of the proposal for allocation of accumulated profit,
- the Supervisory Board's position on the auditor's reports.

In the period from 1 January 2012 to 27 November 2012, the Supervisory Board included the following owner's representatives: Drago Dolinar, Ph.D., Marjan Ravnikar, M.Sc., and Vekoslav Korošec, M.Sc., and Igor Šalamun, Ph.D., from 1 January 2012 to 31 January 2012. In the period from 28 November 2012 to 31 December 2012, the Supervisory Board was composed of Marko Zidanšek, M.Sc., Vlasta Krmelj, Ph.D., Peter Kralj, Ph.D., and Milenko Ziherl.

On the basis of provisions of the Worker Participation in Management Act (ZSDU), the employees' representatives in financial year 2012 were: Rene Jeromel and Mojca Turnšek, M.Sc., in the period from 1 January 2012 to 11 July 2012; Stanislav Prevalnik and Marjana Molan from 12 July 2012 to 31 December 2012.

In the period from 1 January 2012 to 27 November 2012, the three-member Supervisory Board Audit Committee was represented by: Marjan Ravnikar, M.Sc., as the president, and Brane Podboršek, who was appointed an external Audit Committee member in accordance with Article 280 of ZGD-1 as an independent expert for accounting and tax area, while the employees' representatives appointed by the HSE d.o.o. Workers' Council pursuant to the ZSDU provisions were Rene Jeromel, from 1 January 2012 to 11 July 2012, and Marjanca Molan, from 12 July 2012 to 27 November 2012.

The Supervisory Board meetings held between 1 January 2012 and 4 November 2012, were attended by the Managing Director Matjaž Janežič, M.Sc., while the meetings organised between 5 November 2012 and 31 December 2012 were attended by the new Director, Blaž Košorok.

1.2.1 Monitoring and supervision of company operations

In 2012, the Supervisory Board held nine regular, three extraordinary and five correspondence meetings.

Throughout the year, the Supervisory Board was constantly informed about the Company's operations and realisation of its decisions. It discussed legal transactions that in accordance with Articles of Incorporation of the limited liability company Holding Slovenske elektrarne d.o.o. require the Supervisory Board's approval, other business and strategic issues that significantly affect mid- and long-term interests of the Company, as well as the HSE Group investments and socially responsible increase of the Company's economic efficiency. The Supervisory Board carefully monitored the Company's liquidity and provision of sufficient financial resources required for the Group's development projects.

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

In 2012, the Supervisory Board actively supervised currently the largest energy project in Slovenia, the investment in 600 MW replacement Unit 6 in Termoelektrarna Šoštanj d.o.o. Some of the activities and most important decisions adopted by the Supervisory Board in the discussed area are the following:

- It actively monitored all events and realisation of the investment in the 600 MW replacement Unit 6 at TEŠ and was acquainted with reports by the Committee for Active Supervision of the Unit 6 Project and quarter reports on the project realisation;
- It approved borrowing within the scope of bridge financing of the investment in the construction of Unit 6 at TEŠ d.o.o.;
- On 26 January 2012, it was acquainted with the documents by HSE d.o.o. and TEŠ d.o.o. on the consequences of non-issuance of the government guarantee and it identified risk increase due to delayed adoption of the Act on Guarantee; the Board, therefore, re-proposed to the Company's management to immediately prepare the following:
  - Programme for additional active reduction of all costs in the controlling company, as well as in the HSE Group subsidiaries, in order to ensure sufficient funds for project financing;
  - Programme of additional limitation of regular maintenance, as well as a programmed of additional limitation of investments that are not necessary, applicable to all companies of the Group;
  - Additional programme for examination of financing necessity and of disinvestment possibilities, applicable to all Group companies;
- It was acquainted with the letter by AUKN RS no. 02-01/2012-318 of 27 February 2012, with a section of the press release of the 3rd regular Government session of 23 February 2012, regarding the companies HSE d.o.o. and TEŠ d.o.o., as well as with the Interim report on the activities performed by the HSE d.o.o. and TEŠ d.o.o. managements, of 22 February 2012;
- It was acquainted with the possibility of meeting the conditions set by the Government at its 3rd regular session as at 23 February 2013, regarding the issuance of the government guarantee for the TEŠ Unit 6 project; accordingly, it recommended to the company's management to prepare a written report on this subject and to submit it to AUKN RS;
- It was acquainted with scenarios of potential non-issuance of the government guarantee for the Unit 6 project;
- It was acquainted with the document by the Commission for the Prevention of Corruption with the title 'Interim findings and opinion of the Commission for the Prevention of Corruption regarding the project Unit 6 - Termoelektrarna Šoštanj' of 17 February 2012, and issued its position on the document in written;
- In order to protect the interests of the company HSE and the HSE Group, and despite procedural complications in connection with the decisions of the Committee on Finance and Monetary Policy of the National Assembly, it confirmed the Revised investment programme (NIP 5) for construction of Unit 6 at TEŠ and asked AUKN RS to take care of the procedural deficiency.

Other important matters and issues discussed by Supervisory Board in 2012 are presented below:

- It was acquainted with the company's report on the possibility of purchasing the PV shares;
- It approved the Rules on Internal Audit Activities;
- It was acquainted with the AUKN RS recommendations;
- It adopted the Operational guidelines for payment and reimbursement to external members of the SB committees;
- It was acquainted with the activities regarding the discussion of the Proposal for Act Amending the Energy Act;
- It discussed the issues of the company TET in view of closing down RTH (Trbovlje-Hrastnik coalmine) and maintenance of energy location, and was acquainted with relevant documentation 'Document on identification of the investment project Gradual reconstruction of Unit 4 at Termoelektrarna Trbovlje, April 2012'.
- It was acquainted with development possibilities of the company TET, with possibilities and procedures for entry of an international partner into the TET ownership; in the event of non-realisation of development strategy, based on local energy source, the SB recommended that the HSE management inform its owner about the possibility of foreign partner and acquire the owner's written opinion on the matter;
- It was acquainted with submitted documentation on TET and proposed that the HSE management inform the company's management on current potentially strategic partners in the investment in TET;
- It was acquainted with the information about unaudited financial statements of the company HSE for 2011;
- It was acquainted with the public letter of the Ministry of Infrastructure and Spatial Planning regarding annual leave payment;
- It agreed on adoption of all decisions that HSE is required to adopt for closing the subsidiary HSE Hungary, as its founder and sole owner;
- It gave it previous approval for closing HSE Belgrade Representative Office;
- It was acquainted with the Managing Directors' recommendation to the directors of subsidiaries regarding payment of annual leave allowances for 2012;
- It was acquainted with interim report on due diligence in the company Amitea II Mostar in connection with construction of sHPP on the River Kraljuščica;
- It was acquainted with the Information on the HSE operations in period I-III 2012 in view of stricter liquidity conditions and the management's proposed measures;
- It was acquainted with the Information on situation of production capacities of the HSE Group, with emphasis on PSP Avče, HPP Zlatoličje, TEŠ Unit 3 and PV;
- It approved the Internal Audit's Annual plan for 2012;
- It was acquainted with summery of the report on examination of the procedure of call for tenders for provider of the ERP business and information system in the company HSE;
- It appointed a three-member HR-nomination Committee of the Supervisory Board;
- It was acquainted with the management's answer to its written questions;
- It was acquainted with the document 'Restrictive plan for cost reduction for 2012 in HSE d.o.o.' and recommended that the management proceed with its activities for streamlining its operations;
- It was acquainted with potential risks in the submitted document 'Liquidity plan for deteriorated circumstances for the period May-December 2012' and in accordance with reasonable use of provisions of Article 31 of ZFPPIPP requested that the management prepare adequate measures for prevention and elimination of causes of illiquidity by 4 June 2012 (the document was submitted to the SB on time);
- It was acquainted with the letter of the Managing Director in connection with the AUKN RS decision and recommendation regarding the auditor and requested that the Audit Committee discuss the issue at its next meeting;
- It discussed the Annual Report of the company HSE and the HSE Group for 2011 with Auditor's reports; the SB had no objections to the auditor's reports; after the final verification, the SB had no objections to the Annual report, therefore, it confirmed the Annual report; the SB prepared a written report for the founder on the Annual report examination findings;

- It agreed with the management's proposal to the founder to use the company's 2011 accumulated profit for creation of other revenue reserves;
- It ordered the HR-nomination Committee to prepare call for tenders for position of Managing Director, to publish it by 30 June 2012, to examine the submitted applications and to prepare the list of candidates;
- It was acquainted with the notice of the HSE's Workers' Council on recall of the SB members Rene Jeromel and Mojca Turnšek, M.Sc., on 11 July 2012, and with the appointment of Marjanca Molan and Stanislav Prevalnik as SB members on 12 July 2012;
- It was acquainted with the presentation of the project of constructing HPP on the Mura River, PSP Kozjak, and other projects of the company DEM;
- It gave its approval to the Company's management to conclude or extend the insurance contracts for D&O insurance of the HSE Group companies for one year, starting on 1 October 2012;
- It proposed to the founder to adopt a decision on changes and amendments of the Articles of Incorporation of the limited liability company HSE, and approved the material for the General Meeting;
- It adopted the amendments to the Rules governing the work of the Supervisory Board;
- On the basis of provisions of ZGD and the provision of Article 16 of the Articles of Incorporation and presentation, the SB appointed a new Managing Director of the Company as at 5 November 2012; it adopted adequate decisions for weekly reporting of the management until the new Managing Director would take office and was informed about the management's work on weekly basis;
- It was acquainted with the completion of activities regarding the project of sHPP construction on the River Kraljuščica;
- It was acquainted with the course of the PV General Meeting;
- It was acquainted with the issues of gas supplies required for TEŠ operations;
- It was acquainted with information on the electricity supply issues of the company Talum;
- It was acquainted with information about solving the issues regarding PSP Avče turbine;
- It was acquainted with the DEM's report on issues with implementation of trial runs tests for turbine 1 at HPP Zlatoličje.

In 2012, the Audit Committee of the Company's Supervisory Board held two regular meetings, at which it discussed various strategic and business issues:

- It was acquainted with the information about unaudited financial statements of the company HSE for 2011;
- It was acquainted with the AUKN RS recommendation no. 12 and discussed it;
- It was acquainted with the auditor's reports to the audited Annual Report of the company HSE and the HSE Group for 2011 and proposed to the audit firm to prepare a management letter to warn the management on the risks regarding the company TET;
- It proposed to the audit firm to amend the report for the Company and the Group for the last five years in accordance with Article 39 of the Auditing Act, and to present it at the HSE Supervisory Board meeting.

In 2012, the Supervisory Board intensively focused also on procedures for performance of the construction of replacement Unit 6 at TEŠ d.o.o. The SB estimates that it has acted in the benefit of the company, on the basis of information and reports submitted to it by the management within the scope of its powers and competences laid down in the Articles of Incorporation.

The Supervisory Board in its current composition intensified its activities in the area of investment in 600 MW replacement Unit 6 at TEŠ d.o.o., and continues to carry them out also in 2013, as within the scope of its powers it initiated the procedures for determining responsibility for the alleged misleading of the Government and National Assembly, as well as for other errors that allegedly occurred during the investment performance.

1.2.2 Monitoring and supervision of the company's operations by the Supervisory Board appointed on 6 December 2012

The current Supervisory Board was appointed at the HSE d.o.o. Supervisory Board meeting of 6 December 2012, and it held one correspondence meeting by the end of the year, which took place on 27 December 2012. The SB adopted the following decisions:

- It gave its approval for conclusion of the contract on taking out a short-term loan for ensuring bridge financing of the Unit 6 project before TEŠ could draw the long-term loans; and
- It gave its approval to the HSE Managing Director as the guarantor for signing reimbursement agreement regarding costs from postposing the deadline for submitting the government guarantee for obtaining the EIB loan, and for increasing the guarantee premium TEŠ d.o.o had to pay.

1.2.3 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 2012 Annual Report of the Company HSE and the HSE Group including the Auditor's Reports on 11 July 2013. The Supervisory Board discussed the annual report at its 11th meeting on 19 and 29 July 2013 and determined that the management prepared the 2012 Annual Report within the legal deadline and that the annual report contained all the elements laid down by the Companies Act.

The audit of the 2012 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 2012.

At its 4th regular meeting on 17 July 2013, the HSE SB Audit Committee discussed information on audited financial statements of the company HSE d.o.o. for 2012 and estimated that the Company operated in accordance with the expectations for 2012.

On the basis of the Audit Committee's opinion and the unqualified Auditor's Reports, the Supervisory Board confirmed the 2012 Annual Report of the company HSE and the HSE Group and their content, as submitted by the company's management.

1.2.4 Determination and proposed allocation of accumulated profit

The company Holding Slovenske elektrarne d.o.o. ended the financial year 2012 with a net profit of EUR 42,954,179.40.

At its 11th regular meeting held on 19 and 29 July 2013, the Supervisory Board agreed with the management's proposal that half of the net profit of 2012 in the amount of EUR 21,477,089.70 be allocated to other revenue reserves already upon preparation of financial statements for 2012.

The remaining net profit represents the accumulated profit of 2012 and amounts to EUR 21,477,089.70.

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 2012, which represents the remainder of the net profit of 2012, in the amount of EUR 21,477,089.70 to be allocated to other revenue reserves.

The HSE d.o.o. Supervisory Board prepared the report in accordance with Article 282 of the Companies Act. The report of the Supervisory Board addressed to the Company's founder and sole owner.

Ljubljana, 29 July 2013

Marko Zidanšek, M.Sc.
President of the Supervisory Board Holding Slovenske elektrarne d.o.o.

1.3 Electricity production and trading in the HSE Group

SALES IN FOREIGN MARKETS
19,187 GWh | 61% of sales

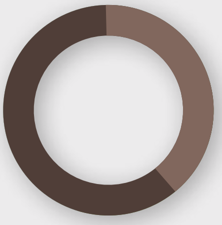
SALES IN DOMESTIC MARKET
12,193 GWh | 39% of sales

HSE COMPANY
132 employees as at 31.12.2012 | 31,380 GWh | 100% RS

OTHER SOURCES
23,541 GWh | 75% of sources

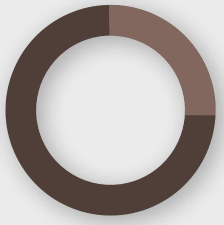
OWN PRODUCTION SOURCES
2,440 employees as at 31.12.2012 | 7,839 GWh 1,888 MW | 25% of sources

SALES OF ELECTRICITY

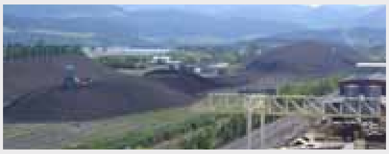


domestic market 39%
foreign market 61%

SOURCES OF ELECTRICITY



own sources 25%
other sources 75%



45% of sources

55% of sources

HYDRO
450 employees as at 31.12.2012 | 3,527 GWh 1,033 MW 72 turbines

THERMAL
657 employees as at 31.12.2012 | 4,312 GWh 855 MW 4 units and 4 gas turbines

PRIMARY SOURCES
1,333 employees as at 31.12.2012 | 41,799 TJ

DEM
290 employees as at 31.12.2012 | 2,645 GWh 589 MW 24 turbines | 100% HSE

TEŠ
464 employees as at 31.12.2012 | 3,743 GWh 687 MW 3 units and 2 gas turbines | 100% HSE

PV
1,333 employees as at 31.12.2012 | 42,385 TJ | 77.7% HSE

SENG
129 employees as at 31.12.2012 | 641 GWh 335 MW 39 turbines | 100% HSE

TET
193 employees as at 31.12.2012 | 569 GWh 168 MW 1 unit and 2 gas turbines | 81.3% HSE

HESS**
31 employees as at 31.12.2012 | 242 GWh 109 MW 9 turbines | 84.6% HSE

* Net capacity in MW is represented at the end of 2012.
** According to the contract, 15.4 % of HESS production is sold outside the HSE Group; the test operation of HPP Krško started in in October 2012 (test production in the October-December 2013 period amounted to 23.5 GWh).

1.4 Operating highlights of the Company and the Group

The business year of 2012 was successful for the HSE Group. The Group contributed to a reliable and safe electricity supply for Slovenia, performance of activities concerning the Group's key development projects continued, the member companies' operating results were satisfactory, two contracts in connection with the TEŠ's Unit 6 were concluded (Contract regulating relationships regarding the replacement Unit 6 project and Contract on method and conditions of insuring the government guarantee for the EUR 440 million EIB loan), followed by an approval of the Act ratifying the Guarantee Agreement between the Republic of Slovenia and the European Investment Bank at the end of the year.

Relative to 2011, the HSE Group:

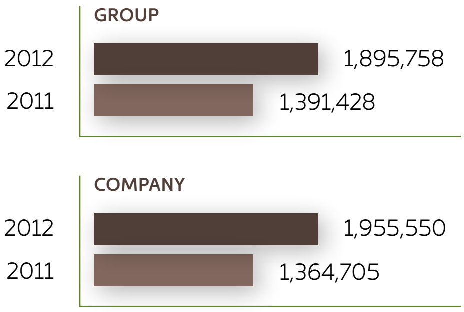
- increased net profit or loss by 23%,
- increased sales quantities by 28%,
- realised 36% higher net sales revenue,
- increased assets by 14%,
- increased equity by 5%, and
- increased electricity production by 3%.

Throughout the entire 2012, while carrying out the investment in the replacement Unit 6, HSE and TEŠ were striving to obtain the government guarantee for the EIB loan in the amount of EUR 440 million. The postponement in issuing the government guarantee caused non-drawing of the long-term loan, which at the end of the year resulted in increased short-term debt and in delayed payments to the TEŠ Unit 6 suppliers.

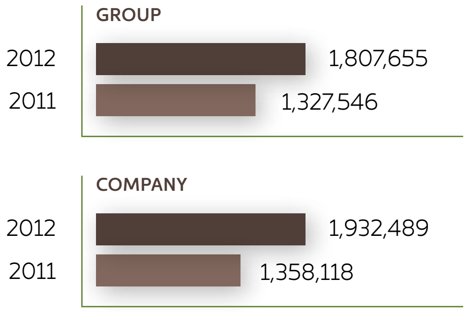
HSE Group	2012	2011	IND $_{12/11}$
Net sales revenue (in EUR)	1,807,655,487	1,327,546,308	136
Revenue (in EUR)	1,895,758,366	1,391,427,639	136
EBIT (in EUR)	113,297,265	96,190,255	118
EBITDA (in EUR)	202,965,858	188,895,859	107
Net profit or loss (in EUR)	85,980,549	69,753,103	123
Assets (in EUR)	2,595,852,738	2,275,886,031	114
Equity (in EUR)	1,473,462,757	1,409,097,763	105
Operating cash flow (in EUR)	156,048,670	135,505,458	115
Added value (in EUR)	377,149,993	336,972,068	112
Electricity produced (in GWh)	7,839	7,625	103
Electricity sold (in GWh)	28,734	22,508	128
Number of employees as at 31 December	3,900	3,819	102
Number of Group companies as at 31 December	32	31	106

The company HSE d.o.o.	2012	2011	IND $_{12/11}$
Net sales revenue (in EUR)	1,932,488,711	1,358,117,730	142
Revenue (in EUR)	1,955,550,197	1,364,704,771	143
EBIT (in EUR)	63,509,542	55,617,424	114
EBITDA (in EUR)	65,525,398	57,043,353	115
Net profit or loss (in EUR)	42,954,179	46,729,619	92
Assets (in EUR)	1,534,472,368	1,311,214,398	117
Equity (in EUR)	988,423,184	970,128,945	102
Operating cash flow (in EUR)	57,917,957	29,798,354	194
Added value (in EUR)	75,131,222	65,629,910	114
Electricity sold (in GWh)	31,380	23,779	132
Number of employees as at 31 December	132	135	98

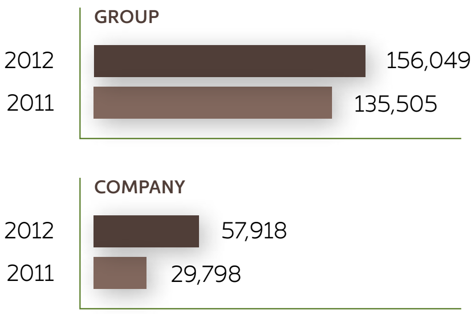
Total revenue
in € thousand



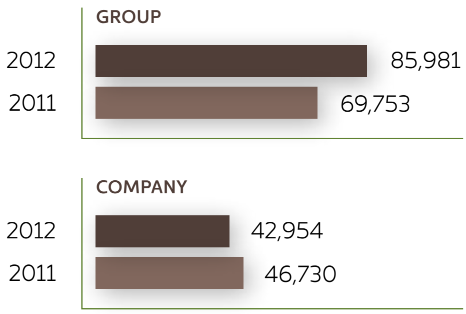
Net sales revenue
in € thousand



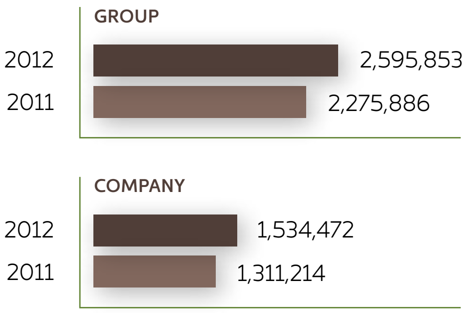
Cash flows from operating activities in € thousand



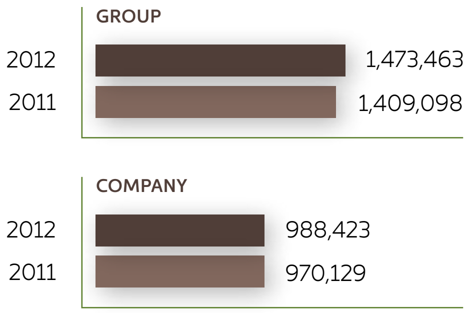
Net profit or loss
in € thousand



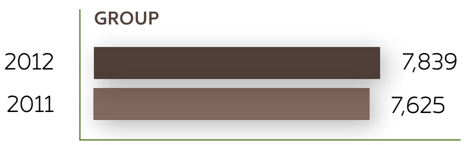
Assets in € thousand



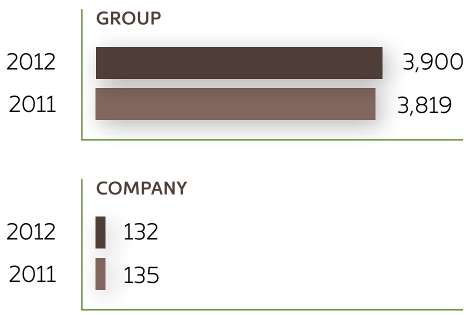
Equity in € thousand



Electricity production of HSE Group companies in GWH



Employees



1.5 Chronology of important events in 2012

January

- On 3 January, Alstom and TEŠ entered into an agreement regulating the method of liabilities settlement in the period before the issuance of the government guarantee for financing the construction of the TEŠ replacement Unit 6.
- On 12 January, DEM presented the procedure of initiative for NSP of the HPP Hrastje-Mota to the Strategic Council of the Pomurje Development Institute Murska Sobota.
- On 16 January, PV reached the most significant daily extraction progress in 2012 with 8.6 meters at extraction site G3/B, despite challenging production circumstances.
- SENG achieved an extension for the pilot operations in the PSP Avče facility until 6 January 2014.
- HESS obtained declarations for operations of the production units HPP Boštanj and HPP Arto-Blanca.

February

- On 2 February, a group of MPs submitted a proposal for the Act Regulating Guarantee of Republic of Slovenia for Liabilities under Long-Term Loan of 440 Million Euros Made to Termoelektrarna Šoštanj, d.o.o. by European Investment Bank for Financing Termoelektrarna Šoštanj 600 MW Replacement Unit-6 Installation Project (ZPODPTEŠ).
- On 14 February, the PV miners achieved the most important daily progress at the construction site, i.e. 16.8 metres during a 4-shift work at k.-130/B site for haulage roadway.
- On 15 February 2012, TEŠ handed over the area of boiler room of the replacement Unit 6 to Alstom and Alstom started with the preparations for installation.
- At its 3rd session on 23 February 2012, the Government of the Republic of Slovenia expressed its readiness to assume additional risk with issuing its guarantee and, therefore, its support to the ZPODPTEŠ proposal under certain conditions.
- In February 2012, the Supreme Court dismissed the request by the TEŠ Trade Union to review the verdict of the Higher Labour and Social Court in Ljubljana, which had confirmed the verdict of the Labour Court in Celje that the strike in TEŠ in November 2010 was illegal.
- SENG obtained operating permit for the HPP Doblar I turbine 3.
- PV became one of the first coal mines in Europe and worldwide to have mobile phones coverage underground.
- Upon opening the new coal mine in Mariovo, Macedonia, PV entered into the contract on design and preparation of technical documentation.

March

- On 7 March, PV reached the most important general progress in pit roadways construction with 49.8 metres excavated.
- On 13 March 2012, Alstom started with the main steel construction installation of the Unit 6 boiler room.
- On 15 March, formal opening of restructured boiler room in Planina in Kranj took place; the investor was the company Soenergetika.
- On 20 March, the Supervisory Board was appointed at the first General Meeting of the company SRESA.
- SENG took over the reconstructed turbine 3, the operations of which were launched at HPP Doblar I, and started with reconstruction works on turbine 2.

April

- On 19 April the National Assembly discussed on ZPODPTEŠ for the first time and voted for the guarantee granting.
- SENG successfully completed technical inspection (hereinafter 'TI') of the left three-segment gate within the reconstruction of hydromechanical equipment at Jez Podsedlo and repairs of the PSP Avče generator, which enabled operations to be launched.

May

- On 17 May, the Government of the Republic of Slovenian amended Article 1 of the proposal for ZPODPTEŠ.
- On 24 May, PV achieved the most important daily extraction production with 13,470 tonnes of coal at mining site –65/A.

- On 31 May, HSE Invest celebrated its 10th anniversary.
- DEM started using new gantry crane at HPP Dravograd.

June

- On 4 June, TEŠ and Alstom signed an agreement on postponement of the deadline for ZPODPTEŠ adoption until 16 June 2012, due to issues with obtaining the government guarantee. Since the discussed condition was not met, the agreement on main technological equipment supply for Unit 6 was suspended from 17 June to 2 July 2012.
- On 6 June, an official spatial planning procedure for HPP on the Mura River with preparation of NSP for the first HPP on the river.
- On 12 June, first stage of rotation with water flow on the HPP Krško turbine 3 was carried out, so the launch of hydro- and electrical equipment tests could start.
- On 13 June, operations of renewed joint control centre for DEM and HSE were launched.
- On 21 June, the Committee on Finance and Monetary Policy of the National Assembly discussed the proposed ZPODPTEŠ; discussions continued on 28 June and were successfully completed on 13 July.
- On 29 June, the Government approved the NSP for HPP Brežice.
- SENG successfully completed the TI of the ventilation tube – stage I at PSP Avče.
- TET submitted their offer for tenders regarding provision of reliable electricity supply through use of local primary sources and gained funds in the amount of EUR 7.4 million.
- The 52nd traditional event 'Skok čez kožo' took place in PV.
- The largest daily extraction in 2012 was achieved in PV with 24,749 tonnes of coal extracted.

July

- On 2 July, TEŠ and Alstom entered into an agreement in order to proceed with the project within the planned timeline, i.e. in the form of annex regarding termination of suspension of contract implementation and change of the payment plan until 31 October, with control point on 5 October 2012.
- On 18 July, the National Assembly adopted the ZPODPTEŠ act.
- On 19 July, the Government adopted the Decree on National Spatial Plan for GSPP in TET.
- On 3 July, compliant with the testing programme, HESS successfully completed the first integration of HPP Krško in the electricity network of Slovenia.

August

- On 1 August, ZPODPTEŠ was published in the Official Gazette of the Republic of Slovenia and, thus, became effective.
- On 13 August, the SB of HESS approved the energy part of the Investment programme for HPP Brežice.
- On 27 August, after a year of reconstruction, DEM launched operations of the second turbine at HPP Zlatoličje.
- SENG performed partial TI for the reconstruction of HPP Doblar I, stage II, turbine 2 (LOT EE).

September

- On 25 September, a short celebration took place in DEM due to official completion of the small HPP Ruše construction project.
- The TEŠ and HSE Supervisory Boards discussed and approved NIP 5 (Revised investment plan, 5th revision) for the TEŠ replacement Unit 6.
- TEŠ obtained the approval from the guarantor banks and the EBRD on suspension of the condition on providing applicable government guarantee for liabilities arising from the long-term loan in the amount of EUR 440 million from the EIB for the purpose of financing the construction replacement Unit 6, namely until 30 November 2012.
- The primary and secondary steel constructions – the suspension part of Unit 6 were successfully installed.
- PV handed over the construction of NOP II shaft to the main contractor, the related company RGP Velenje, meaning that the works should be completed within 30 days.
- The regular annual overhaul of TET was completed.

October

- On 12 October, DEM performed internal technical inspection of turbine 1 equipment at HPP Zlatoličje.

- On 19 October, an agreement on financing, logistics and other requirements for adaptation of the HPP Brežice construction to NPP Krško was signed.
- On 30 October, TEŠ and Alstom concluded Annex 7, which comprises the agreement on installation works price.
- SENG performed partial TI for the reconstruction of HPP Doblar I, stage II, turbine 2.
- HESS signed Annex 5 to the Concession Agreement for Exploitation of the Energy Potential of the lower Sava River.
- For the GPK road-header machine, PV won the Slovenian Chamber of Commerce silver award for the best innovations.
- The 15th Strategic Conference of the PV Group took place.

November

- On 1 November, the contract between Alstom and TEŠ was suspended, as TEŠ had not settled its financial liabilities.
- On 24 August the HSE Supervisory Board appointed Blaž Košorok as the Managing Director of the company HSE. Mr. Košorok assumed his responsibilities on 5 November.
- On 5 November, heavy rains caused the Drava River floods which caused material damage on the DME facilities, assessed to over EUR 10 million.
- On 8 November, DEM successfully concluded the TI at small HPP Markovci.
- On 28 November, as the representative of the founder at the HSE General Meeting, the Capital Assets Management Agency of the Republic of Slovenia (AUKN RS) was acquainted with the 2011 Annual Report of the company HSE and the HSE Group and adopted the decision that the accumulated profit in the amount of EUR 23,364,809.34 be used for the following purposes: EUR 20,000,000.00 for participating in profit to the founder, EUR 3,364,809.34 for allocation to other revenue reserves.
- On 30 November, TEŠ and the Republic of Slovenia entered into the contract regulating relationships regarding the replacement Unit 6 project and the contract on the manner and conditions regarding the guarantee by the Republic of Slovenia.
- SENG carried out the first synchronisation of turbine 2 at HPP Doblar I and completion of the trial runs.
- TET acquired energy permit for ecological reconstruction of Unit 4. Within the energy permit issuance procedure, the administrative body determined that the TET Unit 4 reconstruction complies with the Slovenian energy policy and all the EU directives.

December

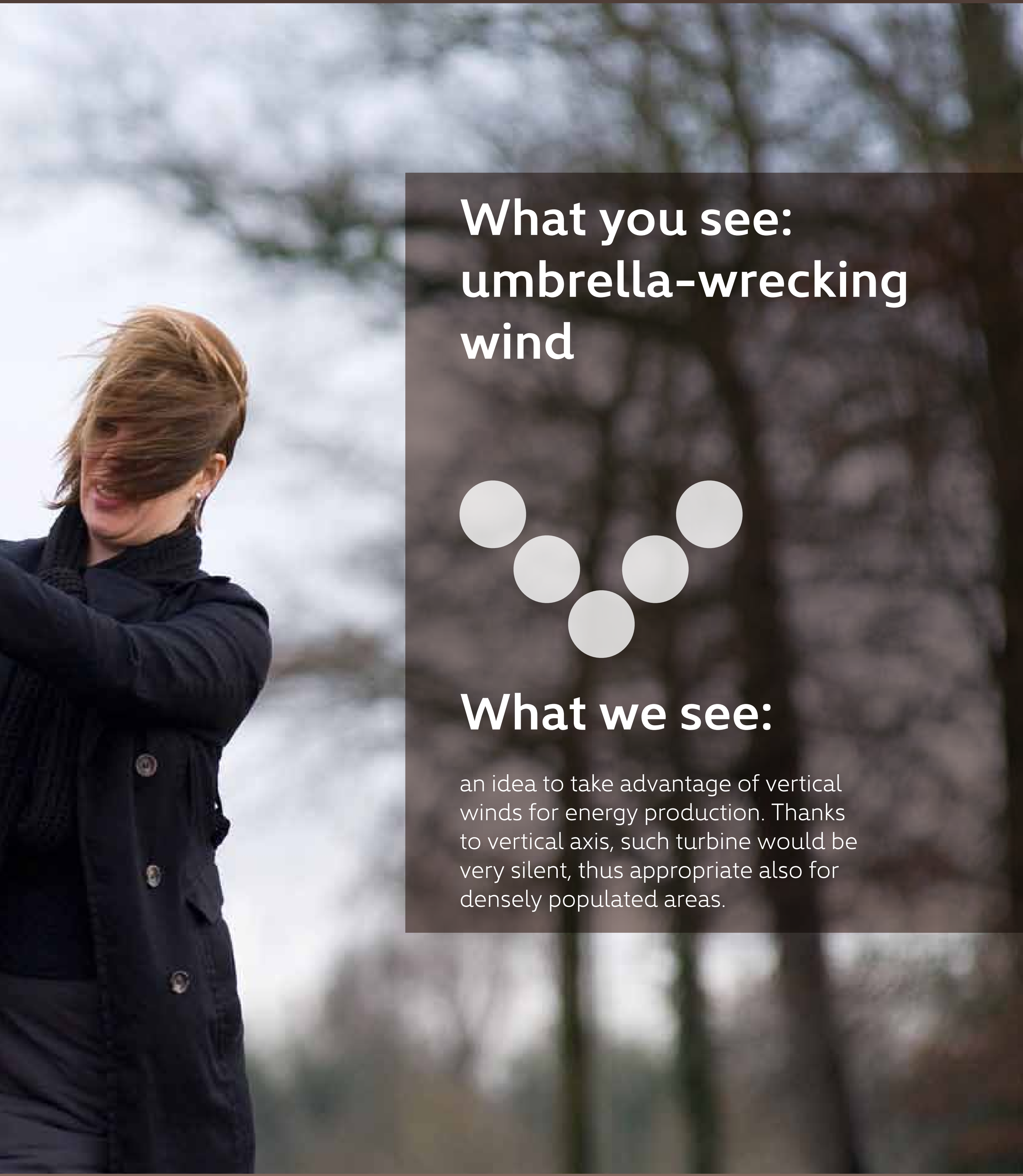
- On 3 December, TEŠ and Alstom concluded an Annex due to delayed acquisition of the government guarantee for the EIB loan for the replacement Unit 6 construction.
- On 7 December, the Guarantee contract between the EIB and the Republic of Slovenian was signed.
- On 19 December, HSE Invest obtained certificate 27001:2005 - Information Security Management System.
- On 21 December, the National Assembly ratified the guarantee contract between the Republic of Slovenia and the EIB.
- On 27 December, the Slovenian Sovereign Holding Act was published in the Official Gazette of the Republic of Slovenia which determined that with its implementation, the Capital Assets Management Agency of the Republic of Slovenia (AUKN RS) ceases to exist. The Slovenian Sovereign Holding Act became effective the next day. Management of assets owned by the Republic of Slovenia, which until then were managed by AUKN RS, is executed by SOD on the behalf and for the account of the Republic of Slovenia.
- At HPP Krško, HESS successfully completed the installation and functional tests on all three turbines. In December, the last turbine was submitted to contractual trial operations.
- Public presentation of NSP and ER for HPP Mokrice terminated.
- SENG launched the contractual trial run of turbine 2 at HPP Doblar I.
- Ministry of Finance determined that the RTH mine, as a receiver of government assistance for mine closing down, terminated the commercial production of coal and that it would carry out all closing down activities. As a legal entity, RTW will cease to exist, while there is a possibility that in the Brnice are a new commercial entity would exploit coal for commercial purposes and carry out an purchase the RTH assets. This means, that government assistance does not represent an obstacle for coal exploitation on the Brnice are, thus, TET could continue to use domestic coal for electricity production.
- Ministry of Agriculture and the Environment classified the 125 MW TET Unit in the national transition plan of the RS for facilities, which will allow their operation as well as adaptation to new environmental norms in the transition period 2016-2020. The Republic of Slovenia submitted the document to the EC, which will give its feedback within a year.

1.6 Important events after the end of the period

- At the TEŠ SB meeting of 17 January, Simon Tot, M.Sc., resigned as the TEŠ's managing director. Mr. Franc Rosec was appointed acting managing director. 10.4. At the 36th extraordinary meeting of the TEŠ SB of 10 April, Mr. Peter Demol was appointed new managing director of the company.
- On 28 January the HSE SB approved establishment of a company in Romania.
- On 6 February, the nominal capital of TEŠ was increased by its member HSE d.o.o. with a contribution of EUR 18,922,500.00. The capital raise was planned for 2012.
- Based on the Public Procurement Act, HSE and the HSE Group production companies were classified on the List of entities operating in the sector of electricity production, transport and distribution, in February 2013.
- On 4 March, the HSE SB approved the closure of representative office in Slovakia after acquiring own trading licence.
- On 6 March, Miran Žgajner, M.Sc., resigned as the managing director fo the company HSE Invest. The SB of the company appointed Mr. Sandi Ritlop as new managing director until new director would be elected.
- On 14 March, the company TEŠ received the EIB loan in the amount of EUR 440 million for financing the construction of replacement Unit 6. By means of that loan, TEŠ settled outstanding liabilities to the main equipment supplier, the company Alstom.
- On 18 March, the company HSE Hungary Kft. in liquidation was struck-off the Hungarian Companies Register.
- On 19 March, TEŠ drew the long-term loan from EBRD in the amount of EUR 117.5 million. On the basis of both drawings, the company TEŠ repaid to its controlling company HSE EUR 335.6 million of short-term loans from the Group, which had been granted for the purpose of Unit 6 bridge financing within the framework of the HSE Group cash

management. Immediately after the inflow from TEŠ, the company HSE repaid short-term revolving loans received within the HSE Group cash management framework in total amount of EUR 77 million, and partially repaid the short-term loans from banks.

- On 19 March, Alstom submitted to TEŠ a written notice on termination of the contract suspension from 1 November 2012 to 14 March 2013, when TEŠ had settled all the due liabilities to Alstom.
- On 29 March, the HESS SB approved the purchase of 100% business share in the company Partner storitveno in trgovsko podjetje d.o.o., Senovo.
- On 15 April, the HSE SB approved liquidation of the company HSE Bulgaria.
- In April, the 7th HSE Group conference took place, where the Group's main challenges in the coming year were discussed, especially its hard financial position and the necessity of operations streamlining.
- The PV Group is in a very challenging financial position; therefore, programmes for disinvestment procedures and cost optimisation were prepared, as well as for expansion of the company's activities outside the HSE Group markets, that will allow the PV Group to gradually increase its competitiveness and improve its operating results within 2015.
- The TEŠ management and project team prepared an assessment of the company's position, that reflects an actual technical, financial and future status of the replacement Unit 6 project as at 10 May 2013. The report, listing certain deviations of TEŠ from contractual commitments and guarantees, was submitted also to the TEŠ company Supervisory Board on 24 May 2013, while the Ministry of Finance and Ministry of Infrastructure and Spatial Planning were informed about the report findings on 27 May 2013.
- Activities in connection with the sale of a 81.3% HSE share in TET are carried out.



What you see: umbrella-wrecking wind

What we see:

an idea to take advantage of vertical winds for energy production. Thanks to vertical axis, such turbine would be very silent, thus appropriate also for densely populated areas.

2 BUSINESS REPORT

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.

HSE company profile

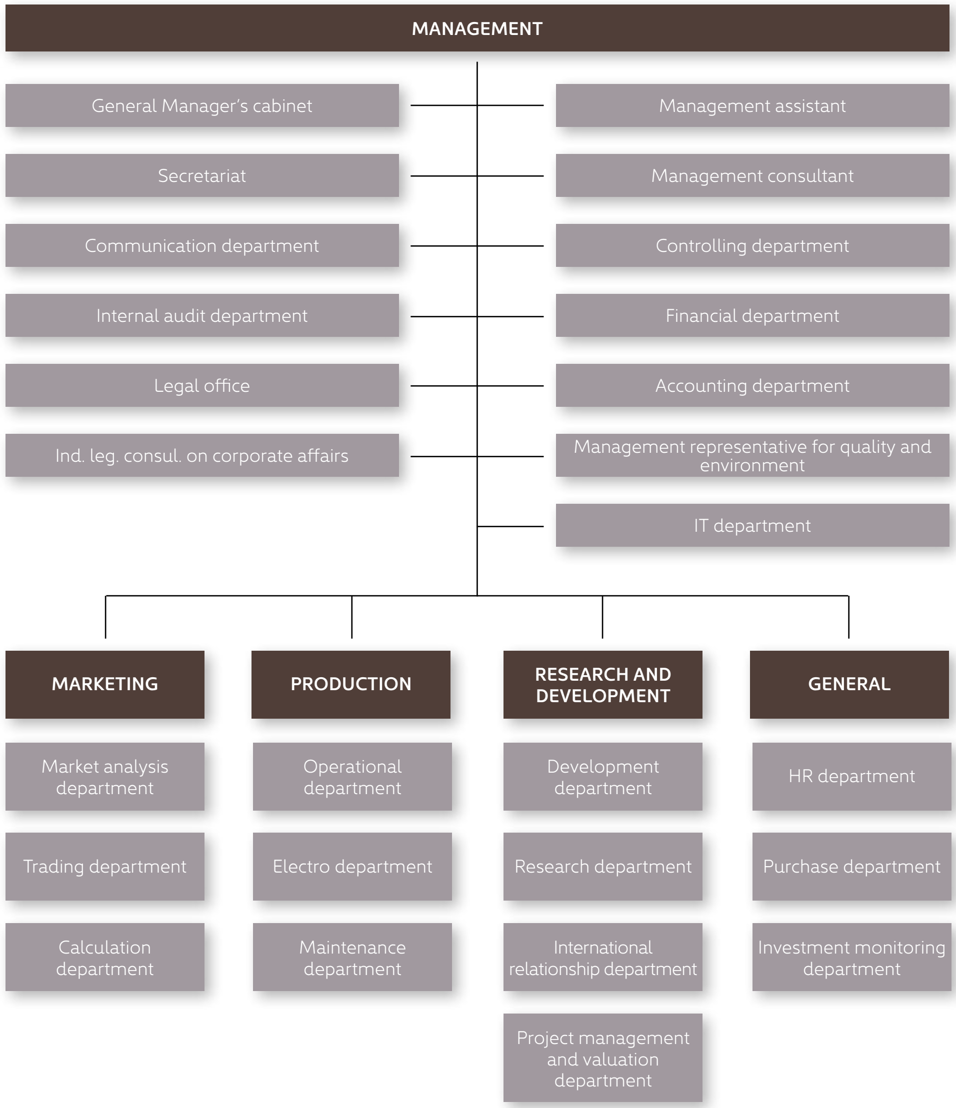
Company profile of Holding Slovenske elektrarne d.o.o. as at 31/12/2012	
Full company name	Holding Slovenske elektrarne d.o.o.
Abbreviated name	HSE d.o.o.
Legal form	Limited liability company
Address	Koprska ulica 92,1000 Ljubljana, Slovenia
Telephone	01 470 41 00
Fax	01 470 41 01
Entry No.	1/35036/00, 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	Blaž Košorok
President of the Supervisory Board	Marko Zidanšek, M.Sc.

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

The holding company was established to ensure a uniform market appearance of its companies in the area of electricity sales, improve the competitiveness of Slovenian production companies, and carry out the project for 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 December 2012



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.

2.1.3 Management of the controlling company

As the sole owner, the Republic of Slovenia manages the controlling company through the Capital Assets Management Agency of the Republic of Slovenia (now SOD), the Supervisory Board and the Managing Director.

Governing bodies of the controlling company as at 1 January 2012

GENERAL MEETING	SUPERVISORY BOARD	MANAGING DIRECTOR
Company members	**Owner's representatives**	Matjaž Janežič, M.Sc.
RS - 100% stake	Drago Dolinar, Ph.D. - President 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	

Governing bodies of the controlling company as at 31 december 2012

GENERAL MEETING	SUPERVISORY BOARD	MANAGING DIRECTOR
Company member	**Owner's representatives**	Blaž Košorok
RS - 100% stake	Marko Zidanšek, M.Sc. - President Vlasta Krmelj, Ph.D. - Deputy Peter Kralj, Ph.D. Milenko Ziherl	
	Employee representatives	
	Marjanca Molan Stanislav Prevalnik	

Changes in HSE's management in 2012

In 2012, the following changes occurred in the company's management:

- Matjaž Janežič, M.Sc., Managing Director, from 1 January 2012 to 4 November 2012,
- Blaž Košorok, Managing Director since 5 November 2012.

Changes in HSE's Supervisory Board in 2012

Between 1 January 2012 and 27 November 2012, the owner's representatives were:

- Drago Dolinar, Ph.D., President,
- Marjan Ravnikar, M.Sc., Deputy,
- Vekoslav Korošec, M.Sc., Member

Igor Šalamun, Ph.D., resigned as the HSE SB member on 31 January 2012.

From 28 November 2012 until the end of 2012, the owner's representatives were:

- Marko Zidanšek, M.Sc., President from 6 December 2012,
- Vlasta Krmelj, Ph.D., Deputy from 6 December 2012,
- Peter Kralj, Ph.D., Member,
- Milenko Ziherl, Member.

Between 1 January 2012 and 11 July 2012, the employee representatives were:

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

From 12 July until the end of 2012, the employee representatives were:

- Marjanca Molan,
- Stanislav Prevalnik.

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) prepares a Corporate Governance Statement. The statement is prepared for and refers to the period from 1 January 2012 to 31 December 2012.

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, the company's internal 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 the company HSE, I hereby declare that the governance of the company HSE in 2012 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 RS) and published as at 18 January 2011 at AUKN RS websites (www.auknrs.si), while respecting Reporting Guidelines of the Companies with State Capital Investments and individual applicable recommendations of AUKN RS.

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 RS Code on a voluntary basis.

2. Company 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 Managing Director in connection with the decisions to be accepted by the founder;
- It appoints and dismisses the company's Managing Director;
- It concludes employment contract with the Managing Director;
- It authorises the Managing Director to take decisions at the general meetings of subsidiaries in the event of changes in the status or equity structure;
- It adopts the Rules governing the work of the Supervisory Board;
- It may request reports on other matters; and
- It issues preliminary approvals 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 controls 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 in the company

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 Committee Risk Management 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 an independent organisational unit in order to ensure constant and comprehensive examination of regulatory and legal compliance, as well as of economy and organisational structure of operations. Internal Audit 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, 28 June 2013

Blaž Košorok,
Managing Director of HSE d.o.o.

2.1.5 Report on implementation of AUKN RS (SOD) recommendations in 2012

In 2012, the company HSE regularly monitored recommendations by AUKN RS (SOD) and informed the HSE SB of their implementation on regular basis. The company reasonably considered the AUKN RS (SOD) 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.

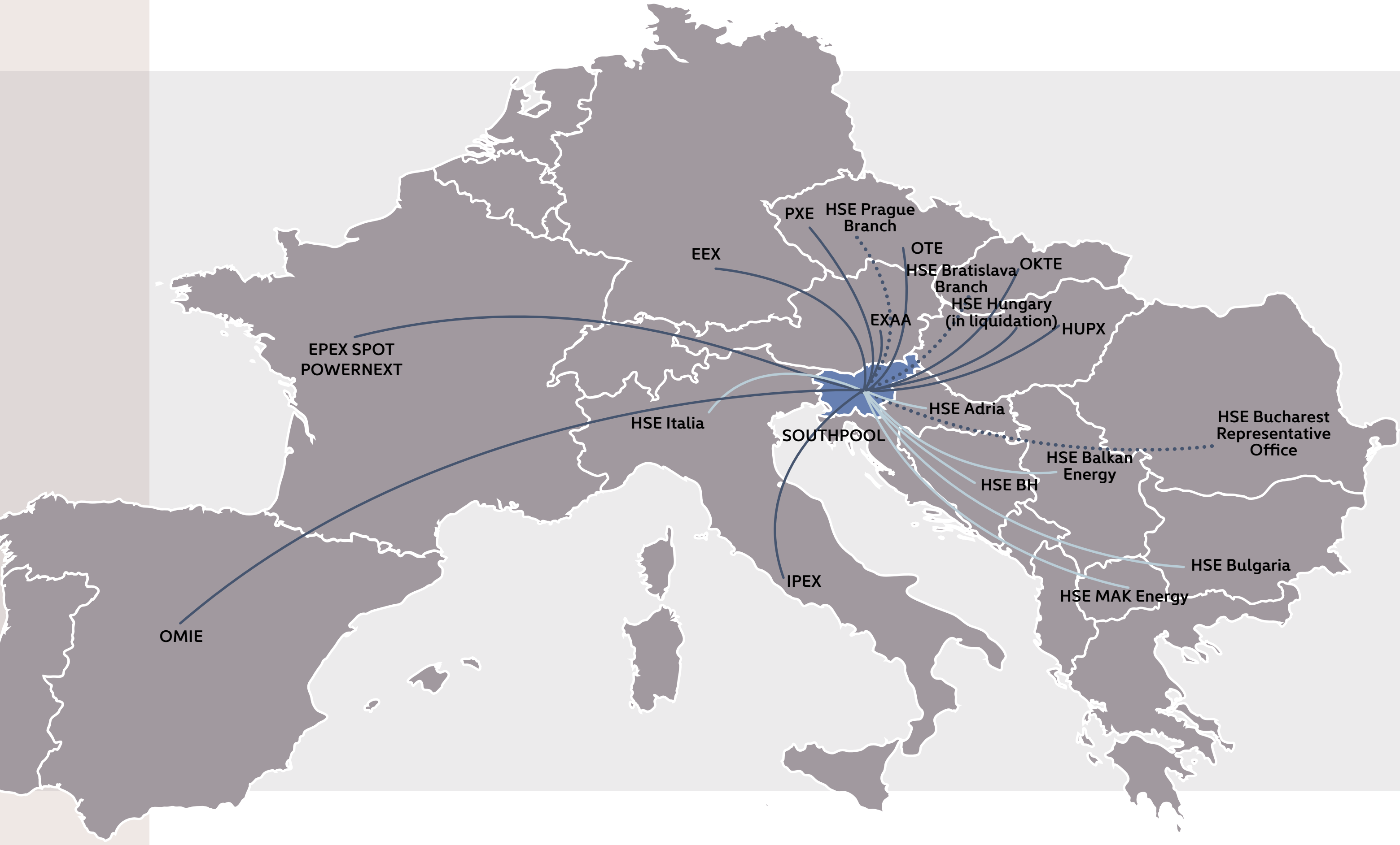
Its main activities are electricity production and trading, which is why the HSE Group seeks to take advantage of synergies associated with the wide spectrum of production capacities in order to maximise its operating efficiency. Because different production units have different operational and cost 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 2012, 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. with subsiudiary;
- Premogovnik Velenje d.d. with eight subsidiaries and four associates;
- HSE Invest d.o.o.;
- HSE Italia S.r.l.;
- HSE Balkan Energy d.o.o.;
- HSE Hungary Kft. v.a. (in liquidation);
- 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;
- PV Branch Office in Macedonia;
- HSE Bucharest Representative Office.

HSE Group in western, central and south-eastern european markets

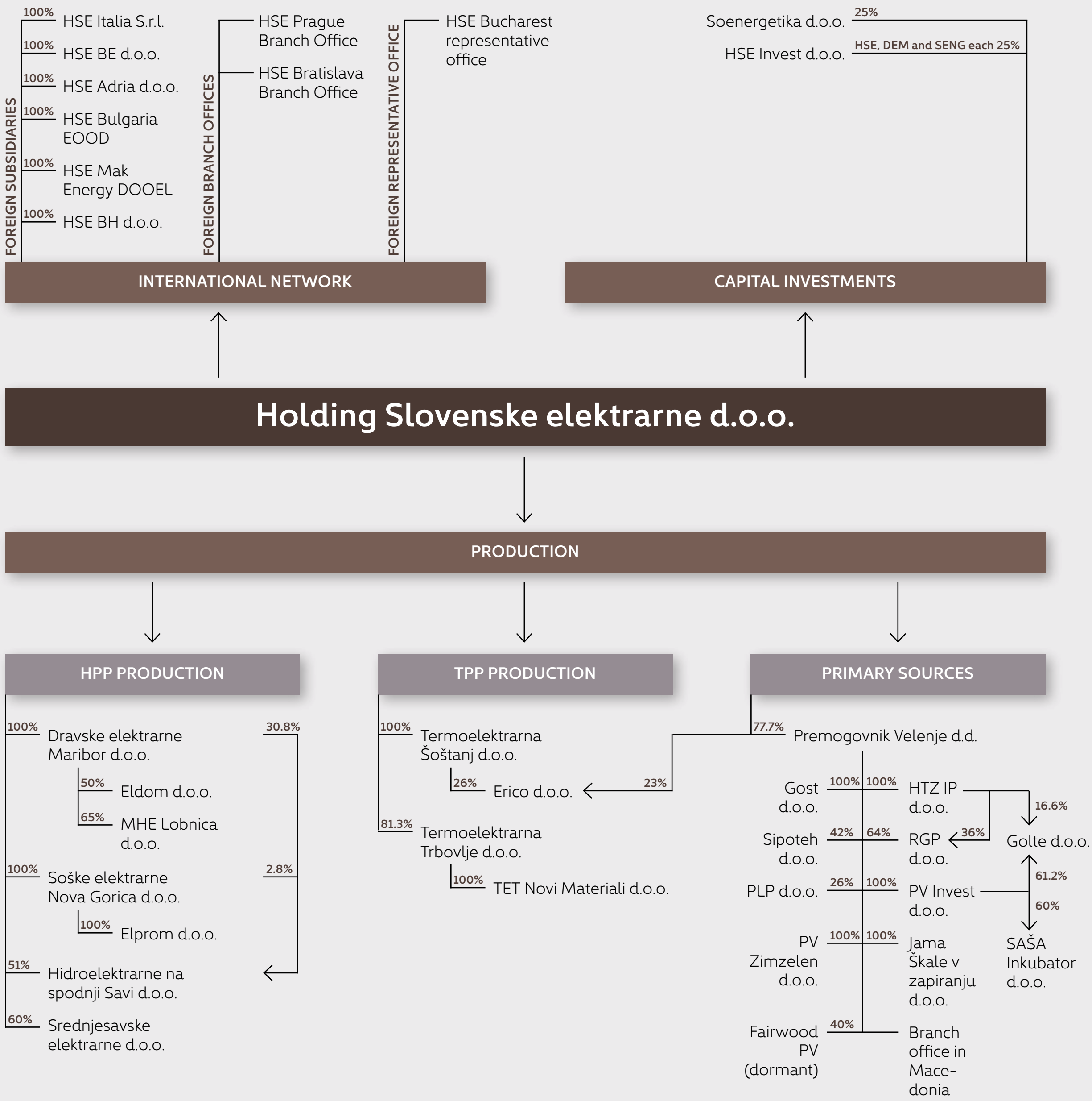


HSE has registered companies, branches and representative offices in Slovenia, Croatia, Serbia, Italy, Bulgaria, Bosnia and Herzegovina, Czech Republic, Slovakia, Romania and Macedonia, and is a member of electricity exchanges EEX, EPEX, EXAA, Powernext, IPEX, OTE, PXE, HUPIX, Southpool OKTE and OMIE. In Greece, HSE obtained an electricity trading licence on behalf of the controlling company; it also holds a trading concession in Poland.

The HSE's other trading markets include:

- Albania,
- Montenegro,
- Switzerland,
- Kosovo, and
- Turkey.

Related companies of the HSE Group as at 31 December 2012



Hydro production

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

Dravske elektrarne Maribor d.o.o.	
Managing Director	Viljem Pozeb, M.Sc.
Main activity	Electricity production in HPP
Supervisory Board composition as at 01/01/2012	Stanislava Boban - President Djordje Žebeljan, M.Sc. Marjan Kirbiš
Supervisory Board composition as at 31/12/2012	Marko Tandler, Ph.D. - President Miran Jug Marjan Kirbiš

With eight HPPs on the Drava River (HPP Dravograd, HPP Vuzenica, HPP Vuhred, HPP Ožbalt, HPP Fala, HPP Mariborski otok, HPP Zlatoličje, HPP Formin), three small HPPs (small HPP Melje, small HPP Markovci and small HPP Ceršak) and four SPPs (SPP Zlatoličje, SPP Formin, SPP Dravograd and SPP OCV 3) 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). Total net output of DEM power plants amounts to 589 MW.

The operations of the company, which performs most of its activities on the Drava River, are based on effective processes which are performed with minimum impact on sources and environment. Significant operating principles are reliability of partner cooperation in all areas and adaptability to the challenges of employees, the owner 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.

MHE Lobnica d.o.o. is a DEM's subsidiary, established in May 2011 for electricity production.

Eldom d.o.o. is an associate 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.

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

Hidroelektrarne na spodnji Savi d.o.o.	
Managing Director	Bogdan Barbič
Main activity	Electricity production in HPP
Supervisory Board composition as at 01/01/2012	Janez Keržan, M.Sc. - President Andrej Kovač Primož Stropnik Nikola Galeša Vladimir Gabrijelčič
Supervisory Board composition as at 31/12/2012	Matjaž Janežič, 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 Conditions of the Concession for the Exploitation of Energy Potential of the Lower Sava River Act.

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.

HESS is a contemporary in technologically orientated company, which through optimum and rational construction of HPPs on lower Sava remains the leading constructor of new facilities in the RES area in Slovenia and continues to reaffirm its ranking.

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

Soške elektrarne Nova Gorica d.o.o.	
Managing Director	Vladimir Gabrijelčič
Main activity	Electricity production in HPP
Supervisory Board composition as at 01/01/2012	Tomaž Štokelj. Ph.D. - President Irena Stare Silvester Medveščček
Supervisory Board composition as at 31/12/2012	Matjaž Eberlinc, Ph.D. - President Nenad Trkulja, M.Sc. Silvester Medveščček

The basic mission of the company SENG is electricity production from renewable water source. In the basin of the Soča River and its tributaries, SENG produces so-called blue energy of 5 large and 22 small HPPs, while in 2010 the HPP chain on the Soča River was upgraded with the first pumped-storage power plant in Slovenia — PSP Avče.

The company's vision is optimum exploitation of available water potential of the Soča River and its tributaries, as well as electricity production from other renewable sources, such as wind and solar energy.

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.

Srednjesavske elektrarne d.o.o. (SRESA)

Srednjesavske elektrarne d.o.o.	
Managing Director	Matjaž Janežič, M.Sc.
Main activity	Electricity production in HPP
Supervisory Board composition as at 31/12/2012	Marjanca Molan - President Marko Štrigl Primož Stropnik Janez Žlak Drago Polak Mitja Dušak

The company SRESA was established in 2011 with its registered office on the location of TET. It was founded 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 HPPs financially and forwardly.

HPPs on the middle Sava River will considerably contribute to fulfilment of requirements under the EU directive on RES and will enable more flexible operation of the Slovenian electricity system.

TPP production

Termoelektrarna Šoštanj d.o.o. (TEŠ)

Termoelektrarna Šoštanj d.o.o.	
Managing Director	Simon Tot, M.Sc.
Main activity	Production of electricity in thermal power plants
Supervisory Board composition as at 01/01/2012	Janez Keržan, M.Sc. - President Dean Besednjak, Ph.D. Klemen Potisek, M.Sc. Franc Rosec Aljoša Tomaž Branko Sevčnikar
Supervisory Board composition as at 31/12/2012	Roman Šturm, Ph.D. - President Janja Špiler Marjan Ravnikar, M.Sc. Aljoša Tomaž

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

In terms of output, TEŠ is comparable to similar thermal power plants in Europe and even exceeds their operating unit availability. Moreover, the construction of replacement Unit 6, a 600 MW production facility, will additionally contribute to its positioning, as 30% less coal will be consumed for the same amount of energy produced, while emissions will decrease significantly (reduction of CO_2 emissions by app. 35% in comparison to other TEŠ units). Replacement Unit 6 will contribute also to decrease of environmental pollution and improvement of quality and energy efficiency, while it will allow TEŠ to reach compliance with international standards for the Best Available Technology.

Erico d.o.o. is an associate of TEŠ.

Termoelektrarna Trbovlje d.o.o. (TET)

Termoelektrarna Trbovlje d.o.o.	
Managing Director	Franc Blaznek
Main activity	Production of electricity in thermal power plants
Supervisory Board composition as at 31/12/2012	Drago Skornšek - President Zvonko Petan, M.Sc. Jaroslav Vrtačnik, M.Sc. Borut Dolanc Samo Moškon Janez Balog

The beginning of electricity production activities in the Zasavje area, especially in Trbovlje, goes back to 1906, when the first kilowatt hour of electricity was produced at the then thermal power station, which was the most contemporary power facility at the time. Since then, the company TET went through a lot of changes in diverse areas – of technology, development, economy, HR, organisation and environment. Those changes have arisen from the awareness that operations need to be more efficient and economical.

TET's vision is a reliable, environment-friendly and cost-efficient electricity production and sale. In that way, the company could maximally meet demands of owners, customers, employees, suppliers, local community and the country.

TET's vision is also to become a modern energy-producing company, the relevant market share of which would ensure a long-term competitive development of electricity, technological fuel and thermal energy production, as well as of energy supply to the surrounding area. TET strives to preserve and increase its electricity production, at the same time pursuing its economic objectives and international environmental requirements for the country, and to considerably contribute to a reliable electricity supply for Slovenia.

TET Novi Materiali d.o.o. was established on 27 December 2012. As the only owner, TET founded TET Novi materiali d.o.o, Trgovina in storitve, for the purpose of wholesale of wood, construction material and sanitary equipment. The new company is a result of activities of the development centre RC eNeM, within which TET participates on two development projects.

Primary sources

Premogovnik Velenje d.d.

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 01/01/2012	Matjaž Janežič, M.Sc. - President Irena Stare Miran Božič
Supervisory Board composition as at 31/12/2012	Matjaž Janežič, M.Sc. - President Marko Štrigl Jana Vrtovec Trček, M.Sc. Rajko Arlič Kristjan Verbič, M.Sc. Bojan Brcar

PV is a company with 140-year tradition, firm present and energetic goals for the future. Technologically advanced extraction equipment and skilled employees that operate with it, place PV among the most up-to-date underground coal mines in the world. With the use of most up-to-date technology, the company achieves exceptional production results comparable to the achievements of underground coal mines in Europe and worldwide. Besides reliable and competitive supply of local coal for electricity production, the transfer of PV's in-house and highly professional engineering expertise and technology across the Slovenian border is also fundamental. According to international reviewers, PV is a reference coal mine of Western Europe. Its technological expertise ranks it in the peak of global technology. The PV's top electrical and mechanical equipment is the result of years of development activities and domestic engineering expertise.

Subsidiaries and associates of PV

HTZ I.P. d.o.o. is the largest disability company in Slovenia with 859 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.

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 elderly.

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.

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

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.

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.

Fairwood PV

PV, the Fairwood Group, Cigler & partners and Chescor Capital established a joint company Fairwood PV, with registered office in Singapore. The company's activities will include services of coal mines management, project designing, engineering and operating in India and the entire Asian-Pacific Region, with emphasis on environment-friendly technologies based on the most advanced technology for production efficiency and safety in the area of coal mining. Fairwood PV prepares plans for modernisation of some of underground coal extraction mines in the region, while pursuing the PV's current strategic goals, which underline safety and environment protection.

Macedonian branch office

On 20 October 2011, the company Premogovnik Velenje established a branch office in the Republic of Macedonia. The title of subsidiary is Premogovnik Velenje d.d. – Velenje Branch Office in the Republic Macedonia, Skopje. In 2012, the company operated through the branch office to a minimum degree.

International network

HSE Italia S.r.l.

HSE Italia S.r.l.	
Board of Directors of the company as at 31/12/2012	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.

HSE Balkan Energy d.o.o.	
Managing Director as at 01/01/2012	Boris Mezgec, M.Sc.
Managing Directors as at 31/12/2012	Irena Stare Drago Skornšek
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. v.a. – in liquidation proceedings

HSE Hungary Kft. "v.a." - in liquidation	
Managing Directors as at 01/01/2012	Tomaž Štokelj, Ph.D. Borut Meh
Disolution officer as at 31/12/2012	Irena Stare
Main activity	Electricity trading

The company HSE Hungary was founded in 2006 with the aim to establish connections with electricity markets of Central and Eastern Europe, mainly with Poland, the Czech Republic and Slovakia.

In 2010, HSE acquired a limited licence for trading in Hungary and took over the sales of electricity. Throughout 2012, HSE Hungary did not perform electricity trading activities. After the final settlement of operating receivables at the beginning of 2012, voluntary liquidation procedures for HSE Hungary were started. Official strike-off the companies register took place in March 2013.

HSE Adria d.o.o.

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

The Zagreb-based company was founded with the purpose to establish connections with the Central and Eastern Europe markets. The company is engaged in cross-border electricity trade, electricity sales and purchase contracts, and technical consulting.

HSE Bulgaria EOOD

HSE Bulgaria EOOD	
Managing Directors	Drago Skornšek Irena Šlemic
Main activity	Electricity trading

The HSE Bulgaria subsidiary was established in 2007 with the aim of expanding electricity trading to SE European markets. Due to changes in legislation, at the end of 2012, HSE started the procedures for acquisition of trading licence for Bulgaria. At the beginning of 2013, HSE launched the activities for voluntary liquidation of HSE Bulgaria.

HSE MAK Energy DOOEL

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.

HSE BH d.o.o.	
Managing Director	Zlatko Sahadžić
Main activity	Electricity trading

In June 2010, HSE BH was established in Sarajevo, Bosnia and Herzegovina, with the purpose of electricity trading in the country, since the Bosnian legislation requires a legal entity to be registered in Bosnia and Herzegovina in order to obtain licences for electricity trading in and outside the country.

HSE Prague branch office

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. Due to changes in legislation in 2010, electricity trading was transferred to the company HSE, while the branch office has to stay officially active.

HSE Bratislava branch office

HSE Bratislava Branch Office	
Manager	Tomaž Štokelj, Ph.D.
Main activity	Electricity trading

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

Slovakia as well, the electricity trading is performed through the company HSE, which enables greater credibility and flexibility in trading transactions.

HSE Bucharest 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, in 2007 HSE decided to open a representative office in Bucharest and obtain the electricity trading licence.

Investments

HSE Invest d.o.o.

HSE Invest d.o.o.	
Managing Director	Miran Žgajner, M.Sc.
Main activity	Other project engineering and technical consulting
Supervisory Board composition in 2012	Irena Šlemic - President Alida Rejec, M.Sc. Andrej Tumpej Drago Polak Igor Žurga Nives Podgornik

HSE Invest is a company for engineering and construction of power plants, providing consulting and engineering services. The major activities of the company include management of development projects in the pre-investment stage, as well as of projects regarding construction of new plants and reconstruction of existing plants. The company is carrying out projects in the areas of energy, infrastructure and environmental protection in Slovenia with a goal of expanding its operations to other countries.

Soenergetika d.o.o.

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 bolier plant" under a direct contract.

Partners in this project are Elektro-Gorenjska, Petrol, Domplan and HSE. Each partner's participation 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.

This investment, the objective of which was a project for co-generation of heat and electricity in the area of Planina boiler plant, was successfully completed in 2012.

2.2.1 Management of the HSE Group

Establishment of HSE had two principal objectives: coordination of main activities and utilisation of synergy effects among companies within the HSE Group. The main purpose behind the establishment of HSE was performance of holding activities, i.e. to found, finance and manage companies in which it would hold majority stakes. In the course of its development, the desire for more intensive integration and exploitation of mutual synergies grew further.

The Group prepares its strategic development concept on the basis of which it will fulfil its vision to ensure a long-term competitiveness of the Group on the global energy market, while at the same time expanding its activity and generate new synergetic effects. The Strategic development concept of the HSE Group will help the Group to preserve its mission, i.e. to maintain its leading role on the domestic market and to rank first on the markets the SE Europe, to develop the Slovenian energy-based economy and science in order to implement them internationally.

The HSE Group has to build on trust and recognisability. Improvement of our reputation is the Group's key challenge for the future. Corporate governance is, therefore, of great importance. As a basic condition for better management and business practice, efficient risk management, optimised organisational structure and mutual relationships in the Group, corporate governance is undoubtedly the area that needs new foundations and renewed strategy. The Strategic development concept of the HSE Group will redefine the Group's corporate governance. When the market circumstances change significantly, the business system has to be prepared for immediate adjustment, in order to ensure the Group's existence, development and progress. The right choice in this are good management and decisions that lead to:

- increased operating efficiency,
- maximised synergy effects,
- efficient risk management,
- establishment of adequate conditions for investments,
- reaching even better operating results,
- ensuring constant progress, innovations and development.

The idea of reorganising the HSE Group in terms of better quality and efficiency is not new. This fact can be confirmed by the decisions of the Group's strategic conferences as well as other documents regarding its strategy and development. The content of these documents clearly shows that a need for **greater exploitation of synergies, equity consolidation** and more intensive **coordination of activities exists.**

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 the companies abroad 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 the committee responsible for supervision of major investments.

Active supervision committee

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

Worker participation in management

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

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

Trade union activities

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

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

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

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

HSE Group Joint Workers' Council

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 (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 or management boards, workers' councils and representative labour unions in the HSE Group companies.

2.3 Business policy of the HSE Group

Mission

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

Vision

Our vision is to provide for optimum utilisation of Slovene energy sources and expert potential while establishing partnerships abroad – especially in SE Europe – and thus ensure long-term competitive advantage of the Group in the global energy market and expand its business operations to create additional synergy effects for the Group and Slovenia as a whole.

Values

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

- having satisfied service users;
- building responsible, long-term partnerships with business partners;
- environment protection, 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 3x20 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.

Despite severe market conditions and taking into account general economic situation, in 2012 the HSE Group strived 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; and
- Seize the opportunities that will arise from the project South Stream in Slovenia regarding exploitation of natural gas for production of electricity and/or thermal energy for households and industry.

In 2012, we implemented these policies through continued activities on projects, especially in terms of the lower Sava River HPPs construction, replacement Unit 6 in TEŠ and new export shaft in PV. We also continued to carry out activities regarding HPPs on the Mura River and the middle Sava River, as well as the solution for energy location of TET. The same goes for the activities aimed at establishing a more efficient coordination between the controlling company HSE and the Group's subsidiaries in order to maximise the availability of the Group's potential and exploitation of synergy effects.

National, European and global framework in 2012

The HSE Group currently operates in very unstable circumstances, which are not connected solely to recovering of national economy, but also with outdated national energy strategy for the following medium and long-term period. Therefore, our activities depend on adoption of new National Spatial Plan (NSP) that would determine key guidelines and investments in the Slovenian energy industry until 2030, but the document has not been prepared yet. Legal arrangement of energy sector will undergo significant changes also due to new Energy Act. Both relevant documents should have been adopted already in 2011; however, since the adoption was postponed, the HSE Group has faced the fact that more precise time schedules and the scope of certain long-term projects, as well as their respective acceptability on strategic level, will have to be analysed only after the adoption of new NSP.

On 28 January 2012, changes and amendments to the current Energy Act (EZ-E) were adopted, which transposed to the Slovenian national law the directive relating to promotion of the use of energy from renewable sources, common rules for the internal market in natural gas, geological storage of carbon dioxide, indication by labelling and standard product information of the consumption of energy and other resources by energy-related products, and establishing a framework for the setting of ecodesign requirements for energy-related products.

In 2012, the adoption of the following measures was expected: the Climate Change Act and the Strategy for the Transition of Slovenia to a Low Carbon Society by 2050, which would set ambitious objectives also for the fields of energy, comprising total reduction of greenhouse gas emissions from the energy sector by 2050 and cancellation of coal import by 2020. Both documents were submitted for public consultation, but have yet not been adopted. The discussed issues are supposed to be covered by the new Climate Change Act.

At the European level, the strategy Europe 2020 continued to be the key reference for the HSE's operations, as it determines 5 core goals to be achieved by 2020. Two of these goals that have a direct impact on our operations are: reaching goals 3x20 in the area of environment and energetics and a 3% EU GDP for research and development. In order to achieve these goals, the EU established 7 initiatives, among which are 'Resource Efficient Europe' for promotion of transition to low carbon economy, of increased RES utilisation, of modernisation of the transport sector, and of energy sufficiency, and 'Innovation Union' for improvement of framework conditions and access to finance for research and innovation.

In November 2012, the Energy Efficiency Directive was adopted. The directive provides general framework for promotion of energy efficiency in the EU. The purpose of proposed measures, besides closing the gap in reaching the EU's 20% energy saving target, is to realise the EU vision for 2050, i.e. to establish a resource efficient and low-carbon economy, better energy sufficiency and improved reliability of energy supply. The directive became effective as of 4 December 2012, while the Republic of Slovenia has to transpose it to the national law by 5 June 2014, supposedly with the new Energy Act (EZ-1).

As at the end of 2012, the United Nations Climate Change Conference took place in Doha, India. The conference confirmed the extension of the Kyoto Protocol, which is the only legally binding obligation to reduce emissions of greenhouse gases. The Protocol is effective until 2020, when it will be replaced with a new agreement, which will be binding also for developing countries. The agreement is predicted to be ratified in three years.

2.5 Management system policy

2.5.1 Achieving objectives in the area of quality

Our permanent objectives regarding quality are:

- 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 2012 have been achieved. We continued with the works regarding preparation of unified rules of procedure of the HSE Group. Certain system procedures were amended and supplemented. The management system documentation was integrated into the ODOS computerised document system. Training for the employees in the area of management systems were carried out. We performed a recertification audit for ISO 9001:2008 and ISO/IEC 27001:2005, and regular audit for ISO 14001:2004 and OHSAS 18001:2007.

In the previous year, we successfully completed the internal audit, management review and external audit of the RES production compliance with criteria EE, EE+ and Eenew TÜV SÜD and the RECS compliance for the HPP chains at DEM, SENG and HESS. In 2012, Eenew (Certificate for production of E-RES in new HPPs of less than 12 years) was added.

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 is in line with the requirements of ISO 14001:2004 standard.

In 2012, we carried out internal and external assessment of compliance with ISO 14001 standard in the area of environmental protection. 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.

Four environment programmes were prepared for 2012. We carried out the programme 'Summary of Terms of reference ToR 2 (9^{th} Book)' describing the methods of CO_2 storage and potential storage locations in Slovenia.

The study 'Preliminary economic assessment of the investment and operating costs of CO_2 capture in TEŠ Unit 6' was concluded.

2.5.3 Achieving objectives in the area of occupational safety and health

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 audits were successfully completed, the auditors determined that the area of occupational health and safety is managed in accordance with the standard. In 2012, the Group carried out all the activities planned for achieving the goals, in line with the funds available.

2.5.4 Achieving information security objectives

In 2012, the implementation of information security management measures continued in accordance with the ISO 27001 standard and included:

- updated 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 the monitoring of events in the area of information security and business IT were prepared, as were the methods for their classification based on changes, possible incidents and actual incidents, and for their appropriate allocation and resolution;
- revised system management rules of procedure;
- 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 are 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 HSE company was issued the certificate on 10 May 2010. After the acquisition, the Managing Director of the company appointed a team for coordination of professional and family life, which continues to work on the certificate in accordance with measures. Most of adopted measures is carried out adequately. For some of them, protocols have been prepared and approved. A research among employees is carried out every year. On 6 September 2012, the second annual visit by an external consultant took place in connection with the HSE annual report on performance of measures for obtaining complete Family-Friendly Company certificate. The company DEM also holds the Family-Friendly Company certificate.

2.5.6 Certificates obtained by the HSE Group production companies

	HSE	DEM	SENG	HESS	TEŠ	TET	PV	HSE Invest
ISO 9001	•	•	•		•	•	•	•
ISO 14001	•	•	•		•	•	•	
OHSAS 18001	•	•	•		•	•	•	•
ISO 27001	•	•			•			•
ISO 50001							•	
ISO/IEC 17025					•			
EE TÜV	•	•	•	•				
EE+ TÜV	•	•	•	•				
EEnew TÜV	•			•				
RECS	•	•	•	•				
PoI		•	•	•				
DPP	•	•						
HACCP					•	•		
DOP					•			•

ISO 9001: Quality management system under the regulations of standard; **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; **ISO/IEC 17025:** General requirements for the competence of testing and calibration laboratories; EE TUV: Certification assessment in accordance with TÜV TMS criteria for electricity production from renewable sources (CMS Standardu 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; **Eenew TÜV:** Certification assessment in accordance with TÜV TMS criteria for electricity production from renewable sources – for new up to 12 years old HPPs; **RECS:** Renewable Energy Certificate System = International certification system for RES electricity; **PoI:** Guarantee of origin; **FFC:** Family-friendly company. **HACCP:** Hazard Analysis Critical Control Point = Analysis of critical control point risk Standard for measuring labs; **CSR:** Corporate Social Responsibility certificate.

2.6 Market position

2.6.1 Features of the Slovenian economic environment

Decrease in GDP

In 2012, the real decrease in the Slovenian GDP amounted to 2.3%, mostly as a result of decreased domestic consumption at private, as well as at the national level.

Investment continued to drop as well. Smaller domestic demand reflects also in international transactions; import of goods and services was lower by 6.6% compared with 2011, while export remained unchanged.

Annual inflation

The year-on-year inflation in Slovenia amounted to 2.7% at the year-end, which exceeded the Eurozone average. Fluctuation of prices was caused predominantly by week economic activity, locally and globally. Higher year-on-year inflation was mostly a result of higher prices of food, services and energy products, but also of higher excise duties.

Credit crunch

Decreased lending to the domestic non-banking sector intensified at the end of the year, while net repayment of the Slovenian banks' liabilities to international organisations continued.

Electricity consumption

General consumption of electricity in 2012 decreased by 1% compared to the previous period.

Decrease in economically active population

The unemployment rate increased once again. The average number of unemployed in 2012 was 90,000, which is 6000 more than in 2011.

2.6.2 Market environment of the electricity industry

In 2012, the European economy faced escalation of the its debt crisis, which reached the peak in the summer when the required rate of return on 10-year Spanish and Italian bonds amounted to 7.7% and 6.6%, respectively. After the speech of the ECB president Mario Draghi on 26 July 2012, when he made a commitment that the ECB will do 'whatever it takes to preserve the euro', the situation on financial markets calmed down and the pressure regarding the value of bonds issued by problematic countries slightly decreased by the end of the year. Due to great debt, measured according to GDP share, the Eurozone members bound to adopt strict general government saving measures. This resulted in reduced demand for final products and the Eurozone economy recorded a 0.9% GDP decrease, despite stable economic circumstances in the USA and China.

All this affected the impaired euro currencies against American dollar, which on one hand improved the competitiveness of European exporters in the global market, while on the other hand it increased the prices of energy products within the EU quoted in American dollars. Decreased demand caused a significant drop in the Eurozone industrial production, which on annual basis amounted to -2.2%, resulting in reduced electricity consumption in 2012.

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, which increased the volume of electricity trade in the Slovenian electricity exchange.

In 2011, the Slovenian electricity distribution companies transferred their trading activity to newly established subsidiaries. With the intention to establish stable sales channels in the domestic electricity market, in 2012 HSE continued to carry out the activities for capital entry into newly established companies. For its entry into ownership of Elektro Gorenjska Prodaja, HSE obtained the Competition Protection Office approval already in April 2012, while the E3 entry was approved in November.

Unfavourable economic events reflected also in the emissions trading, as the demand for emission coupons dropped, due to reduced production activity in practically all industries. Besides the energy sector, which represents the most important link in the European trading scheme, this comprises also the chemical, cement, steel and paper industries, all of them reflecting even more significant decrease. A considerable contribution to reduced emissions was made also by the quick increase in RES-based electricity, especially in solar and wind power plants, where in past years we have achieved record levels of growth in installed capacity of such plants. The abovementioned factors represented a huge pressure on the emission coupons price, which for the most of 2012 amounted to app. 8 EUR/t, but dropped significantly in November, reaching app. 6.5 EUR/t by the end of the year. Continuous decrease in the emission coupons prices we have witnessed since June 2011 is the result of the emission trading specificity, with changing demand, which depends on current economic circumstances, on one hand, and administratively determined bid, which does not adapt to economic circumstances, on the other.

2.6.3 Conditions in the electricity market

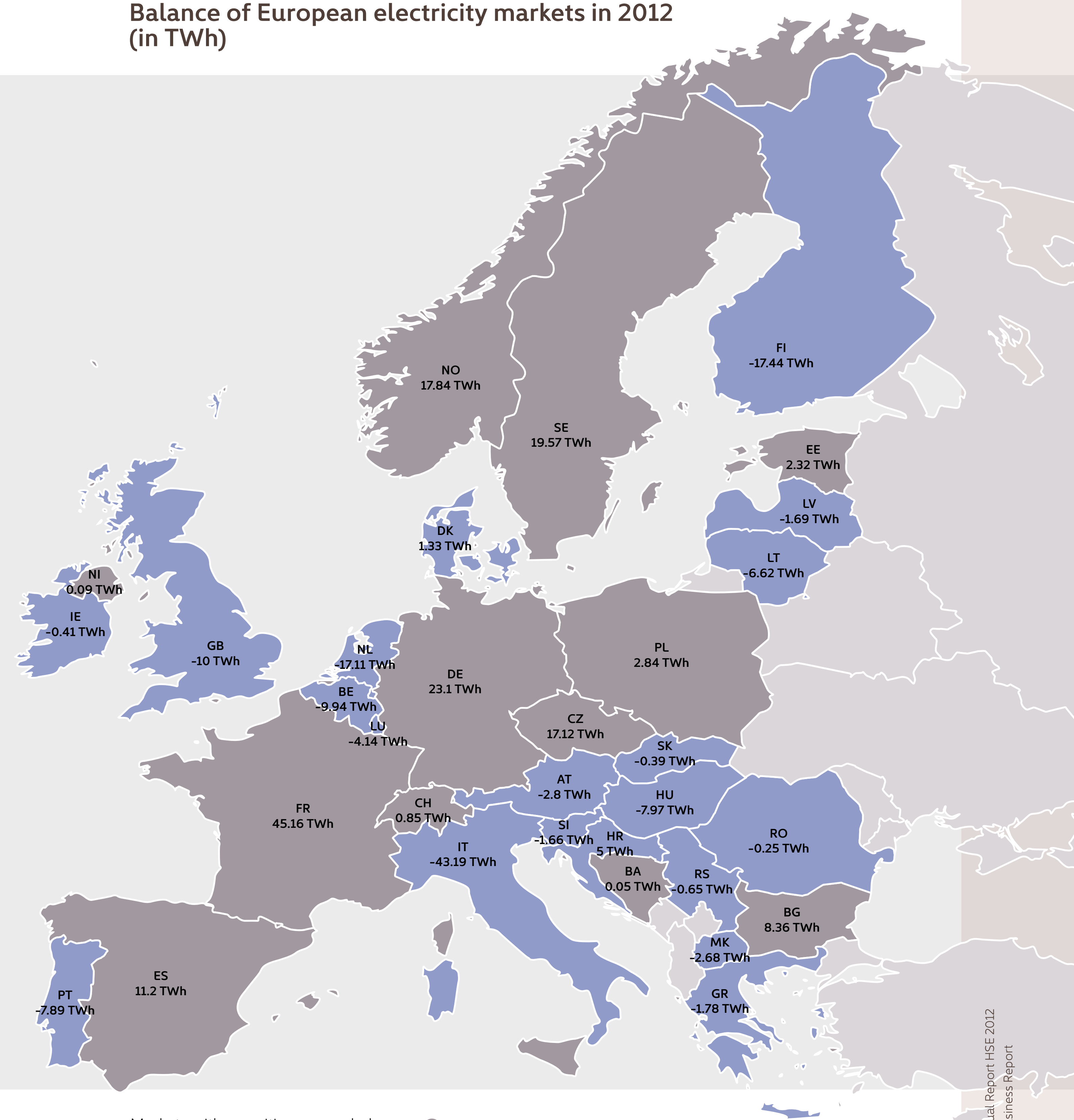
Slovenia

The Slovenian economy was overwhelmed with issues also 2012. These are the consequence of the global financial and economic crisis and they struck also other European economies. We witnessed shutdowns of many industrial facilities and the decrease in industrial production, which affected the electricity consumption. The energy balance of Slovenia for 2012 was similarly negative as in 2011, including the losses from on transmissions network, which amounted to app. 1.7 TWh, according to ELES data. Extremely low production of HPPs in 2011 continued also in the first half of 2012, but slightly increased in the second half, so that total 2012 electricity production in Slovenia amounting to 11.1 TWh almost equalled the 2011 amount, despite the NEK overhaul and lower thermal energy production. In the first half of the year, the discussed lack of precipitations in the SE Europe along with moderate demand for electricity in the Balkans caused the supply prices to rise, while relatively low prices of continental Europe energy resulted in higher prices of cross-border transmission capacities at the northern border. The average price of daily auctions for transmission capacities from Austria to Slovenia increased by more than 50% in 2012 and amounted to 8.6 EUR/MWh. Electricity import for the Slovenian market in 2012 increased on the Italian and Austrian border, while it dropped on the Croatian border. With better hydrological circumstances in the second half of 2012, these trends settled and the daily price on the SE Europe market corresponded better to the continental Europe price. The Slovenian day-ahead market reached the highest supply prices in February, as the result of low production due to lack of precipitations on one hand, and high consumption due to low temperatures on the other. On 9 February 2012, at 7 p.m., the highest hourly consumption from the Slovenian transmission network was recorded, amounting to 2,068 MW, while the next day the BSP Southpool exchange recorded the highest hourly electricity price, which reached 224 EUR/MWh.

Production structure in the HSE Group enables a flexible response to market conditions and, in terms of achieving ther best business results, optimum operations. On the basis of the market prices dynamics, current production sources availability, technical limitations of individual units and respective variable costs, we allocated energy in more expensive hours. In the markets differences, we recognised business opportunities and took the advantage of strategic position of Slovenia as a three markets juncture for sales of energy from our own production. Our good business performance was supported also by optimised operations of PSP Avče.

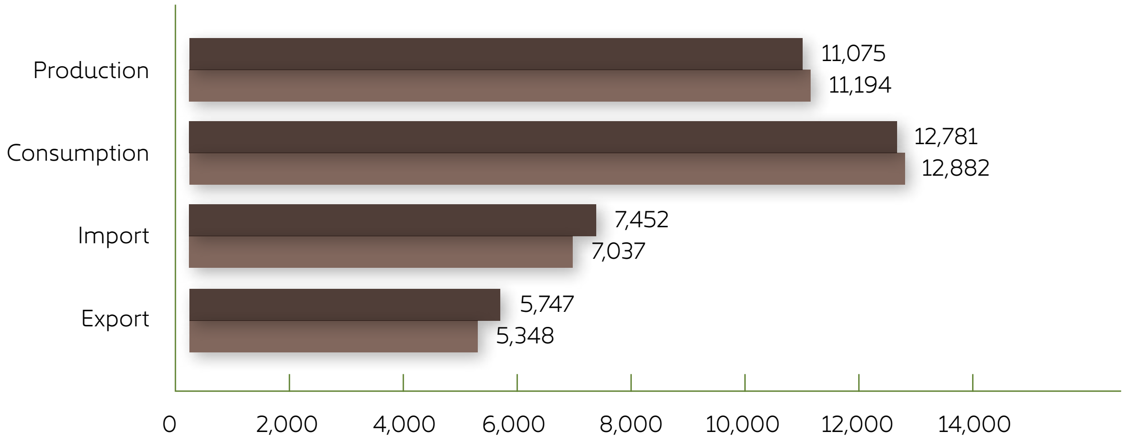
With daily trading, the company HSE contributed to development of the Slovenian exchange BSP Southpool, which gained an important role on the Slovenian electricity market thanks to its integration of Slovenian and Italian markets. After a modest beginning in 2010, the annual trading volume in 2011 amounted to surprising 1.5 TWh, to reach 4.4. TWh in 2012. Along with trading quantities has grown also the market liquidity, and BSP placed Slovenia on the map of transparent and liquid European electricity markets.

Balance of European electricity markets in 2012 (in TWh)



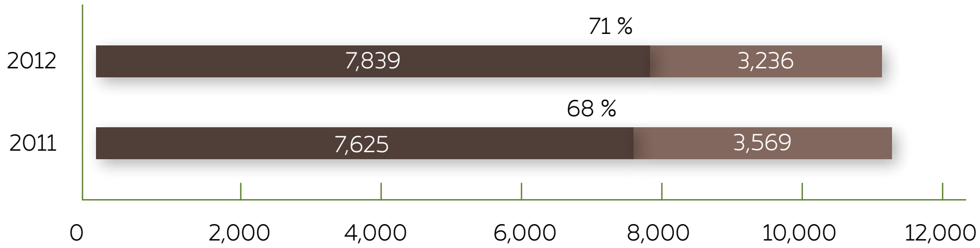
Markets with a positive energy balance
Markets with a negative energy balance

Slovenian electricity market in 2012 and 2011 (in GWh)



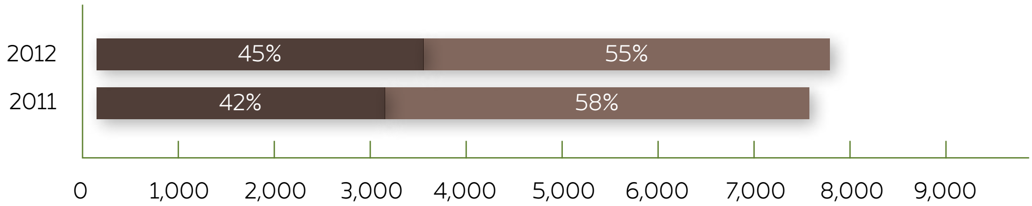
2012 2011

Share of the HSE Group's production in total electricity production in Slovenia in 2012 and 2011 (in GWh)



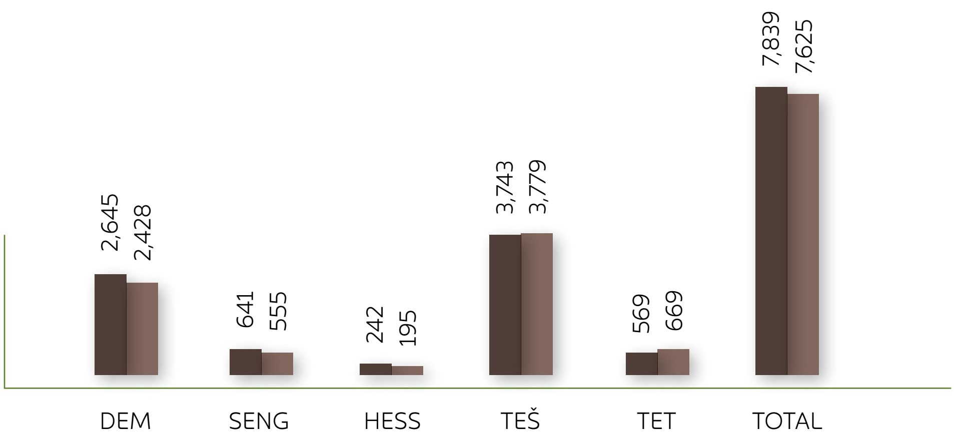
Production HSE Production others

Share of RES-based electricity in production of the HSE Group



E-RES in HSE Group Other electricity production of HSE Group

Net electricity production of the HSE Group in 2012 and 2011 (in GWh)



2012 2011

Continental Europe

After a sudden increase in electricity supply prices for one year ahead due to disaster in Japan and subsequent decision to shut down eight German NPPs in March 2011, the number of long-term contracts on electricity supply decreased throughout 2012, dragging along the European debt and economic crisis. Relatively high prices of raw materials and energy products and lower euro value, compared to dollar, had no success in increasing the electricity supply prices in the coming year, as the significantly larger production electricity in solar and wind power plants had a major impact on the supply prices under long-term contracts. On the basis of the embargo on import of Iranian oil to Europe due to nuclear issues, concerns over potential interruptions in oil supply due to war in Syria and later in Palestine, the oil prices were at high levels throughout 2012. Coal prices on international markets fell in negative trends in the second half of the year, affecting the value of long-term electricity supply contracts. Shutdowns of industrial facilities contribute to lower emission levels and, consequently, to decreased demand for emission coupons. The market highly depends on political decisions of the EU leaders, who still have not reached an agreement on keeping/withdrawing a portion of coupons in/from the European trading scheme. In 2013, we transit to a new period of emissions trading that requires all electricity producers to cover their emissions entirely. Due to intensifying debt crisis in Europe, a question arose, whether week European economy is capable of handling the financial burden of emission coupons purchase. And the uncertainty regarding long-term requirements in the area of CO_2 emissions limitation is one of the main factors in the drop of investments in new production capacities of the Continental Europe. AS a matter of fact, every investor needs a clear price signal that will allow them better prediction of future cash flows and easier closing of investment financial construction.

The market of Continental Europe represents the market in which we generate a large part of our turnover that we managed to increase in 2012, despite severe conditions. This market is exploited particularly due to high liquidity for price risk management in trading in other regional markets.

In 2012, we exploited the Czech electricity market mostly for purchases of electricity, which we later sold to the German and Hungarian market. Market coupling was one of the activities to balance the electricity price on the day-ahead market level on the Czech and Slovakian market, which in 2012 were joined by the Hungarian market. In the Czech Republic we trade with short-term and long-term electricity supply contracts, while in Slovakia we trade solely on daily level due to poor liquidity of long-term contracts.

The scope of trading on the Italian market increased, in comparison with financial year 2011, which is mainly a result of purchasing cross-border transmission capacities, enabling transfer of electricity from Slovenia, Austria, Switzerland and France to Italy. In 2012, Italy also increased its RES-based installed capacity, especially from solar energy. It was expected to influence the electricity price; however, the Standard National Price in summer was relatively high, and reached an average of 85 EUR/MWh, in August.

The Swiss electricity market remains relatively illiquid, which is shown in large trading gap for almost all products listed in trade portals. Prices are under strong seasonal influence, since Switzerland imports electricity during winter and intensively sales it in spring and summertime.

SE Europe

In 2012, the recession in the area of the SE Europe additionally deteriorated, which had a significant impact on trading with electricity. Although the average daily supply price decreased in 2012, the winter and early summer day-ahead market prices reached record values. This was a result of long periods of draught, causing decreased electricity production, and of incredibly low temperatures, which reflected in higher consumption. Extraordinary circumstances influenced also a temporary border restrictions and ban of electricity exports from the countries with record consumption. In the second half of the year, especially in the last quarter of 2012, prices changed drastically, due to abundant precipitations and deteriorated economic conditions. As industrial consumption continued to decline, certain countries further reduced their electricity purchases in the market. In this way, Montenegro exported electricity for the first time. On the SE Europe markets, trading liquidity decreased, since credit ratings of trading companies continued to drop. Due to insufficient financial liquidity of companies in the region, operating risks increased additionally, which led to stricter monitoring of credit ratings of all business partners, increased trading in organised electricity markets and lower number of bilateral deals.

In 2012, HSE participated – directly or through its subsidiaries – in most auctions for cross-border capacities in SE Europe. Due to liquidity and operating electricity exchange, Hungary is the HSE's most relevant market in SE Europe in terms of transactions in connection with hedging against price changes and portfolio balancing at hourly basis. In 2012, HSE traded in Hungary on the behalf of the controlling company.

In 2012, Romania adopted an act for mandatory trading on OPCOM. For HSE, this has been an insurmountable obstacle; namely, due to VAT repayment issues for foreign organisations we cannot trade directly on the electricity exchange and have been forced to trade through intermediaries instead. For this reason, at the end of 2012 we decided to establish a branch in Romania, through which will could trade at OPCOM exchange.

Due to financial problems of Greece, HSE limited trading on the Greek market and consequently its exposure to the market already in 2011. HSE carefully monitored financial situation of its business partners also on other markets. Nevertheless, most of activities were carried out uninterruptedly. In mid-2012, Bulgaria additionally increased electricity export duties, thus raising the price of Bulgarian energy to the extent to render export economically unreasonable. This reduced the trading scope of HSE MAK Energy, mainly engaged in transferring Bulgarian energy to other SE Europe markets At the end of 2012, we were successful in launching energy supply to Albanian borders. In the last quarter, the company HSE BH purchased hydro-electricity surpluses in Bosnia and Herzegovina for transmissions to other electricity markets. Even in 2012, HSE Adria presented a significant link within the HSE Group, since it connects the domestic market with the markets of SE Europe.

2.7 Sales and customers

Electricity and electricity prices

The financial year of 2012 was undoubtedly successful for the HSE Group, in spite of deteriorated economic circumstances. The Group tackled weather-related issues, especially draught, which began in autumn 2011 and lasted until the second half of 2012, affecting also HPPs electricity production. Fortunately, abundant precipitations from September on contributed to important hydrologic improvement.

The HSE Group's HPPs (except of PSP Avče) managed to compensate the electricity deficit by the end of the year, producing 249 GWh more than planned.

Despite adverse economic conditions in the first half of the year, the HSE Group continued to ensure efficient and secure supply of electricity to its customers in 2012. Coordinated trading, sale of electricity produced by the HSE Group companies, management of the company's production units and sale of electricity from other sources enabled us to maximise our performance.

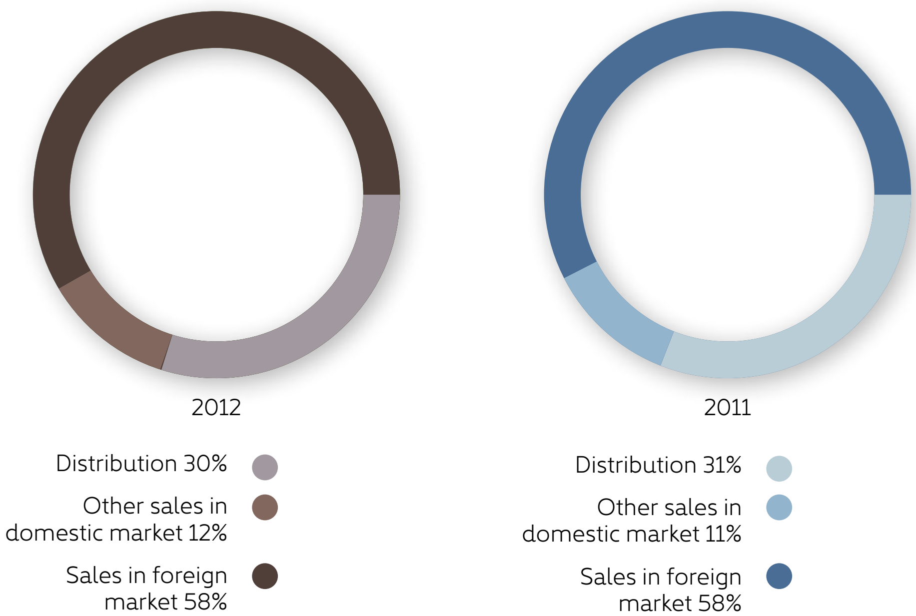
We have to underline, that the quantity of electricity sold in the domestic market increased to 39%, while sales on international markets exceeded 61% of total electricity sold by the company HSE in 2012. Electricity purchased or imported by HSE exceeds the electricity produced by the HSE Group (30% of energy purchased was produced in Slovenia and 70% on foreign markets). This only confirms the fact that HSE has become a successful electricity trader; not only on the domestic market but also on the European electricity market, where its reputation of an established partner continues to grow.

Sales volume and structure

The HSE Group sold 28,734 GWh of electricity in 2012. 11,983 GWh of electricity were sold on the Slovenian market, which accounts for 42%, while 16,751 GWh were sold on foreign markets representing 58% of sales.

In domestic market, 72% of electricity was sold to distribution companies, large consumers (Talum, Petrol energetika, PV, Treibacher and Silkem) bought 11% of electricity, while 17% was sold to ELES (energy of secondary and tertiary control, deviations), Borzen and other Slovenian buyers.

Structure of the HSE Group electricity sales in 2012 and 2011



Long-term contracts and day-ahead market

Most of the HSE 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 the 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 2012:

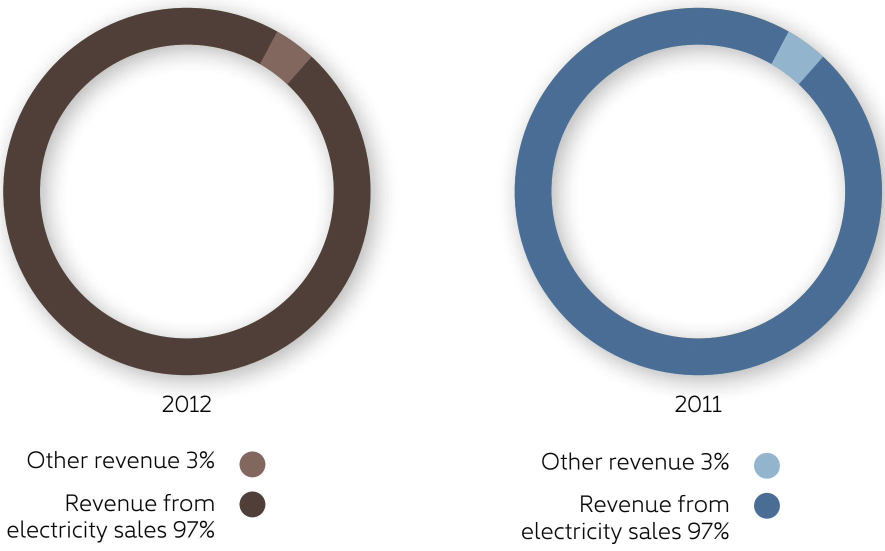
- secondary frequency control in the regulatory range of ± 77 MW;
- tertiary frequency control in the amount of 138 MW;
- black start capability;
- reactive power support.

2.7.1 Other activities

Net sales revenue structure

The HSE Group generated EUR 1,808 million in net sales revenue in 2012. 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 the HSE Group net sales revenue in 2012 and 2011



Other products and services

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

Thermal energy

In 2011, 345 GWh of thermal energy was produced, which is 6% less than in 2011.

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, we strive to achieve cost-effective production of electricity through appropriate production scheduling. As electricity market prices fluctuate over time, rational dispatching of production units, while observing technical criteria, is all the more important in such unfavourable circumstances.

The HSE Group's electricity production units in 2012

DEM		Dravograd	Vuzenica	Vuhred	Ožbalt	Fala	MB otok	Zlatoličje	Formin	Small HPPs	TOTAL
No. of turbines		3	3	3	3	3	3	2	2	2	
Net output	MW	26.2	55.6	72.3	73.2	58.0	60.0	126.0	116.0	1.3	**588.6**
Rated generator capacity	MVA	36.0	78.0	90.0	90.0	74.0	78.0	170.0	148.0	2.9	**766.9**
Gross head	m	8.9	13.7	17.4	17.4	14.6	14.2	33.0	29.0		**148.2**
Rated flow Qi	m³/s	405.0	550.0	550.0	550.0	505.0	550.0	463.0	500.0		

HESS		Boštanj	Arto-Blanca	Krško	TOTAL
No. of turbines		3	3	3	
Net output	MW	31.5	38.0	39.0	**108.5**
Rated generator capacity	MVA	43.5	49.5	49.5	**142.5**
Gross head	m	7.7	9.1	9.2	**26.0**
Rated flow Qi	m³/s	500.0	500.0	500.0	

SENG		Doblar I.	Doblar II.	Plave I.	Plave II.	Solkan	PSP Avče	Zadlaščica	Small HPPs	TOTAL
No. of turbines		3	1	2	1	3	1	2	26	
Net output	MW	30.0	40.0	15.0	19.0	32.0	180.0	8.0	11.4	**335.4**
Rated generator capacity	MVA	48.0	50.0	22.0	23.0	39.0	195.0	10.0	15.6	**402.6**
Gross head	m	47.2	48.5	27.5	27.5	23.0	521.0	440.0		**1,134.7**
Rated flow Qi	m³/s	90.0	105.0	75.0	105.0	180.0	40.0	2.2		

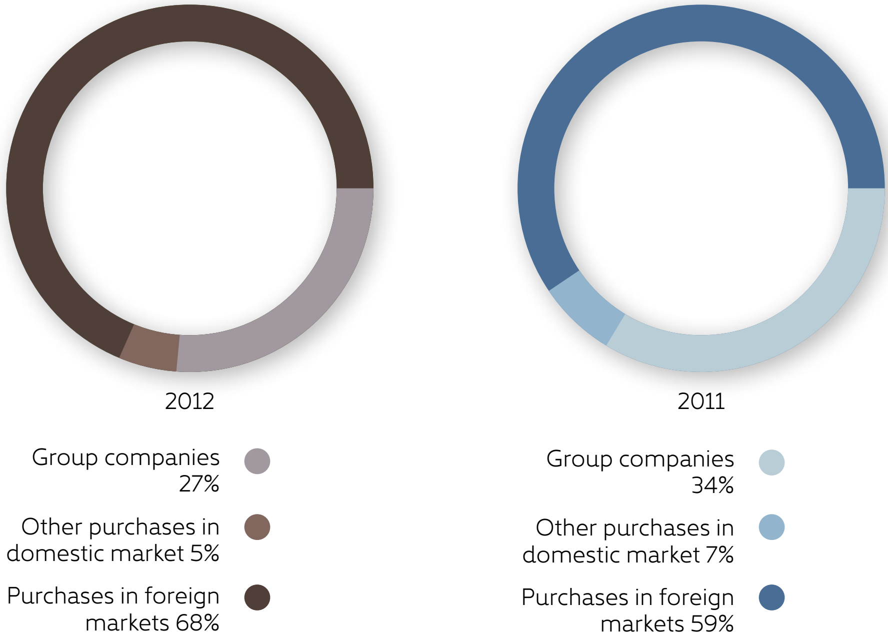
TEŠ		PT 51	PT 52	Unit 3	Unit 4	Unit 5	TOTAL
Net output	MW	42.0	42.0	50.0	248.0	305.0	**687.0**
Rated generator capacity	MVA	56.3	56.3	94.0	324.0	377.0	**907.5**

TET		PB I.	PB II.	Unit 4	TOTAL
Net output	MW	29.0	29.0	110.0	**168.0**
Rated generator capacity	MVA	39.7	39.7	156.0	**235.4**

Structure of sources

The electricity the HSE Group supplied to its customers in 2012 was purchased in the domestic market from the HSE Group companies (27%) and other electricity suppliers in Slovenia (5%). The remaining energy (68%) was bought in foreign markets.

Structure of electricity purchases in 2012 and 2011



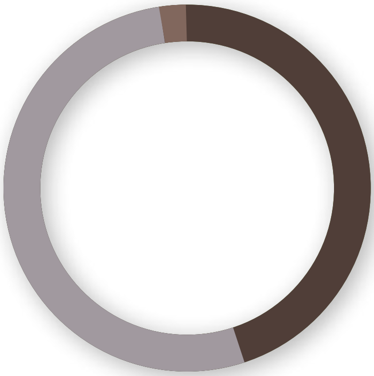
Optimising purchases

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 2012, primary raw materials used in the production of electricity included coal (53%), water potential (45%), and natural gas and extra light heating oil (2%).

Primary raw materials used in electricity production in 2012 and 2011

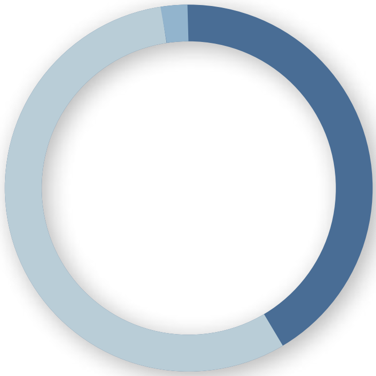


2012

Natural gas and liquid fuel 2%

Water 45%

Coal 53%



2011

Natural gas and liquid fuel 2%

Water 42%

Coal 56%

Purchase price

In 2012, the purchase price of electricity was mostly affected by the following factors:

- 8% higher than planned electricity production at HPPs;
- 2.7% lower than planned electricity production from TEŠ coal;
- 100% of realised electricity production from TEŠ gas;
- 94.8% realisation of planned electricity production at TET;
- conditions in the electricity market.

Coal

41,799 TJ of coal was used for purposes of electricity production at TEŠ. At TET, 6,957 TJ of coal was used for production of electricity.

Coal stocks

As at 31 December 2012, PV's and TET coal stocks amounted to 4,278 TJ and 1,337 TJ, respectively.

2.9 Investments

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 of users. This challenge demands that we remain active in light of achieving ambitious 3x20 goals in all priority areas: RES exploitation, reducing CO_2 emissions and providing efficient and reliable supply to 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.

The HSE Group is currently involved in intensive investments in new production facilities. These comprise replacement Unit 6 at TEŠ, the HPP chain on the lower Sava River and overhauls of some existing HPPs.

Major investments of the HSE Group in 2012 are presented below.

2.9.1 Replacement Unit 6

The main reason for the replacement unit is in the wear and tear of existing production units, as they are operating with an obsolete technology that will gradually not fulfil minimum requirements for such plants any more. In terms of assessing the reasonableness of investment, a key role is played by the energy location with the infrastructure necessary for transport of electricity, as well as by the local community. Nowadays, it is very time-consuming to obtain new energy location in a relatively short period of time, not only in Slovenia, but also abroad.

By constructing the new replacement coal-fired unit (Unit 6), the CO_2 emissions and other emissions in the environment will essentially decrease due to the use of the latest (BAT) technology, while achieving an essentially higher energy efficiency of the new unit.

The key investment goals are:

- maintain electricity production on the location of TEŠ using domestic coal;
- electricity production of approximately 3,500 GWh with approximately 30% lower coal consumption;
- reduce the emission factor (kg CO_2/kWh) from 1.25 to 0.87;
- reduce the cost/own price of electricity for more than 20 EUR/MWh;
- achieve return on equity of at least 10%;
- ensure further existence of energy sector in the Šalek Valley in connection with PV;
- fulfil environmental commitments within the EU;

Basic technical data

Generator output	600 MW
Net output	545.5 MW
Specific net consumption	8,451 kl/kwh
Price of coal	2.25 EUR/GJ
Hours of operation at full capacity	6,650 hours/year
Number of employees	200
Useful life	40 years
CO_2 emission	1.056 kg CO_2/kg coal

Replacement Unit 6 in TEŠ has a clear economic effect, as it ensures lower electricity price compared to the prices currently achieved at TEŠ, as well as a significant ecological effect. After the Unit 6 is launched, we will decrease the emissions of sulphur oxide from 400 to 100 mg/Nm3 and the emissions of nitrogen oxide from 500 to 150 mg/Nm3 relative to achieved emission of both pollutants in 2008.

In 2012, the TEŠ Unit 6 project entered in its most active phase; main construction works in the boiler area and relevant preparation works were completed already in February. Therefore, TEŠ met the conditions for handing over the boiler room area to Alstom, which started installing the main steel construction in March, followed by secondary construction in May, to launch installation of pressure vessel in August.

In 2012, most of construction in the boiler room area was carried out, including installation of main gantry crane in autumn. In April, the company completed construction of the cooling tower shell and continued with finishing works on the shell and the ground slab and began with preparations for installation of equipment. At the end of May, construction works on the flue gas desulphurisation plant were terminated, so the company could begin with installation of construction and equipment. The railway infrastructure for transport of the heaviest equipment was inspected and adjusted accordingly.

In 2012, TEŠ carried out all procedures for selection of contractors for performance of other construction works, preparation and transport of products, preparation of cooling water, construction installation, ammonia water storage, GIS 400 kV substation, coal transport – phase 1 and 2 and technological connections. By the end of 2012, most contracts with contractors were concluded and engagements in the fields of other construction works, cooling water preparation and construction installations were launched.

Due to delays in obtaining the government guarantee and subsequent lack of funds, project works performed by some major contractors were occasionally interrupted. In July, the National Assembly adopted the ZPODPTEŠ act; relative contracts with the Republic of Slovenia were concluded in November, followed by the National Assembly ratification of the guarantee contract in December.

The project investor is the company TEŠ.

2.9.2 Lower Sava HPPs

Construction of HPP chain on the lower Sava River is one of the most important projects at the national level. This economically efficient project is the result of predominantly Slovenian expertise and will have a positive effect on energy sector (ensuring also RES-based electricity production) and flood protection, while giving local communities a constant contribution, i.e. concession, and promoting local economy.

Besides already existing HPP Vrhovo (owned by SEL), HPP Boštanj and HPP Arto-Blanca, the lower Sava HPPs will comprise also HPP Krško, currently in course of trial operations, HPP Brežice and HPP Mokrice, both in the process of spatial planning.

Basic technical data

HPP	HPP Boštanj	HPP Arto-Blanca	HPP Krško	HPP Brežice	HPP Mokrice
Rated flow	500 m^3/s	500 m^3/s	500 m^3/s	500 m^3/s	500 m^3/s
Height of fall	7.74 m	9.19 m	9.23 m	11.07 m	7.47 m
Maximum capacity	36 MW	42 MW	42 MW	54.1 MW	33.72 MW
Average annual production	115 GWh	144 GWh	144 GWh	168 GWh	133.19 GWh
Useful volume of reservoir	1,170,000 m^3	1,300,000 m^3	1,170,000 m^3	3,400,000 m^3	2,600,000 m^3
Median annual flow	209 m^3/s	215 m^3/s	218 m^3/s	231.3 m^3/s	273 m^3/s
Construction period	2002 - 2006	2005 - 2009	2007 - 2012	2013 - 2016	2013/14 - 2017

At **HPP Krško,** the following activities were carried out: the construction powerhouse with finishing works was concluded; external arrangements on both river banks were terminated; installation of turbine and generator equipment was completed, the last generating unit was handed over for trial operations; works on passage for water organisms were completed; additional system for manual gate management was introduced; installation of the system for measurement of water levels was completed; works on the technical protection system were performed; HPP Krško was connected to 110 kV transmission line and to the network; filling of reservoir to the second intermediate quota of 162.90 m was carried out; all projects of works executed and instruction for equipment operating and maintenance were handed over or are in the final stage; transfer of a part of operating data to NEK for operating purposes was established.

At **HPPS Brežice** and **Mokrice,** the following activities took place; preparation procedure regarding NSP and comprehensive assessment of effects on environment for both HPPs; on 27 June 2012, the Government of RS adopted the Decree on NSP for the HPP Brežice area; activities for ordering and preparing the environmental report for HPP Brežice, plus NEK; activities regarding selection of project designer for energy area arrangements at HPP Brežice and contract conclusion; intensive preparation of documentation of obtaining building permit (DOBP) and individual tenders; agreement with NEK on co-financing changes arising from HPP Brežice effects; preparation, revision and SB confirmation of the HPP Brežice investment programme - energy part; preparation of expert basis for the draft and final proposal of NSP, HPP Mokrice environmental report, submitted to the Ministry of Agriculture and the Environment in June 2012; in September 2012, the documents among relevant line ministries were adjusted and prepared for public presentation and discussion; public presentation of HPP Mokrice NSP in Slovenia started in September, while in Croatia it began in November 2012; both public presentations have been concluded.

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

2.9.3 Middle Sava HPPs

As at 22 December 2005, HSE was granted a concession right for exploitation of water potential of the middle Sava River. 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.

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 HPP chain on the middle Sava River, between Medvode and Zidani Most, increasing the Group's E-RES production by 994 GWh, and the installed capacity by 295 MW, and expanding the volume of ancillary services.

Basic technical data of projected HPPs on middle Sava, between Medvode and Zidani Most:

Facility	HPP Suhadol	HPP Trbovlje	HPP Renke	HPP Ponoviče	HPP Kresnice	HPP Jevnica	HPP Zalog	HPP Šentjakob	HPP Gameljne	HPP Tacen	TOTAL
Install. capacity [MW]	39.3	27.8	28.6	63.0	27.7	22.9	15.7	15.9	24.4	30.1	**295.4**
Electricity [GWh/year]	153.4	97.6	97.9	190.7	96.4	101.4	52.8	52.4	66.7	84.7	**994.0**

In 2012, the project was carried out in accordance with the plan, but with smaller intensity than expected. The procedure for HPPs Renke, Trbovlje and Suhadol NSP started, but was suspended at the spatial planning conference, due to unsigned concession contract. Despite considerable efforts of the concessionaire – HSE, the contract has not been signed yet. In the second half of 2012, the Ministry of Agriculture and the Environment presented its proposal on expanding the Nature 2000 programme as far as Kresnice.

In 2012, two documents that should be signed along with the concession contract were prepared in collaboration with the Zasavje region municipalities: Agreement on Cooperation and Mutual Rights and Obligations Regarding Construction of HPP Suhadol, Hpp Trbovlje and HPP Renke, and as appendix, List of Projects and Financing Sources. The two documents define participation of individual municipalities in the project and all arrangements carried out within HPPs (due to their effect, as well as other arrangements that do not relate to HPPs). They include list of sources to fund individual project, as well as people responsible for them.

In 2011, the company SRESA was established (with the partners on the project – SEL and GEN). In 2012, the company still did not operate in full extent, since the holder of concession is HSE; therefore, all activities are still managed by HSE.

The project investor is the company HSE.

2.9.4 PSP Kozjak

The basic concept behind the construction of PSP on the Drava River is to exploit natural possibilities for electricity production in times of its peak consumption and to provide better exploitation of base load power plants. PSP will ensure back-up power in the event of major production outages in the Slovenian electricity system and will enable control over the network power and frequency.

In 2012, activities for preparation of Environmental Impact Report and relating expert assessments in the area of electromagnetic radiation, noise and vibrations, and archaeology, were carried out.

The project investor is the company DEM.

2.9.5 Reconstruction of HPPs Doblar I, second stage

The reconstruction of HPP Doblar, started in 2009, comprises a gradual replacement of all three turbines and ancillary systems. After a successful launch of operations on the third turbine, de-installation of the second turbine began in September 2011, with complete removal of turbine, generator, inlet penstock and other electronic equipment . Demolition works were performed, the new spiral case was concreted and new turbine generator and other equipment were installed. Technical inspection was carried out. After the first synchronisation in October 2012 and trial runs on the network, the contractual trial operation of turbine 2 began.

The project investor is the company SENG.

2.9.6 PV investments

A major investment of the company PV, started in 2011, comprises establishment of connections to the opening parts of the pit centre and connections for extraction of the pillar of central part. PV continued with the construction of NOP II shaft and carried out the necessary maintenance of external facilities.

Most of company's investments were in connection with modernisation of mining equipment, i.e.: extraction and directional chain conveyor, as well as of the equipment for maintenance of the existing extraction equipment (especially hydraulic supports), extraction machines equipment and control and energy equipment. Investments in equipment for construction of pit roadways refer to purchase of steel arch supports, maintenance of road-headers, modernisation of coal transportation from preparation sites, comprising investment in the construction of pit roadways and in new band conveyors, as well as in large-scale maintenance of the existing ones. PV invested also in infrastructure upgrading and maintenance and in other pit and surface equipment.

2.9.7 TET

The appropriate bases for adopting a decision on a long-term solution of energy location of TET after 2015 were prepared also in 2012.

2.10 IT

Optimisation of the HSE Group data centre

Within the scope of consolidation of system and application services, a review and optimisation of existing data capacities of individual HSE Group companies were carried out in 2012. The Group implemented contemporary mutual file system that enables disburdening of the Group's HA production system for less demanding applications and data. Within the streamlining project, virtual library system was also introduced, enabling daily, monthly and annual generation and archiving of back-up copies on two locations, which was not possible with the previous technologically obsolete equipment. Such approach is important for the Group, especially in terms of controlled IT system management and simultaneous provision of backup.

HSE IT security policy

In 2012, the anti-virus protection within the framework of the ISO-27001 standard was updated and unified management of workstations was introduced, in the area of IT security. This solution enables also current monitoring of compliance of the installed software and patches, which additionally contributes to IT systems reliability.

Consolidation of server and data structure of the HSE IT system

Given the nature of its activity and organisation, HSE has several business locations, and its IT system is based on the same, complex structure. For this purpose, consolidation of server and data (production) infrastructure was carried out at the end of 2012 within the scope of 'Open Architecture', which comprises the standard open architecture without vendor lock-in. During the project performance, the HSE Group available system resources were taken into account – for establishment of HA centre DRC (Disaster Recovery Centre), new data and serves capacities in existing safe rooms were implemented, thanks to which synergy effects on cost and technological level were achieved. The new architecture enables access to system resources and data at the secondary location in the event of natural disasters or failure of the primary location, always and for all end-users.

Unification of business ERP systems in the HSE Group

In 2012, the company HSE started upgrading the ERP business information system in line with the project management procedures and with a special emphasis on preparation of project plans (BBP), which will represent the basis for effective continuation of the upgrade project.

2.11 Business performance analysis

In 2012, the HSE Group realised **net sales revenue** in the amount of EUR 1,807,655,487 and exceeded the revenue realised in the same period of the previous year by 36% due to larger sales quantities of controlling companies, particularly in the foreign market.

The realised **operating profit or loss** of the Group in 2012 amounts to EUR 113,297,265 and exceeds the profit or loss from 2011 by 18%. In 2012, the HSE Group created a **net profit** in the amount of EUR 85,980,549, which is 23% more than in the previous year. The net profit increase was mostly a result of higher other operating revenue (on the basis of provision reversals, drawing of deferred revenue and winning of the case TDR-Metalurgija at the Supreme Court), as well as of lower income tax due to changed tax legislation.

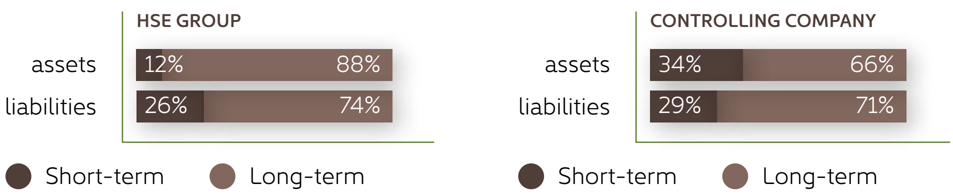
Assets of the HSE Group as at 31 December 2012 amount to EUR 2,595,852,738 and increased by 14% compared to the end of 2011, particularly due to larger investments of the Group.

As at 31 December 2012, the HSE Group **equity** amounted to EUR 1,473,462,757, which is 5% more than at the end of 2011, mostly because of the net profit in 2012.

In the discussed period, the HSE Group companies **produced** 7,839 GWh. Production increased by 3%, mostly due to larger production of HPPs (better hydrologic conditions in the second half of the year) and the trial run of HPP Krško.

In 2012, the Group realised positive **cash flow** from operating and financing activities, which is of key importance; however, a negative cash flow arose from financing of large HSE Group's investments, particularly the investment in replacement Unit 6 at TEŠ. As at 31 December 2012, cash was by EUR 60 million lower, compared with the end of 2011. Due to non-realised drawing of long-term loans from EIB and EBRD, the Group carried out bridge financing of Unit 6 through short-term borrowing from banks and own funds.

Structure of the statement of financial position of the HSE Group and the controlling company as at 31 December 2012



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 2012 the HSE Group provides short-term financing sources for a part of long-term assets. The reason for this is delayed drawing of the EIB and EBRD long-term loans for replacement Unit 6 in 2012 that made the Group use bridge loans from banks and own resources.

Capital adequacy

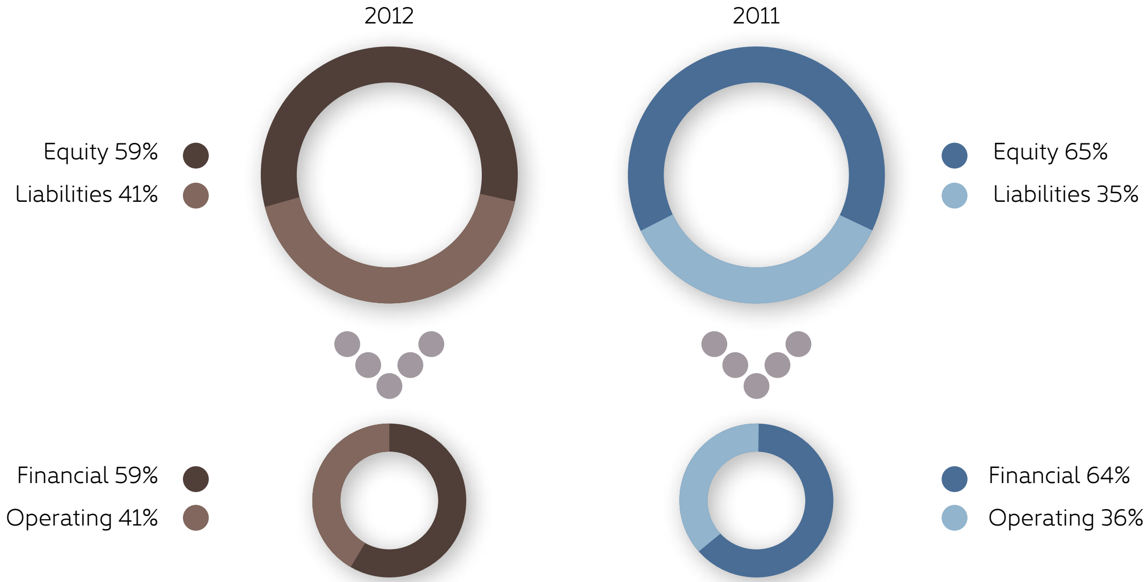
Ensuring capital adequacy is one the most important responsibilities of HSE Group managers. As at 31 December 2012, the Group recorded insufficient long-term resources for financing long-term assets, due to short-term bridge financing of the TEŠ Unit 6. After the drawing of the EIB and EBRD loans began in March 2013, the Group capital adequacy normalised, and it has been estimated that the Group possesses adequate resources in relation to maturity of assets. Considering the debt and predictions regarding events on electricity markets, ensuring of capital adequacy remains one of key duties of the HSE Group's managements.

Debt ratio

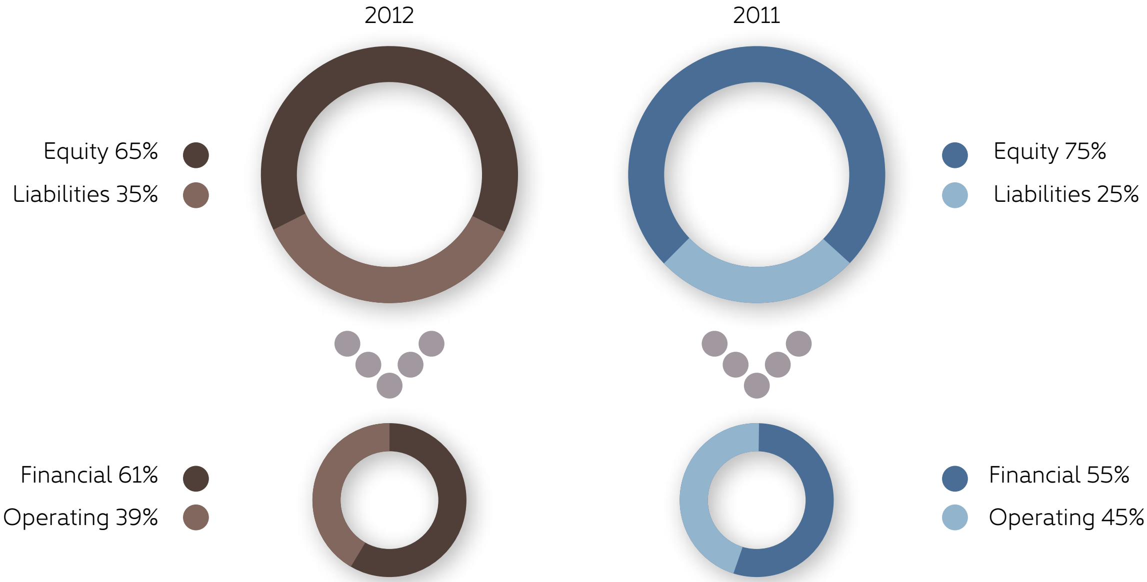
The debt ratio is an important indicator of the business and financial situation. The analysis of the financial position of HSE Group companies reveals that from the perspective of debt the business and financial position of HSE Group companies is under control, with the debt ratios not exceeding the thresholds of safe operation at the end of 2012.

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 35% and to 41% within the Group. In the debt structure of the parent company and the Group, financial liabilities account for 61% and 59%, 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 December 2012



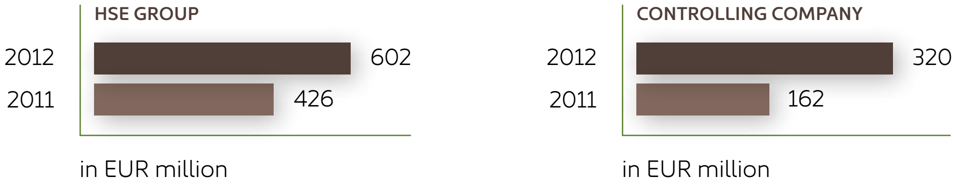
Equity-to-debt ratio of the controlling company as at 31 December 2012



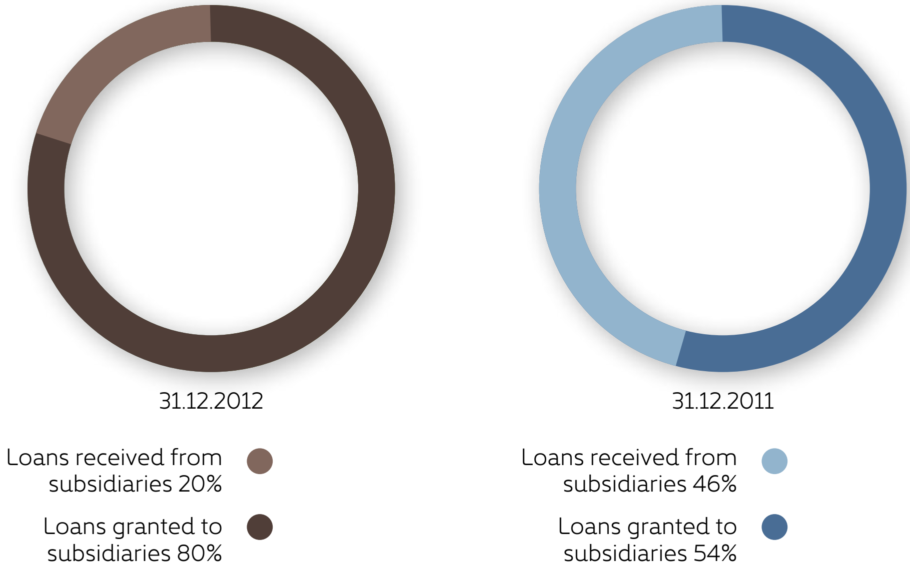
The controlling company's bank debt at the end of 2012 was by 91% higher compared with the end of 2011, while the Group's debt to banks was increased by 24%, mostly as a result of short-term borrowing of the controlling company, which carried out bridge financing of the TEŠ replacement Unit 6.

The net financial debt of the controlling company at the end of 2012 exceeded the 2011 debt by 98%, while the net financial debt of the Group increased by 41%. The controlling company and Group financed the HSE Group investments through borrowing.

Net finance debt of the HSE Group and the controlling company as at 31 December 2012



Structure of mutual lending



The value of assets and total equity as at 31 December 2012 and operating results of HSE Group companies in 2012

HOLDING SLOVENSKE ELEKTRARNE d.o.o.

Total assets in €	1,534,472,368
Total equity in €	988,423,184
Net profit or loss in €	42,954,179

Slovenia

Dravske elektrarne d.o.o.

HSE's stake	100%
Total assets in €	563,849,951
Total equity in €	546,253,419
Net profit or loss in €	7,341,405

Termoelektrarna Šoštanj d.o.o.

HSE's stake	100%
Total assets in €	1,192,103,061
Total equity in €	395,268,577
Net profit or loss in €	32,460,877

HSE Invest d.o.o.

Direct HSE's stake	25%
Indirect HSE's stake	75.0%
Total assets in €	2,434,048
Total equity in €	1,007,418
Net profit or loss in €	36,326

Soške elektrarne Nova Gorica d.o.o.

HSE's stake	100%
Total assets in €	262,520,195
Total equity in €	190,461,792
Net profit or loss in €	7,078,935

Termoelektrarna Trbovlje d.o.o.

HSE's stake	81.3%
Total assets in €	50,594,218
Total equity in €	34,655,507
Net profit or loss in €	56,600

Soenergetika d.o.o

HSE's stake	25%
Total assets in €	6,564,050
Total equity in €	1,202,548
Net profit or loss in €	238,960

Hidroelektrarne na spodnji Savi d.o.o.

Direct HSE's stake	51%
Indirect HSE's stake	84.6%
Total assets in €	265,169,755
Total equity in €	259,536,329
Net profit or loss in €	1,217,607

Premogovnik Velenje d.d.

HSE's stake	77.7%
Total assets in €	219,462,673
Total equity in €	111,307,106
Net profit or loss in €	19,741

SRESA d.o.o.

HSE's stake	60%
Total assets in €	80,275
Total equity in €	80,266
Net profit or loss in €*	(18,844)

* SRESA was founded for the purpose of constructing a HPP on the medium Sava River. The concession right is still held by HSE d.o.o.

Abroad

HSE Italia S.r.l.

HSE's stake	100%
Total assets in €	155,956
Total equity in €	149,516
Net profit or loss in €	28,728

HSE MAK Energy DOOEL

HSE's stake	100%
Total assets in €	3,523,753
Total equity in €	66,808
Net profit or loss in €	21,727

HSE Balkan Energy d.o.o.

HSE's stake	100%
Total assets in €	2,071,778
Total equity in €	946,240
Net profit or loss in €	247,569

HSE Adria d.o.o.

HSE's stake	100%
Total assets in €	6,983,041
Total equity in €	924,565
Net profit or loss in €	461,949

HSE Bulgaria EOOD

HSE's stake	100%
Total assets in €	656,984
Total equity in €	487,507
Net profit or loss in €	1,303

HSE BH d.o.o.

HSE's stake	100%
Total assets in €	4,224,918
Total equity in €	593,314
Net profit or loss in €	82,022

2.11.1 Controlling company's ratios

Equity financing rate

At the end of the year, the company's equity constituted almost 64% of its total liabilities. Compared with 2011, the equity financing rate decreased despite capital increase with the 2012 net profit, particularly due to increase in short-term financial liabilities arising from the company's bridge financing of the TEŠ replacement Unit 6.

in €	31/12/2012	31/12/2011
1. Equity and liabilities	1,534,472,368	1,311,214,398
2. Equity	988,423,184	970,128,945
Equity financing rate = 2 / 1	**64.41**	**73.99**

Long-term financing rate

The company financed 71% of its assets with long-term resources, while the other 29% were financed through short-term resources. Compared to the end of 2011, the long-term financing rate decreased by 12 p.p. as a result of decrease in long-term loans due to repayments and increase in short-term loans.

in €	31/12/2012	31/12/2011
1. Equity	988,423,184	970,128,945
2. Long-term liabilities	96,726,143	108,727,007
3. Total (1 + 2)	1,085,149,327	1,078,855,952
4. Equity and liabilities	1,534,472,368	1,311,214,398
Long-term financing rate = 3 / 4	**70.72**	**82.28**

Operating fixed assets rate

The company's fixed assets represent a 2.3% share, which is lower in relation to 2011, as the increase in fixed assets was smaller compared with other assets.

in €	31/12/2012	31/12/2011
1. Property, plant and equipment	12,307,202	12,832,828
2. Intangible assets	23,653,281	19,888,785
3. Total fixed assets at carrying amount (1+2)	35,960,483	32,721,613
4. Assets	1,534,472,368	1,311,214,398
Operating fixed assets rate = 3 / 4	**2.34**	**2.50**

Long-term assets rate

The company's long-term assets account for almost 66% of its total assets. The ratio decreased compared to its 2011 value, mostly as a result of increase in short-term loans given to the company TEŠ and impaired long-term financial investment in TET.

in €	31/12/2012	31/12/2011
1. Property, plant and equipment	12,307,202	12,832,828
2. Intangible assets	23,653,281	19,888,785
4. Long-term investments in subsidiaries	968,572,290	982,338,595
5. Other long-term investments and loans	366,500	246,500
6. Long-term operating receivables	676,352	870,313
7. Total (1 + 2 + 3 + 4 + 5 + 6)	1,005,575,625	1,016,177,021
8. Assets	1,534,472,368	1,311,214,398
Long-term assets rate = 7 / 8	**65.53**	**77.50**

Equity to fixed assets ratio

in €	31/12/2012	31/12/2011
1. Equity	988,423,184	970,128,945
2. Property, plant and equipment	12,307,202	12,832,828
3. Intangible assets	23,653,281	19,888,785
4. Total fixed assets at carrying amount (2+3)	35,960,483	32,721,613
Equity to fixed assets ratio = 1 / 4	**27.49**	**29.65**

The ratio stood at 27 at the end of 2012, meaning that all of the company's most illiquid assets were financed through equity. Due to increase in intangible assets (stocks of emission coupons), the ratio was slightly lower compared with 2011.

Acid test ratio

in €	31/12/2012	31/12/2011
1. Cash and cash equivalents	3,200,494	18,203,132
2. Short-term investments and loans	303,599,771	109,317,324
3. Total liquid assets (1 + 2)	306,800,265	127,520,456
4. Short-term liabilities	449,323,041	232,358,446
Acid test ratio = 3 / 4	**0.68**	**0.55**

The acid test ratio describes the relationship between liquid assets and short-term liabilities. At the end of 2012, it stood at 0.7, meaning that more than a half of the company's short-term liabilities were covered by liquid assets. Compared with 2011, the ratio increased due to higher amounts of short-term loans received.

Quick ratio

in €	31/12/2012	31/12/2011
1. Cash and cash equivalents	3,200,494	18,203,132
2. Short-term investments and loans	303,599,771	109,317,324
3. Short-term operating receivables	215,552,162	150,285,915
4. Total (1 + 2 + 3)	522,352,427	277,806,371
5. Short-term liabilities	449,323,041	232,358,446
Quick ratio = 4 / 5	**1.16**	**1.20**

The quick ratio stood at 1.2 at the end of 2012, meaning that the company finances a part of its long-term liabilities with current assets. Compared with the value at the end of 2011, the ratio slightly decreased due to increased short-term financial liabilities that arose from the HSE's bridge financing of the replacement Unit 6 in TEŠ.

Current ratio

in €	31/12/2012	31/12/2011
1. Short-term assets	524,780,555	291,420,090
2. Short-term liabilities	449,323,041	232,358,446
Current ratio (short-term liabilities) = 1 / 2	**1.17**	**1.25**

The current ratio amounted to 1.17 at the end of 2012, which means that the Group covered all of its current liabilities through short-term assets. Compared with the value at the end of 2011, the ratio slightly decreased due to increased short-term financial liabilities arising from the HSE's bridge financing of the replacement Unit 6 in TEŠ.

Operating efficiency ratio

The company's operating revenue exceeded its operating expenses by 3% in 2012. The 2012 ratio was slightly lower compared with its 2011 value, due to decrease in profit or loss.

in €	2012	2011
1. Operating revenue	1,943,501,488	1,359,019,422
2. Operating expenses	1,879,991,946	1,303,401,997
Operating efficiency ratio = 1 / 2	**1.03**	**1.04**

Net return on equity ratio (ROE)

In 2012, the company generated EUR 4 of net profit per EUR 100 of equity invested. The ratio was lower than in 2011, mainly as a result of lower net profit realised in 2012 due to impaired long-term investment in the company TET.

in €	2012	2011
1. Net profit for the period	42,954,179	46,729,619
2. Average equity	979,276,064	949,938,622
ROE = 1 / 2	**0.044**	**0.049**

Net return on asset ratio (ROA)

The return on assets in 2012 of 3% was somewhat lower compared to the previous year, mainly due to lower net profit realised in 2012 and higher average assets (higher short-term loans granted to the Group companies).

in €	2012	2011
1. Net profit for the period	42,954,179	46,729,619
2. Average assets	1,422,843,383	1,254,711,192
ROA = 1 / 2	**0.030**	**0.037**

Added value

Compared with the previous period, the value added reached in 2012 increased by 14%, mostly due to better other operating revenue realised in 2012 as a result of positive court decision on the case TRD brining the company EUR 7 million.

in €	2012	2011
1. Operating revenue	1,943,501,488	1,359,019,422
2. Costs of goods, materials and services	1,867,670,826	1,292,558,665
3. Other operating expenses	699,440	830,847
Added value = 1-2-3	**75,131,222**	**65,629,910**

Added value / employee

Compared with the previous period, value added per employee increased by 11% in 2012, due to higher value added.

in €	2012	2011
1. Added value	75,131,222	65,629,910
2. Average number of employees	134	129
Added value/employee = 1/2	**562,781**	**508,759**

Debt-to-equity ratio

in €	2012	2011
1. Short-term financial liabilities	233,694,331	80,108,197
2. Long-term financial liabilities	89,558,481	100,009,595
3. Total financial liabilities (1+2)	323,252,812	180,117,792
4. Equity	988,423,184	970,128,945
Debt-to-equity ratio = 3 / 4	**0.33**	**0.19**

The ratio shows the relationship between the company's debt and equity. At the end of 2012, the ratio stood at 0.33 and was higher than in 2011 as a result of increased short-term debt. This increase was caused by the HSE's bridge financing of Unit 6, as TEŠ could not draw the long-term loans from EIB and EBRD by the end of the year, before obtaining the government guarantee. At the end of March 2013, the ratio stood at 0.27 due to TEŠ's drawing of the EIB and EBRD loans for the construction of replacement Unit 6. Consequently, TEŠ repaid the bridge loan from the company HSE. Short-term liabilities to banks and to the Group decreased, thanks to repayments.

Total financial liabilities / EBITDA

in €	2012	2011
1. Short-term financial liabilities	233,694,331	80,108,197
2. Long-term financial liabilities	89,558,481	100,009,595
3. Total financial liabilities (1+2)	323,252,812	180,117,792
4. EBIT – Operating profit or loss	63,509,542	55,617,425
5. Amortisation/depreciation	2,015,856	1,425,928
6. EBITDA (4+5)	65,525,398	57,043,353
Total financial liabilities / EBITDA = 3 / 6	**4.93**	**3.16**

Ratio represents relationship between the company's debt and EBITDA. Compared with the end of 2011, the ratio grew with the company's short-term debt.

EBITDA / Financial expenses from loans received

in €	2012	2011
1. EBIT – Operating profit or loss	63,509,542	55,617,425
2. Amortisation/depreciation	2,015,856	1,425,928
3. EBITDA (1+2)	65,525,398	57,043,353
4. Financial expenses from loans received	7,753,911	3,298,008
EBITDA / Financial expenses from loans received = 3 / 4	**8.45**	**17.30**

The ratio is lower than in 2011, mainly because of increased expenses for interest due to higher indebtedness.

Total financial liabilities / Assets

The total financial liabilities to assets ratio increased relative to the end of 2011 due to increased short-term financial liabilities.

in €	2012	2011
1. Long-term financial liabilities	89,558,481	100,009,595
2. Short-term financial liabilities	233,694,331	80,108,197
3. Total financial liabilities (1+2)	323,252,812	180,117,792
4. Assets	1,534,472,368	1,311,214,398
Total financial liabilities / Assets = 3 / 4	**0.21**	**0.14**

Dividend-to-equity ratio

Dividend-to-equity ratio for 2012 amounts to 2% due to the accumulated profit in the amount of EUR 20 million that the company HSE paid out in 2011. The management and SB of the company HSE propose that the owner allocate the 2012 accumulated profit in the amount of EUR 21.5 million to other revenue reserves due to significant Group investments planned.

2.11.2 HSE Group's ratios

Equity financing rate

At the end of 2012, the Group's equity represented 57% of its total liabilities. Based on the HSE Group net profit in the amount of EUR 86 million, the Group's equity increased compared with 2012; however, the dividend-to-equity ratio was lower as a result of increased long-term indebtedness arising from financing the construction of Unit 6.

in €	31/12/2012	31/12/2011
1. Equity and liabilities	2,595,852,738	2,275,886,031
2. Equity	1,473,462,757	1,409,097,763
Equity financing rate = 2 / 1	**56.76**	**61.91**

Long-term financing rate

The Group financed 74% of its assets with long-term resources, while the remaining 26% were financed with short-term resources. Long-term financing rate was lower than in 2011 because of short-term financial liabilities, which increased due to the HSE's bridge financing of the TEŠ replacement Unit 6.

in €	31/12/2012	31/12/2011
1. Equity	1,473,462,757	1,409,097,763
2. Long-term liabilities	458,930,107	501,407,398
3. Total (1 + 2)	1,932,392,864	1,910,505,161
4. Equity and liabilities	2,595,852,738	2,275,886,031
Long-term financing rate = 3 / 4	**74.44**	**83.95**

Operating fixed assets rate

in €	31/12/2012	31/12/2011
1. Property, plant and equipment	2,231,808,245	1,900,121,752
2. Intangible assets	46,605,673	47,817,146
3. Total fixed assets at carrying amount (1 + 2)	2,278,413,918	1,947,938,898
4. Assets	2,595,852,738	2,275,886,031
Operating fixed assets rate = 3 / 4	**87.77**	**85.59**

The Group's fixed assets represented 88% of its total assets, at the end of 2012. The operating fixed assets rate increased compared to the end of 2011, as a result of high investments of the Group companies, particularly in the replacement Unit 6 at TEŠ.

Long-term assets rate

in €	31/12/2012	31/12/2011
1. Property, plant and equipment	2,231,808,245	1,900,121,752
2. Intangible assets	46,605,673	47,817,146
3. Investment property	266,073	281,019
4. Long-term investments in subsidiaries	422,300	4,378,971
5. Other long-term investments and loans	3,995,914	5,137,980
6. Long-term operating receivables	1,234,782	1,685,613
7. Other long-term assets	520,189	632,148
8. Total (1 + 2 + 3 + 4 + 5 + 6 + 7)	2,284,853,176	1,960,054,629
9. Assets	2,595,852,738	2,275,886,031
Long-term assets rate = 8 / 9	**88.02**	**86.12**

The Group's total long-term assets account for 88% of its total assets. The long-term assets rate increased compared to the end of 2011, mostly as a result of higher investments of the HSE Group companies.

Equity to fixed assets ratio

in €	31/12/2012	31/12/2011
1. Equity	1,473,462,757	1,409,097,763
2. Property, plant and equipment	2,231,808,245	1,900,121,752
3. Intangible assets	46,605,673	47,817,146
4. Total fixed assets at carrying amount (2 + 3)	2,278,413,918	1,947,938,898
Equity to fixed assets ratio = 1 / 4	**0.65**	**0.72**

The equity to fixed assets ratio stood at 0.65 at the end of 2012, meaning that the majority of the most illiquid assets were financed from equity. Compared to the balance at the end of 2011, the ratio decreased as the equity increased less than the fixed assets. This results from bridge financing of investments with short-term loans.

Acid test ratio

The acid test ratio describes the relationship between liquid assets and short-term liabilities. At the end of 2012, the acid ratio stood at 0.01, which means that the Group covered 1.2% its current liabilities with its liquid assets. Compared with 2011, the ratio decreased due to the increase in short-term trade liabilities, which was a result of agreed-upon payment delays regarding the suppliers of equipment for the replacement Unit 6 at TEŠ, as the latter was unable to draw the long-term loans from EIB and EBRD.

in €	31/12/2012	31/12/2011
1. Cash and cash equivalents	6,795,197	67,007,238
2. Short-term investments and loans	1,210,394	1,894,071
3. Total liquid assets (1 + 2)	8,005,591	68,901,309
4. Short-term liabilities	663,459,874	365,380,870
Acid test ratio = 3 / 4	**0.01**	**0.19**

Quick ratio

The quick ratio stood at 0.38 at the end of 2012, meaning that the Group finances 38% of all current liabilities from short-term assets. Compared with 2011, the ratio decreased due to the increase in short-term trade liabilities, which was a result of agreed-upon payment delays regarding the suppliers of equipment for the replacement Unit 6 at TEŠ, as the latter was unable to draw the long-term loans from EIB and EBRD.

in €	31/12/2012	31/12/2011
1. Cash and cash equivalents	6,795,197	67,007,238
2. Short-term investments and loans	1,210,394	1,894,071
3. Short-term operating receivables	247,340,093	188,986,897
4. Total (1 + 2 + 3)	255,345,684	257,888,206
5. Short-term liabilities	663,459,874	365,380,870
Quick ratio = 4 / 5	**0.38**	**0.71**

Current ratio

The current ratio stood at 0.45 at the end of 2012, meaning that the Group finances 45% of all current liabilities from its total short-term assets. The ratio was lower than in the previous period, due to discussed increase in short-term trade liabilities regarding the construction of Unit 6 at TEŠ, as the company could not draw the long-term loans from EIB and EBRD.

in €	31/12/2012	31/12/2011
1. Short-term assets	301,532,840	305,056,555
2. Short-term liabilities	663,459,874	365,380,870
Current ratio (short-term liabilities) = 1 / 2	**0.45**	**0.83**

Operating efficiency ratio

In 2012, the Group's operating revenue exceeded its operating expenses by 6%. The ratio dropped by 1% compared with the 2011 ratio, due to deteriorated profit or loss of the controlling company.

in €	2012	2011
1. Operating revenue	1,894,454,884	1,388,711,186
2. Operating expenses	1,783,491,020	1,294,235,872
Operating efficiency ratio = 1 / 2	**1.06**	**1.07**

Net return on equity ratio (ROE)

in €	2012	2011
1. Net profit for the period	85,980,549	69,753,103
2. Average equity	1,441,280,260	1,376,617,115
ROE = 1 / 2	**0.060**	**0.051**

Net return on equity ratio – ROE for 2012 amounts to 6.0%; therefore, more than in 2011 (5.1%). The reason for this increase is larger net profit of the Group in 2012.

Net return on asset ratio (ROA)

in €	2012	2011
1. Net profit for the period	85,980,549	69,753,103
2. Average assets	2,435,869,385	2,088,197,192
ROA = 1 / 2	**0.035**	**0.033**

Net return on assets ratio – ROA for 2012 amounts to 3.5%, which is more than in 2011 when it amounted to 3.3%, since the net profit of the Group increased more than its average assets.

Added value

in €	2012	2011
1. Operating revenue	1,894,454,884	1,388,711,186
2. Costs of goods, materials and services	1,459,518,583	995,533,662
3. Other operating expenses	57,786,308	56,205,456
Added value = 1-2-3	**377,149,993**	**336,972,068**

Compared to 2012, the value added of the Group was higher by 12%, mostly due to improved operating profit or loss.

Added value / employee

in €	2012	2011
1. Added value	377,149,993	336,972,068
2. Average number of employees	3,860	3,822
Added value/employee = 1/2	**97,720**	**88,178**

Compared to 2012, the value added per employee was higher by 11%, mostly due to increased value added of the Group.

Debt-to-equity ratio

in €	31/12/2012	31/12/2011
1. Short-term financial liabilities	224,986,772	81,031,495
2. Long-term financial liabilities	383,769,140	411,791,973
3. Total financial liabilities (1+2)	608,755,912	492,823,468
4. Equity	1,473,462,757	1,409,097,763
Debt-to-equity ratio = 3/4	**0.41**	**0.35**

The ratio shows the relationship between the Group's indebtedness and equity. The value of the ratio is higher than at the end of 2011, mostly due to increased short-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 in the amount of EUR 86 million, the equity has also increased. However, the equity increase is lower than the increase in Group indebtedness. The ratio complies with conditions determined by the banks involved in the financing of investments.

Total financial liabilities / EBITDA

The ratio shows the relationship between the Group's debt and EBITDA. The ratio is higher than at the end of 2011, mostly due to higher short-term indebtedness of the HSE Group as a consequence of financing investment in the replacement Unit 6 at TEŠ. Despite the fact that the ratio is somewhat lower than in the previous year, it complies with the conditions determined by the banks involved in financing of investments.

in €	2012	2011
1. Short-term financial liabilities	224,986,772	81,031,495
2. Long-term financial liabilities	383,769,140	411,791,973
3. Total financial liabilities (1 + 2)	608,755,912	492,823,468
4. EBIT – Operating profit or loss	113,297,265	96,190,255
5. Amortisation/depreciation	89,668,593	92,705,604
6. EBITDA (4 + 5)	202,965,858	188,895,859
Total financial liabilities / EBITDA = 3/6	**3.00**	**2.61**

EBITDA / Financial expenses from loans received

The ratio showing the relationship between the indebtedness of the Group and financial expenses from loans is lower than in 2011, due to higher interest on loans, and it complies with conditions determined by banks participating in the financing of investments.

in €	2012	2011
1. EBIT – Operating profit or loss	113,297,265	96,190,255
2. Amortisation/depreciation	89,668,593	92,705,604
3. EBITDA (1 + 2)	202,965,858	188,895,859
4. Financial expenses from loans received	11,466,705	8,387,544
EBITDA / Financial expenses from loans received = 3/4	**17.70**	**22.52**

Total financial liabilities / Assets

The ratio showing the relationship between the Group's indebtedness and assets slightly increased in comparison with 2011, mostly due to the groups' increased indebtedness. The ratio complies with conditions determined by the banks involved in the financing of investments.

in €	2012	2011
1. Long-term financial liabilities	383,769,140	411,791,973
2. Short-term financial liabilities	224,986,772	81,031,495
3. Total financial liabilities (1 + 2)	608,755,912	492,823,468
4. Assets	2,595,852,738	2,275,886,031
Total financial liabilities / Assets = 3/4	**0.23**	**0.22**

Dividend-to-equity ratio

Within the scope of the HSE Group, the controlling company paid the owner the 2011 accumulated profit of EUR 20 million; accordingly, the dividend-to-equity ratio reached 1.4%.

2.12 Risk management

The HSE Group established a system of operating 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 risks,
- quantity risk,
- financial risks,
- corporative risks,
- information system risks,
- R&D 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 2012, we estimate that risks were managed adequately, considering existing limitations.

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

2.12.1 Report on work of the risk management committee of HSE for the year 2012

In the period of poor economic growth or even recession and simultaneous opening of electricity markets, risk management is extremely important. Structural changes in electricity production and the EU policy for promotion of RES-based production render it all the more complex. Therefore, in addition to expert services, the HSE owner and management are in need of another body that will be multidisciplinary and able to assess the risks of the industry from all perspectives. This role was assigned to the Risk management committee (hereinafter: Committee), which acts in accordance with its proper Rules of Procedure.

Committee meetings

In 2012, the Committee held 6 meetings, where it discussed risk-related issues, while considerably focusing on implementation of its decisions. The basis for the Committee's activities is the work programme, adopted within the scope of the business plan. In 2012, the Committee adopted 81 decisions, most of which were carried out.

A professional support for the Committee was provided by the HSE Internal Audit Service, which was taking care also of regular publishing on the Committee's website within the framework of the company's documentation system.

Committee work overview

Besides discussing and assessing the adequacy of credit limits, which is its main and regular task, in 2012 the Committee dedicated a lot of its attention to formal arrangement of monitoring and recording of business events. In this view, the body discussed the HSE Group's Accounting manual, the basic part of which are the Group's accounting policies, chart of accounts, as well as the Accounting rules of the Group and the company. The Committee approved the final version of the discussed documents, which were prepared by the accounting departments within the HSE Group, and submitted them to the Managing director to sign them.

The Committee also monitored the preparation of the Controlling Manual of the company and the Group, which should be finished and signed in 2013, according to the adopted decisions. The main purpose of the Controlling Manual, which is a follow-up of the Accounting Manual, will be more current preparation of monthly and periodic reports, as well as clearer instructions regarding identification of deviations from business plans and proposing of correctional measures.

Due to inconsistencies during the preparation of bases for investments and their realisation by the Group companies, the R&D Sector drafted Rules on Deciding, Valuation, Monitoring and Performing of Projects. The document was submitted also for the Committee's review of amendments and is still in the proposing phase.

Within the scope of discussing credit limits, the Committee prepared specific recommendations to colleagues and the Managing Director of the company with the purpose of managing the risks arising for the primary activity, i.e. trading with electricity and relative products (ex. emission coupons within the framework of ETS).

Due to volatile market conditions and the need of fact reactions in determining limits, the Committee adopted a decision in line with its Rules of Procedure and advised the company's Managing Director to appoint a sub-committee for credit risks. The Sub-committee already set its Rules of Procedure, which were confirmed by the Committee, so the sub-committee could start with its activities by the end of the year. The Committee was acquainted also with the HSE's intention to enter retail energy market and adopted certain recommendations in relation to this.

In 2012, the Committee implemented the practice of continuous monitoring of the investment project Unit 6 at TEŠ and relating liquidity conditions within the company and the Group. In terms of financial position analysis, the Committee was acquainted with the report 'HSE company financial ratios from the perspective of Article 14 of ZFPPIPP'.

Its other regular tasks include review of annual reports, monitoring of business plan implementation, analysis of business procedures and preparation of work programme for the next business periods.

Conclusion

The Annual Report summary shows that, in spite of complex circumstances in 2012, the Committee monitored and discussed all key risks of the company, prepared its recommendations and submitted its decisions for signature of the Managing Director, the subsidiaries' managing directors and other people in charge.

It should be taken into account, that the Committee is an advisory body; therefore, its decisions do not have executive power, which is the right way as it could shake the question of responsibility.

Ljubljana, 4 March 2013

Borut Meh
President of the RMC

2.12.2 Operating risks

Market risk

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 over management of market risks. For the HSE Group, a systematic recording, valuation and risk control is a key element of professional risk management which must at the same time enable the sizing of new market opportunities.

The risk management policy is based on rules, strategies, decisions and registers adopted in the period 2008-2012, and has been designed to ensure an increase in the value of HSE by assuming risks that fall within the prescribed limits and to enable identification and exploitation of market opportunities. The risk management process is incorporated in daily operations of HSE.

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

From the analytical perspective, HSE continues with 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 arising from market illiquidity occur on the markets with lower trading quantities 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 HSE, the illiquid wholesale electricity markets or countries are those where there is no market organiser or electricity exchange.

In 2012, risks were managed with the following activities and methods:

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

Market risk associated with non-transparency of the market

Market risks associated with non-transparency arise from the markets that can be characterised by conclusion of transactions 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 2012, the company's 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).

In 2012, the company HSE managed its price risks 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 markets;
- 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.

More information on price risk management is disclosed in Notes 4.5.8.8.5 and 5.5.8.8.5 of the financial part of this Annual report.

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 2012, risks were managed with the following activities and methods:

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

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

Quantity risk associated with changes in cross-border transfer capacities arises from changes in permeability of major individual transport routes (e.g. reduction of daily cross-border 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 2012, 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. Their management is the most demanding as it is difficult to identify and quantify them and mitigate their effects.

In 2012, the company HSE managed these risks 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 of the company;
- daily monitoring of investment decisions in the EU energy sector and economic policy, and adaptation of market measures.

Methodology risk

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

In 2012, the company HSE managed these risks 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 has been estimated that market risks were managed adequately, considering the given limitations.

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 2012, the HSE Group HPPs produced 85.5 GWh more than planned, with TEŠ and TET respectively producing 96.7 GWh 31.5 GWh less than planned, which resulted in the HSE production deficit of 43.7 GWh in terms of quantity planned.

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 twenty 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 2012, TEŠ's and TET's unexpected production shortfall amounted to 2.6%, and 2.9%, respectively.

Risk 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 among 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 2012, the members of HSE balancing group were production units of the HSE Group, including small HPPs, 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 2012 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.

It has been estimated that quantity risks were managed appropriately, taking into account given limitations.

Financial risks

Difficult economic conditions and global financial and economic crisis had an important impact on operations and operational uncertainty also in 2012. The financial conditions on the markets in Slovenia and Europe are worrying. Consequences of financial and economic crisis, European debt crisis, bad economic situation in the Eurozone, plummeting credit rating of Slovenia, poor capital situation of domestic and Eurozone banks make the financial markets conditions all the more severe. Lending activities of banks have been limited and loans have been granted under the strictest conditions. In addition to blocked economic growth, companies have been tackling issues with obtaining new financial resources and extending repayment of the current ones, which can lead to deterioration of solvency and delayed settlement of liabilities.

In 2012, the HSE Group continued to focus on its exposure to various types of financial risks and to carry out risk management measures and activities. Management and thus limitation of financial risks in such conditions is crucial for ensuring stable operations and development and, consequently, stable growth and value of the Group. It was another year for the HSE Group to carry out its operations with the diligence of business and financial expertise, and to strive to maintain its short-term and long-term solvency and capital adequacy. In 2012, the HSE Group companies were successful in adapting to severer operating conditions and changes in financial markets, as well as in managing financial risks, which helped them to preserve a stable financial position.

More detailed disclosure of financial risks (liquidity, credit, interest, currency risk) is available in the financial part of this Annual Report, in Notes 4.5.8.8 and 5.5.8.8.

The risk of financial discipline of banks and financial institutions arising from investing of available funds has also been managed adequately, as the company considers the principle of dispersion of all deposits in individual banks, with cash investments for daily short-term operations (in the form of 'overnight' and 'redeemable at notice' deposits) and through cash pooling.

Transactions of derivatives for hedging 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 their non-performance 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 available funds.

It has been estimated that financial risks were managed adequately, considering the given limitations.

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

One of HSE's key projects to decrease the IS risks is the project of new ERP system implementation. Since this comprises implementation of software solution, which requires highly available environment, a double database centre DRC – Disaster Recovery Centre was established at the end of 2012. At the same time, the server and data infrastructure of HSE was optimised, ensuring synchronous duplication of data between both database centres. DRC actually provides replication of production data at both locations, at the distance of more than 70 km but accessible in both directions via the communication circle of the HSE Group.

t has been estimated that information system risks were managed adequately, considering the given limitations.

R&D risk

Delayed performance of investments planned

For the purpose of risk management in the area of delays in realisation of investments, HSE regularly and intensively monitors and controls how the HSE Groups' investments are prepared and carried out in all stages of individual project. The course of investments and other development plans is monitored by Development Committee, Committee for Active Supervision of Investments and Risk Management Committee. All potential deviation and risks are managed in accordance with determined mechanisms.

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

Strategic policies of companies are set based on the goals of national and EU energy and climate policy, the owner's requirements about infrastructure management and the economic (business) goals of operations. Strategic policies are determined in the company's main development documents, which were submitted to revision in the last quarter of 2012, due to numerous changes in energy sector and economic environment. One of the measures for management of the company's risks is monitoring of all changes in the mentioned areas and adaptation of strategic policies to circumstances as they arise. Another measure is monitoring of technological development in the area of electricity production and other technological fields.

Failure of key projects to qualify as national priorities

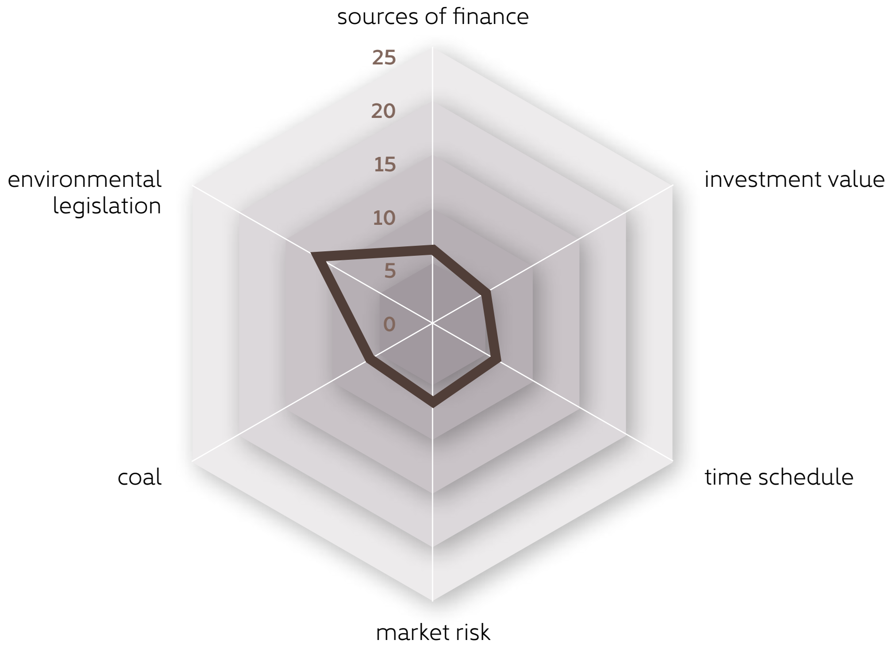
Pursuant to preparation of strategic policies and development documents of the company and the HSE Group, we ensure timely preparation of all major investment projects regarding new production facilities. For this purpose we actively monitor preparation of investments and other development projects within the scope of Development Committee. In this way, we guarantee uninterrupted preparation of the documentation required for the existing and potential development projects. The goals of the HSE Group development projects are coordinated with the sector goals of the republic of Slovenia in the area energy and climate policy. We actively cooperate with the owner's representatives, relevant ministries and other competent institutions.

Risk of 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 become stricter.

Risk profile



All key risks detected have been examined and their probability has been determined. The potential emerging risks have been managed with the risk analysis and its consistent monitoring.

Successful risk management is supported also by the fact, that at the beginning of 2013 TEŠ started to draw the EUR 440 million EIB loan and the EUR 117.5 million EBRD loan.

It is estimated that the R&R risks were appropriately managed, considering the given limitations.

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. According to our estimates, the exposure to HR risk is low and relevant risks have been managed appropriately.

Data secutiy

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, locations people and services.

It is estimated that the information security risks have been appropriately managed, taking into account given limitations.

2.13 External communication

As the previous years, 2012 was also characterised by the most important investment of the HSE Group, i.e. the TEŠ replacement Unit 6. Tens of communications were sent to the media to explain all over again the economic, energy and ecological justifiability and reasonableness of the investment, in which we believe and which is supported also by energy experts. We promptly responded to all journalistic questions. This extensive communication gave the first result in July, when the Committee on Finance and Monetary Policy of the National Assembly approved with the proposal of the ZPODPTEŠ act, the second one in August, when the discussed act became effective, and the most important one in December, when relevant ministries signed the guarantee contract.

But as we like to say, the HSE Group is not only Unit 6; it is a lot more and the public was acquainted with every our step.

With Gorenjske elektrarne d. o. o., Domplan d. d. and Petrol d. d., in March 2012, we carried out a solemn opening of reconstructed boiler room in Planina in Kranj, which co-products heat and electricity. Design, preparation and performance of the project were carried out in cooperation with the Municipality of Kranj and the initiator of the project, Civil society initiative Heating for Planina.

In early spring, we were facing tremendous draught with our HPPs functioning in smaller extent due to low water levels. During that time, the importance of TPPs which are independent from weather was reconfirmed once again. In late autumn, we had to face overwhelming floods that even the most senior citizens have never experienced. Torrential Drava was the most damaging for the facilities at its bed, including HPP Formin; similar situation occurred on the Soča River.

In accordance with the programme of testing in the beginning of July, we managed to carry out the first integration of HPP Krško in the electricity network of Slovenia and the first kilowatt hours were produced by the fourth HPP on lower Sava.

In August, we informed the public about new managing director of the company HSE that the HSE SB chose among twenty candidates. Blaž Košorok took the wheel of the largest energy company in Slovenia at the beginning of November.

Of course, we did not neglect other production facilities (reconstruction of the Soča River HPPs, PSPs Avče and Kozjak, HPPs on middle Sava and Mura, and NOP II) and strategically important projects and decisions at the company and Group level.

In order to keep the internal and external public informed, four editions of the journal Energija were issued.

For the purpose informing the little ones about on the importance of environment protection, we started the year with ECOTALE contest to stimulate writing talent in primary schools. We also prepared two projects for pre-school children: BLUE MAILBOX and CREATIVE WINTER, while for primary schools we continued with already established ECOPROJECT 3. At the end of March, we invited children to participate on the project MOTHER'S DAY, which comprised posting lovely messages for their mothers at www.modri-jan.si. Throughout the year, we dedicated a lot of attention to the website, updating and upgrading it constantly (new videogame, renewed chat room, play contest etc.). The period was concluded with the project ECOPROMIS which was created to motivate the children to keep their promises to the environment. In addition to all the above mentioned projects, we issued four editions of MODRIJAN - free environmental magazines for children. By the end of the year, we had more than 14,000 subscribers.

2.14 Research and development

In 2012, the HSE's research and development activities were aimed at the performance of projects for achieving the Group's long-term business goals. An important work area comprised activities for supporting realisation of complex investment programme for new production capacities, through which the HSE Group pursues its goals of sustainable electricity production.

2.14.1 Coordination of development activities on the HSE Group level

Coordination of investment activities of the HSE Group

All development activities and projects on the Group level are monitored and coordinated within the framework of Development Committee. In 2012, monthly development committees were carried out, within the scope of which we monitored preparation and realisation of investment projects regarding new production facilities, discussed proposals of legislative and other relevant documents on national and EU level and current development engagements.

Development Committee presented the draft of Rules on Investment Valuation and Monitoring aimed at unification of preparation and performance procedures for the HSE Group investment projects. In accordance with the discussed rules preparation and implementation of new information and business system in the HSE Group, we introduced a revised and unified reporting system for subsidiaries, which will be based on monthly and quarter reports on current and planned investments.

Periodic reporting on regulatory and technological novelties

HSE issues regular weekly news on current events in the area of national and EU legislation and of energy, environment and climate policy, on technologic innovations in electricity production, especially in terms of RES and other low-carbon technologies, and on events within the scope of European association of the electricity industry EURELECTRIC. These publications are aimed at informing our key employees, thus enabling timely response of the company to the changes in business environment. In this way, our up-to-date news represent an officialised measure for reducing the risks in connection with lack of information and, consequently, inadequate reaction to issues, as well as a part of our risk management policy.

Long-term strategic planning of the HSE Group development

Preparation of strategic development documents of the HSE group is a priority that we failed to complete in 2012. One of relevant reasons for this is the fact that the main national documents regarding energy and climate policy had not been adopted. Strategic policies in the area of electricity supply on the national level are very important for the HSE Group and represent the basis for determination of development priorities of the entire Group; therefore, preparation of the HSE Group strategic development documents remains our main goal in 2013. The new Medium-term Development Concept (MTDC) will be based on the guidelines of the Slovenian energy policy and international commitments of the country, with emphasis on strategic investments by means of which the HSE Group will contribute to fulfilling these commitments. Since the Group is in the middle of an intensive investment cycle, preparation of a short-term action plans for a 3-year period is of key importance, as well. The main difference between action and strategic development plan will be mostly in the data details and strategic/operational perspective on operations of the Group companies in the discussed period.

Currently, it is still effective the HSE Group Development Plan 2006-2015, looking ahead to 2025, adopted at the 100th regular government session of 7 December 2006. In 2010, we started to prepare the HSE Group Development Plan 2010-2020, looking ahead to 2030, which was prepared in line with the policies of the 73th regular government session of 18 March 2010 and coordinated with the HSE SB position of 22 June 2010 and the National Energy Programme draft; however, the plan have not been confirmed by the owner.

2.14.2 Normative arrangement for performance of R&D activities and investments at the HSE Group level

On the basis of adopted Business Plan for 2012, one of key goals in the area of investments was formation of unified methodology for assessment of investments in the HSE Group. For this purpose, a draft of Rules on Deciding, Valuation, Monitoring and Performing of Investments was prepared. The draft is methodologically adjusted to Decree on the Uniform Methodology for the Preparation and Treatment of Investment Documentation in the Field of Public Finance (Official Gazette of RS, no. 60/06, 54/10). Its aim is to unify procedures, participants, required minimum documentation for qualification of investment proposals in development and business documents of subsidiaries and the HSE Group, as well as measures and criteria for deciding on performance of proposed investments. The draft has already been presented to all key participants in the HSE Group, among others also to the Risk Management Committee.

2.14.3 Following legislation and energy and climate policy at the HSE Group level

HSE actively participates in process of preparation and public discussion of all relevant legislative and other strategic documents, both on national and EU level. In 2012, we formalised the preparation procedure for joint position of the company and the HSE Group on all significant legislative and strategic documents, the implementation of which will have a considerable impact on operations of the companies and on reporting in the HSE Group. This is another very important measure for management of risks in connection with fulfilment of legislative requirements and performance of strategic policies of the Group with the goals of Slovenian and EU energy and environment policy.

In 2012, we carried out activities for implementation of the HSE Group measures and minimising additional costs the Group may incur.

National level

Key activities:

- Proposal for Act Amending the Energy Act;
- Proposal for National Energy Programme (NEP);
- Decree amending the Decree on Support for Electricity Generated from Renewable Energy Sources;
- Act determining the methodology for charging for the network charge, the methodology for setting the network charge, and the criteria for establishing eligible costs for electricity networks;
- Proposal for Act Amending the Environmental Protection Act.

EU level

Key activities:

- EU Renewable Energy Strategy;
- Instructions for use of definitions under Decree 1227/2011 on comprehensiveness and transparency of wholesale energy market;
- Draft guideline for transparent electricity market to the EU Electricity Market Transparency Regulation 714/2009;
- Energy Efficiency Directive;
- Network Code draft;
- Renewable Energy Strategy Post 2020.

The European Commission made two important steps towards tackling growing imbalance between the supply of emission allowances and demand for them within the EU system for emission trading (EU ETS). As the first immediate measure for addressing fast growing cumulative surplus of allowances, the EC provided an official proposal for review of the timetable of auctions and backloading of the sale of 900 million allowances at the auction in the third phase of ETS, which will begin the next year. The EC also adopted the Report on European Gas Market, which determined a number of possible structural measures that can be adopted for solving the surpluses issue. Emission allowances surplus occurred, because the economic crisis reduced industrial emissions of greenhouse gases more than expected, which resulted in decreased demand for allowances. Presumably, the surplus will continue to grow in the third phase of ETS in the period 2013-2020. Report on European Gas Market provides a list of six possibilities and addresses interested parties to express their opinion. European Parliament and Council asked the Commission to examine the possibilities for imminent adoption of structural measures, including sustainable retention of emission allowances, necessary for elimination of the surplus. All legislative proposals for structural measures that the EC presented on the basis of public discussion, will have to be submitted to public consultation and comprehensive assessment.

2.14.4 Acquisition of non-refundable resources for implementation of R&D activities on the HSE Group level

In the area of financial resources for development projects, we monitor the possibilities on the level in the scope of which the EC adopted common strategic framework for future programming of all structural funds in the period 2014-2020. In all member states and their regions, the strategic framework will set clear investment priorities within the scope of Multiannual Financial Framework 2014-2020 and will enable better coordination of funds for optimisation of European funds. Several public tenders have been opened in connection with co-financing development projects in the area of energy, environment and sustainable use of energy, and we have been checking their contents and application possibilities, as well as looking for opportunities for cooperation on potential projects. On 9 July 2012, the EC announced the last and the most extensive set of tenders for acquisition of proposals in the area of research within the framework of the 7th Framework Programme (FP7) for 2013. A total amount of EUR 8.1 billion will be allocated for projects and ideas that will improve the European competitiveness and solve the issues regarding health, environment protection and new approaches to the challenges of urbanisation and waste management.

Project Aquaviva

On 15 February 2012, a contract on participation on the project Live Water-from Biodiversity to the Tap was signed. Reasonableness and justifiability of the project were confirmed by the EC decision to finance it. The purpose of this project is to use the data obtained for informing the public on protection and preservation of aquatic ecosystems.

2.15 Plans for the future

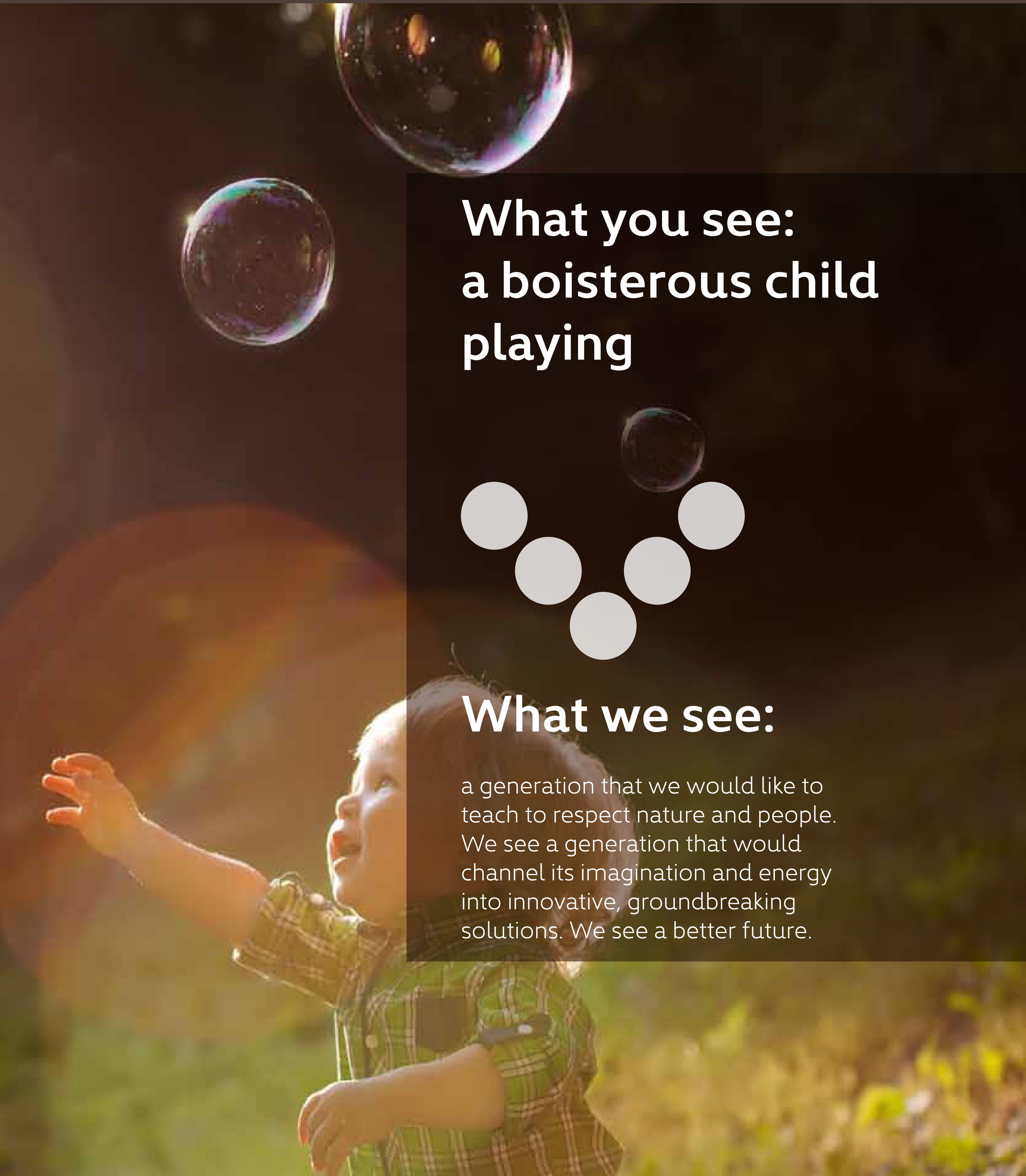
After fact growth of operations in 2012, our plans in the area of electricity trading remain ambitious also for the next year; however, due to severe economic circumstances, issues with obtaining funds and decreased ratings of some of our partners, we adjusted the volume of operations in 2013 to new conditions, for effective risk management. In this respect, we expect the 2013 sales volume to be smaller compared with 2012; nevertheless, our goals continue to be ambitious.

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:

- maintain the position of the leading Slovenian electricity supplier on the electricity wholesale market;
- generating the best possible revenue from trading through searching for synergy among market conditions and possibilities of production adjustment;
- geographic expansion of trading activities;
- increasing presence in SE European markets; and
- launch of natural gas sales.

Trading opportunities and reaching of electricity trading and production synergies on wholesale markets can only be exploited through presence in various national markets. In order to increase trading volumes and the presence in foreign markets, we will continue establishing subsidiaries, acquiring trading licences and strengthening our 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. In 2013, Croatia will join the EU, meaning that the producers of fossil fuels-based electricity on Croatian market will be subject to restrictions regarding GHG 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 SE Europe markets, capital power of HSE and previous cooperation and cultural familiarity 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.



What you see: a boisterous child playing

What we see:

a generation that we would like to teach to respect nature and people. We see a generation that would channel its imagination and energy into innovative, groundbreaking solutions. We see a better future.

3 SOCIAL RESPONSIBILITY REPORT

3.1 Responsibility to employees

In 2012, 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 cornerstones of our organisational culture and our spokespersons both inside and outside the Group.

HR policy

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

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

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

- to set up a flexible remuneration and promotion system;
- to invest in high-quality and healthy working environment and to continue the programme for 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

Employment

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 2012, the company HSE hired four employees, while seven employees left. As at 31 December 2012, the company had 132 employees.

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 includes most of the employees. Offering a long-term form of saving in each individual's personal account, we aim to provide our employees with an additional pension and a higher quality of life when they end their careers.

Employees and the community

Employees have obligations not only to their employer and themselves but also to the wider community. For this reason, they actively participate in numerous businesses as well as professional and sports associations. Since it cares for their health and wellbeing, HSE promotes and financially supports sport and recreational activities of its employees through the HSE Sports Club.

Education and training

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

Given the fact that training, in the widest sense possible, is positively linked to performance, the company does not perceive it merely as cost or an expenditure item; rather, training represents a long-term investment or capital.

The structure of all trainings indicates that in 2012 most time was dedicated to professional trainings (1663 hours) and language courses (937 hours).

In 2012, a total 3,267 hours was employed for trainings. On average, 25 hours of training were carried out per employee (part-time studies are not included in this figure), which is 6 hours per employee less than in 2011. This decrease is a result of education and training cost reduction. In some segments of education, employees already reached the highest possible level in the previous years.

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

Part-time studies

In the period from 2002 to the end of 2012, 28 employees completed their part-time studies, of which 13 obtained a master's degree, 2 acquired a master's degree under the Bologna programme, 6 a university degree, 4 completed a 3-year undergraduate programme, and 3 completed a 2-year undergraduate programme. As for course type, electrical engineering and economics courses prevailed.

Currently, HSE financially supports part-time studies of 13 employees under Education agreement. The company also supports the employees that study on their own account. Namely, in accordance with the collective labour agreement, HSE grants them 7 days of study leave per calendar year. Employees are only entitled to receive financial assistance once they have successfully completed their first year of studies. In 2012, there were a total of 20 employees enrolled in study programmes. The structure of part-time studies shows that 3 employees are enrolled in postgraduate doctorate studies (8/2), 6 are enrolled in postgraduate masters studies (8/1), 6 are engaged in masters studies under the Bologna programme (7), 3 are engaged in 3-year professional undergraduate studies (6/2), and 2 participate in 2-year professional undergraduate studies (6/1).

No education agreement was concluded in 2012.

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 2012, the company provided scholarship to one student.

3.1.2 Employees in the HSE Group

At the end of 2012, the HSE Group had 3,900 employees, which is 81 employees more than on 31 December 2011. In 2012, the PV Group comprised also the company Golte which was consolidated for the first time.

The most significant drop in the number of employees (13) occurred in the company TEŠ, followed by TET (11), SENG (4), HSE (3) and HSE Balkan Energy (1). The biggest increase in the number of personnel in 2012 was registered in the PV Group, due to consolidation of the company Golte and increased volume of production, which depends also on engagements on current projects.

Number of HSE Group employees

Company	31/12/2012	%	31/12/2011	%	IND 12/11
HSE	132	3	135	4	98
DEM	290	7	285	7	102
SENG	129	3	133	3	97
TEŠ	464	12	477	12	97
TET	193	5	204	5	95
PV Group*	2,582	66	2,482	65	104
HSE Invest	76	2	73	2	104
HESS	31	1	26	1	119
HSE Italia	0	0	0	0	0
HSE Balkan Energy	1	0	2	0	50
HSE Hungary	0	0	0	0	0
HSE Adria	1	0	1	0	100
HSE Bulgaria	0	0	0	0	0
HSE Mak Energy	0	0	0	0	0
HSE BH	1	0	1	0	100
SRESA	0	0	0	0	0
TOTAL	**3,900**	**100**	**3,819**	**100**	**102**

* The PV Group also includes the company GOLTE, which was in 2012 included in consolidation for the first time (as at 31/12/2012, the company Golte had 27 employees)

The employee education structure of the HSE Group has been improving over the years. In comparison with the previous period, the number of employees with VI level of education increased the most (by 6%), followed by VII level of education (4%) and VII and IX level (1%). The number of employees with V level of education decreased once again.

Number of employees as at 31 December 2012 and average number of employees in 2012 by education

Education level	Number of employees as at 31/12/2012		Average number of employees in 2012	
	Controlling company	HSE Group	Controlling company	HSE Group
I.	0	216	0	221
II.	0	152	0	153
III.	0	14	0	14
IV.	1	1,417	1	1,406
V.	15	1,076	16	1,076
VI.	14	516	14	509
VII.	80	424	81	420
VIII. in IX.	22	85	23	85
TOTAL	**132**	**3,900**	**134**	**3,882**

Education in the HSE Group

Success of a company is undoubtedly connected with the transfer of knowledge and experience among its staff. For this reason, the HSE Group has been organising thematic workshops for all its employees and at all levels, depending on the needs of individual area, since 2004. We will continue organising workshops for our personnel, as they have become an efficient part of the Group's education and training system. Our workshops will continue to be aimed at acquisition of knowledge, promotion of creativity and innovations, implementation of organisational culture, introduction of changes, unification of work, where possible and welcome, and professional bonding of the HSE Group employees.

3.2 Responsibility to the natural environment

Environment-friendly

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

HSE is aware of its responsibility to the environment in which it operates; therefore, its aim is to produce electricity from RES and use it rationally.

Following the example of European countries, the area of RES is developing quickly in Slovenia. The amendment to the Slovene Energy Act (2008) is therefore predominantly devoted to RES-based electricity and in this context also to guarantees of origin. European directive 2009/28/EC prescribes for each EU country a general goal regarding the share of RES in the end consumption of energy for the year 2020. For Slovenia, this share amounts to 25%.

In terms of volume, energy from hydropower plants is the most important source of E-RES in Slovenia. The area of renewable energy sources is therefore highly important, both for operation and the future external image of the Group. In the area of energy supply from renewable sources, activities were launched in the second half of 2004 in connection with the establishment of the domestic E-RES market (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. The sales of Blue Energy began in January 2005. Since 1 July 2007, i.e. from the full liberalisation of the electricity market onwards, Blue Energy has become available to business and household customers. We could feel the impact of recession on the purchase of Blue Energy also in 2012, as the number of buyers dropped from 1,707 (at the end of 2011) to 1,592 (at the end of 2012. Nevertheless, the amount of Blue Energy sold increased, from more than 17 GWh (end of 2011) to almost 20 GWh (end of 2012).

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 2012, 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 of 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 (49.68 kW) 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. We plan to build other solar power plant on the basis Blue Fund also in the future.

Modri Jan

Behavioural patterns acquired in the early years remain a part of us even when we grow up. Therefore, the importance of responsible behaviour towards the environment has to be taught to children. Only this will enable us to preserve our beautiful nature for our descendants. We have thus created a project called Modri Jan (a play on words; translated literally, Modri Jan means Blue Ian, when read together as a single word it could be translated as Wise man) accompanied by a website www.modri-jan.si. On the website, children can learn about energy and environment-related topics through entertaining content. They can also learn that they themselves are able to contribute to the protection of the environment by choosing RES and saving energy. The project also includes various competitions and contests, which encourage the children to think about the significance of RES and EEU. In this view, a special magazine Modri Jan has been issued on quarter basis, since 2010.

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. This campaign, started in at the beginning of 2011, combines the EEU and E-RES initiatives (Blue Energy). In the campaign, the suppliers of heat pumps and electricity distributors joined forces and offered extremely attractive conditions for end buyers, all for the purposes of promotion of EEU and RES. Both offer a discount for their products to households that will choose a heat pump as their method of heating, using environment-friendly energy. The suppliers of heat pumps will enable their buyers an aup-to-15% discount on the price of heat pumps meeting the criteria of the campaign. Electricity distributors, on the other hand, will supply the buyers with Blue Energy (RES electricity) at the current price of regular electricity, on which they will give an additional 10% discount for a period of two years.

Ekomobil

Within the framework of promoting E-RES use, the HSE company 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, Ministry of Economy, 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". 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. Through the Ekomobil project, the signatories of the letter (HSE, Government Office of the Republic of Slovenia of Climate Change, DEM and Elektro Maribor) aim to create common ground to enable coordination of different interests in the area of energy consumption 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

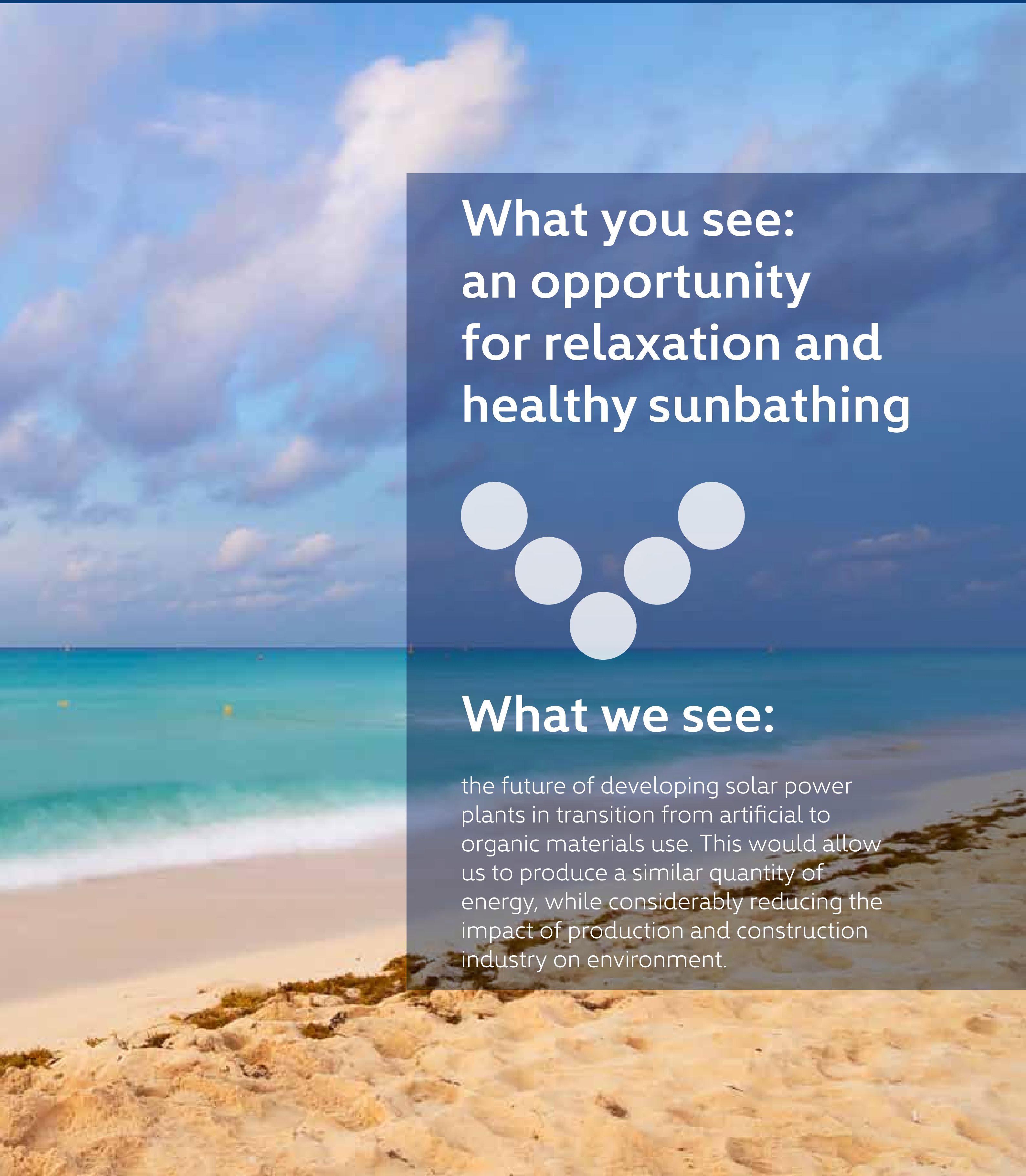
Not only standards prescribed by the State, but mostly the organisational culture have bound us to socially responsible behaviour since the beginning.

In cooperation with the agency Informa Echo, we continued with the activity 'Blue Energy for heat pumps' within the projects 'You Are Energy, Be Effective' and EKOMOBIL – promotion of utilisation of electric vehicles. We participated in renovation of the website pozitivnaenergija.si (positive energy) and establishment of a new partner application Consume less. We financially supported the research of energy efficiency in Slovenia (REUS 2012).

Throughout the whole year, we have helped organisations, associations, individuals, who especially need help or support, meetings and conferences from the area of electricity, renewable energy sources and energy efficiency utility, in the form of dedicated sponsorships and donations.

We do not act responsibly only towards external participants and environment, but also towards or employees, additionally supported by obtaining the 'Family-friendly company' certificate that we confirmed with additional measures that help our employees to balance their professional and private life.

We concluded the year of 2012 with the charity event 13 Reasons for Happiness: on the website www.modri-jan.si, we collected stories about one of the 13 reasons for happiness, written by children. The stories were then converted in money that we gave to 13 swimming associations in Slovenia, in order to help them facilitate swimming programmes for children.



What you see: an opportunity for relaxation and healthy sunbathing

What we see:

the future of developing solar power plants in transition from artificial to organic materials use. This would allow us to produce a similar quantity of energy, while considerably reducing the impact of production and construction industry on environment.

4 FINANCIAL REPORT OF THE COMPANY HSE

4.1 Auditor's report

Deloitte.

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Slovenija

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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 2012, and the income statement, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, as adopted by EU and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the unconsolidated financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2012, 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 EU.

Emphasis of Matter

HOLDING SLOVENSKE ELEKTRARNE d.o.o. is the controlling company of HOLDING SLOVENSKE ELEKTRARNE Group (hereinafter the Group) that prepares the consolidated financial statements in accordance with International Financial Reporting Standards, as adopted by EU. We have audited the consolidated financial statements of the Group and issued an unqualified opinion on 28 June 2013.

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 financial statements. In our opinion, the business report is consistent with the audited financial statements.

DELOITTE REVIZIJA d.o.o.

Tina Kolenc Praznik
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, 28 June 2013

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 EU in a manner that they give a true and fair view of the financial position of the company HSE 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 EU.

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. 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 28 June 2013, 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 2012.

Ljubljana, 28 June 2013

Blaž Košorok,
Managing Director of HSE, d.o.o.

4.3 Introduction to the preparation of financial statements

On the basis of the decision of the Capital Assets Management Agency of the Republic of Slovenia (AUKN RS) as the founder's representative as at 29 November 2010, since 1 January 2011 the company has prepared its financial statements and accompanying explanatory notes in accordance with IFRS as adopted by the EU.

The audit firm Deloitte revizija d.o.o. has audited the financial statements with explanatory notes and issued the Independent Auditor's Report included at the beginning of this chapter.

4.4 Financial statements

4.4.1 Statement of financial position

in €

Item no.	Item	Note 4.5.8.1	31 December 2012	31 December 2011
	ASSETS		1,534,472,368	1,311,214,398
A.	**LONG-TERM ASSETS**		**1,009,691,813**	**1,019,794,308**
I.	Intangible assets	1	23,653,281	19,888,785
II.	Property, plant and equipment	2	12,307,202	12,832,828
IV.	Long-term investments in subsidiaries	3	968,572,290	982,338,595
V.	Other long-term investments and loans		366,500	246,500
VI.	Long-term operating receivables		676,352	870,313
VIII.	Deferred tax assets	4	4,116,188	3,617,287
B.	**CURRENT ASSETS**		**524,780,555**	**291,420,090**
II.	Inventories		620	1,324
III.	Short-term investments and loans	5	303,599,771	109,317,324
IV.	Short-term operating receivables	6	215,552,162	150,285,915
V.	Current tax assets		5,885	6,041,373
VI.	Other short-term assets	7	2,421,623	7,571,022
VII.	Cash and cash equivalents	8	3,200,494	18,203,132
	EQUITY AND LIABILITIES		1,534,472,368	1,311,214,398
A.	**EQUITY**	9	**988,423,184**	**970,128,945**
I.	Called-up capital		29,558,789	29,558,789
II.	Capital surplus		561,243,185	561,243,185
III.	Revenue reserves		384,313,947	359,472,048
IV.	Fair value reserves		(8,169,827)	(3,509,887)
V.	Retained earnings		21,477,090	23,364,810
B.	**LONG-TERM LIABILITIES**		**96,726,143**	**108,727,007**
I.	Provisions for termination and jubilee benefits	10	665,705	734,698
II.	Other provisions	11	6,501,957	7,982,714
IV.	Long-term financial liabilities	12	89,558,481	100,009,595
C.	**SHORT-TERM LIABILITIES**		**449,323,041**	**232,358,446**
II.	Short-term financial liabilities	13	233,694,331	80,108,197
III.	Short-term operating liabilities	14	210,997,352	146,082,532
IV.	Current tax liabilities	24	1,457,530	0
V.	Other short-term liabilities	15	3,173,828	6,167,717

* 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 €

Item no.	Item	Note 4.5.8.2	2012	2011
1.	Net sales revenue	17	1,932,488,711	1,358,117,730
4.	Other operating revenue	18	11,012,777	901,692
	GROSS RETURN ON OPERATIONS		**1,943,501,488**	**1,359,019,422**
5.	Costs of goods, materials and services	19	1,867,670,826	1,292,558,665
6.	Labour costs	20	8,774,928	8,551,082
7.	Write-downs in value	21	2,846,752	1,461,403
8.	Other operating expenses		699,440	830,847
	OPERATING PROFIT OR LOSS		**63,509,542**	**55,617,425**
9.	Financial revenues	22	12,048,709	5,685,349
10.	Financial expenses	23	21,361,116	3,298,008
	TOTAL PROFIT OR LOSS		**-9,312,407**	**2,387,341**
	PROFIT OR LOSS BEFORE TAX		**54,197,135**	**58,004,766**
11.	Corporate income tax		11,717,691	11,190,185
12.	Deferred taxes		-474,735	84,962
	TAX	24	**11,242,956**	**11,275,147**
13.	**NET PROFIT OR LOSS FOR THE FINANCIAL YEAR**	25	**42,954,179**	**46,729,619**

* 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 €

Item no.	Item	Note	2012	2011
13.	**NET PROFIT OR LOSS FOR THE FINANCIAL YEAR**	25	**42,954,179**	**46,729,619**
18.	Net effective part of change in fair value of instrument for cash flow hedging	4.5.8.3.	-4,659,940	-6,348,973
19.	**TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR**		**38,294,239**	**40,380,646**

* 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 €

Item no.	Item	2012	2011
A.	CASH FLOWS FROM OPERATING ACTIVITIES		
a)	**Items of income statement**	**60,690,652**	**35,064,614**
	Operating revenue (except from revaluation) and financial income from operating receivables	1,945,621,389	1,360,553,426
	Operating revenue (except from revaluation and amortisation/depreciation) and financial expenses for operating liabilities	(1,880,711,950)	(1,305,269,023)
	Income taxes and other taxes not included in operating expenses	(4,218,787)	(20,219,789)
b)	**Changes in net operating assets in statement of financial position items**	**(2,772,695)**	**(5,266,260)**
	Opening less closing operating receivables	(68,015,868)	(31,850,038)
	Opening less closing other assets	5,149,399	(944,856)
	Opening less closing deferred tax assets	0	(476,948)
	Opening less closing inventories	704	(853)
	Closing less opening operating liabilities	65,116,108	29,640,313
	Closing less opening other liabilities and provisions	(5,023,038)	(1,660,187)
	Closing less opening deferred tax liabilities	0	26,309
c)	**Net cash from operating activities**	**57,917,957**	**29,798,354**
B.	CASH FLOWS FROM INVESTING ACTIVITIES		
a)	**Cash receipts from investing activities**	**26,714,998**	**212,038,811**
	Cash receipts from interest	6,576,287	1,757,878
	Cash receipts from dividends and shares in profits of associates	2,711,268	1,847,040
	Cash receipts from intangible assets (including advances)	3,856,426	5,659,866
	Cash receipts from property, plant and equipment (including advances)	74,967	19,027
	Cash receipts from short-term loans	10,286,800	202,755,000
	Cash receipts from other long-term investments	3,209,250	0
b)	**Cash disbursements for investing activities**	**(214,355,682)**	**(305,166,831)**
	Cash disbursements to acquire intangible assets (including advances)	(8,073,222)	(19,609,806)
	Cash disbursements to acquire property, plant and equipment (including advances)	(1,315,660)	(4,543,125)
	Cash disbursements from short-term loans granted	(201,786,800)	(263,755,000)
	Cash disbursements from investments in subsidiaries, associates and jointly controlled companies	(3,180,000)	(17,258,900)
c)	**Net cash from investing activities**	**(187,640,684)**	**(93,128,020)**
C.	CASH FLOWS FROM FINANCING ACTIVITIES		
a)	**Cash receipts from financing activities**	**190,764,740**	**187,350,000**
	Cash receipts from short-term loans received	190,764,740	187,350,000
b)	**Cash disbursements from financing activities**	**(76,044,651)**	**(145,258,629)**
	Interest paid on loans received	(7,286,419)	(3,096,673)
	Cash disbursements from long-term loans received	(9,108,232)	(9,811,956)
	Cash disbursements from short-term loans received	(39,650,000)	(132,350,000)
	Cash disbursements from dividends and shares in profits	(20,000,000)	0
c)	**Net cash from financing activities**	**114,720,089**	**42,091,371**
D.	CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	18,203,132	39,443,839
	Effects of changes in exchange rates on cash and cash equivalents	0	(2,412)
	Increase/(decrease) of cash and cash equivalents	(15,002,638)	(21,238,295)
E.	CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	3,200,494	18,203,132

* 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 €

Item no.	Item	Called-up capital		Revenue reserves		Retained earnings		TOTAL
		Share capital	Capital surplus	Other revenue reserves	Fair value reserves	Retained net profit	Net profit or loss for the year	
A.1.	**Balance as at 01/01/2011**	**29,558,789**	**561,243,185**	**296,361,537**	**2,839,086**	**39,745,702**	**0**	**929,748,299**
B.1.	**Transactions with owners**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
B.2.	**Changes in total comprehensive income**	**0**	**0**	**0**	**(6,348,973)**	**0**	**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 the 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**
A.1.	**Balance as at 01/01/2012**	**29,558,789**	**561,243,185**	**359,472,048**	**(3,509,887)**	**23,364,810**	**0**	**970,128,945**
B.1.	**Transactions with owners**	**0**	**0**	**0**	**0**	**(20,000,000)**	**0**	**(20,000,000)**
h)	Dividend payout					(20,000,000)		(20,000,000)
B.2.	**Changes in total comprehensive income**	**0**	**0**	**0**	**(4,659,940)**	**0**	**42,954,179**	**38,294,239**
a)	Net profit or loss for the year						42,954,179	42,954,179
b)	Other changes in total comprehensive income				(4,659,940)			(4,659,940)
B.3.	**Changes in equity**	**0**	**0**	**24,841,899**	**0**	**(3,364,810)**	**(21,477,089)**	**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			21,477,089			(21,477,089)	0
c)	Allocation of a portion of net profit to additional reserves in accordance with the general meeting resolution			3,364,810		(3,364,810)		0
	Balance as at 31/12/2012	29,558,789	561,243,185	384,313,947	(8,169,827)	0	21,477,090	988,423,184
	ACCUMULATED PROFIT	0	0	0	0	0	21,477,090	21,477,090

* 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

HSE d.o.o. (hereinafter: the "company") is a company with its registered office in Slovenia. Its registered office is located at Koprska ulica 92, Ljubljana.

The financial year of the company is equal to the calendar year. The separate financial statements of the company for the year ended 31 December 2011 are presented below.

The company HSE is the controlling company of the HSE Group, registered in Slovenia.

4.5.2 Basis for preparation

In the preparation of financial statements as at 31 December 2012, 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;
- Rules on the implementation of the Corporation Tax Act and its implementing regulations;
- Accounting Rules of the company; and
- other applicable legislation.

A) Standards and interpretations effective in the current period

In the current period the following amendments to existing standards issued by the International Accounting Standards Board (IASB) and adopted by the EU apply:

- **Amendments to IFRS 7 Financial Instruments: Disclosures** – Transfers of Financial Assets, adopted by the EU on 22 November 2011 (effective for annual periods beginning on or after 1 July 2011).

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

B) Standards and interpretations issued by IFRIC and adopted by the EU but not yet effective

At the date of authorization of these financial statements the following standards, revisions and interpretations adopted by the EU were in issue but not yet effective:

- **IFRS 10 Consolidated financial statements,** adopted by the EU on 11 December 2012 (applicable to the annual periods starting with 1 January 2014 or later).
- **IFRS 11 Joint arrangements,** adopted by the EU on 11 December 2012 (applicable to the annual periods starting on or after 1 January 2014).
- **IFRS 12 Disclosure of interests in other entities,** adopted by the EU on 11 December 2012 (applicable to the annual periods starting on or after 1 January 2014).
- **IFRS 13 Fair value measurement,** adopted by the EU on 11 December 2012 (effective for the annual periods starting on or after 1 January 2013).
- **IAS 27 (revised in 2011) Separate financial statements,** adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014).
- **IAS 28 (revised in 2011) Investments in associates and joint ventures,** adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014).

- **Amendments to IFRS 1 First-time adoption of IFRS** - Severe hyperinflation and removal of fixed dates for first-time adopters, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).
- **Amendments to IFRS 7 Financial Instruments: Disclosures** - Offsetting financial assets and financial liabilities, adopted by the EU on 13 December 2012 (effective for annual periods starting on or after 1 January 2013).
- **Amendments to IAS 1 Presentation of financial statements** – Presentation of items of other comprehensive income, adopted by the EU on 5 June 2012 (applicable to the annual periods starting on 1 July 2012 or later).
- **Amendments to IAS 12 Income Taxes** - Deferred tax: Recovery of underlying assets, adopted by the EU on 11 December 2012 (effective for annual periods starting on or after 1 January 2013).
- **Amendment to IAS 19 Employee Benefits** - Improvements to the accounting for post-employment benefits, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 January 2013).
- **Amendments to IAS 32 Financial Instruments: Presentation** - Offsetting financial assets and financial liabilities, adopted by the EU on 13 December 2012 (effective for annual periods starting on or after 1 January 2014).
- **IFRIC 20 Stripping costs in the production phase of a surface mine,** adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).

The company has decided 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 28 June 2013.

- **IFRS 9 Financial Instruments** (effective for annual periods beginning on or after 1 January 2015).
- **Amendments to IFRS 1 First-time adoption of IFRS** - Government loans (effective for the annual periods starting on 1 January 2013 or later).
- **Amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures** - Mandatory Effective Date and Transition Disclosures.
- **Amendments to IFRS 10 Consolidated financial statements, IFRS 11 Joint arrangements and IFRS 12 Disclosure of interests in other entities** - Transition Guidance (effective for annual periods beginning on or after 1 January 2013).
- **Amendments to IFRS 10 Consolidated financial statements, IFRS 12 Disclosure of interests in other entities** and **IAS 27 Separate financial statements** – Investments (effective for annual periods beginning on or after 1 January 2014).
- **Amendments to various standards - Improvements to IFRSs (2012),** resulting from the annual project for improvement of IFRSs published on 17 May 2012 (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to remove inconsistencies and to clarify wording, will need to be applied 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 yet 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 (EUR) without cents. The euro 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 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.

Foreign exchange differences are recognised in the income statement, namely in net amounts.

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 (disclosure 4.5.8.1, points 1 and 2);
- test of impairment of assets (disclosure 4.5.8.1, points 1, 2 and 3);
- assessment of fair value of derivatives (disclosure 4.5.8.1, point 9);
- 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 the Czech Republic and in Slovakia, and a representative office in Romania. In 2012, the company did not perform any transactions through subsidiaries 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 both years presented, unless otherwise indicated.

In the event that comparable data is not disclosed under the same item as for the current year, such information is provided.

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. Cost includes costs that can be directly attributed to the acquisition of an item of intangible assets. The company did not finance purchases of intangible assets through loans; therefore, historical cost does not comprise costs of borrowing.

Intangible assets are subsequently measured using the cost model.

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

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 amortised, since they are purchased for individual periods in which they are used.

Useful life of groups of intangible assets are examined at the end of each financial year and adapted, if needed. In the event their useful life is extended, the cost of amortisation in the current year is decreased. If useful life is shortened, amortisation cost increases. 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:

Intangible assets	Amortisation rate (%)	Useful life in years
Computer software	5-33.33%	3-20

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. 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. 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. The company did not obtain any loans for purchase of fixed assets. Accordingly, the costs of borrowing are not attributed to the assets in the process of construction or production.

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

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

Depreciation is calculated using the straight-line depreciation method, taking into account the useful life of individual (integral) part of a fixed asset. Depreciation 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:

Property, plant and equipment	Amortisation rate (%)	Useful life in years
Buildings	2%	50
Production equipment	4%	25
Computer equipment	20-50%	2-5
Furniture	10-25%	4-10
Small tools	25-33.33%	3-4
Cars	20%	5
Other plants and equipment	10-33.33%	3-10

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 useful life is extended, the company decreases accrued depreciation costs in the discussed financial year, while in case the useful life is shortened, it increases them. 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 upon 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 financial expense.

If a subsidiary is submitted to liquidation, the difference between carrying amount and liquidation value of the investment is recorded in financial revenue or expenses.

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 in the statement of financial position as financial and operating assets and include granted loans with interests, receivables due from buyers and receivables due from others.

In the books of account loans are recognised in accordance with settlement (repayment) 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 of 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 financial liabilities.

4.5.7.4.3 Derivatives

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

These are financial instruments that do not require initial financial investment, while their value is changing due to change in interest rates, goods prices or foreign exchange rates.

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 trading emission coupons (at the end of 2012, emission coupons were not in inventory).

Inventories are carried at the lower of the two: historical cost or net realisable value. 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.

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.

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 of impairment of financial assets can be: debtor's non-settlement of liabilities or breach of contractual provisions; signs that the debtor will go bankrupt.

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 enforced settlement, liquidation or bankruptcy is published.

For receivables at the beginning of bankruptcy proceeding, an allowance in the amount of 80% of open receivable is created; for disputable receivables 20% of the amount claimed; for receivables subject to enforced settlement that have not been confirmed yet it represents 50% of the amount claimed in the forced settlement proceeding. The percentage may change, if taking into account circumstances and facts of individual case.

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.

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 purposely retained earnings from the previous years. They are created on the basis of the decision by relevant supervisory body or owner.

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

Retained earnings include unallocated profit of the current year.

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.

If the expected liabilities do not occur, the amount of created provisions is reversed and recognised under other operating revenue.

4.5.7.10 Other assets and liabilities

Other assets include short-term deferred costs and accrued revenue. Deferred costs represent the 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 it has 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.

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.

Contingent liabilities include the guarantees granted and parent guarantees.

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.

Contingent assets comprise the amounts of lawsuits in which the company acts as plaintiff.

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.

Sales of goods are 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 at net principle.

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 interests** 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 operating effects is revenue from the lawsuits won, reversal of provisions, revenue from default interests, gains arising from sales of fixed assets, 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. Interest revenue is recognised upon its occurrence, in the amount of agreed-upon interest rate.

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 the liquidation of subsidiary. Interest expenses are recognised upon their occurrence, in the amount of agreed-upon interest rate.

4.5.7.14 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 liabilities 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. Current tax liabilities decrease in the event of advance payments of corporate income tax during the year.

In 2011, the applicable tax rate for corporate income tax amounted to 20%.

In 2012, a change in tax rates of corporate income tax was adopted:

- 2012 - 18% tax rate,
- 2013 - 17% tax rate,
- 2014 - 16% tax rate,
- From 2015 - 15% tax rate.

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 indirect method, based the statement of financial position and the income statement data, while the part related to investment and financing activities is prepared using the direct 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 Fair value measurement

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 an individual swap was concluded. Assessed values are verified by the company.

4.5.7.19 Financial risks management

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 Notes to the financial statements

4.5.8.1 Statement of financial position

Intangible assets (1)

in €

Intangible assets	31 December 2012	31 December 2011
Emission coupons	21,820,152	17,981,378
Other long-term property rights	1,833,129	1,907,407
Intangible assets	**23,653,281**	**19,888,785**

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

In 2012, the company reviewed useful life of relevant software and determined that useful lives of intangible assets had changed with respect to projections, which caused changes in amortisation rate. Due to extended useful life, the amortisation charge in 2012 totalled EUR 59,061, which is EUR 42,426 less than the amortisation of the initially determined useful life.

in €

Intangible assets	Emission coupons	Other long-term property rights	TOTAL
Cost as at 01/01/2011	**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 01/01/2011	**1,053,775**	**2,660,175**	**3,713,950**
Amortisation	0	449,837	449,837
Impairments	-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 01/01/2011	**4,318,112**	**2,070,570**	**6,388,682**
Carrying amount as at 31/12/2011	**17,981,378**	**1,907,407**	**19,888,785**

in €

Intangible assets	Emission coupons	Other long-term property rights	TOTAL
Cost as at 01/01/2012	**17,981,378**	**5,017,419**	**22,998,797**
Acquisitions	7,695,201	378,021	8,073,222
Disposals	-3,856,427	0	-3,856,427
Cost as at 31/12/2012	**21,820,152**	**5,395,440**	**27,215,592**
Written-down value as at 01/01/2012	**0**	**3,110,012**	**3,110,012**
Amortisation	0	452,299	452,299
Written-down value as at 31/12/2012	**0**	**3,562,311**	**3,562,311**
Carrying amount as at 01/01/2012	**17,981,378**	**1,907,407**	**19,888,785**
Carrying amount as at 31/12/2012	**21,820,152**	**1,833,129**	**23,653,281**

Property, plant and equipment (2)

in €

Property, plant and equipment	31 December 2012	31 December 2011
Buildings	1,434,579	1,469,574
Production equipment	116,849	121,930
Other equipment	3,001,999	4,099,328
Property, plant and equipment being acquired	7,753,775	7,141,996
Property, plant and equipment	**12,307,202**	**12,832,828**

The company's property, plant and equipment include business premises, solar power plant, other equipment and investment in the construction of HPPs on the middle Sava River.

In 2012, the company reviewed useful life of its relevant equipment and determined that useful life of some property, plant and equipment changed with respect to previous estimates. As a result of extended useful life, the depreciation charge in 2012 amounted to EUR 254,931, which is EUR 68,573 more than the depreciation of the initially determined useful life.

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

in €

Property, plant and equipment	Buildings	Production equipment	Other equipment	Property, plant and equipment being acquired	TOTAL
Cost as at 01/01/2011	**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 01/01/2011	**228,761**	**0**	**4,274,210**	**0**	**4,502,971**
Amortisation	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 01/01/2011	**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**

in €

Property, plant and equipment	Buildings	Production equipment	Other equipment	Property, plant and equipment being acquired	TOTAL
Cost as at 01/01/2012	**1,733,284**	**127,010**	**8,985,263**	**7,141,996**	**17,987,553**
Acquisitions	0	0	0	1,114,372	**1,114,372**
Disposals	0	0	-556,812	0	**-556,812**
Transfers from ongoing investments	0	0	496,944	-496,944	**0**
Other transfers	0	0	0	-5,649	**-5,649**
Cost as at 31/12/2012	**1,733,284**	**127,010**	**8,925,395**	**7,753,775**	**18,539,464**
Written-down value as at 01/01/2012	**263,710**	**5,080**	**4,885,935**	**0**	**5,154,725**
Amortisation	34,995	5,081	1,523,481	0	**1,563,557**
Disposals	0	0	-486,020	0	**-486,020**
Written-down value as at 31/12/2012	**298,705**	**10,161**	**5,923,396**	**0**	**6,232,262**
Carrying amount as at 01/01/2012	**1,469,574**	**121,930**	**4,099,328**	**7,141,996**	**12,832,828**
Carrying amount as at 31/12/2012	**1,434,579**	**116,849**	**3,001,999**	**7,753,775**	**12,307,202**

Investments in subsidiaries (3)

in €

Subsidiary	31 December 2012	31 December 2011
DEM d.o.o.	387,058,979	387,058,979
SENG d.o.o.	152,692,249	152,692,249
HESS d.o.o.	130,089,548	127,029,548
TEŠ d.o.o.	224,289,677	224,289,677
TET d.o.o.	11,682,000	24,503,340
PV d.d.	60,408,543	60,408,543
HSE Invest d.o.o.	80,000	80,000
HSE Italia S.r.l.	29,690	29,690
HSE Hungary Kft.	0	4,004,965
HSE Balkan Energy d.o.o.	1,025,063	1,025,063
HSE Adria d.o.o.	102,553	102,553
HSE Bulgaria EOOD	513,220	513,220
HSE MAK Energy DOOEL	26,778	26,778
HSE BH d.o.o.	513,990	513,990
SRESA d.o.o.	60,000	60,000
TOTAL	**968,572,290**	**982,338,595**

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	Address	Activity	% Ownership	% Voting rights
DEM d.o.o.	Obrežna ulica 170, 2000 Maribor, SLO	Hydroelectricity generation	100%	100%
SENG d.o.o.	Erjavčeva 20, 5000 Nova Gorica, SLO	Hydroelectricity generation	100%	100%
HESS d.o.o.	C. bratov Cerjakov 33 a, 8250 Brežice, SLO	Hydroelectricity generation	51%	51%
TEŠ d.o.o.	Cesta Lole Ribarja 18, 3325 Šoštanj, SLO	Electricity production at thermal power plants	100%	100%
PV d.d.	Partizanska cesta 78, 3320 Velenje, SLO	Mining and agglomeration of lignite	77.73%	77.73%
TET d.o.o.	Ob železnici 27, 1420 Trbovlje, SLO	Electricity production at thermal power plants	81.33%	81.33%
HSE Invest d.o.o.	Obrežna ulica 170 a, 2000 Maribor, SLO	Other project engineering and technical consulting	25%	25%
SRESA d.o.o.	Ob železnici 27, 1420 Trbovlje, SLO	Hydroelectricity generation	60%	60%
HSE Italia S.r.l.	Via Roma 20, Gorizia, Italy	Electricity trading	100%	100%
HSE Balkan Energy d.o.o.	Bulevar Mihaila Pupina 117, Belgrade, Serbia	Electricity trading	100%	100%
HSE Adria d.o.o.	Miramarska 24, Zagreb, Croatia	Electricity trading	100%	100%
HSE Bulgaria EOOD	45 a 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, BIH	Electricity trading	100%	100%

Significant amounts from statements of subsidiaries for 2012

in €

Subsidiary	Assets	Liabilities (without equity)	Revenue	Net Profit or loss for the financial year	Total equity
DEM d.o.o.	563,849,951	17,596,532	76,965,275	7,341,405	546,253,419
SENG d.o.o.	262,520,195	72,058,403	42,854,162	7,078,935	190,461,792
HESS d.o.o.	265,169,755	5,633,426	10,491,111	1,217,607	259,536,329
TEŠ d.o.o.	1,192,103,061	796,834,484	293,042,637	32,460,877	395,268,577
PV d.d.	219,462,673	108,155,567	131,720,698	19,741	111,307,106
TET d.o.o.	50,594,218	15,938,711	47,518,419	56,600	34,655,507
HSE Invest d.o.o.	2,434,048	1,426,630	6,663,012	36,326	1,007,418
SRESA d.o.o.	80,275	9	90	-18,844	80,266
HSE Italia S.r.l.	155,956	6,440	7,685,600	28,728	149,516
HSE Balkan Energy d.o.o.	2,071,778	1,125,538	33,109,956	247,569	946,240
HSE Adria d.o.o.	6,983,041	6,058,476	100,286,426	461,949	924,565
HSE Bulgaria EOOD	656,984	169,477	7,174,460	1,303	487,507
HSE MAK Energy DOOEL	3,523,753	3,456,945	7,148,310	21,727	66,808
HSE BH d.o.o.	4,224,918	3,631,604	11,725,954	82,022	593,314
TOTAL	**2,573,830,606**	**1,032,092,242**	**776,386,110**	**49,035,946**	**1,541,738,366**

in €

Changes in long-term investments	2012
Increase in investment in the company HESS d.o.o.	3,060,000
Voluntary liquidation of the company HSE Hungary Kft.	-4,004,965
Impairment of investment in the company TET d.o.o.	-12,821,340
Total changes in long-term investments	**-13,766,305**

None of subsidiaries is quoted on the stock exchange. Therefore, the reason for potential impairment could not be determined on the basis of stock exchange prices. However, the company verified 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' total equity. Carrying amounts of the total capital of subsidiaries are higher than the long-term financial investment carrying amount, except for two companies abroad, as their respective carrying amounts are lower due to 10% drop in their currency rates compared with euro.

As at 31 December 2012, a valuation of the stake in the company TET was carried for accounting purposes; as recoverable amount, fair value less sales costs was considered, as the company plans to sell its share in 2013. The assessment was prepared by the company KF Finance d.o.o. According to the Report on assessment of value of 81,33% share in the company TET as at 31 December 2012, the fair value less sales costs amounts to EUR 14,122,350 (with range between EUR 11,682,000 and EUR 16,632,000). Due to general uncertainty on the market and accounting cautiousness, the long-term financial investment in TET was impaired in the amount of EUR 11,682,000. As at 31 December 2012, the impairment amounts to EUR 12,821,340.

The audit of Slovenian subsidiaries for 2012 was performed by the audit company Deloitte revizija d.o.o., while the companies HSE Balkan Energy, HSE Adria and HSE BHwere audited abroad. Other companies abroad were not audited in 2012, due to noncompliance with auditing criteria under the local legislation. The company SRESA was not audited in 2012 either, as it has not yet started to operate.

in €

Changes in long-term investments in subsidiaries	2012	2011
Balance as at 1 January	982,338,595	965,079,695
Acquisitions, increases	3,060,000	17,258,900
Impairments	-12,821,340	0
Voluntary liquidation of the company	-4,004,965	0
Balance as at 31 December	**968,572,290**	**982,338,595**

Deferred tax assets (4)

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

In 2012, changes in deferred tax receivables amount to EUR 498,901. EUR 474,735 is recognised in the income statement, while EUR 24,166 is disclosed in the statement of financial position.

Deferred tax assets are recalculated to 17% tax base applicable for 2013, with the exception of deferred tax assets from creation of termination and jubilee benefits provisions and from impairment of the long-term investment in the company PV, which are recalculated to 15% tax base applicable from 2015.

in €

Deferred tax assets	Provisions	Impairment	Amortisation/ Depreciation	Derivatives	TOTAL
Balance as at 01/01/2011	**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**
Balance as at 01/01/2012	**102,729**	**2,928,686**	**23,962**	**561,910**	**3,617,287**
In debit/(credit) of profit or loss	-41,015	498,374	17,376	0	474,735
In debit/(credit) of other comprehensive income	0	0	0	24,166	24,166
Balance as at 31/12/2012	**61,714**	**3,427,060**	**41,338**	**586,076**	**4,116,188**

Short-term investments and loans (5)

in €

Short-term financial assets and loans	31 December 2012	31 December 2011
Short-term financial assets	23,066	0
Short-term financial receivables from and loans to Group companies	303,576,705	109,317,324
TOTAL	**303,599,771**	**109,317,324**

Short-term financial receivables from Group companies comprise receivables from compensation for parent guarantees granted to the companies in the Group in the amount of EUR 2,123,198. In 2011, the compensations for parent guarantees given to the Group companies in the amount of EUR 1,711,124 were disclosed under short-term operating receivables from the Group, while EUR 240,731 was disclosed under short-term assets (deferred costs and accrued revenue).

Short-term framework loans to the company TEŠ including interest in total amount of EUR 301,453,507 were disclosed under **shot-term loans given to the Group companies.** Short-term framework loans to the company TEŠ were approved within the scope of the HSE Group cash management – borrowing among the HSE Group companies, with repayment deadline at the end of March 2013. Loans to TEŠ were approved in order to provide bridge financing of the TEŠ's liabilities regarding the investment in replacement Unit 6 before drawing of long-term loans from EIB and EBRD would be approved.

As at 31 December 2012, interest rates fluctuate in the range from 3.5% p.a. fixed to 4.63% p.a. fixed. Loans are not collateralised.

In the first quarter of 2013, the company TEŠ drew the EIB and EBRD long-term loans for financing the Unit 6 project. In this respect, TEŠ immediately and completely settled its liabilities to the HSE Group arising from the framework loans, which were approved within the scope of the Group's cash management for financing the construction of Unit 6.

in €

Changes in short-term loans	31 December 2012	31 December 2011
Balance as at 1 January	109,317,324	48,193,825
Increase	208,849,499	265,213,040
Repayments	-16,713,316	-204,089,541
Balance as at 31 December	**301,453,507**	**109,317,324**

Short-term operating receivables (6)

in €

Short-term operating receivables	31 December 2012	31 December 2011
To Group companies	14,934,325	9,676,573
From buyers	163,887,193	132,818,196
Allowance for receivables from buyers	-834,877	-10,569
Advances given	7,493,366	99,175
From government and other institutions	24,030,619	5,450,488
From others	6,060,932	2,271,448
Allowance for receivables from others	-19,396	-19,396
TOTAL	**215,552,162**	**150,285,915**

Short-term operating receivables from the Group companies represent the receivables arising from sales of electricity and various services provided for subsidiaries (trading, financial function, IT function etc.).

As at the end of reporting period, the balance of receivables from individual subsidiaries was as follows:

in €

Group company	Country	31 December 2012	31 December 2011
Dravske elektrarne Maribor d.o.o.	Slovenia	71,365	0
Soške elektrarne Nova Gorica d.o.o.	Slovenia	3,032,970	23,102
Premogovnik Velenje d.d.	Slovenia	662,711	861,889
HESS d.o.o.	Slovenia	39,650	58,529
Termoelektrarna Šoštanj d.o.o.	Slovenia	32,004	1,768,948
HSE Invest d.o.o.	Slovenia	0	3,120
Golte d.o.o.	Slovenia	376	486
Gost d.o.o.	Slovenia	356	465
HSE Balkan Energy d.o.o.	Serbia	721,458	1,886,090
HSE Hungary Kft.	Hungary	0	1,737
HSE Adria d.o.o.	Croatia	5,166,612	3,116,204
HSE Bulgaria EOOD	Bulgaria	14,085	3,821
HSE BH d.o.o.	Bosnia and Herzegovina	1,930,786	17,422
HSE Italia S.r.l.	Italy	5,599	1,932,278
HSE MAK Energy DOOEL	Macedonia	3,256,353	2,482
Total short-term operating receivables from Group companies		**14,934,325**	**9,676,573**

Short-term trade receivables mostly comprise receivables from electricity sales in Slovenia and abroad. Compared with the previous period, the 2012 trade receivables increased, thanks to expansion of electricity trading.

The majority of **short-term operating receivables from advances given** is represented by the advance for transferred electricity capacities (deposit settlement account). At the end of 2011, this receivable was disclosed under deposits redeemable at notice in the amount of EUR 6,857,611.

Short-term operating receivables from the government and other institutions mainly refer to input VAT receivable. On 1 January 2013, the Act Amending the Value Added Tax Act (ZDDV-1 G) became effective, under which invoices from abroad are recorded in VAT records by the issuance date. Before the discussed amendment, VAT was charged on the day when a relevant service was carried out. Due to this change, the right to deduct input VAT was delayed from December 2012 to January 2013.

Short-term operating receivables from others totalling EUR 6,060,932 mainly represent short-term guarantees given as security for payment of electricity on foreign exchanges. In January 2013, receivables decreased by 5,754,109 EUR, because the company changed its bank abroad Consequently, the way of insuring its trading activities on the EEX exchange changes as well (before, cash security was required, but now the company possesses a credit line).

The company had no receivables due from management and Supervisory Board members at the end of 2012.

Other short-term assets (7)

in €

Other current assets	31 December 2012	31 December 2011
Deferred costs	1,975,957	5,081,798
Accrued revenue	445,666	2,489,224
TOTAL	**2,421,623**	**7,571,022**

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

Cash and cash equivalents (8)

in €

Cash and cash equivalents	31 December 2012	31 December 2011
Cash in bank accounts	3,179,992	2,690,360
Overnight deposits	20,502	17,332
Deposits redeemable at notice	0	7,195,440
Deposits tied up to three months	0	8,300,000
TOTAL	**3,200,494**	**18,203,132**

For the purposes of carrying out its activities, the company holds bank accounts in Slovenia and abroad. At the end of 2012, the company's cash on bank accounts totalled EUR 3,179,992.

Equity (9)

in €

Equity	31 December 2012	31 December 2011
Called-up capital	29,558,789	29,558,789
Capital surplus	561,243,185	561,243,185
Revenue reserves	384,313,947	359,472,048
Fair value reserves	-8,169,827	-3,509,887
Retained earnings	21,477,090	23,364,810
Total equity	**988,423,184**	**970,128,945**

The value of **nominal capital** and **capital surplus** remained unchanged in 2012.

Other revenue reserves increased by EUR 24,841,899, namely:

- in line with the shareholder's meeting decision, by a portion of the 2011 net profit in the amount of EUR 3,364,810; and
- in accordance with a Supervisory Board decision based on the Managing Directors' proposal, by a half of the 2012 net profit, i.e. EUR 21,477,089.

Under **fair value reserve** in total amount of EUR -8,169,827, the company discloses at the end of 2012:

- results of futures contracts for electricity;
- results of futures for emission coupons;
- fair value of currency changes; and
- fair value of interest rate swaps for loans received.

In 2012, the fair value reserve decreased by EUR -4,659,940, mostly as a result of lower prices of futures contracts for emission coupons at the end of the year, compared with the time of their conclusion. Another important reason is the decrease in negative fair value of interest rate swaps.

Electricity futures regard closing of deals on purchase of electricity on a foreign electricity exchanges for the period from 2013 to 2014, thus securing the already concluded deals for the sale of electricity in the same period. Fair value reserve decreased by the amount of electricity purchases in 2012 that were collateralised with futures, while cost of goods sold cumulatively increased in the income statement by EUR 8,289,942. On the basis of electricity fluctuations on stock exchange, a cumulative negative financial effect in the amount of EUR -9,331,146 was realised in forward contracts concluded in 2012. The negative final amount of fair value reserve with futures for electricity in the period from 2013 to 2014 is a result of lower electricity prices on the stock exchange at the end of 2012, compared with the period of conclusion of futures for electricity purchases, and it amounts to EUR -2,303,451.

In 2012, the company hedged against the risks arising from changes in emission coupons prices by concluding futures contracts for purchase of emission coupons for 2012 and 2013. Fair value reserve decreased by the amount of purchases of emission coupons realised in 2012, which were collateralised with futures, while cost of emission coupons in the item of intangible assets increased by EUR 185,065. Negative final value of discussed contracts for purchase of emission coupons for 2013 is the result of decreased emission coupons prices at electricity exchange at the end of 2012, compared with the period of their conclusion, and amounts to EUR -3,004,948.

At the end of March 2012, the company concluded a contract on interest rate swap, the negative fair value of which amounted to EUR -2,820,568 (including deferred taxes), at the end of 2012.

At the end of 2012, the company discloses negative fair value of currency swaps in the amount of EUR -40,860 (including deferred taxes).

in €

Fair value reserve	Standard futures for electricity	Forward contracts for emission coupons	Interest rate swaps	Currency swaps	TOTAL
Balance as at 01/01/2011	**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**
Balance as at 01/01/2012	**-1,262,247**	**0**	**-1,998,986**	**-248,654**	**-3,509,887**
Creation, increase	1,438,632	2,935,023	-821,582	38,639	3,590,712
Closing, decrease	0	0	0	169,155	169,155
Decrease	-10,769,778	-6,125,036	0	0	-16,894,814
Transfer to expenses	8,289,942	185,065	0	0	8,475,007
Balance as at 31/12/2012	**-2,303,451**	**-3,004,948**	**-2,820,568**	**-40,860**	**-8,169,827**

Retained earnings decreased by EUR 1,887,720 in 2012. The value:

- decreased by EUR 20,000,000, representing payment of a part of the 2011 accumulated profit to the owner;
- decreased by EUR 3,364,810, representing a part of the 2011 accumulated profit that was transferred in other reserves on the basis of the General Meeting decision; and
- increased by a half of the 2012 net profit, i.e. EUR 21,477,090.

Provisions for termination and jubilee benefits (10)

in €

Provisions for termination and jubilee benefits	31 December 2012	31 December 2011
Termination	472,685	547,497
Jubilee benefits	193,020	187,201
TOTAL	**665,705**	**734,698**

At the end of 2012, the company discloses **provisions for termination and jubilee benefits** in the amount of EUR 665,705, created on the basis of actuarial calculation as at 31 December 2012.

The actuarial calculation was based on:

- the number of employees in the company as at 31 December 2012 (gender, age, overall and pension qualifying period of service, average net and gross salary for the period July – September 2012);
- method for calculating termination and jubilee benefits in the company;
- average gross salary growth of 1.9% in 2013, 1.5% in 2014 and 2015 and 3.0% per year in the following years; and
- discount interest rate of 4.6%; and
- employee turnover by age category.

In 2012, the company created provisions for termination and jubilee benefits in the amount of EUR 66,452 and drew them for payment of jubilee benefits in the amount of EUR 135,445.

Other provisions (11)

in €

Other provisions	31 December 2012	31 December 2011
For lawsuits	6,501,957	7,982,714
TOTAL	**6,501,957**	**7,982,714**

Among **other provisions,** the company discloses the following:

- provision, created in 2008, for lawsuits filed by the company TDR-Metalurgija d.d.- v stečaju and its related companies and employees. Two of four proceedings before the court have been solved in the benefit of the company, while no decision has been reached in the other two cases. The amount includes also default interest.
- provision, created in 2007, for the fee requested as compensation for limited area use, charged to the company on the basis of the Decree on the concession for the exploitation of the Drava river for the generation of electricity (Official Gazette of RS no. 1/08). The provision was reversed in 2012. Six out of seven legal proceedings against the company have been solved in favour of the company (four in 2012). For this reason, the company expects that the last legal action will also be solved in its favour.

in €

Changes of other provisions	For lawsuits
Balance as at 01/01/2011	**7,657,477**
Creation, increase	554,761
Decrease - drawing	-229,524
Balance as at 31/12/2011	**7,982,714**
Balance as at 01/01/2012	**7,982,714**
Creation, increase	412,947
Decrease - reversal	-1,893,704
Balance as at 31/12/2012	**6,501,957**

Long-term financial liabilities (12)

in €

Long-term financial liabilities	31 December 2012	31 December 2011
To banks	86,160,206	97,510,862
Other	3,398,275	2,498,733
TOTAL	**89,558,481**	**100,009,595**

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

- long-term financial loan from the consortium of Slovene banks taken out in 2003 for a period of 12 years;
- long-term financial loan from a Slovene bank taken out in 2007 for a period of 10 years;
- long-term financial loan from EIB taken out in 2008 for a period of 20 years.

The values of loan principals due in 2013 are recorded as short-term liabilities.

Interest on loans received is settled on a quarterly or semi-annual basis, and its undue portion payable in 2012 is recorded under short-term financial liabilities or other short-term liabilities (accruals/deferrals).

The long-term loan received in 2003 will be fully repaid in October 2015. The principal is repaid on a quarterly basis. The agreed-upon interest rate is a 3-month EURIBOR plus a minimum 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 a 6-month EURIBOR plus a minimum mark-up. The loan is secured with six promissory notes.

The long-term loan received in 2008 will be fully repaid in September 2028. The principal is repaid on a semi-annual basis. The agreed-upon interest rate is a 6-month EURIBOR plus a minimum mark-up. The loan is fully secured with a guarantee issued by a foreign bank for a seven-year period.

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 EUR 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 2012 in the amount of EUR -3,398,275 is disclosed among **other long-term financial liabilities** and the fair value reserve. A detailed disclosure is available in Section 4.5.8.8.4.

in €

Changes in long-term financial liabilities	Loans received	Fair value of derivatives	TOTAL
Balance as at 1 January 2012	97,510,862	2,498,733	100,009,595
Acquisitions	0	899,542	899,542
Transfer to short-term part	-11,350,656	0	-11,350,656
Balance as at 31 December 2012	**86,160,206**	**3,398,275**	**89,558,481**

Short-term financial liabilities (13)

in €

Short-term financial liabilities	31 December 2012	31 December 2011
To Group companies	77,169,836	50,099,536
To banks	156,452,200	29,697,845
Other	72,295	310,816
TOTAL	**233,694,331**	**80,108,197**

Short-term financial liabilities arising from loans from companies in the Group comprise short-term framework loans received within the scope of cash management. Short-term framework loans received within the scope of the HSE Group cash management are secured with blank bills of exchange.

Short-term financial liabilities from bank loans include a portion of principals of long-term loans which fall due in 2013, short-term loans received in 2012 from commercial banks for the purposes of the HSE Group liquidity risk management which comprises bridge financing of the TEŠ liabilities from the Unit 6 construction and bank account overdrafts. Due to delays in drawing the long-term EIB and EBRD loans to TEŠ, short-term loan contracts with commercial banks were extended at the end of 2012. Short-term loans are secured with blank bills of exchange.

Interest rates for short-term loans range between 3.39% and 4.21%. At the end of the year, undue calculated interest on short-term loans amount to EUR 1,060,945.

For receiving or extending short-term loans, short-term framework loans and overdraft credit lines, the company acted in accordance with provisions of the Decree on the terms and conditions and methods of borrowing by legal entities from Article 87 of the Public Finance Act and obtained adequate approvals from competent ministries and the ministry of Finance.

With TEŠ's drawing the long-term loans from EIB and EBRD for financing the construction of Unit 6, thus its repayment of short-term revolving loans received from the company HSE, in the first quarter of 2013 the latter repaid its short-term framework loans taken out within the scope of the HSE Group cash management from the companies DEM, TET and HESS, so it was able to timely settle a part of short-term loans it had received from commercial banks for the purposes of bridge financing of the Unit 6 project.

Other short-term financial liabilities comprise negative fair value of currency swaps in the amount of EUR 72,295.

in €

Changes in short-term financial liabilities	Loans received	Fair value of derivatives	TOTAL
Balance as at 1 January 2012	79,797,381	310,816	80,108,197
Acquisitions	198,921,215	72,295	198,993,510
Transfer to short-term part	11,350,656	0	11,350,656
Repayments	-56,447,216	-310,816	-56,758,032
Balance as at 31 December 2012	**233,622,036**	**72,295**	**233,694,331**

Short-term operating liabilities (14)

in €

Short-term operating liabilities	31 December 2012	31 December 2011
To Group companies	82,492,658	61,178,574
To joint ventures	153,522	0
To suppliers	105,974,512	81,210,143
Advances	5,253	355,977
To employees	923,290	757,824
To government and other institutions	21,411,321	2,539,361
Other	36,796	40,653
TOTAL	**210,997,352**	**146,082,532**

Among its **short-term operating liabilities to Group companies,** the company mainly discloses the liabilities associated with the electricity purchased from subsidiaries.

Liabilities to individual Group company as at reporting date are listed in the table below:

in €

Group companies	Country	31 December 2012	31 December 2011
Termoelektrarna Šoštanj d.o.o.	Slovenia	39,782,385	33,785,172
Dravske elektrarne Maribor d.o.o.	Slovenia	10,528,603	9,299,893
Soške elektrarne Nova Gorica d.o.o.	Slovenia	10,028,796	4,974,527
Termoelektrarna Trbovlje d.o.o.	Slovenia	5,360,894	8,029,239
HESS d.o.o.	Slovenia	1,560,923	1,222,254
MHE Lobnica d.o.o.	Slovenia	5,323	0
HSE Invest d.o.o.	Slovenia	210,934	142,408
HTZ VELENJE I.P. d.d.	Slovenia	5,182	37,137
Premogovnik Velenje d.d.	Slovenia	22,933	53,572
HSE Adria d.o.o.	Croatia	6,162,081	2,426,788
HSE Balkan Energy d.o.o.	Serbia	1,484,517	211,642
HSE BH d.o.o.	Bosnia and Herzegovina	3,449,097	798,907
HSE Bulgaria EOOD	Bulgaria	584,777	195,300
HSE MAK Energy DOOEL	Macedonia	3,306,213	0
GOST d.o.o.	Slovenia	0	1,735
Total short-term operating liabilities to Group companies		**82,492,658**	**61,178,574**

The company's **short-term operating liabilities to suppliers** mainly relate to liabilities associated with the electricity purchased in Slovenia and abroad. The 2012 liabilities to suppliers were higher than in the previous period, due to increase in its electricity trading activities.

Short-term liabilities to the government and other institutions include VAT liabilities, customs duty liabilities, liabilities for December contributions for salaries and contributions on other employment-related income payable by the employer. The most significant item are VAT liabilities. On 1 January 2013, the Act Amending the Value Added Tax Act (ZDDV-1 G) became effective, under which invoices from abroad are recorded in VAT records by the issuance date. Before the discussed amendment, VAT was charged on the day when a relevant service was carried out. Due to this change, as a consequence of self-tax assessment, the right to deduct input VAT was delayed from December 2012 to January 2013.

Other current liabilities (15)

in €

Other short-term liabilities	31 December 2012	31 December 2011
Accrued costs	3,173,828	6,167,717
TOTAL	**3,173,828**	**6,167,717**

Among its other short-term liabilities, the company discloses accrued costs that mostly relate to electricity purchases.

Contingent liabilities and assets (16)

in €

Contingent liabilities	31 December 2012	31 December 2011
Guarantees and parent guarantees granted to subsidiaries in Slovenia	660,581,437	759,803,967
Guarantees and parent guarantees granted to subsidiaries abroad	5,500,000	8,344,000
Guarantees granted to others	62,124,606	350,000
Total contingent liabilities	**728,206,043**	**768,497,967**

In 2012, the company disclosed in contingent liabilities also the guarantees given in relation to bank guarantees and other types of collateralisation in the area of electricity trading. This is now disclosed within the framework of credit risk.

Among its contingent liabilities in 2011, the company also recorded the amounts of futures concluded for purchase of electricity, which is currently disclosed as price risk.

The guarantees and parent guarantees given to the company's subsidiaries in Slovenia are presented in detain in the table below:

in €

Beneficiary	Debtor	Guarantee type	Basic legal transaction	From	To	Value in EUR million	Contingent liability in EUR as at 31/12/2012
European Investment Bank/ bank consortium	SENG	Guarantee for bank guarantee	Guarantee Facility Agreement as at 15/02/2006	2/15/06	Effective for the period of agreement applicability	Total EUR 43 million + interest + costs	33,250,000
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	11/23/06	Effective for the period of agreement applicability	For the period 2011-2015 total EUR 96 million + costs + interest	61,500,000
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 + annexes	11/25/09	Effective for the period of agreement applicability	Total EUR 695 million + escalation clause + installation + interest + costs	407,831,437
European Investment Bank/ bank consortium	TEŠ	Guarantee for bank guarantee	Guarantee Facility Agreement as at 24/11/2010	11/24/10	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	12/21/07	Effective for the period of agreement applicability	Total EUR 24 million + interest + costs	4,000,000
EBRD	TEŠ	Guarantee for EBRD loan	Agreement on guarantee and loss reimbursement between HSE and EBRD as at 12/01/2011	1/12/11	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							**660,581,437**

Considering the increase in assessed value of the investment, compared with NIP 5, in the amount of EUR 127,083,332, as at 31 December 2012 the company HSE discloses contingent liabilities to the company TEŠ in the amount of EUR 61,874,606 in connection with settlement of potential increases in investment value.

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.

Contingent assets include a principle of penalty, the company paid in 2009 as the controlling company of then operating subsidiary TDR Metalurgija, since the latter had been accused of cartel agreement. The company filed a lawsuit in front of the European Commission for repayment of the penalty in the amount of EUR 9,100,000.

Among its contingent assets in 2011, the company disclosed the bank guarantees received and other forms of collaterals regarding electricity trading, which have been disclosed as credit risk in the current year.

4.5.8.2 Income statement

Net sales revenue (17)

The company generates net sales revenue mostly through sale of electricity. The revenue from the sale of electricity accounts for 96% of all net sales revenue.

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

Revenue from services provided is generated through services in connection with electricity (guarantee of origin, sales of capacities on borders, manipulative costs), services provided for the subsidiaries abroad, and rents.

in €

Net sales revenue	2012	2011
a) in domestic market	**753,439,978**	**568,940,352**
Electricity	720,742,697	565,983,279
Other merchandise and materials	31,476,038	1,062,344
Services	1,221,243	1,894,729
b) in foreign market	**1,179,048,733**	**789,177,378**
Electricity	1,131,285,517	778,826,230
Other merchandise and materials	28,450,553	6,233,578
Services	19,312,663	4,117,570
Total net sales revenue	**1,932,488,711**	**1,358,117,730**

Other operating revenue (18)

The most significant amount of other operating revenue is represented by the restitution of assets confiscated from the company's bank account in November 2010 (refutation of legal transaction I the period of one year prior to the bankruptcy of the company TDR Metalurgija) on the basis of the Supreme Court ruling in the amount of EUR 7,152,891, and by the revenue arising from reversal of provisions in the amount of EUR 1,893,704 (more details available in Section 5.8.1.(11).

Costs of goods, materials and services (19)

The **cost of merchandise sold,** which accounts for 99% of all operating expenses, comprises expenses from electricity purchasing, expenses for purchase of emission coupons for trading, contingent costs of electricity purchase and negative net effect of exchange differences. The value includes also the negative result arising from collateralisation of electricity purchases through futures contracts.

Among the **costs of materials,** the most important values are represented by costs of fuel, office materials and technical literature.

The most important values in **costs of services** are represented by the costs of intellectual services, costs of maintenance of software and computer equipment, costs of sponsorship and advertising, and costs of banking guarantees.

in €

Costs of goods, materials and services	2012	2011
Cost of goods sold	1,807,947,665	1,245,037,346
Contingent costs of goods sold	53,524,452	41,247,845
Total cost of goods sold	**1,861,472,117**	**1,286,285,191**
Total costs of material	**259,732**	**213,105**
Total costs of services	**5,938,977**	**6,060,369**
Costs of goods, materials and services	**1,867,670,826**	**1,292,558,665**

in €

Costs of auditor	2012	2011
Audit of annual reports*	23,940	25,270
Other non-audit services	0	4,800
Total costs of auditor	**23,940**	**30,070**

*Contractual value for the year

Labour costs (20)

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 2013) in 2012 are also charged.

By the end of 2012, 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.

Average number of employees by education levels is disclosed in the business part of this Annual Report.

in €

Labour costs	2012	2011
Salaries	6,834,693	6,570,563
Pension insurance costs	871,801	838,709
Other insurance costs	506,078	490,457
Other labour costs	562,356	651,353
Total labour costs	**8,774,928**	**8,551,082**

Write-downs in value (21)

in €

Write-downs in value	2012	2011
Amortisation of intangible assets	452,299	449,837
Depreciation of property, plant and equipment	1,563,556	976,091
Allowance for or write-down in receivables	824,349	19,336
Sale and write-down in property, plant and equipment and intangible assets	6,548	16,139
Total write-downs in value	**2,846,752**	**1,461,403**

Write-downs in value include amortisation and depreciation, creation of allowances for doubtful receivables, explained in detail in Section 4.5.8.8.1, and losses from sales of equipment.

Increased costs of property, plant and equipment depreciation in relation to the 2011 values are the consequence of increased acquisitions of computer equipment in the second half of 2012 and shortened useful life of some equipment, detailed information on which is available in Section 4.5.8.1 (2).

Financial revenue (22)

Financial revenue from shares comprises the profit paid by subsidiaries.

Financial revenue from interest mainly includes charged interest on loans given to Group companies.

Other financial revenue comprises charged compensations for parent guarantees given to Group companies.

in €

Financial revenue	2012	2011
From dividends and other shares of profit	2,711,269	1,847,040
Interest on loans and deposits granted	7,214,242	1,886,454
Other	2,123,198	1,951,855
Total financial revenue	**12,048,709**	**5,685,349**

Financial expenses (23)

Financial expenses for interest are mainly composed of interest on long- and short-terms loans from banks and Group companies.

Financial expenses arising from impairment of investments in subsidiaries comprise impaired investment in the company TET.

Other financial expenses include loss upon liquidation of a subsidiary abroad, incurred as a result of negative exchange differences.

in €

Financial expenses	2012	2011
From loans received	7,753,911	3,298,008
From impairment of financial investments in subsidiaries	12,821,340	0
Other	785,865	0
Total financial expenses	**21,361,116**	**3,298,008**

Tax (24)

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 accordance with the Corporate Income Tax Act, the tax for 2012 amounted to 18% of the tax base reported in the company's tax return.

The company's 2012 current tax amounts to EUR 11,717,691. Based on the 2011 tax return, the company made a EUR 10,260,161 advance payment of income tax for 2012. Its current tax liability amounted to EUR 1,457,530, at the end of 2012.

Deferred taxes include deferred tax assets. The values of deferred taxes created and used are presented in the table showing deferred tax assets, 4.5.8.1 (4).

In establishing the current tax base, revenue and expenses determined in accordance with IFRS were corrected in terms of decrease and increase in tax base, as shown in the table below.

in €

Tax calculation	2012	2011
Profit or loss before tax	54,197,135	58,004,766
Tax calculated at applicable tax rate (18%)	9,755,484	11,600,953
Tax from revenue reducing tax base	-488,028	-407,215
Tax from tax breaks	-129,547	-79,002
Tax from expenses reducing tax base	-30,303	-62,147
Tax from non-deductible expenses	2,585,684	122,250
Tax from other changes in tax calculation	24,401	15,346
Tax	**11,717,691**	**11,190,185**
Effective tax rate	**21.62%**	**19.29%**

Net profit or loss (25)

The company ended the year 2012 with total profit of EUR 42,954,179.

in €

Type of profit or loss	2012	2011
Gross return on operations	1,943,501,488	1,359,019,422
Operating profit or loss	63,509,542	55,617,425
Net cash	-9,312,407	2,387,341
Profit or loss before tax	54,197,135	58,004,766
Net profit or loss from the period	**42,954,179**	**46,729,619**

4.5.8.3 Statement of other comprehensive income

The statement of other comprehensive income includes results of futures contracts for the purchase of electricity, emission coupons, and fair value of interest and currency swaps in total amount of EUR -4,659,940.

Results arising from realised and newly concluded futures for electricity in 2012 amount to EUR -1,041,204. A detailed disclosure is available in Section 4.5.8.1 (9). As a result, the company did not account for deferred taxes since upon the realisation it will pay the price agreed-upon at the transaction conclusion.

Results arising from realised and newly concluded futures for emission coupons in 2012 amount to EUR -3,004,948. A detailed disclosure is available in Section 4.5.8.1 (9). 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 2012 net effect of fair value change amounts to EUR -821,582, which means a final negative IRS fair value in the amount of EUR -3,398,274, of which the company accounted for EUR 577,707 of deferred tax assets.

In 2012, the company closed the currency swap transactions, the fair value of which amounted to EUR -248,654 as at 31 December 2011, including deferred taxes. In 2012, the company concluded new transactions, some of which were closed in the same year. At the end of 2012, the fair value of open currency swaps amounts to EUR -49,229, of which the company accounted for EUR 8,369 of deferred tax assets. Thus, the net effect amounts to EUR -40,860.

Taking into account all of the above, the total comprehensive income at the end of 2012 amounts to EUR 38,294,239.

4.5.8.4 Cash flow statement

Data from the cash flow statement is obtained from the statement of financial position for the reporting and previous year and the income statement for the reporting period.

In order for the inflows to be as close as possible to receipts, and outflows as close as possible to disbursements, the following eliminations were made in the cash flow statement:

- the decrease from futures for purchases of electricity and emission coupons for 2012 in the fair value reserve, and the increase in operating expenses;
- the decrease arising from fair value of IRS in the fair value reserve and disbursements from financing activities.

Increase in disbursements from investing and in receipts from financing is a result of bridge financing of the Unit 6 project, before TEŠ was able to draw the long-term loans, which is disclosed among short-term financial receivables, short-term financial liabilities and liquidity risk.

in €

Cash flow types	2012	2011
Cash flows from operating activities	57,917,957	29,798,354
Cash flows from investing activities	-187,640,684	-93,128,020
Cash flows from financing activities	114,720,089	42,091,371
Cash flow for the period	**-15,002,638**	**-21,238,295**

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 spreadsheet.

In 2012, the participation in profit in the amount of EUR 20,000,000 was paid out within the scope of transactions with owners, which represents a portion of the company's accumulated profit in 2011.

Total comprehensive income of the reporting period increased by EUR 38,294,239, as it was:

- increased by EUR 42,954,179 of net profit for the year, and
- decreased by the change in other components of comprehensive income in the amount of EUR 4,659,940 (value of futures for the purchase of electricity, IRS and FX swap).

In the reporting period, individual items of equity changed by EUR 24,841,899, due to:

- transfer of accumulated profit of the previous year in the amount of EUR 3,364,810 to other revenue reserves, on the basis of the General Meeting decision, and
- allocation of half of the net profit for the year in the amount of EUR 21,477,089, to other revenue reserves, in accordance with a Supervisory Board decision taken on the proposal of the company's management.

Accumulated profit for 2012 represents half of the net profit for the period and totals EUR 21,477,090. The decision regarding allocation of accumulated profit is made by the owner.

in €

Accumulated profit	2012	2011
Net profit or loss for the current year	42,954,179	46,729,619
Increase in revenue reserves according to the Management Board decision (legal reserves, reserves for own shares and statutory reserves)	-21,477,089	-23,364,809
Accumulated profit	**21,477,090**	**23,364,810**

4.5.8.6 Related entities

in €

Group company	Sales in 2012	Purchases in 2012	Loans granted with interest as at 31/12/2012	Loans received with interest as at 31/12/2012	Revenue from parent guarantees granted
DEM d.o.o.	76,168	71,528,813	0	67,153,484	0
SENG d.o.o.	8,199,581	40,635,184	0	0	214,973
HESS d.o.o.	138,717	8,426,041	0	7,013,484	0
TEŠ d.o.o.	36,389,678	281,699,377	301,453,507	0	1,883,205
TET d.o.o.	286,427	37,773,641	0	3,002,869	0
PV d.d.	3,983,510	116,046	0	0	0
HSE Invest d.o.o.	3,900	44,570	0	0	0
HSE Italia S.r.l.	7,241,034	7,597,531	0	0	0
HSE Hungary Kft.	160,624	1,339	0	0	0
HSE Balkan Energy d.o.o.	20,430,068	28,111,427	0	0	19,266
HSE Adria d.o.o.	89,812,364	95,679,531	0	0	5,200
HSE Bulgaria EOOD	6,459,839	6,571,826	0	0	554
HSE MAK Energy DOOEL	6,405,945	6,546,869	0	0	0
HSE BH d.o.o.	2,186,372	7,555,541	0	0	0
Total Group companies	**181,774,227**	**592,287,736**	**301,453,507**	**77,169,837**	**2,123,198**
SOENERGETIKA d.o.o.	0	318,481	0	0	0
Total controlled companies	**0**	**318,481**	**0**	**0**	**0**
TOTAL	**181,774,227**	**592,606,217**	**301,453,507**	**77,169,837**	**2,123,198**

The columns of sales and purchases represent the turnover of all transactions (excl. VAT), including interest on loans received and granted between HSE and the related companies in 2012. For loans granted and received the balance at the end of 2012 is presented (loan with interest). Revenue from parent guarantees granted in 2012 are disclosed separately, namely in the net value (excl. VAT). The value of parent guarantees is disclosed in Section 4.5.8.1 (16) Contingent liabilities and assets.

The balance of open operating receivables from related entities is disclosed in Section 4.5.8.1 (6) Short-term operating receivables, while the balance of open operating liabilities is disclosed in section 4.5.8.1 (14) 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 €

Business partner	Open receivables as at 31/12/2012	Open liabilities as at 31/12/2012	Expenses in 2012	Revenue in 2012
Elektro-Slovenija	5,141,963	1,563,630	9,005,144	47,759,928
Elektro Maribor energija plus d.o.o.	9,299,263	0	0	82,146,566
Elektro Ljubljana d.d./Elektro energija d.o.o.	24,501,535	0	2,177,637	229,818,789
E3, energetika, ekologija, ekonomija, d.o.o.	13,479,045	1,017	583,586	71,003,153
Elektro Celje energija d.o.o.	8,501,756	67,088	692,893	82,708,567
Elektro Gorenjska prodaja d.o.o.	6,242,325	4,187	796,564	51,940,003
Talum d.d.	3,936,469	0	0	31,314,109
GEN-I d.d.	1,147,884	1,161,639	9,996,658	14,032,309

HSE is fully owned by the Republic of Slovenia. In 2012, the company did not conclude any transactions with the government.

The table above represents transactions with legal entities which are directly or indirectly majorly owned by the Republic of Slovenia and perform energy activity, or which are directly 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 irrelevant in terms of reporting.

4.5.8.7 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 receipts (meals, transportation, per diems); and
- 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 granted to these groups of persons in 2012.

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.

in €

Receipts of the management, Supervisory Board members and employees who are not subject to the tariff part of the collective agreement in 2012	Salary	Other receipts	Bonuses	Cost reimbursement	TOTAL
Management	140,335	19,607	4,545	1,723	166,209
Supervisory Board and Audit Committee members	0	106,715	196	3,719	110,630
Employees who are not subject to the tariff part of the collective agreement	1,760,509	134,256	51,001	41,518	1,987,284
Total receipts	**1,900,844**	**260,578**	**55,742**	**46,959**	**2,264,122**

Receipts of supervisory board members and company's management in 2012

in €

Receipts of the management	Gross salary	Net salary	Other receipts - bonus for working performance	Other receipts - recourse	Other receipts - solidarity assistance	Bonus use of car	Bonus D&O insurance	Voluntary supplementary pension insurance	Cost reimbursement	Total
Matjaž Janežič	129,685	63,970	14,354	763	2,010	4,167	26	2,273	1,409	154,687
Blaž Košorok	10,650	5,240	0	0	0	352	0	207	314	11,522
Total receipts	**140,335**	**69,210**	**14,354**	**763**	**2,010**	**4,518**	**26**	**2,480**	**1,723**	**166,209**

Receipts of the Supervisory Board members	Gross attendance fee	Net attendance fee	Travel costs	Educational cost	D&O bonus	Total
Dolinar Drago	21,553	18,653	2,533	0	13	24,086
Jeromel Rene	9,291	7,200	0	0	0	9,291
Korošec Vekoslav	15,713	12,307	183	0	13	15,896
Molan Marjanca	6,488	4,949	0	0	79	6,488
Prevalnik Stanislav	6,488	5,047	126	0	79	6,614
Ravnikar Marjan	16,843	13,085	58	0	13	16,901
Šalamun Igor	2,873	2,264	48	0	0	2,921
Turnšek Mojca	9,291	7,537	434	0	0	9,725
Total receipts	**88,540**	**71,043**	**3,383**	**0**	**196**	**91,923**

Receipts of the Audit Committee members	Gross attendance fee	Net attendance fee	Travel costs	Educational cost	D&O bonus	Total
Jeromel Rene	2,171	1,683	0	0	0	2,171
Molan Marjanca	1,093	847	0	0	0	1,093
Ravnikar Marjan	4,678	3,633	10	0	0	4,687
Total receipts	**7,942**	**6,163**	**10**	**0**	**0**	**7,952**

Receipts of the members of the HR and Nominations Committee	Gross attendance fee	Net attendance fee	Travel costs	Educational cost	D&O bonus	Total
Dolinar Drago	2,894	2,435	248	0	0	3,143
Korošec Vekoslav	2,135	1,678	31	0	0	2,165
Ravnikar Marjan	2,135	1,662	10	0	0	2,144
Total receipts	**7,164**	**5,776**	**288**	**0**	**0**	**7,452**

4.5.8.8 Financial instruments and risks

This section refers to Section 4.5.7.19 of the financial report as well as to the chapter about financial risks in the business report.

4.5.8.8.1 Credit risk

An important part of activities where we face the risk of partners' non-fulfilment of obligations 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 bank and corporate 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 fundamental in the procedure of collection of potentially unfulfilled obligations or realisation of insurance received.

Credit exposure to individual partners is monitored on a daily basis; accordingly, credit risks are monitored and managed through adaptation of operational limits and timely demands to potentially submit additional insurances. If assessed that the partners' credit ratings have deteriorated or that increased credit exposure was a result of increase in general (expected) level of market prices, we immediately request additional insurances.

Unsecured part of receivables is the sum of portion of sales to partners on open account within the framework of defined loan limits. Sale on open account is in accordance with internal regulations and possible within the framework of approved loan limits to partners with regard to their financial capacity and risk. The most frequent among unsecured receivables are the receivables from partners with the highest credit rating and from partners which belong to a highly regulated activity and are frequently state-owned. The latter also include providers of system services, where insurance for receivables cannot be obtained, as in case of stock exchanges, but belong to credit rating category with a low non-fulfilment risk nevertheless.

Regardless of estimated low partnership risk, each credit rating class represents higher or lower average risk of loss due to non-payment or non-fulfilment of contractual obligations. Even the secured receivables carry a certain risk of non-fulfilment with regard to the guarantor's credit rating. Both are monitored through assessing the value of potential loss due to non-fulfilment. Receivables due from partners are secured with bank and corporate guarantees, pledge of receivables from contracts on management of transaction accounts, and deposits. Receivables are exclusively secured with bills of exchange, namely in combination with corporate guarantees, or as an independent instrument in case of smaller volume of transactions with a partner. If in the latter case the partner is a limited liability company owned by physical persons, receivables are secured with bills of exchange. The company has secured app. 85% of its receivables from buyers.

In 2012, 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 under contractual rate. The majority of overdue receivables at the end of 2012 refer to invoices issued for electricity sold that have already been settled by the time this report was prepared.

At the end of 2012, the company has EUR 854,273 of doubtful receivables.

In 2012, a new doubtful receivable from electricity sales was created and amounts to 75% of the initial receivable. The value of doubtful receivables was assessed considering the average amount of repayments in receivership proceedings.

in €

Changes in allowances for short-term receivables	2012	2011
Balance as at 1 January	**29,965**	**458,922**
Written-off receivables collected	0	-189,035
Allowances for receivables	824,308	19,336
Final write-down of receivables	0	-259,258
Balance as at 31 December	**854,273**	**29,965**

in €

Receivables by maturity date	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	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**
Short-term operating receivables	206,076,457	9,190,366	0	1,109,647	29,965	216,406,435
Short-term financial receivables	303,576,705	0	0	0	0	303,576,705
Long-term operating receivables	676,352	0	0	0	0	676,352
Balance as at 31/12/2012	**510,329,514**	**9,190,366**	**0**	**1,109,647**	**29,965**	**520,659,492**

Receivables with maturity of up to three months were settled before the end of January 2013.

As at 31 December 2012, the company had EUR 3,189,580 of overdue trade liabilities which were repaid by 4 January 2013. A portion of its liabilities to suppliers are secured with bank guarantees, bills of exchange and other forms of insurance.

4.5.8.8.2 Liquidity risk

Liquidity or solvency risk is the risk associated with insufficient financial sources and the subsequent inability of the company to settle its liabilities in due time. In accordance with Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act (ZFPPIPP), the company HSE manages its liquidity risks by preparing and exercising the policy of regular liquidity management, which is confirmed by the SB in the Annual Business Plan. For this purpose, the company's liquidity is monitored on daily, monthly and annual basis. The Supervisory Board and management are informed about it regularly.

The company monitors and actively manages the liquidity risks with:

- regular monitoring of cash flows on daily, monthly and annual level,
- cash management on the Group level; the main goal of cash management is optimisation of liquidity of the 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 revolving 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 in form of cash pooling on the Group level,
- active relationship towards financial markets.

During financial crisis, the management of solvency risks is of utmost importance, which is why we additionally intensified our carefulness in managing solvency risk. The company devotes special attention to efficient cash flow planning, which enables timely prediction of possible liquidity surpluses and deficits and their optimal management.

Maturity of the company's long-term financial liabilities in the next years is shown in the table below:

in €

Maturity dates of long-term liabilities as at 31/12/2011	Maturity date: Up to 2 years after the date of the statement of financial position	Maturity date: From 3 to 5 years after the date of the statement of financial position	Maturity date: 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**
Long-term operating liabilities to others	2,498,733	0	0	**2,498,733**
Total	**13,849,390**	**27,186,161**	**58,974,044**	**100,009,595**

in €

Maturity dates of long-term liabilities as at 31/12/2012	Maturity date: Up to 2 years after the date of the statement of financial position	Maturity date: From 3 to 5 years after the date of the statement of financial position	Maturity date: Over 5 years after the date of the statement of financial position	TOTAL
Long-term financial liabilities to banks	11,350,657	25,476,216	49,333,333	**86,160,206**
Long-term operating liabilities to others	3,398,275	0	0	**3,398,275**
Total	**14,748,932**	**25,476,216**	**49,333,333**	**89,558,481**

2012 was one of the toughest years in the area of liquidity risk management, both for the company and the whole HSE Group. Especially the company HSE, as the controlling company of the HSE Group, is significantly burdened by the largest Slovenian investment, the project for construction of the 600 MW replacement Unit 6 in TEŠ, the investor of which is the subsidiary TEŠ. Delays in obtaining the government guarantee for long-term loans from EIB in the amount of EUR 440 million, had a huge impact on the liquidity of the companies HSE and TEŠ, as well as on other companies of the HSE Group. As a matter of fact, all activities were aimed at ensuring short-term bridge financing of the TEŠ's liabilities arising from the discussed project, before the company was able to draw the long-term loans from the financial institutions EIB and EBRD.

Since in line with provisions of the contracts with the two banks TEŠ cannot obtain short-term loans on financial markets, it was forced to bridge financing of the Unit 6 project through borrowing within the scope HSE Group cash management and with proper assets. As the HSE Group does not have sufficient funds available for ensuring bridge financing of the TEŠ liabilities for investment in replacement Unit 6, the controlling company HSE, as the only stakeholder in TEŠ, took out loans from commercial banks, in order to manage the Group's liquidity and, within this scope, to settle the TEŠ's liability through bridge financing. As at 31 December 2012, the amount of short-term revolving loans granted to the company TEŠ by HSE totalled EUR 300.6 million, comprising proper assets of the company HSE, assets of the Group companies and short-term loans that HSE borrowed from commercial banks.

For the purposes of managing the HSE Group liquidity and providing bridge financing for the liabilities arising from the construction or Unit 6 in TEŠ from commercial banks, the company HSE in 2012 managed to ensure a sufficient short-term loans, as well as to extend their deadlines over the calendar year. Considering the financial markets circumstances and issues of commercial banks, we look on this as a confirmation of good business reputation and confidence in our company and the HSE Group on financial markets.

In 2012, liquidity management was characterised also by the activities on international markets which were affected by decrease in the Slovenian credit rating. Namely, foreign banks began to impose limits on credit lines, as the county risk increased. Nevertheless, the company managed to ensure an adequate amount of credit lines for uninterrupted operations also on international markets, which we take as additional success and confirmation of good ratings of the company and the Group.

In March 2013, the company TEŠ drew the long-term EIB and EBRD loans for financing the construction of replacement Unit 6; consequently, the company's and Group's credit crunch lessened and the Group's liquidity improved.

On the basis of the above mentioned, we estimate the 2012 liquidity management as adequate.

4.5.8.8.3 Currency risk

Currency risk is a risk associated with transactions involving foreign currencies and is subject to changes in exchange rates. Currency risk in operations is smaller, since the majority of inflows and outflows are in domestic currency - euro. Currency risk occurs mostly in relation with exercising our primary activity, i.e. electricity trading in Hungary (purchases in HUF). The 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. By fixation of the foreign exchange rate the company ensures the requested and known electricity price in EUR 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-realisation of these transactions is minimal. The discussed transactions are concluded exclusively with the intention to hedge against risks and not for speculation purposes, while from the hedge accounting perspective they are considered as highly efficient, as the concluded currency hedging corresponds to all features of the hedged item.

Other currencies are present in minimum amount 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.

In 2012, the following exchange rates were used to convert assets and liabilities:

in €

Country	Currency designation	Closing exchange rate in EUR for 2012	Closing exchange rate in EUR for 2011
Czech Republic	CZK	25.1510	25.7870
Bulgaria	BGN	1.9558	1.9558
Bosnia and Herzegovina	BAM	1.9558	1.9558
Croatia	HRK	7.5575	7.5370
Hungary	HUF	292.3000	314.5800
Macedonia	MKD	61.4870	62.0600
Romania	RON	4.4445	4.3233
Serbia	RSD	113.3900	103.6300
Switzerland	CHF	1.2072	1.2156
USA	USD	1.3194	1.2939

in €

Type of financial instrument as at 31/12/2011	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**

in €

Type of financial instrument as at 31/12/2012	EUR	HUF*	Other currencies	TOTAL
Short-term operating receivables	215,552,162	0	0	215,552,162
Short-term financial receivables and loans	303,599,771	0	0	303,599,771
Long-term operating receivables	477,553	0	198,799	676,352
Short-term operating liabilities	-210,965,492	-441	-31,419	-210,997,352
Short-term financial liabilities	-233,694,331	0	0	-233,694,331
Long-term financial liabilities	-89,558,481	0	0	-89,558,481
Net exposure of the statement of financial position	**-14,588,818**	**-441**	**167,380**	**-14,421,879**

* No HUF-denominated items were open at the end of the year

in €

Contracts concluded for currency swaps by maturity	2012	2011
Up to 12 months	4,900,045	3,961,257

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 2012, Euribor interest rates decreased further and reached the lowest values in history. The interest rate risk is adequately managed within the HSE Group, as we have adopted a risk management strategy already in 2011, with the approval of the HSE's Risk Management Committee, which defined the share or level up to which the company must protect against risks and the instruments used for hedging. 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 interest risk management is aimed at protecting cash flow against negative impacts of Euribor growth on account of financing loans received and the sole risk dispersion. 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, risk type and the manner of testing hedging efficiency. Since the hedging was successful, the changes in fair value are recognised directly in equity. Interest rate hedging transaction was concluded on the basis of standard contract ISDA with the first-class commercial bank and the possibility of transaction non-realisation is estimated as minimum.

in €

Contracts concluded for interest rate swaps by maturity	2012	2011
From 1 to 5 years	48,484,848	50,000,000

Sensitivity analysis of cash flow at financial instruments with a variable interest rate

The change in interest rate for 50 b. p. 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 at variable interest rate are decreased by the total amount of IRS transactions concluded.

in €

	Net profit or loss 2012		Net profit or loss 2011	
Financial instruments at variable interest rate	Increase by 50 b.p.	Decrease by 50 b.p.	Increase by 50 b.p.	Decrease by 50 b.p.
Financial assets	92,120	-92,120	256,231	-256,231
Financial liabilities	-880,994	880,994	-429,434	429,434

4.5.8.8.5 Price risk

Forward contracts for electricity

In 2009, the company adopted the Strategy and Rules on Management of Market Price Risks, by means of which it ensured long-term electricity trading and exploitation of favourable market opportunities that assure better operations and increase in market shares on electricity markets. However, at the same time the company defined the measures for price risk assessment and limits of company's exposure to the abovementioned risks.

One form of long-term electricity trading are also futures contracts, which have two completely diametric basic purposes: position trading or hedging against price risks. The company HSE trades with futures with the purpose to protect long-term transactions against price risks. In sales and purchase of electricity with physical purchase after 2012 (operations through OTC market, bilateral conclusion of contracts), the company simultaneously concludes futures contract with the position contrary quantity and the same maturity. In this way, the company financially fixes the revenue from a sales or purchase transaction, meaning that loss arising from the purchase of forward contracts is compensated with revenue 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 with diametric counter futures contract. The price exposure is reduced only in case of concluding diametric futures contract.In 2012, the company concluded solely forward contracts for hedging against price fluctuations of already concluded contracts with physical supply of electricity after 2012.

Disclosures of transactions with forward contracts are available in Sections 4.5.8.1 (9) Equity and 4.5.8.3 Statement of other comprehensive income.

Emission coupons

In 2010, the company HSE adopted the Strategy of selling own production with the purpose to ensure long-term stable revenue from the sales of electricity. Implementation of the strategy of selling own production is based on expected electricity production of subsidiaries. Thus, in the current year the company HSE sells electricity produced by its subsidiaries for some years in advance, while the main goal of the strategy is hedging against price risks.

As the EU member and the signatory of Kyoto protocol, Slovenia committed itself to decrease CO_2 emissions. Energy companies or the companies that use carbon energy sources for electricity production (coal, gas, mazut, ELKO etc.) will feel the measures for reduction of CO_2 emissions the most. 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 free emission coupons granted by governments. In 2013, the method of emission coupons allocation in the energy sector will change, as the abovementioned power plants will have to fully cover all CO_2 emissions with the purchase of emission coupons in open market. This will increase operating expenses of power plants and the risk of change in market value per emission coupon with each sale of electricity from the abovementioned production companies without simultaneous purchase of emission coupons with regard to emission factor CO_2/MWh. This applies also to the companies TEŠ and TET.

In 2011, the company HSE decided to partly protect itself against risks of change in the price of emission coupons by adopting the Strategy of Trading with Emission Coupons in the Period 2013-2020 and the Decision on Purchase of Emission Coupons for the Purposes of Own Production after 2012. These measures stipulates that, in a certain period after the sales of own electricity production in TEŠ and TET, the company has to buy a certain share of emission coupons. As a result, in 2011 Agreements on Emission Coupon Portfolio Management was signed with TEŠ and TET, which stipulate that the company HSE manages the emission coupons of both companies and takes care of sufficient amount of coupons to cover liabilities to the government.

Therefore, by the end of 2012 the company HSE purchased 1,740,462 emission coupons that TEŠ and TET will use after 2012. The carrying amount of coupons totals EUR 20,763,198. With this acquisition, HSE hedged a portion of revenue from sales of TET and TEŠ production in advance against fluctuation in price of emission coupons.

Disclosures of transactions with emission coupons are presented in Sections 4.5.8.1 (1) Intangible assets, 4.5.8.2 (17) Net sales revenue and 4.5.8.2 (19) Costs of goods, materials and services.

in €

Concluded standard call futures	2012	2011
For electricity	15,049,106	53,397,388
For emission coupons	16,919,000	0
TOTAL	**31,968,106**	**53,397,388**

4.5.8.8.6 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 guarantees 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, which is calculated by dividing total net liabilities by total equity. Net liabilities of the company include loans received and other financial liabilities less cash.

The ratio shows the relationship between the company's debt and equity. The financial leverage ratio at the end of 2012 was higher than in 2011, as a result of increased short-term debt. This increase was caused by the HSE's bridge financing of Unit 6, as TEŠ could not draw the long-term loans from EIB and EBRD by the end of the year, before obtaining the government guarantee. In March 2013, TEŠ started to draw the EIB and EBRD long-term loans and repaid all bridge loans from HSE, which allowed the latter to settle a part of its liabilities from short-term loans. With drawing long-term loans, the liquidity crunch of the HSE Group lessened.

in €

Capital management	2012	2011
Long-term financial liabilities	89,558,481	100,009,595
Short-term financial liabilities	233,694,331	80,108,197
Total financial liabilities	**323,252,812**	**180,117,792**
Total equity	988,423,184	970,128,945
Financial liabilities/equity	**0.33**	**0.19**
Net financial liability	320,052,318	161,914,660
Net debt/equity	**0.32**	**0.17**

4.5.8.9 Fair values

The company estimates that the carrying amount is sufficient approximation for its financial instruments, except derivatives, which are recorded at fair value.

in €

Financial instruments	31 December 2012		31 December 2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative financial assets at fair value	**389,566**	**389,566**	**246,500**	**246,500**
Available-for-sale financial assets	366,500	366,500	246,500	246,500
Derivatives (assets)	23,066	23,066	0	0
Non-derivative financial assets at amortised cost	**523,005,713**	**523,005,713**	**278,676,684**	**278,676,684**
Financial receivables	303,576,705	303,576,705	109,317,324	109,317,324
Operating receivables	216,228,514	216,228,514	151,156,228	151,156,228
Cash	3,200,494	3,200,494	18,203,132	18,203,132
Total non-derivative financial assets	**523,395,279**	**523,372,213**	**278,923,184**	**278,923,184**
Non-derivative financial liabilities at fair value	**3,470,570**	**3,470,570**	**2,809,549**	**2,809,549**
Derivatives (liabilities)	3,470,570	3,470,570	2,809,549	2,809,549
Non-derivative financial liabilities at amortised cost	**530,779,594**	**530,779,594**	**323,390,775**	**323,390,775**
Bank loans	319,782,242	319,782,242	177,308,243	177,308,243
Operating liabilities	210,997,352	210,997,352	146,082,532	146,082,532
Total non-derivative liabilities	**534,250,164**	**534,250,164**	**326,200,324**	**326,200,324**

in €

Financial assets carried at fair value by hierarchy	31 December 2012	31 December 2011
Financial assets at second-level fair value	23,066	0
Financial assets at third-level fair value	366,500	246,500
Total financial assets at fair value	**389,566**	**246,500**

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. In accordance with the Energy Act, the company monitors the electricity production in SPP separately. Based on this production, in 2012 the company generated EUR 20,031 of sales revenue and incurred EUR 1,689 of expenses arising from equipment insurance and compensation for servitude rights. The SPP, which is posted as production equipment in the company's fixed assets, was depreciated by EUR 5,080 in 2012. Net profit before tax thus amounts to EUR 13,262.

4.5.8.11 Events after the reporting date

There were no significant events after the balance sheet date that could affect the company's financial statements for 2012.

5 FINANCIAL REPORT OF HSE GROUP

5.1 Auditor's report for HSE Group

Deloitte.

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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 d.o.o. (hereinafter the Group), which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated income statement, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, as adopted by EU and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated 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 2012, 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 EU.

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 consolidated 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.

Tina Kolenc Praznik
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, 28 June 2013

TRANSLATION ONLY – SLOVENIAN ORIGINAL PREVAILS

5.2 Statement of management's responsibility

The Managing Director is responsible for preparation of consolidated financial statements for each financial year in accordance with applicable legislation and the International Financial Reporting Standards ("IFRS") as adopted by the EU in a manner that they give a true and fair view of the financial position of the HSE Group.

The Managing Director reasonably expects that in the foreseeable future the HSE Group will have sufficient assets to continue its operations; therefore, the consolidated financial statements are prepared on a going concern basis.

The responsibility of Managing Director in preparation of consolidated financial statements includes the following:

- accounting policies are appropriately selected and consistently used;
- judgements and assessments are reasonable and wise;
- consolidated financial statements are prepared in accordance with IFRS as adopted by the EU.

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

As at 28 June 2013, the Managing Director adopted the consolidated financial statements of the HSE Group for the financial year ended 31 December 2012.

Ljubljana, 28 June 2013

Blaž Košorok
Managing Director HSE, d.o.o.

5.3 Introduction to the preparation of consolidated financial statements

The financial part of consolidated financial report comprises consolidated financial statements and accompanying notes for the HSE Group (hereinafter: 'the Group').

On the basis of the decision of the Capital Assets Management Agency of the Republic of Slovenia (AUKN RS) as the founder's representative as at 29 November 2010, the Group has prepared its financial statements and accompanying explanatory notes in accordance with IFRS as adopted by the EU, since 1 January 2011.

The audit firm Deloitte revizija d.o.o. has audited the consolidated financial statements with explanatory notes and prepared the Independent Auditor's Report included at the beginning of the section.

5.4 Consolidated financial statements

5.4.1 Consolidated statement of financial position

in €

Item no.	Item	Note 5.5.8.1	31 December 2012	31 December 2011
	ASSETS		2,595,852,738	2,275,886,031
A.	**LONG-TERM ASSETS**		**2,294,319,898**	**1,970,829,476**
I.	Intangible assets	1	46,605,673	47,817,146
II.	Property, plant and equipment	2	2,231,808,245	1,900,121,752
III.	Investment property	3	266,073	281,019
IV.	Long-term investments in subsidiaries	4	422,300	4,378,971
V.	Other long-term investments and loans	5	3,995,914	5,137,980
VI.	Long-term operating receivables	6	1,234,782	1,685,613
VII.	Other long-term assets	7	520,189	632,148
VIII.	Deferred tax assets	8	9,466,722	10,774,847
B.	**CURRENT ASSETS**		**301,532,840**	**305,056,555**
I.	Assets held for sale		210,556	213,830
II.	Inventories	5	33,913,722	33,177,324
III.	Short-term investments and loans		1,210,394	1,894,071
IV.	Short-term operating receivables	6	247,340,093	188,986,897
V.	Current tax assets	28	3,026,808	6,814,899
VI.	Other short-term assets	7	9,036,070	6,962,296
VII.	Cash and cash equivalents	8	6,795,197	67,007,238
	EQUITY AND LIABILITIES		2,595,852,738	2,275,886,031
A.	**EQUITY**	9	**1,473,462,757**	**1,409,097,763**
I.	Called-up capital		29,558,789	29,558,789
II.	Capital surplus		561,243,185	561,243,185
III.	Revenue reserves		384,313,947	359,472,047
IV.	Fair value reserves		(9,391,631)	(4,292,977)
V.	Retained earnings		438,408,173	392,977,563
VI.	Consolidation equity adjustment		(1,203,048)	(823,705)
VII.	Minority interest		70,533,342	70,962,861
B.	**LONG-TERM LIABILITIES**		**458,930,107**	**501,407,398**
I.	Provisions for termination and jubilee benefits	10	14,509,581	14,010,145
II.	Other provisions	11	45,113,607	53,403,922
III.	Other long-term liabilities	12	13,277,434	18,131,459
IV.	Long-term financial liabilities	13	383,769,140	411,791,973
V.	Long-term operating liabilities	14	2,223,015	4,068,412
VI.	Deferred tax assets		37,330	1,487
C.	**SHORT-TERM LIABILITIES**		**663,459,874**	**365,380,870**
II.	Short-term financial liabilities	15	224,986,772	81,031,495
III.	Short-term operating liabilities	16	427,839,634	273,158,937
IV.	Current tax liabilities	28	1,514,480	1,388,703
V.	Other short-term liabilities	17	9,118,988	9,801,735

* 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 €

Item no.	Item	Note 5.5.8.2	2012	2011
1.	Net sales revenue	19	1,807,655,487	1,327,546,308
2.	Changes in inventories of products and work in progress		2,333,401	1,714,941
3.	Capitalised own products and own services	20	41,281,829	32,264,464
4.	Other operating revenue	21	45,517,568	28,900,414
	GROSS RETURN ON OPERATIONS		**1,896,788,285**	**1,390,426,127**
5.	Costs of goods, materials and services	22	1,459,518,583	995,533,662
6.	Labour costs	23	148,039,926	146,313,727
7.	Write-downs in value	24	118,146,203	96,183,027
8.	Other operating expenses	25	57,786,308	56,205,456
	OPERATING PROFIT OR LOSS		**113,297,265**	**96,190,255**
9.	Financial revenues	26	1,303,482	2,716,453
10.	Financial expenses	27	13,261,357	11,461,164
	TOTAL PROFIT OR LOSS		**-11,957,875**	**-8,744,711**
	PROFIT OR LOSS BEFORE TAX		**101,339,390**	**87,445,544**
11.	Corporate income tax		13,996,266	17,563,285
12.	Deferred taxes		1,362,575	129,156
	TAX	28	**15,358,841**	**17,692,441**
13.	**NET PROFIT OR LOSS FOR THE FINANCIAL YEAR**	29	**85,980,549**	**69,753,103**
	Majority owner's net profit or loss for the year		89,099,073	69,759,487
	Minority owner's net profit or loss for the year		-3,118,524	-6,384

* 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 €

Item no.	Item	Note	2012	2011
13.	**NET PROFIT OR LOSS FOR THE FINANCIAL YEAR**		**85,980,549**	**69,753,103**
16.	Gains and losses arising from translation of financial statements of entities located abroad		-379,343	-369,873
17.	Net profit (loss) for the sales of available financial assets		177,554	-108,266
18.	Net effective part of change in fair value of instrument for cash flow hedging	5.5.8.3	-5,060,543	-7,079,467
19.	**TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR**		**80,718,217**	**62,195,497**
	Majority owner's total comprehensive income for the year		83,838,010	62,332,996
	Minority owner's total comprehensive income for the year		-3,119,793	-137,499

* 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 €

Item no.	Item	2012	2011
A.	CASH FLOWS FROM OPERATING ACTIVITIES		
a)	**Items of income statement**	**168,972,633**	**133,802,117**
	Operating revenue (except from revaluation) and financial income from operating receivables	1,844,345,680	1,354,779,496
	Operating revenue (except from revaluation and amortisation/depreciation) and financial expenses for operating liabilities	(1,666,360,984)	(1,194,232,263)
	Income taxes and other taxes not included in operating expenses	(9,012,063)	(26,745,116)
b)	**Changes in net operating assets in statement of financial position items**	**(12,923,963)**	**1,703,341**
	Opening less closing operating receivables	(61,266,763)	(47,632,525)
	Opening less closing other assets	(1,117,598)	(39,147)
	Opening less closing deferred tax assets	1,360,649	(472,448)
	Opening less closing assets (disposal groups) held for sale	3,274	(3,274)
	Opening less closing inventories	(2,285,745)	1,068,825
	Closing less opening operating liabilities	53,797,236	54,538,913
	Closing less opening other liabilities and provisions	(3,450,053)	(5,768,409)
	Closing less opening deferred tax liabilities	35,037	11,406
c)	**Net cash from operating activities**	**156,048,670**	**135,505,458**
B.	CASH FLOWS FROM INVESTING ACTIVITIES		
a)	**Cash receipts from investing activities**	**21,791,014**	**23,694,020**
	Cash receipts from interest	840,691	1,526,945
	Cash receipts from dividends and shares in profits of others	879	523
	Cash receipts from intangible assets (including advances)	14,067	619,244
	Cash receipts from property, plant and equipment (including advances)	638,811	607,560
	Cash receipts from investment property (including advances)	11,700	21,377
	Cash receipts from short-term loans	8,076,979	20,429,670
	Cash receipts from other long-term investments	207,887	488,701
	Cash receipts from other short-term investments	12,000,000	0
b)	**Cash disbursements for investing activities**	**(315,482,696)**	**(359,818,894)**
	Cash disbursements to acquire intangible assets (including advances)	(9,148,159)	(20,548,497)
	Cash disbursements to acquire property, plant and equipment (including advances)	(288,952,423)	(318,666,285)
	Cash disbursements from short-term loans granted	(4,968,970)	(18,491,488)
	Cash disbursements from investments in subsidiaries, associates and jointly controlled companies	(152,621)	(348,717)
	Cash disbursements from other long-term investments	(260,523)	(1,763,907)
	Cash disbursements from other short-term investments	(12,000,000)	0
c)	**Net cash from investing activities**	**(293,691,682)**	**(336,124,874)**
C.	CASH FLOWS FROM FINANCING ACTIVITIES		
a)	**Cash receipts from financing activities**	**356,233,098**	**407,599,511**
	Cash receipts from paid-in capital	924,000	2,765,800
	Cash receipts from long-term loans received	562,144	197,214,363
	Cash receipts from short-term loans received	354,746,954	207,619,348
b)	**Cash disbursements from financing activities**	**(278,554,560)**	**(232,280,577)**
	Interest paid on loans received	(11,515,625)	(8,309,626)
	Cash disbursements from long-term loans received	(42,357,168)	(41,560,579)
	Cash disbursements from short-term loans received	(204,681,767)	(182,410,372)
	Cash disbursements from dividends and shares in profits	(20,000,000)	0
c)	**Net cash from financing activities**	**77,678,538**	**175,318,934**
D.	CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	67,007,238	92,708,791
	Effects of changes in exchange rates on cash and cash equivalents	(247,567)	(401,071)
	Increase/(decrease) of cash and cash equivalents	(59,964,474)	(25,300,482)
E.	CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	6,795,197	67,007,238

* 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 €

Item no.	Item	Called-up capital		Revenue reserve		Retained earnings				TOTAL
		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	
A.1.	**Balance as at 01/01/2011**	**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**
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 the 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**
A.2.	**Balance as at 01/01/2012**	**29,558,789**	**561,243,185**	**359,472,047**	**(4,292,977)**	**392,977,564**	**0**	**(823,705)**	**70,962,861**	**1,409,097,764**
B.1.	**Transactions with owners**	**0**	**0**	**0**	**0**	**(19,043,501)**	**0**	**0**	**2,690,276**	**(16,353,225)**
d)	Additional paid-in capital								924,000	924,000
h)	Dividend payout					(20,000,000)				(20,000,000)
j)	Other changes in equity					956,499			1,766,276	2,722,775
B.2.	**Changes in total comprehensive income**	**0**	**0**	**0**	**(4,881,720)**	**0**	**89,099,073**	**(379,343)**	**(3,119,793)**	**80,718,217**
a)	Net profit or loss for the year						89,099,073		(3,118,524)	85,980,549
b)	Other changes in total comprehensive income				(4,881,720)			(379,343)	(1,269)	(5,262,332)
B.3.	**Changes in equity**	**0**	**0**	**24,841,899**	**(216,934)**	**(3,147,876)**	**(21,477,089)**	**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			21,477,089			(21,477,089)			0
c)	Allocation of a portion of net profit to additional reserves in accordance with the general meeting resolution			3,364,810		(3,364,810)				0
g)	Other changes in equity				(216,934)	216,934				0
C.	**Balance as at 31/12/2012**	**29,558,789**	**561,243,185**	**384,313,946**	**(9,391,631)**	**370,786,187**	**67,621,984**	**(1,203,048)**	**70,533,344**	**1,473,462,756**

* 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 consolidated financial statements as a part of the Group's annual report are available at the registered office of the controlling company Koprska ulica 92, Ljubljana.

The financial year of the company is equal to the calendar year. The consolidated financial statements for the year ended 31 December 2012 are presented below.

5.5.1.1 The HSE Group companies

Companies and groups included in consolidated financial statements of HSE Group

Title of the company or group	Country of residence of the company or group
Holding Slovenske elektrarne d.o.o.	Slovenia
Dravske elektrarne Maribor d.o.o.	Slovenia
Soške elektrarne Nova Gorica d.o.o.	Slovenia
Termoelektrarna Šoštanj d.o.o.	Slovenia
Skupina Premogovnik Velenje	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 Adria d.o.o.	Croatia
HSE Bulgaria EOOD	Bulgaria
HSE Mak Energy DOOEL	Macedonia
HSE BH d.o.o.	Bosnia and Herzegovina

Prior to the consolidation of the HSE Group, the Premogovnik Velenje Group (hereinafter: 'the PV Group') was 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 Group. The consolidated annual report of the PV Group 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
*GOLTE d.o.o., zimsko letni turistični center	Slovenia

* included in consolidation of the PV Group for the first time

In 2012, the subsidiary HSE Hungary was eliminated from consolidated financial reports, as its operations had been terminated based on the voluntary liquidation procedure on 31 August 2012.

In the process of consolidation, EUR 1,054,438,348 of long-term investments in subsidiaries were eliminated.

The Group subsidiaries Elprom d.o.o., MHE Lobnica d.o.o., Jama Škale v zapiranju d.o.o. and Saša Inkubator d.o.o. are dormant companies and have not been consolidated at the controlling company level or the Group level, due to their immateriality. These companies are not material for a true and fair presentation of the Group's operations. At the end of 2012, the company TET Novi materiali d.o.o was founded with paid-up share capital of EUR 7,500. The company was entered into the in the Companies Register in January 2013.

5.5.1.2 Associates

Associated companies	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
Fairwood PV	Singapore

5.5.1.3 Jointly controlled companies

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 consolidated financial statements as at 31 December 2012, the Group 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 Group, and
- other applicable legislation.

A) Standards and interpretations effective in the current period

In the current period the following amendments to existing standards issued by the International Accounting Standards Board (IASB) and adopted by the EU apply:

- **Amendments to IFRS 7 Financial Instruments: Disclosures** - Transfers of Financial Assets, adopted by the EU on 22 November 2011 (effective for annual periods beginning on or after 1 July 2011).

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

B) Standards and interpretations issued by ifric and adopted by the eu but not yet effective

At the date of authorization of these financial statements the following standards, revisions and interpretations adopted by the EU were in issue but not yet effective:

- **IFRS 10 Consolidated financial statements,** adopted by the EU on 11 December 2012 (applicable to the annual periods starting with 1 January 2014 or later).
- **IFRS 11 Joint arrangements,** adopted by the EU on 11 December 2012 (applicable to the annual periods starting on or after 1 January 2014).
- **IFRS 12 Disclosure of interests in other entities,** adopted by the EU on 11 December 2012 (applicable to the annual periods starting on or after 1 January 2014).
- **IFRS 13 Fair value measurement,** adopted by the EU on 11 December 2012 (effective for the annual periods starting on or after 1 January 2013),
- **IAS 27 (revised in 2011) Separate financial statements,** adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014).
- **IAS 28 (revised in 2011) Investments in associates and joint ventures,** adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014).
- **Amendments to IFRS 1 First-time adoption of IFRS** - Severe hyperinflation and removal of fixed dates for first-time adopters, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).
- **Amendments to IFRS 7 Financial Instruments: Disclosures** - Offsetting financial assets and financial liabilities, adopted by the EU on 13 December 2012 (effective for annual periods starting on or after 1 January 2013).
- **Amendments to IAS 1 Presentation of financial statements** – Presentation of items of other comprehensive income, adopted by the EU on 5 June 2012 (applicable to the annual periods starting on 1 July 2012 or later).
- **Amendments to IAS 12 Income Taxes** - Deferred tax: Recovery of underlying assets, adopted by the EU on 11 December 2012 (effective for annual periods starting on or after 1 January 2013).
- **Amendment to IAS 19 Employee Benefits** - Improvements to the accounting for post-employment benefits, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 January 2013).
- **Amendments to IAS 32 Financial Instruments: Presentation** - Offsetting financial assets and financial liabilities, adopted by the EU on 13 December 2012 (effective for annual periods starting on or after 1 January 2014).
- **IFRIC 20 Stripping costs in the production phase of a surface mine,** adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).

The Group has decided not to adopt these standards, revisions and interpretations in advance of their effective dates. The Group anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the consolidated financial statements 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 28 June 2013.

- **IFRS 9 Financial Instruments** (effective for annual periods beginning on or after 1 January 2015),
- **Amendments to IFRS 1 First-time adoption of IFRS** - Government loans (effective for the annual periods starting on 1 January 2013 or later).
- **Amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures** - Mandatory Effective Date and Transition Disclosures.
- **Amendments to IFRS 10 Consolidated financial statements, IFRS 11 Joint arrangements** and **IFRS 12 Disclosure of interests in other entities** - Transition Guidance (effective for annual periods beginning on or after 1 January 2013).
- **Amendments to IFRS 10 Consolidated financial statements, IFRS 12 Disclosure of interests in other entities** and **IAS 27 Separate financial statements** – Investments (effective for annual periods beginning on or after 1 January 2014).
- **Amendments to various standards - Improvements to IFRSs (2012),** resulting from the annual project for improvement of IFRSs published on 17 May 2012 (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to remove inconsistencies and to clarify wording, will need to be applied 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 consolidated 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 yet by the EU, is still unregulated.

According to the Group'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 consolidated financial statements, if applied as at the date of statement of financial position.

5.5.3 Basis of measurement

The consolidated financial statements are prepared on the basis of historical values of balance sheet items of the Group, except the following assets and liabilities carried at fair value:

- derivatives, and
- available-for-sale financial assets (in case the fair value can be reliably determined).

5.5.4 Currency reports

5.5.4.1 Functional and presentation currency

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

5.5.4.2 Foreign currency translation

Transactions expressed in 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 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. Exchange differences are recognised in consolidated income statement using net principle.

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 at the exchange rate on the reporting date,
- equity at initial exchange rate, and
- revenue and expenses at average exchange rate in the reporting year.

5.5.5 Use of assessments and judgements

The preparation of consolidated 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 liabilities 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 (disclosure 5.5.8.1, points 1 and 2);
- test of impairment of assets (disclosure 5.5.8.1, points 1, 2 and 3);
- assessment of fair value of derivatives (disclosure 5.5.8.8.3 and 5.5.8.8.4);
- assessment of realisable values of receivables (disclosure 5.5.8.8.1);
- assessment of net realisable value of inventories (disclosure 5.5.8.1, point 5);
- assessment of provisions for jubilee and termination benefits (disclosure 5.5.8.1, point 10);
- assessment of other provisions (disclosure 5.5.8.1, point 11); and
- assessment of contingent liabilities and assets (disclosure 5.5.8.1, point 18).

5.5.6 Branch and representative offices

The Group has three foreign branch offices - in the Czech Republic, Slovakia and Macedonia, and a representative office in Romania. In 2012, the Group operated through the branch offices to a minimum degree. The operations of branch and representative offices are included in the Group's financial statements.

5.5.7 Significant accounting policies

The consolidated 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 it is 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.

The financial statements of Group companies have been incorporated into the consolidated financial statements on the basis of full consolidation. The financial statements are 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.

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 statement of other comprehensive income.

5.5.7.2 Intangible assets

Intangible assets are long-term assets enabling the performance of the Group companies' registered activities without existing physically.

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 attributed to the purchase of an intangible qualifying asset (until its capitalisation) are recognised as a part of cost of such asset.

Intangible assets are subsequently measured using the cost model.

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

Emission coupons are not amortised, since they are purchased for individual periods in which they are used. Emission coupons received from the government are initially valuated at EUR 1 per coupon at simultaneous increase in long-term deferred revenue.

Goodwill appears in consolidation and represents a surplus of cost over the company's share in fair value of acquired recognisable assets, liabilities and contingent liabilities of the subsidiary on the date of acquisition. Goodwill is recognised as an asset and is examined at least once per year due to impairment. Each 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.

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 is measured at cost when an asset is available for use.

Individual items of intangible assets have the following useful lives:

Intangible assets	Amortisation rate (%)	Useful life in years
Computer software	5-50%	2-20
Licences	10-50%	2-10
Concession rights	2%	50
Other long-term property rights	2-25%	4-50
Other intangible assets	10-25%	4-10

Useful life of groups of intangible assets are examined at the end of each financial year and adapted, if needed. In the event their useful life is extended, the cost of amortisation in the current year is decreased. If useful life is shortened, amortisation cost increases. The adjustment of useful life has to be calculated in a manner that the asset will be amortised 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.

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 intangible asset is transferred to other sales revenue or write-downs.

5.5.7.3 Property, plant and equipment

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

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

Property, plant and equipment (fixed assets) are carried at cost, less accumulated depreciation and losses from impairment. 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 a fixed asset until it is in working condition. The cost does not include costs incurred upon the dismantling or renovation of fixed assets.

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 fixed assets and are depreciated over the useful life of the related asset.

The anticipated costs of regular inspections and repairs of fixed assets 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 subsequent measurement of property, plant and equipment the cost model is used.

The Group has no fixed assets for which it would record the residual value when purchased. Assets acquired free-of-charge are not depreciated, while at the same time a part of long-term deferred revenue is transferred to other operating revenue. This part equals the value of calculated depreciation.

Depreciation is calculated using the straight-line depreciation method, taking into account the useful life of individual (integral) part of a fixed asset. Depreciation begins when an asset is available for use. Land, quarries and assets in the course of construction or production are not depreciated.

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

Property, plant and equipment	Amortisation rate (%)	Useful life in years
Buildings	1-10%	10-100
Parts of buildings	2.5-20%	5-40
Production equipment	1.3-20%	5-77
Parts of production equipment	5-33%	3-20
Computer equipment	5-50%	2-20
Furniture	10-25%	4-10
Small tools	12.5-33.33%	3-8
Cars	10-30%	3-10
Other vehicles	4-25%	4-25
Other plants and equipment	4-33.33%	3-25

Useful life of groups of fixed assets are examined at the end of each financial year and adapted, if needed. In the event their useful life is extended, the cost of depreciation in the current year is decreased. If useful life is shortened, depreciation cost increases. The adjustment of useful life has to be calculated in a manner that an 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 of a part of fixed asset are attributed to the carrying amount of this asset if it is possible that future economic benefits related to a part of this asset will flow to the company and if cost 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 the 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 associates and jointly controlled companies

Investments in associates are investments in which the Group 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 Group controls the operations of such companies together with other owners, namely on the basis of contractually agreed division of control.

Investments in associates and in jointly controlled companies are carried at cost in consolidated financial statements.

In consolidated financial statements, the investments in associates and jointly controlled companies are accounted for using capital method.

5.5.7.6 Financial instruments

Financial instruments include the following assumptions:

- non-derivative financial assets;
- non-derivative financial liabilities;
- derivatives.

5.5.7.6.1 Non-derivative financial assets

The Group's non-derivative financial assets comprise available-for-sale financial assets, receivables, 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 or loss during valuation is recognised directly in other comprehensive income or equity, except loss due to impairment. These are recognised so that potential accumulated loss, which is initially recognised in other comprehensive income and disclosed in fair value reserve, is 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 other 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, the Group companies measure 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 in the consolidated statement of financial position as financial and operating assets and include granted loans, 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 of 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.

5.5.7.6.2 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 Group 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 financial liabilities.

5.5.7.6.3 Derivatives

Derivatives are used for the hedging of Group’s exposure against interest rate, price and currency risks. The Group has concluded interest and currency swaps as well as futures contracts for the purchase of electricity and emission coupons in the following years.

These are financial instruments that do not require initial financial investment, while their value is changing due to change in interest rates, goods prices or foreign exchange rates.

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 Group 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.

5.5.7.7 Inventories

Inventories are carried at the lower of the two: historical cost or net realisable value. 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 subsequently and refer to individual purchase.

The value of finished products and work in progress includes total production costs in the narrow sense, which comprise direct costs of materials, direct costs of services, direct labour costs, direct depreciation/amortisation costs and general production costs. General production costs are costs of materials, services, salaries and amortisation/depreciation, which are charged in the framework of production process, but cannot be directly connected to developing business effects. A part of production costs in total costs (materials, services, labour costs and depreciation) is 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.

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.

5.5.7.8 Impairment of assets

5.5.7.8.1 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 go bankrupt and disappearance of active market for such instrument.

Impairment of receivables and loans granted

The Group 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 enforced 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 to enter the collection procedure through court, receivables are finally written down in full based on the management's decision.

The Group 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.

5.5.7.8.2 Non-financial assets

On each reporting date, the Group companies verify 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 companies evaluate losses due to impairment in previous periods and determine 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 a 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.

5.5.7.9 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 that are intentionally retained from the controlling company's revenue of previous periods. They are created on the basis of the decision by relevant management and supervisory body.

Fair value reserve represents amounts arising from revaluation of derivatives and available-for-sale financial-assets of the Group.

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.

5.5.7.10 Provisions for jubilee and termination benefits

In accordance with legal regulations, collective agreements and internal rules, the Group companies are obliged to pay jubilee benefits to employees and termination benefits on their retirement for which 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 for all companies. Payments for termination benefits on retirement and jubilee benefits decrease the created provisions.

5.5.7.11 Other provisions

Provisions are recognised when the Group has a legal or constructive obligations arising from past events, 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.

If the expected liabilities do not occur, the amount of created provisions is reversed and recognised under other operating revenue.

5.5.7.12 Other assets and liabilities

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

Deferred costs or expenses represent the 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 it has 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.

5.5.7.13 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 Group 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.

The Group's contingent liabilities include the guarantees granted.

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 Group does not fully control.

Contingent assets comprise the amounts of lawsuits in which the Group acts as plaintiff.

Contingent assets and liabilities are not recognised in the consolidated statement of financial position.

5.5.7.14 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 Group stops deciding on products sold.

Sales of goods are recognised when the Group delivers the products to the client. The client accepts the products, while the collectability of associated receivables is reasonably ensured.

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

Other operating revenue related to operating effects are composed of 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, and similar revenue (ex. government assistance).

Government assistance is considered as deferred revenue that a 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 comprises revenue from shares in investments, interest on loans and deposits given and revenue of associates. Interest revenue is recognised upon its occurrence, in the amount of agreed-upon interest rate.

5.5.7.15 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 production in progress are recognised as operating expenses upon their occurrence.

Costs of goods sold includes expenses related to the sales of electricity and contingent costs of electricity. In case the Group 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 that are directly used for creating products and services (direct costs of material), as well as costs of material that do not have such characteristics 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 characteristics 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 depreciable 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 and impairment of investments. Interest expenses are recognised upon their occurrence, in the amount of agreed-upon interest rate.

5.5.7.16 Tax

Taxes include current and deferred tax liabilities. Current tax is included in the consolidated income statement. Deferred tax in recognised in the consolidated income statement and in the consolidated statement of financial position.

Current tax liabilities 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 Group companies' current tax liabilities are calculated with tax rates that are applicable on the reporting date. If current tax liability is lower than advances paid, current tax receivable is posted.

Country	Effective tax rate in 2012
Slovenia	18%
Croatia	20%
Serbia	10%
Macedonia	10%
Bosnia and Herzegovina	10%
Bulgaria	10%
Italy	27.5%

Deferred tax is completely disclosed using the liabilities method after the statement of financial position for temporary differences arising between the tax value 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 consolidated 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.

5.5.7.17 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.

5.5.7.18 Consolidated cash flow statement

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

5.5.7.19 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.

5.5.7.20 Fair value measurement

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 a 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 the financial instrument.

In order to determine the fair value of interest and currency swaps, we use information submitted to the Group companies by banks where they concluded individual swaps. Values are verified in the companies' financial departments.

5.5.7.21 Financial risks management

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

In notes to consolidated financial statements, the financial risks are presented in connection with items in 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

Intangible assets (1)

in €

Intangible assets	31 December 2012	31 December 2011
Long-term property rights	34,212,762	35,365,667
Goodwill	12,387,056	12,387,056
Other intangible assets	5,855	64,423
Intangible assets	**46,605,673**	**47,817,146**

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

The Group received emission coupons for the period from 2008 to 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. The coupons are disclosed in value 1 EUR/coupon, while on the other hand long-term deferred revenue is disclosed in the same amount. The Group also purchased emission coupons for the purposes of electricity production in the Group in the next years.

The opening balance of the Group's emission coupons amounts to 10,654,119 coupons or EUR 26,128,868 coupons. In 2012, 1,273,888 emission coupons were purchased and 5,510,545 coupons were sold or used. As a result, the Group had 6,417,462 emission coupons in the amount of EUR 26,585,736 at the end of 2012.

During consolidation, EUR 1,057,216 of emission coupons was eliminated on account of intra-group sales.

The Group determined no reasons for impairment of long-term property rights in 2012.

Goodwill was created in 2007 in the amount of EUR 12,387,056 as a result of the historical cost of a long-term investment exceeding the carrying amount of equity of a subsidiary. So far, no reason for impairment of goodwill has arisen.

In 2012, useful lives of important software items were reviewed; it was determining that the useful lives of majority of assets was appropriately assessed, given the current expectations regarding the usability of these assets. Due to extended useful life of some software, the amortisation charge in 2012 totalled EUR 59,061, which is EUR 42,426 less than the amortisation of the initially determined useful life.

In 2012, the Group companies did not allocate interest from purchase before making available for use to the cost of intangible assets.

in €

Changes in intangible assets	Long-term property rights	Goodwill	Other intangible assets	TOTAL
Cost as at 01/01/2011	**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 01/01/2011	**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 01/01/2011	**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**

in €

Changes in intangible assets	Long-term property rights	Goodwill	Other intangible assets	TOTAL
Cost as at 01/01/2012	**45,114,887**	**12,387,056**	**70,571**	**57,572,514**
Acquisitions	8,266,560	0	0	8,266,560
Disposals	-8,746,410	0	0	-8,746,410
Transfers - re-entries	-555,844	0	-58,568	-614,412
Foreign exchange differences	943	0	0	943
Cost as at 31/12/2012	**44,080,136**	**12,387,056**	**12,003**	**56,479,195**
Written-down value as at 01/01/2012	**9,749,220**	**0**	**6,148**	**9,755,368**
Amortisation	1,623,799	0	0	1,623,799
Disposals	-1,506,168	0	0	-1,506,168
Foreign exchange differences	523	0	0	523
Written-down value as at 31/12/2012	**9,867,374**	**0**	**6,148**	**9,873,522**
Carrying amount as at 01/01/2012	**35,365,667**	**12,387,056**	**64,423**	**47,817,146**
Carrying amount as at 31/12/2012	**34,212,762**	**12,387,056**	**5,855**	**46,605,673**

Property, plant and equipment (2)

in €

Property, plant and equipment	31 December 2012	31 December 2011
Land	38,614,997	38,667,781
Buildings	557,929,901	568,214,238
Production equipment	560,356,644	557,041,519
Other equipment	15,496,029	22,144,302
Property, plant and equipment being acquired	1,059,410,674	714,053,912
Property, plant and equipment	**2,231,808,245**	**1,900,121,752**

The majority of the 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. Therefore, property, plant and equipment account for the largest part of the Group's assets.

The most important investments in property, plant and equipment of Group companies in 2012 include investments in Unit 6 at TEŠ and construction of HPP on the lower Sava River, renovation of other power plants and production equipment. Additional information on the Group's investments is available in the business report (section 2.9 Investments).

In 2012, the companies included EUR 21,029,248 of borrowing costs to the cost of property, plant and equipment.

In 2012, useful lives of major intangible assets were reviewed and it was established that the useful lives of majority of assets were appropriately assessed, given the current expectations regarding the usability of these assets. On the basis of analysis of the condition of plants and the estimated operating regime of Unit 5 in TEŠ, the useful lives of the facility and equipment were extended. Thus, depreciation of the facility for 2012 amounted to EUR 947,223, which was EUR 568,333 less compared to the initial amount, while depreciation of production equipment totalled EUR 5,587,346 or EUR 4,202,177 than the initial amount. Useful life of some other equipment was also extended or shortened; namely total adjusted depreciation amounts to EUR 255,500, which is EUR 67,064 more than the initial depreciation at previous depreciation rates.

Due to inclusion of the company Golte d.o.o. in consolidation, the Group's property, plant and equipment increased by EUR 13,853,781, the majority of which regards buildings (EUR 8,251,595) and production equipment (EUR 4,335,460). On the basis of appraisals, an impairment of buildings and land in total amount of EUR 506,000 was carried out in the group of property, while in the group of property in acquisition, a facility was impaired in the amount of EUR 579,975. In the group of production equipment, an impairment in the amount of EUR 600,000 was carried out, as errors in the guarantee period were determined, due to which the equipment does not meet the initially determined technical characteristics despite reconstruction and other equipment in the amount of EUR 250,765.

During consolidation, impairment of buildings and production equipment of the company TET in total amount of EUR 15,764,589 was performed.

Majority of write-downs in property, plant and equipment refers to assets that were destroyed in November floods, overhaul in Unit 5 and worn-out equipment, mostly replaced by new equipment. Some property and equipment were sold.

EUR 269,276 of the Group's equipment was under financial lease, while no property was under financial lease.

The Group's property and equipment are mortgaged in total amount of up to EUR 38,636,111. Precise balance of mortgages depends on the current balance of loan exposure and conditions of banks with regard to collateral with mortgage.

in €

Changes in property, plant and equipment	Land	Buildings	Production equipment	Other equipment	Property, plant and equipment being acquired	TOTAL
Cost as at 01/01/2011	**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 01/01/2011	**0**	**687,290,160**	**1,438,597,363**	**31,700,250**	**0**	**2,157,587,773**
Amortisation	0	23,270,942	64,055,911	3,833,723	0	**91,160,576**
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 01/01/2011	**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**

in €

Changes in property, plant and equipment	Land	Buildings	Production equipment	Other equipment	Property, plant and equipment being acquired	TOTAL
Cost as at 01/01/2012	**38,667,781**	**1,278,392,199**	**2,025,027,728**	**55,359,228**	**714,053,912**	**4,111,500,848**
Acquisitions	0	0	0	0	430,035,605	**430,035,605**
Disposals	-109,564	-11,409,635	-26,735,645	-2,719,018	-159,064	**-41,132,926**
Transfers from ongoing investments	143,437	15,292,742	62,867,066	5,304,424	-83,709,566	**-101,897**
Other transfers	211,082	9,007,770	6,173,023	476,772	-230,235	**15,638,412**
Impairments	0	-59,482	-600,000	0	-579,975	**-1,239,457**
Foreign exchange differences	0	0	0	-1,925	-3	**-1,928**
Cost as at 31/12/2012	**38,912,736**	**1,291,223,594**	**2,066,732,172**	**58,419,481**	**1,059,410,674**	**4,514,698,657**
Written-down value as at 01/01/2012	**0**	**710,177,961**	**1,467,986,209**	**33,214,926**	**0**	**2,211,379,096**
Amortisation	0	22,955,480	59,942,017	5,132,351	0	**88,029,848**
Acquisitions	17,907	50,327	0	0	0	**68,234**
Disposals	0	-6,306,275	-26,507,777	-2,518,482	0	**-35,332,534**
Other transfers	0	486,081	-5,286,971	7,096,092	0	**2,295,202**
Impairments	279,833	5,930,119	10,242,046	0	0	**16,451,998**
Foreign exchange differences	-1	0	4	-1,435	0	**-1,432**
Written-down value as at 31/12/2012	**297,739**	**733,293,693**	**1,506,375,528**	**42,923,452**	**0**	**2,282,890,412**
Carrying amount as at 01/01/2012	**38,667,781**	**568,214,238**	**557,041,519**	**22,144,302**	**714,053,912**	**1,900,121,752**
Carrying amount as at 31/12/2012	**38,614,997**	**557,929,901**	**560,356,644**	**15,496,029**	**1,059,410,674**	**2,231,808,245**

Other long-term investments and loans (3)

in €

Other long-term investments and loans	31 December 2012	31 December 2011
Long-term investments in associated companies	853,938	802,184
Long-term investments in jointly controlled companies	300,637	120,897
Available-for-sale financial assets	2,639,047	3,879,701
Other long-term investments	2,000	2,000
Long-term financial receivables and loans	200,292	333,198
TOTAL	**3,995,914**	**5,137,980**

Investments in associates

In the process of consolidation, the value of investments in associated companies accounted for using the equity method increased by EUR 15,633. Associates are not audited.

Associate	Address	Activity	Co-owner company	% co-ownership
ELDOM d.o.o.	Vetrinjska ulica 2, Maribor, Slovenia	Property management for payment or under contract	Dravske elektrarne Maribor d.o.o.	50%
ERICO d.o.o.	Koroška cesta 58, Velenje, Slovenia	Ecologic research, monitoring	Termoelektrarna Šoštanj d.o.o., Premogovnik Velenje d.d.	26% 23%
PLP d.o.o.	Partizanska 78, Velenje, Slovenia	Timber activity	Premogovnik Velenje d.d.	26%
SIPOTEH d.o.o.	Partizanska 79, Velenje, Slovenia	Production of technological and mining equipment	Premogovnik Velenje d.d.	42%
PV Fairwood	Singapore	Coal mining modernisation	Premogovnik Velenje d.d.	40%

Significant amounts from statements of associates for 2012

in €

Associate	Assets	Liabilities (without equity)	Revenue	Net profit or loss for the financial year	Total equity
ELDOM d.o.o.	460,008	226,857	1,016,569	9,172	233,151
ERICO d.o.o.	1,749,981	439,680	2,193,542	42,490	1,310,301
PLP d.o.o.	1,854,336	1,092,269	3,018,393	89,655	762,067
SIPOTEH d.o.o.	2,717,391	2,372,918	5,050,520	1,995	344,473

*PV Fairwood is inactive

Amounts of long-term investments in associates

in €

Associate	31 December 2012	31 December 2011
ELDOM d.o.o.	116,578	111,992
ERICO d.o.o.	391,475	370,655
PLP d.o.o.	158,790	135,480
SIPOTEH d.o.o.	184,895	184,057
PV Fairwood	2,200	0
TOTAL	**853,938**	**802,184**

Investments in jointly controlled companies

In the process of consolidation, the value of investments in jointly controlled companies accounted for using the equity method increased by EUR 59,740.

in €

Jointly controlled company	31 December 2012	31 December 2011
SOENERGETIKA d.o.o.	300,637	120,897

Available-for-sale financial assets

The Group's available-for-sale financial assets include shares and stakes of companies and banks. In 2012, the NLB shares were impaired through profit or loss, based on the calculation of median P/B ratio for listing of comparable listed banks. The published book value of a NLB share at the end of 2012 amounted to EUR 85.3, while a value of EUR 26.54 EUR per share was taken into account for the impairment.

in €

Available-for-sale financial assets	2012	2011
Company shares	564,609	350,811
Company stakes	1,040,637	1,033,138
Bank shares	1,032,249	2,494,200
Other	1,552	1,552
TOTAL	**2,639,047**	**3,879,701**

Deferred tax assets (4)

In 2012, 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, and
- differences between operating and tax depreciation/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/amortisation.

Changes in deferred tax assets in 2012 amounted to EUR -1,308,125, and were disclosed in the amount of EUR -1,362,575 in the consolidated income statement and in the amount of EUR 54,450 in equity.

The amount of deferred tax assets eliminated in consolidation totalled EUR 3,281,835.

in €

Changes in deferred tax assets	Provisions	Impairment	Amortisation/ Depreciation	Other	TOTAL
Balance as at 01/01/2011	**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**
Balance as at 01/01/2012	**6,364,896**	**574,463**	**250,332**	**3,585,156**	**10,774,847**
In debit/(credit) of profit or loss	-2,325,207	161,043	10,857	790,732	-1,362,575
In debit/(credit) of other comprehensive income	0	0	0	54,450	54,450
Balance as at 31/12/2012	**4,039,689**	**735,506**	**261,189**	**4,430,338**	**9,466,722**

Inventories (5)

in €

Inventories	31 December 2012	31 December 2011
Spare parts and materials	23,001,935	22,614,188
Unfinished production	52,536	59,922
Finished products and merchandise	10,859,251	10,503,214
TOTAL	**33,913,722**	**33,177,324**

The majority of the Group's inventories include 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 materials for maintenance, which are 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 EUR 1,284,768.

In case of other inventories, net realisable value is not lower than the carrying amount.

No inventories have been used as collateral.

in €

Inventory surpluses and deficits	31 December 2012	31 December 2011
Inventory surpluses	12,705	43,039
Inventory deficits	-6,035	-70,855
TOTAL	**6,670**	**-27,816**

Short-term operating receivables (6)

in €

Short-term operating receivables	31 December 2012	31 December 2011
To Group companies	360	433,658
To associates	223,613	203,906
From buyers	179,319,904	152,079,207
Allowance for receivables from buyers	-3,716,484	-2,735,681
Advances given	14,174,839	9,168,989
Allowances for advances given	-3,572,077	0
From government and other institutions	53,848,823	24,882,072
From others	7,081,630	4,956,025
Allowance for receivables from others	-20,515	-1,279
TOTAL	**247,340,093**	**188,986,897**

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.

Short-term advances given represent approximately a half of cash on the settlement account for payment of transmission capacities. At the end of 2011, this receivable was disclosed under deposits redeemable at notice in the amount of EUR 6,857,611. Other short-term operating receivables include advance payments to equipment suppliers.

Most of receivables from government or other institutions comprise input VAT receivables.

Most of receivables due from others include short-term guarantees given for payment of electricity on foreign exchange.

The amount of short-term receivables eliminated in consolidation totalled EUR 119,212,238.

Disclosures in relation to maturity of receivables, allowances for receivables and insuring receivables are represented in the section on credit risk.

Other short-term assets (7)

in €

Other current assets	31 December 2012	31 December 201
Deferred costs	2,494,123	5,603,063
Accrued revenue	6,541,947	1,359,233
TOTAL	**9,036,070**	**6,962,296**

Other short-term assets include short-term deferred costs (mostly in connection with electricity trading) and shot-term accrued revenue (mostly in connection with receivables from the insurance company for damage compensation due to the November 2012 floods).

The amount of other short-term assets eliminated in consolidation totalled EUR 5,728,294.

Cash and cash equivalents (8)

in €

Cash and cash equivalents	31 December 2012	31 December 2011
Cash in bank accounts and cheques	16,674	4,782
Cash in bank accounts	4,697,236	13,898,960
Deposits redeemable at notice	1,581,287	0
Deposits up to three months	500,000	53,103,496
TOTAL	**6,795,197**	**67,007,238**

Equity (9)

in €

Equity	31 December 2012	31 December 2011
Called-up capital	29,558,789	29,558,789
Capital surplus	561,243,185	561,243,185
Revenue reserves	384,313,947	359,472,047
Fair value reserves	-9,391,631	-4,292,977
Retained earnings	438,408,173	392,977,563
Consolidation equity adjustment	-1,203,048	-823,705
Minority interest	70,533,342	70,962,861
Total equity	**1,473,462,757**	**1,409,097,763**

The value of nominal capital and capital surplus of the Group remained unchanged in 2012.

Other revenue reserves in the amount of EUR 384,313,947 represent a part of transferred revenue of the controlling company and are disclosed in detail in the statement of changes in equity.

Fair value reserve in the amount of EUR -9,391,631 includes:

- fair value reserve of the controlling company in the amount or EUR -8,169,827 (detailed disclosure in the financial report of the controlling company), and
- The controlling company's share in the fair value reserve of the subsidiaries in total amount of EUR -1,221,804 (mostly fair value of financial instruments for hedging against changeability of cash flows).

Retained earnings are comprised of the controlling company's share in retained earnings of its subsidiaries in the amount of EUR 369,612,754, unallocated profit of the current year of the controlling company in the amount of EUR 21,477,090 and the share of the controlling company in operating profit or loss of the current year of the subsidiaries in the amount of EUR 47,815,764, decreased in consolidation procedure by EUR -1,670,868 (more detailed disclosure in Section 5.5.8.2 (29). Retained earnings of the PG Group increased by EUR 1,173,433 (more details available in the statement of changes in equity).

Consolidation equity adjustment represents 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 six subsidiaries is presented separately and is disclosed in more detail in the statement of changes in equity.

The amount of subsidiaries' equity eliminated during consolidation totalled EUR 1,045,333,127.

Provisions for termination and jubilee benefits (10)

in €

Provisions for termination and jubilee benefits	31 December 2012	31 December 2011
Termination	10,164,253	10,037,410
Jubilee benefits	4,345,328	3,972,735
TOTAL	**14,509,581**	**14,010,145**

At the end of 2012, the Group discloses **provisions for termination and jubilee benefits,** created on the basis of actuarial calculation as at 31 December 2012.

The actuarial calculation was based on:

- the number of employees in the company as at 31 December 2012 (gender, age, overall and pension qualifying period of service, average net and gross salary for the period July – September 2012);
- method for calculating termination and jubilee benefits in the company,
- average salary growth of 1.9% in 2013, 1.5% in 2014 and 2015 and 3.0% per year in the following years;
- discount interest rate of 4.6%, and
- employee turnover by age category.

in €

Changes in provisions for termination and jubilee benefits	Provisions for termination benefits	Provisions for jubilee benefits	TOTAL
Balance as at 01/01/2011	**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**
Balance as at 01/01/2012	**10,037,410**	**3,972,735**	**14,010,145**
Creation, increase	966,156	907,633	1,873,789
Decrease - drawing	-737,345	-535,040	-1,272,385
Decrease - reversal	-101,968	0	-101,968
Balance as at 31/12/2012	**10,164,253**	**4,345,328**	**14,509,581**

Other provisions (11)

in €

Other provisions	31 December 2012	31 December 2011
For lawsuits	11,250,027	12,319,134
For closing works on cave excavation site	28,716,337	37,331,283
For compensations	43,293	43,293
Other	5,103,950	3,710,212
TOTAL	**45,113,607**	**53,403,922**

Provisions for closing a part of extraction sites are created on the basis of internal expert reports and are utilised for the costs of mining works, hydrological costs and ecological restoration. Based on re-verification of provisions assessments and renovation of some parts with proper funds, a part of provisions was reversed in 2012.

Provisions for legal actions are created on the basis of assessed liabilities from legal actions, in which the Group is the defendant. Creation of these provisions refers to the increase due to new lawsuits and charged default interest on a part of damage amounts claimed. Thanks to the court ruling in benefit of the Group, these provisions were reversed in 2012.

Most of other provisions are represented by provision for restoration of disposal site of waste products. In 2012, the Group created new provisions for unpaid part of annual leave pay in the amount of EUR 1,238,555.

in €

Changes of other provisions	For lawsuits	For closing works on cave excavation site	For compensations	Other	TOTAL
Balance as at 01/01/2011	**10,785,610**	**38,811,344**	**1,016,903**	**11,931,949**	**62,545,806**
Creation, increase	1,763,048	554,576	0	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**
Balance as at 01/01/2012	**12,319,134**	**37,331,283**	**43,293**	**3,710,212**	**53,403,922**
Creation, increase	824,597	0	0	1,393,738	2,218,335
Decrease - reversal	-1,893,704	-8,614,946	0	0	-10,508,650
Balance as at 31/12/2012	**11,250,027**	**28,716,337**	**43,293**	**5,103,950**	**45,113,607**

Other long-term liabilities (12)

in €

Other long-term financial liabilities	31 December 2012	31 December 2011
Emission coupons	215,305	5,152,334
Quotas for disabled	6,083,837	6,449,653
Others state aids received	6,883,054	6,306,132
Other	95,238	223,340
TOTAL	**13,277,434**	**18,131,459**

The remaining part of free emission coupons for period 2008-2012 is disclosed under emission coupons.

Quotas for the disabled represent the amount of exemption from payment of contributions for the disabled, in accordance with the Vocational Rehabilitation and Employment of Disabled Persons Act. They are used to settle costs determined in the mentioned Act.

Government and EU grants include the funds received for co-financing fixed assets which are decreased by the depreciation amounts.

in €

Changes in other long-term liabilities	Emission coupons	Quotas for disabled	Government grants and EU funds received	Other	TOTAL
Balance as at 01/01/2011	**10,058,110**	**464,157**	**7,684,285**	**1,669,105**	**19,875,657**
Creation, increase	0	8,414,694	0	226,311	8,641,005
Decrease - drawing	-4,905,776	-10,649,850	-1,378,153	-1,672,076	-18,605,855
Transfers	0	8,220,652	0	0	8,220,652
Balance as at 31/12/2011	**5,152,334**	**6,449,653**	**6,306,132**	**223,340**	**18,131,459**
Balance as at 01/01/2012	**5,152,334**	**6,449,653**	**6,306,132**	**223,340**	**18,131,459**
Creation, increase	0	7,106,281	1,955,073	0	9,061,354
Decrease - drawing	-4,937,029	-7,472,097	-1,378,151	-128,102	-13,915,379
Balance as at 31/12/2012	**215,305**	**6,083,837**	**6,883,054**	**95,238**	**13,277,434**

Long-term financial liabilities (13)

in €

Long-term financial liabilities	31 December 2012	31 December 2011
To banks	378,466,499	407,863,636
Other	5,302,641	3,928,337
TOTAL	**383,769,140**	**411,791,973**

Long-term financial liabilities of the companies represent long-term bank loans and negative fair value of IRS.

Loans have been taken with Slovene and foreign banks, and interest rates range between 0.56% 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, assignment of receivables, pledge of accounts and cash, and a guarantee of the controlling company or the Republic of Slovenia.

Long-term loans are disclosed in detail in annual reports of individual Group companies.

Interest rate swaps have been entered into for some of the Group's long-term loans to lower the risk of increases in variable interest rates. Due to lower 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 of long-term liabilities is disclosed in the section on liquidity risk.

Long-term operating liabilities (14)

in €

Long-term operating liabilities	31 December 2012	31 December 2011
To suppliers	1,777,218	3,441,001
Advances	5,758	67,284
Other	440,039	560,127
TOTAL	**2,223,015**	**4,068,412**

Long-term operating liabilities to suppliers mostly refer to insurances concluded for the construction site of replacement Unit 6 with a postponed payment deadline.

Most of other long-term operating liabilities are represented by liabilities arising from compensations and co-participation for apartments.

Short-term financial liabilities (15)

in €

Short-term financial liabilities	31 December 2012	31 December 2011
To banks	224,876,081	80,533,337
Other	110,691	498,158
TOTAL	**224,986,772**	**81,031,495**

Short-term financial liabilities to banks comprise a part of long-term bank loans to the Group companies, which fall due a year after the date of financial position, and short-term loans. Interest rates range between 1.77 % and 5.73 %. Accounted for but not yet due interest on loans amounted to EUR 1,513,619, at the end of the period.

Short-term financial liabilities to others mostly refer to negative fair value of currency swaps of the controlling company.

The amount of short-term financial liabilities eliminated in consolidation procedure totalled EUR 378,623,344.

Short-term operating liabilities (16)

in €

Short-term operating liabilities	31 December 2012	31 December 2011
To Group companies	5,323	80,815
To associates	1,583,807	719,192
To joint ventures	153,522	0
To suppliers	374,655,800	240,448,368
Advances	439,633	607,039
To employees	10,547,379	11,074,143
To government and other institutions	36,892,824	15,765,379
Other	3,561,346	4,464,001
TOTAL	**427,839,634**	**273,158,937**

The largest share of short-term operating liabilities to suppliers arises from liabilities to suppliers for the replacement Unit 6 and the liabilities for the electricity purchased in Slovenia and abroad.

The amount of short-term receivables eliminated in consolidation totalled EUR 124,476,441.

Maturity of liabilities is disclosed in the section on liquidity risk.

Other short-term liabilities (17)

Other short-term liabilities include accrued costs, which mainly represent costs connected with electricity purchases (including costs of emission coupons), costs for unutilised leaves and concession costs.

During consolidation, total amount of EUR 3,657,774 of accrued costs was eliminated.

Contingent liabilities and assets (18)

in €

Contingent liabilities	31 December 2012	31 December 2011
Guarantees and parent guarantees granted to subsidiaries	676,591,050	706,681,425
Warranty guarantees	4,387,598	2,619,403
Other	82,467,541	19,647,297
Total contingent liabilities	**763,446,189**	**728,948,125**

In 2011, the Group disclosed among its contingent liabilities also the bank guarantees and other types of insurance for its liabilities. As this refers to the insurance of a part of liabilities which are already disclosed in the consolidated statement of financial position, the amount is no longer disclosed in contingent liabilities in 2012.

Other contingent liabilities mostly include the costs of dismantlement of fixed assets in the amount of EUR 19,647,297. The provisions have not yet been created as no decision has been made regarding the timing and manner of dismantling.

The guarantees and parent guarantees given to the subsidiaries in Slovenia by the controlling company are presented in detain in the table below.

Beneficiary	Debtor	Guarantee type	Basic legal transaction	From	To	Value in EUR million	Contingent liability in EUR as at 31/12/2012
European Investment Bank/ bank consortium	SENG	Guarantee for bank guarantee	Guarantee Facility Agreement as at 15/02/2006	2/15/06	Effective for the period of agreement applicability	Total EUR 43 million + interest + costs	33,250,000
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	11/23/06	Effective for the period of agreement applicability	For the period 2011-2015 total EUR 96 million + costs + interest	61,500,000
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 + annexes	11/25/09	Effective for the period of agreement applicability	Total EUR 695 million + escalation clause + installation + interest + costs	407,831,437
European Investment Bank/ bank consortium	TEŠ	Guarantee for bank guarantee	Guarantee Facility Agreement as at 24/11/2010	11/24/10	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	12/21/07	Effective for the period of agreement applicability	Total EUR 24 million + interest + costs	4,000,000
EBRD	TEŠ	Guarantee for EBRD loan	Agreement on guarantee and loss reimbursement between HSE and EBRD as at 12/01/2011	1/12/11	Effective for the period of 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							**660,581,437**

Considering the increase in assessed value of the investment, compared with NIP 5, in the amount of EUR 127,083,332, as at 31 December 2012 the company HSE discloses contingent liabilities to the company TEŠ in the amount of EUR 61,874,606 in connection with settlement of potential increases in investment value.

The guarantees PV gave to its subsidiaries are the following:

Beneficiary	Debtor	Guarantee type	Basic legal transaction	From	To	Contingent liability in EUR as at 31/12/2012
VOLKSBANK, NLB	GOST	Loan collateral	long-term loans	14/08/2012	30/06/2021	5,084,000
NLB, Probanka, Zavarovalnica Triglav	HTZ	Guarantee for bank bond	bid bond – TEŠ and suretyship insurance – TEŠ 6	25/05/2012	20/07/2022	4,064,868
NLB	RGP	Guarantee for bank bond	performance bond	08/03/2012	28/06/2021	1,360,745
Total contingent liabilities from guarantees granted to subsidiaries						**10,509,613**

The tax authorities have the right to verify the operations of the Group companies at any time within the legally determined period and in any country they are registered, which may cause additional tax liabilities, default interest and penalties arising from corporate income tax, other taxes and duties.

The Group's contingent assets include the major part of the penalty paid in 2009 by the controlling company due to cartel agreement of the company TDR Metalurgija (no longer in the Group). The company filed a lawsuit in front of the European Commission for repayment of the penalty in the amount of EUR 9,100,000.

In 2011, the Group disclosed the received bank guarantees and other insurance for its receivables among contingent assets. As this refers to the insurance of a part of receivables that are already disclosed in the consolidated statement of financial position, the amount is no longer disclosed in contingent assets for 2012.

5.5.8.2 Consolidated income statement

Net sales revenue (19)

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 EUR 890,159,454.

in €

Net sales revenue	2012	2011
a) in domestic market	**760,216,444**	**598,333,930**
Electricity	720,439,875	565,314,612
Thermal energy	3,797,846	4,041,945
Other products	76,173	142,177
Other merchandise and materials	1,001,893	2,134,224
Other services	34,900,657	26,700,972
b) in foreign market	**1,047,439,043**	**729,212,378**
Electricity	1,024,562,315	718,633,430
Other products	134,197	50,395
Other merchandise and materials	2,417,575	6,574,303
Other services	20,324,956	3,954,250
Total net sales revenue	**1,807,655,487**	**1,327,546,308**

Capitalised own products (20)

Capitalised own products and services mostly refer to:

- construction of the TEŠ replacement Unit 6,
- construction works regarding the investment in shaft NOP II;
- engineering services for the construction and reconstruction of HPPs,
- construction of transport roadways in the pit; and
- construction of solar power plant.

In consolidation, the value of capitalised own products and services increased by EUR 32,018,594, which represents the value of works carried out within the Group.

Other operating revenue (21)

Most of other operating revenue consists of revenue from utilisation of assets assigned in accordance with legislation on disability organisations, revenue from emission coupons received by the government, revenue from lawsuits won and compensations for damages paid by insurance companies.

The amount of other operating revenue eliminated in consolidation totalled EUR 28,655,779.

in €

Other operating revenue	2012	2011
Revenue from reversal of provisions	10,159,646	2,301,815
Drawing of deferred revenue	14,350,418	17,564,413
Profit at sales of fixed assets and reversed impairment of receivables	1,660,154	764,383
Revenue from compensations and contractual penalties	8,797,860	5,007,249
Other operating revenue	10,549,490	3,262,554
Total other operating revenue	**45,517,568**	**28,900,414**

Costs of goods, materials and services (22)

The cost of merchandise sold in the amount of EUR 1,288,274,353 comprises expenses for electricity purchase and contingent costs of electricity purchase.

The cost of goods sold eliminated during consolidation totalled EUR 793,335,608.

Most of costs of materials in the amount of EUR 94,663,652 are represented by costs of gas, coal and other energy products, necessary for electricity production, and costs of spare parts and maintenance material.

The costs of material eliminated during consolidation totalled EUR 123,889,165.

Most of costs of services in the amount of EUR 76,580,578 are 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 EUR 3,020,511.

in €

Costs of goods, materials and services	2012	2011
Total cost of goods sold	1,288,274,353	840,914,670
Total costs of material	94,663,652	88,253,480
Total costs of services	76,580,578	66,365,512
Costs of goods, materials and services	**1,459,518,583**	**995,533,662**

In 2012, the audit of financial statements of the companies within the HSE Group in Slovenia was performed by the audit firm Deloitte revizija d.o.o., which reviewed also the consolidated companies abroad; however, they were not audited in the country of residence. Three companies registered abroad were audited by the audit companies in their respective countries, namely one by KPMG and two by Deloitte.

in €

Costs of auditor	2012	2011
Audit of annual reports*	157,023	168,744
Other audit services	13,000	12,996
Other non-audit services	3,720	52,800
Total costs of auditor	**173,743**	**234,540**

* based on contractual values

Labour costs (23)

Labour costs comprise salaries and allowances, social insurance contributions, additional pension insurance and other labour costs (meal allowance, commuting allowance, annual leave allowance, financial support, etc.). This includes also the costs of compensations for unutilised leaves in 2012, which can be utilised until 30 June 2013.

As a result of unified presentation of meal allowances of employees in the Group companies providing hot meal, EUR 607,147 was included among labour costs and, on the other hand, among net sales revenue, in consolidation process.

in €

Labour costs	2012	2011
Salaries	108,833,508	105,002,437
Pension insurance costs	18,492,461	18,228,861
Other insurance costs	8,199,367	7,904,988
Other labour costs	12,514,590	15,177,441
Total labour costs	**148,039,926**	**146,313,727**

Write-downs in value (24)

The majority of write-downs in value is 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 are utilised and other operating revenue is recorded.

Most of allowances for receivables and inventories refer to creation of doubtful operating receivables and impairments of values of coal inventories to net realisable value.

Write-downs of fixed assets mainly represent impairment of fixed assets in the consolidation process – more details are available in Section 5.5.8.1 (2), and write-down due to disastrous Drava floods in November 2012.

in €

Write-downs in value	2012	2011
Amortisation of intangible assets	1,623,799	1,530,082
Depreciation of property, plant and equipment	88,029,848	91,160,576
Depreciation of investment property	14,946	14,946
Allowance for or write-down in receivables and inventories	6,145,521	3,011,550
Sales and write-downs in intangible assets and property, plant and equipment	22,332,089	465,873
Total write-downs in value	**118,146,203**	**96,183,027**

Other operating expenses (25)

Other operating expenses predominantly include 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 other operating expenses eliminated in consolidation totalled EUR 28,669,316.

in €

Other operating expenses	2012	2011
Provisions	3,448,585	2,450,898
Fee for building site use	8,334,534	6,766,799
Concessions	18,207,743	15,398,579
Environmental charges	18,854,305	22,044,550
Donations	1,331,463	1,474,260
Other operating expenses	7,609,678	8,070,370
Total other operating expenses	**57,786,308**	**56,205,456**

Financial revenue (26)

Financial revenue mostly includes interest on deposits and loans granted.

The amount of financial revenue eliminated during consolidation totalled EUR 13,392,165.

in €

Financial revenue	2012	2011
From dividends and other shares of profit	87,615	9,463
From investments valued using the equity method	109,294	202,437
Interest on loans and deposits granted	919,062	1,765,811
Net exchange differences from financing activities	0	399,026
Other	187,511	339,716
Total financial revenue	**1,303,482**	**2,716,453**

Financial expenses (27)

Financial expenses mostly refer to 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 2012, the Group companies impaired a part of their investments, most of which involved impairment of the NLB shares.

The amount of financial expenses eliminated during consolidation totalled EUR 16,083,831.

in €

Financial expenses	2012	2011
From loans received	11,466,705	8,387,544
Share in profit or loss of associates and joint ventures valued using equity method	0	10,533
Change in fair value of investments through profit or loss	1,752,524	3,044,239
From sales of available-for-sale financial assets	0	12,945
Other	42,128	5,903
Total financial expenses	**13,261,357**	**11,461,164**

Tax (28)

The companies of the HSE Group are liable to pay corporate income tax, VAT and excise duties.

In 2012, six out of fifteen Group companies in Slovenia and four out of six abroad were liable to pay corporate income tax. Owing to tax breaks or tax losses, the remaining companies did not determine the tax base.

The group's 2012 current tax amounts to EUR 11,957,875. On the basis of current tax at the end of 2012, the Group companies disclose EUR 3,026,808 of current tax assets (higher advances from calculated tax) and EUR 1,514,480 of current tax liabilities.

Deferred taxes refer to deferred tax assets recognised in the amount of likely available profit against which they can be used in the future. Deferred tax assets are decreased by the amount up to which it is no longer probable that tax deductible expenses can be utilised in the future or the amount up to which expenses have been included in tax statements for the current year. The Group's deferred taxes comprise deferred tax assets in the amount of EUR 9,466,722 and EUR 37,330 of deferred tax liabilities. More detailed disclosures of deferred tax assets are disclosed in Section 5.5.8.1 (4).

At the end of 2012, the Group companies' unutilised tax losses amounted to EUR 34,928,588.

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

in €

Tax calculation	2012	2011
Profit or loss before tax	101,339,390	87,445,544
Tax calculated at applicable tax rate (20%)	19,035,697	17,633,929
Tax from revenue reducing tax base	-1,331,528	-847,292
Tax from tax breaks	-8,822,811	-1,484,827
Tax from expenses reducing tax base	-239,160	-115,156
Tax from non-deductible expenses	4,797,897	1,366,736
Tax from other changes in tax calculation	556,171	1,009,895
Tax	**13,996,266**	**17,563,285**
Effective tax rate	**13.81%**	**20.08%**

The drop in effective tax rate is mostly a result of amended Corporate Income Tax Act, as at 2012 40% tax break for investment in equipment and intangible assets is no longer limited to EUR 30,000. Since the Group's investments are quite large, this reflects in the amount of tax breaks.

Net profit or loss (29)

Net profit or loss in the amount of EUR 85,980,549 comprises net profit of the controlling company in the amount of EUR 42,954,179, the controlling company's share in profit or loss of subsidiaries totalling EUR 47,815,764, cumulative decrease of profit or loss in the consolidation procedure of EUR -1,670,870 (mostly eliminated impairment of the controlling company's investment in two subsidiaries and impaired buildings and production equipment of the subsidiary) and net loss of minority owners in total amount of EUR -3,118,524.

in €

Type of profit or loss	2012	2011
Gross return on operations	1,896,788,285	1,390,426,127
Operating profit or loss	113,297,265	96,190,255
Net cash	-11,957,875	-8,744,711
Profit or loss before tax	101,339,390	87,445,544
Net profit or loss from the period	**85,980,549**	**69,753,103**

5.5.8.3 Consolidated statement of other comprehensive income

The consolidated statement of other comprehensive income includes changes in fair value of hedges against changeability of cash flows, change in fair value of available-for-sale investments, exchange rate differences arising from translation of financial statements of subsidiaries abroad. Total value of this change in 2012 amounted to EUR -5,262,332.

Change in fair value of available-for-sale assets amounts to EUR 177,554 and already comprises EUR 35,843 of deferred tax liabilities.

Change in fair value of hedges against changeability of cash flows amounts to EUR -5,060,543 and includes EUR 54,450 of deferred tax assets. Most of them refer to controlling company, as disclosed in detail in the company HSE financial report.

Negative effect of translation of financial statements in subsidiaries abroad for 2012 totals EUR -379.343.

Considering the abovementioned facts, the total comprehensive income, which includes the net profit or loss in the amount of EUR 85,980,549 and changes in other comprehensive income in the amount of EUR -5,262,332, amounts to EUR 80,718,217 at the end of 2012, of which EUR 83,838,010 belong to the majority owner and EUR -3,119,793 to the minority owner.

5.5.8.4 Consolidated cash flow statement

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

Cash comprises cash on hand, deposit money on transaction accounts, deposits redeemable at notice and deposits tied up to three months.

The data in the consolidated cash flow statement is obtained from cash flow statements of the Group companies, taking into account eliminations in the process of consolidation.

in €

Cash flow types	2012	2011
Cash flows from operating activities	156,048,670	135,505,458
Cash flows from investing activities	-293,691,682	-336,124,874
Cash flows from financing activities	77,678,538	175,318,934
Cash flow for the period	**-59,964,474**	**-25,300,482**

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.

In 2012, the following changes in equity in total amount of EUR -16,353,225 arose from transactions with owners:

- payment of participation in profit in the amount of EUR -20,000,000, which represents a part of accumulated profit of the controlling company in 2011;
- increase in the Group's retained earnings of EUR 956,499, due to consolidation of the company Golte d.o.o. in the PV Group;
- increase in the retained earnings of minority owners in the amount of EUR 1,766,276, due to consolidation of the company Golte d.o.o. in the PV Group; and
- additional investments of minority owners in the subsidiary in the amount of EUR 924,000.

Total comprehensive income of the reporting period increased by EUR 80,718,217, with the increase consisting of:

- net profit for the year in the amount of EUR 89,099,073, attributable to the majority owner;
- net loss for the year in the amount of EUR -3,118,524 incurred by the majority owner;
- change in fair value reserve of the controlling company in the amount or EUR -4,659,940 (detailed disclosure in the financial report of the controlling company);
- the controlling company's share in the fair value reserve of the subsidiaries in total amount of EUR -221,780 (mostly fair value of financial instruments for hedging against changeability of cash flows);
- change in other components of comprehensive income of the minority owner in the amount of EUR – 1,269; and
- loss arising from conversion of financial statements of companies in other countries in the amount of EUR -379,343.

In the reporting period, individual items of the Group's equity changed in total amount of EUR 30,924,596, due to:

- the transfer of a part of the 2011 accumulated profit in the amount of EUR 3,364,810 to other revenue reserves, on the basis of the controlling company's General Meeting decision;
- the transfer of the 2012 net profit in the amount of EUR 27,342,852 among other reserves, based on the controlling company's SB decision;
- the transfer of the difference from previous years consolidation in the amount of EUR 216,934 from fair value reserve to retained earnings, during the consolidation in the PV Group.

Accumulated profit is not determined at the Group level.

5.5.8.6 Related entities

in €

Transactions with associates	Sales in 2012	Purchases in 2012	Loans granted as at 31/12/2012	Other receivables as at 31/12/2012	Other liabilities as at 31/12/2012
Group companies	14,806	8,934	0	360	5,322
Associates	330,325	2,548,888	452,529	676,142	1,583,807
Total controlled companies	0	318,481	0	0	153,522
TOTAL	**330,325**	**2,867,369**	**452,529**	**676,142**	**1,737,329**

The columns of sales and purchases show the turnover of all transactions (excluded VAT), comprising financial revenue and expenses.

5.5.8.7 Revenue

Remuneration of managers and employees who are not subject to the tariff part of the collective agreement comprises:

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

Remuneration of 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 2012, 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.

in €

Receipts of the management, Supervisory Board members and employees who are not subject to the tariff part of the collective agreement	Salary	Other receipts	Bonuses	Cost reimbursement	TOTAL
Management	1,401,325	0	65,968	165,730	**1,633,023**
Supervisory Board and Audit Committee members	0	23,733	2,654	4,574	**30,961**
Employees who are not subject to the tariff part of the collective agreement	4,016,631	68,948	125,500	400,521	**4,611,600**
Total receipts	**5,417,956**	**92,681**	**194,122**	**570,825**	**6,275,584**

5.5.8.8 Financial instruments and risks

This section refers to Section 5.5.7.21 of the financial report as well as to the section about financial risks in the business report.

5.5.8.8.1 Credit risk

Most of the Group companies sales the majority of their products to the controlling company, which settles its liabilities in due time. The controlling company, therefore, takes the larger credit risks, as disclosed in the financial report of its Annual Report.

Other Group companies manage credit risk through instruments, such as: monitoring of customers' credit ratings and information on customers' operations and collateralisation of receivables with bank guarantees and other types of insurance.

The Group companies have secured approximately 60% of short-term receivables from buyers, which represent the majority of all Group receivables.

In case of delays, the customers in Slovenia and abroad are charged default interest at the contractual rate.

in €

Maturity dates of long-term liabilities as at 31/12/2011	Maturity date			TOTAL
	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	
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**

in €

Maturity dates of long-term liabilities as at 31/12/2012	Maturity date			TOTAL
	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	
Financial receivables from others*	18,000	6,000	0	**24,000**
Financial receivables from deposits given to others	112,445	63,847	0	**176,292**
Operating receivables from associates	137,895	275,792	0	**413,687**
Operating receivables from advances given	27,000	9,147	82,318	**118,465**
Operating receivables from others	688,890	12,295	1,445	**702,630**
Total	**984,230**	**367,081**	**83,763**	**1,435,074**

* 6,000 of financial receivables are overdue

in €

Short-term receivables by maturity date as at 31/12/2011	Breakdown by maturity dates						TOTAL
	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	
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**
Financial receivables from deposits given 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**

in €

Short-term receivables by maturity date as at 31/12/2012	Breakdown by maturity dates						TOTAL
	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	
Financial receivables from associates	0	0	452,529	0	0	0	**452,529**
Financial receivables from others	54,605	0	200,000	0	75,876	0	**330,481**
Financial receivables from deposits given to others	48,919	6,037	0	0	349,362	0	**404,318**
Operating receivables from group companies	360	0	0	0	0	0	**360**
Operating receivables from associates	223,613	0	0	0	0	0	**223,613**
Operating receivables from buyers	163,730,331	10,957,154	419,539	46,610	1,109,739	3,056,531	**179,319,904**
Operating receivables from advances given	9,747,522	18,142	4,409,175	0	0	0	**14,174,839**
Operating receivables from government and other institutions	53,684,871	163,952	0	0	0	0	**53,848,823**
Operating receivables from others	7,081,630	0	0	0	0	0	**7,081,630**
Total	**234,571,851**	**11,145,285**	**5,481,243**	**46,610**	**1,534,977**	**3,056,531**	**255,836,497**

Most of receivables with maturity of up to 3 months have already been settled.

in €

Changes in allowances for short-term financial receivables and loans	2012	2011
Balance as at 1 January	449,655	449,655
Collected receivables previously written off and loans	-449,655	0
Balance as at 31 December	**0**	**449,655**

in €

Changes in allowances for short-term operating receivables	2012	2011
Balance as at 1 January	2,736,960	2,130,436
Written-off receivables collected	-353,318	-573,464
Allowances for receivables	5,052,808	1,499,635
Final write-down of receivables	-127,374	-319,647
Balance as at 31 December	**7,309,076**	**2,736,960**

At the end of 2012, the Group companies possessed a total amount of EUR 7,309,076 of doubtful short-term operating receivables.

In 2012, the companies were repaid doubtful and disputable short-term operating receivables in total amount of EUR 353,318.

The allowances for short-term operating receivables mainly refer to receivables that were due to the Group companies from construction companies, and total EUR 5,052,808.

As at 31 December 2012, the Group had EUR 11,569,608 of overdue short-term operating liabilities it has already settled.

5.5.8.8.2 Liquidity risk

During financial crisis the liquidity risk management is of extreme importance. The Group companies manage the liquidity risk successfully, which enables them to ensure optimal solvency in the settlement of their current liabilities. This comprises diligent monitoring and planning of short-term solvency, which is provided through a regular coordination and planning of cash flows on a daily, monthly and annual basis. Due to deteriorated payment discipline, which is the result of severe economic conditions, all companies, but especially the controlling company, focus on the risks arising from potential delays in payments by the customers.

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 the Group companies for cash management and cash pooling. The Group's cash management consists of borrowing among the Group companies. The primary sources of financing of short-term deficits of Group companies are surpluses of available cash in other Group companies. In order to manage liquidity risk, the companies have also credit lines approved with commercial banks in form of revolving 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.

In terms of liquidity risk management, the year of 2012 was one of the most challenging years for the Group, since the company TEŠ is the investor in the largest Slovenian investment – construction of the 600 MW replacement Unit 6 in TEŠ. Delays in obtaining the government guarantee for long-term loans from EIB in the amount of EUR 440 million, had a huge impact on the liquidity of the companies HSE and TEŠ, as well as on other companies of the HSE Group. As a matter of fact, all activities were aimed at ensuring short-term bridge financing of the TEŠ's liabilities arising from the discussed project, before the company was able to draw the long-term loans from the financial institutions EIB and EBRD. Since in line with provisions of the contracts with the two banks TEŠ cannot obtain short-term loans on financial markets, it was forced to bridge financing of the Unit 6 project through borrowing within the scope the HSE Group cash management and with proper assets. As the Group does not possess a sufficient amount of available funds to provide bridge financing for the Unit 6 liabilities, the controlling company HSE as the only stakeholder in TEŠ took out loans from commercial banks, for the purposes of the Group's liquidity management. As at 31 December 2012, the amount of short-term revolving loans HSE granted to the company TEŠ totalled EUR 300.6 million, comprising proper assets of the company HSE, assets of the Group companies and short-term loans that HSE borrowed from commercial banks. For the purposes of managing the HSE Group liquidity and providing bridge financing for the liabilities arising from the construction or Unit 6 in TEŠ from commercial banks, the company HSE in 2012 managed to ensure a sufficient short-term loans, as well as to extend their deadlines over the calendar year. Given the circumstances on financial markets and issues that overwhelm commercial banks, we consider the latter as a confirmation of good business reputation and confidence in our Group on financial markets. The liquidity risk was estimated as being adequately managed in 2012.

Maturity of the Group's long-term liabilities in the next years is shown in the tables below:

in €

Maturity dates of long-term liabilities as at 31/12/2011	Maturity date (all outstanding)			TOTAL
	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	
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**

in €

Maturity dates of long-term liabilities as at 31/12/2012	Maturity date (all outstanding)			TOTAL
	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	
Long-term financial liabilities to banks	26,233,841	98,117,484	254,115,174	**378,466,499**
Long-term financial liabilities to others	5,302,641	0	0	**5,302,641**
Long-term operating liabilities to suppliers	1,777,218	0	0	**1,777,218**
Long-term operating liabilities based on advances	0	0	5,758	**5,758**
Long-term operating liabilities to others	200,000	0	240,039	**440,039**
Total	**33,513,700**	**98,117,484**	**254,360,971**	**385,992,155**

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. In view of hedge accounting, the concluded transactions of currency hedging are considered as highly effective since the concluded hedges perfectly match the hedged item in all characteristics.

The exposure to currency risk occurs in operations of subsidiaries in the SE Europe. With regard to the fact that operations of subsidiaries in the SE Europe represent a smaller segment of operations in comparison with total HSE Group operations, the exposure to currency risk is thus minimum.

in €

Contracts concluded for currency swaps by maturity	31 December 2012	31 December 2011
Up to 12 months	4,900,045	3,961,257

Since other currencies are used in smaller extent, the Group does not perform sensitivity analysis for changes in foreign currencies exchange rates, since this would not significantly affect the Group's profit or loss.

The following exchange rates were used for translation of financial statements of the companies abroad:

Country	Currency designation	Closing exchange rate in EUR for 2012	Average exchange rate in EUR for 2012
Bulgaria	BGN	1.9558	1.9558
Bosnia and Herzegovina	BAM	1.9558	1.9558
Croatia	HRK	7.5575	7.5473
Hungary	HUF	292.3000	303.4400
Macedonia	MKD	61.4870	61.7735
Serbia	RSD	113.3900	108.5100

in €

Type of financial instrument as at 31/12/2011	EUR	HUF	Other currencies	TOTAL
Short-term operating receivables	185,602,941	16,055	3,367,901	188,986,897
Short-term financial receivables and loans	1,846,648	0	47,423	1,894,071
Long-term operating receivables	1,491,717	0	193,896	1,685,613
Long-term financial receivables and loans	333,198	0	0	333,198
Short-term operating liabilities	-270,760,043	-2,139,490	-259,404	-273,158,937
Short-term financial liabilities	-81,031,495	0	0	-81,031,495
Long-term operating liabilities	-4,068,412	0	0	-4,068,412
Long-term financial liabilities	-411,791,973	0	0	-411,791,973
Net exposure of the statement of financial position	**-578,377,419**	**-2,123,435**	**3,349,816**	**-577,151,038**

in €

Type of financial instrument as at 31/12/2012	EUR	HUF*	Other currencies	TOTAL
Short-term operating receivables	247,015,845	0	324,248	247,340,093
Short-term financial receivables and loans	1,140,034	0	47,294	1,187,328
Long-term operating receivables	1,035,983	0	198,799	1,234,782
Long-term financial receivables and loans	200,292	0	0	200,292
Short-term operating liabilities	-426,710,571	-441	-1,128,622	-427,839,634
Short-term financial liabilities	-224,986,772	0	0	-224,986,772
Long-term operating liabilities	-2,223,015	0	0	-2,223,015
Long-term financial liabilities	-383,769,140	0	0	-383,769,140
Net exposure of the statement of financial position	**-788,297,344**	**-441**	**-558,281**	**-788,856,066**

* No HUF-denominated items were open at the end of the year

5.5.8.8.4 Interest rate risk

The Group companies HSE, SENG, PV and TEŠ are exposed to interest rate risk from 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 Implementation Policy of Interest Rate Risk Management within the HSE Group adopted in 2011, HSE, SENG and PV hedged against the interest rate risk up to 50 % of long-term loan portfolio of individual company with the IRS (interest rate swap) derivative. The company TEŠ adopted a strategy of protecting a long-term loan portfolio by dispersing the loans 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. HSE, SENG and PV concluded transactions of interest rate hedging on the basis of standard contract ISDA with first-class commercial banks; therefore, the possibility of non-fulfilment of contractual obligations is estimated as minimum.

in €

Contracts concluded for interest rate swaps by maturity	31 December 2012	31 December 2011
From 1 to 5 years	75,578,598	80,481,250

Sensitivity analysis of cash flow with financial instruments with at variable interest rate

The change in interest rate for 50 basis points on the reporting date would increase (decrease) the Group's net profit or loss by 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 at variable interest rate are decreased by the total amount of IRS transactions concluded.

in €

	Net profit or loss 2012		Net profit or loss 2011	
Financial instruments	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	23,982	-23,982	66,680	-66,680
Financial liabilities	-1,567,390	-1,567,390	-1,046,132	1,046,132

5.5.8.8.5 Price risk

From the the Group perspective, a predominant part of price risk is based on controlling company's operations, which is disclosed 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. Besides normal operating, an adequate capital guarantees the companies also the trust of their creditors and markets, as well as future development of activities.

The Group monitors changes in equity using the financial leverage ratio, which is calculated by dividing total net liabilities by total equity. Net liabilities include loans received and other financial liabilities less cash.

The ratio shows the relationship between the Group's indebtedness and equity. At the end of 2012, the ratio was higher than in 2011 as a result of the Group's increased short-term debt. This increase was caused by the Group's bridge financing of Unit 6, as TEŠ could not draw the long-term loans from EIB and EBRD by the end of the year, before obtaining the government guarantee. As the Group did not possess a sufficient amount of available funds to provide bridge financing for TEŠ's liabilities, the controlling company HSE took out loans, in order to manage the Group's liquidity. In March 2013, TEŠ started to draw the EIB and EBRD long-term loans and repaid all bridge loans from HSE, which allowed the latter to settle a part of its liabilities from short-term loans. Considering the debt and predictions regarding events on electricity markets, ensuring of capital adequacy remains one of key duties of the HSE Group's managements.

in €

Capital management	31 December 2012	31 December 2011
Long-term financial liabilities	383,769,140	411,791,973
Short-term financial liabilities	224,986,772	81,031,495
Total financial liabilities	**608,755,912**	**492,823,468**
Total equity	1,473,462,757	1,409,097,763
Financial liabilities/equity	**0.41**	**0.35**
Net financial liability	601,960,715	425,816,230
Net debt/equity	**0.41**	**0.30**

5.5.8.9 Fair value

The Group estimates that the carrying amount is sufficient approximation for its financial instruments, except derivatives, which are recorded at fair value.

in €

Financial instruments	31 December 2012		31 December 2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative financial assets at fair value	**2,664,113**	**2,664,113**	**3,881,701**	**3,881,701**
Available-for-sale financial assets	2,641,047	2,641,047	3,881,701	3,881,701
Derivatives (assets)	23,066	23,066	0	0
Non-derivative financial assets at amortised cost	**256,757,692**	**256,757,692**	**259,907,017**	**259,907,017**
Financial receivables	1,387,620	1,387,620	2,227,269	2,227,269
Operating receivables	248,574,875	248,574,875	190,672,510	190,672,510
Cash	6,795,197	6,795,197	67,007,238	67,007,238
Total non-derivative financial assets	**259,421,805**	**259,421,805**	**263,788,718**	**263,788,718**
Non-derivative financial liabilities at fair value	**5,322,962**	**5,322,962**	**4,230,652**	**4,230,652**
Derivatives (liabilities)	5,322,962	5,322,962	4,230,652	4,230,652
Non-derivative financial liabilities at amortised cost	**1,033,495,599**	**1,033,495,599**	**765,820,165**	**765,820,165**
Bank loans	603,342,580	603,342,580	488,396,973	488,396,973
Other financial liabilities	90,370	90,370	195,843	195,843
Operating liabilities	430,062,649	430,062,649	277,227,349	277,227,349
Total non-derivative liabilities	**1,038,818,561**	**1,038,818,561**	**770,050,817**	**770,050,817**

in €

Financial assets carried at fair value by hierarchy	31 December 2012	31 December 2011
Financial assets at first-level fair value	542,718	328,920
Financial assets at second-level fair value	1,007,994	2,446,879
Financial assets at third-level fair value	1,113,401	1,105,902
Total financial assets at fair value	**2,664,113**	**3,881,701**

5.5.8.10 Events after the reporting date

There were no significant events after the consolidated balance sheet date that could affect the consolidated financial statements for 2012.

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Abbreviations

ACER	European Agency for Cooperation of Energy Regulators
ARSO	Slovenian Environment Agency
AUKN RS	The Capital Assets Management Agency of the Republic of Slovenia
BDP	Gross domestic product
BU	Business unit
CC	Control Centre
CCS	Carbon capture and storage
CD	Conceptual design
CDM	Clean Development Mechanism
CPHE	Cogeneration of heat and electricity
DEM	Dravske elektrarne Maribor d.o.o.
DIIP	Investment Project Identification Document
DP	Development plan
DRP	Development research project
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
EC	European Commission
ECB	European Central Bank
EE	Electricity
EERP	European Energy Recovery Programme
EEU	Efficient energy use
EEX	European Energy Exchange
EFET	Standard electricity trading contract
EIB	European Investment Bank
ELES	Elektro – Slovenija d.o.o.
ELKO	Extra light heating oil
ENDUR	Computer programme for electricity trading
EP	Environmental report

ERP	Enterprise resource planning
ES	Electricity system
EUR	Euro
FA	Fixed assets
GHG	Greenhouse gases
GSPP	Gas and steam power plant
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 BE	HSE Balkan Energy
HSE BH	HSE BH Energetsko produzeće d.o.o.
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRIC	Interpretations issued by International Financial Reporting Interpretations Committee
IP	Implementation project
ISO	International Organisation for Standardisation
IT	Information technology
JWC	Joint Workers' Council
MAE	Ministry of Agriculture and the Environment
MF	Ministry of Finance
MG	Ministry of Economy
MO	Municipality
MSE	Blue solar power plant
MSRP	International Financial Reporting Standards
MZIP	Ministry of Infrastructure and Spatial Planning
NA	National Assembly
NPP	Nuclear power plant
NEP	National Energy Programme

NIP 5	Revised investment programme Construction of 600 MW Unit 6 in Termoelektrarna Šoštanj Rev. 5
NKBM	Nova Kreditna banka Maribor d.d.
NLB	Nova Ljubljanska banka d.d.
NORP	Compensation for limited area use
NP	Nuclear power
NSP	National spatial plan
NUP	Responsible for spatial development,
ODOS	Electronic document system
OG RS	Official Gazette of the Republic of Slovenia
OHSAS	Occupational health and safety management system
OS	Occupational safety
OSH	Occupational safety and health
PC	Protection Centre
PCD	Preliminary conceptual design
PID	Projects of works executed
PSP	Pumped-storage power plant
PR	Protective Relay
PT	Project task
PV	Premogovnik Velenje d.d.
RES	Reneweble energy sources
RS	Republic of Slovenia
SAS	Slovene Accounting Standards
SB	Supervisory Board
SCADA	Supervisory control and data acquisition
SCC	Slovenian Chamber of Commerce
SE	Smart networks
SENG	Soške elektrarne Nova Gorica d.o.o.
SHPP	Small hydropower plants
SIC	Standing Interpretations Committee
SOD	Slovenska odškodninska družba d.d.
SPD	Spatial Planning Directorate
SPP	Solar power plant
SPSTU	Slovene Power Sector Trade Union
SRC	Scientific research centre
SUVI	System of managing information security
TC	Telecommunications
TEB	Termoelektrarna Brestanica d.o.o.
TEŠ	Termoelektrarna Šoštanj d.o.o.
TET	Termoelektrarna Trbovlje d.o.o.
RTH	Rudnik Trbovlje Hrastnik
TI	Technical inspection
TP	Technological platform
TPP	Thermal power plant
TSO	System operator of transmission networks
UPIS	Management information system
UVK	Competition Protection Office
VAT	Value-added tax
WC	Workers' council
ZFPPIPP	Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act
ZGD	Companies Act
ZGO	Construction Act
ZPODPTEŠ	Act Regulating Guarantee of Republic of Slovenia for Liabilities under Long-Term Loan of 440 Million Euros Made to Termoelektrarna Šoštanj, d.o.o. by European Investment Bank for Financing Termoelektrarna Šoštanj 600 MW Replacement Unit-6 Installation Project
ZSDU	Worker Participation in Managament Act
ZUPEVIP	Act on Spatial Planning of Energy Infrastructure
ZUPUDPP	Act regarding the siting of spatial arrangements of national significance in physical space
ZV-1	Water Act

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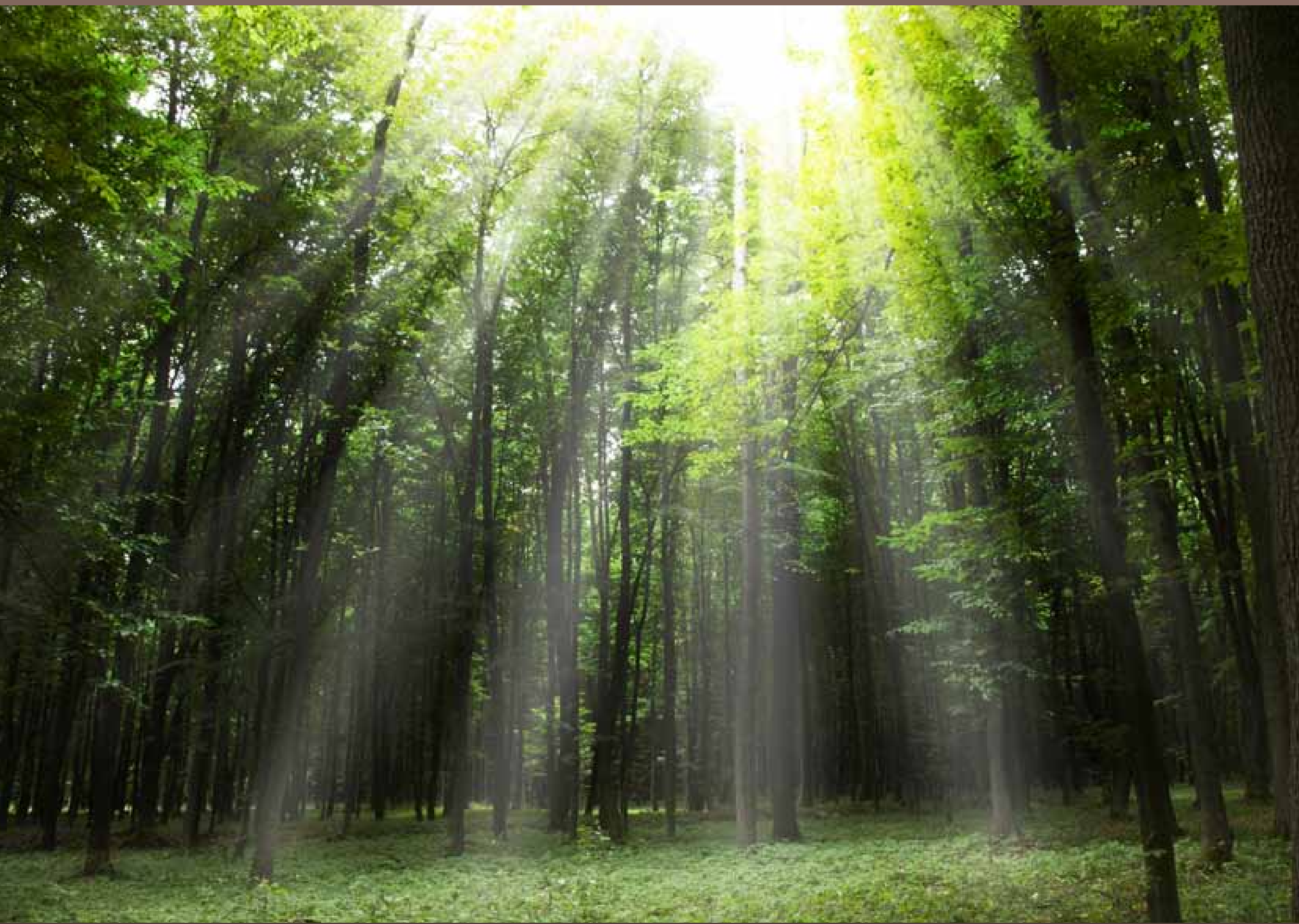

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