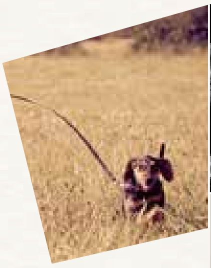
ANNUAL REPORT OF THE COMPANY HSE AND THE HSE GROUP 2013



hse

Holding Slovenske elektrarne d.o.o.

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01/ INTRODUCTION
1.1 Foreword by the Managing Director

2013: SUCCESS CHARACTERISED BY CHANGES

The overview of 2013 reflect one of the most turbulent years in the history of the HSE Group. Our employees will undoubtedly remember it for announced changes in the current behaviour, conduct and operations. Changes that translate in gradual but radical steps towards streamlining and optimisation of all companies in the HSE Group. Similar to our local and international competence, we will have to adapt to different way of acting and thinking. Regional electricity markets have not shown any serious signs of additional raise in the electricity prices over the next three years. The fact is that our competence is not burdened with such important investment as our replacement Unit 6 at Termoelektrarna Šoštanj d.o.o. (TEŠ).

Low electricity prices force our competence on the European market to adjust to new circumstances, shutdown of underperforming facilities, concrete cost cutting and disposal of non-core assets. It is time, that the HSE Group as well faces this reality, makes the right questions and answers to them. Are all investments that we set so audaciously in the past really economically justified and realisable? Is the number of employees, professional services, additional activities, which do not have much in common with electricity production, in our daughter and granddaughter companies really optimum? Do we need so many external providers or are we capable of doing their job based on our own knowledge and experience?

Immediate and radical actions are necessary; or will we insist at status quo situation only because of capriciousness and because we wrongfully think that after (not so logical anymore!) inertia the energy industry will be flowing with milk and honey?

The year of 2013 was successful for the HSE Group. In the first quarter, we drew the rest of the EIB loan for the construction of replacement Unit 6 at TEŠ and ensured undisrupted continuation of works on this main project of the Group. Trough preparation of expert basis for optimisation and streamlining of the HSE Group operations, we have made a great progress towards its further existence. We must not be lulled with almost eighty million net profit, more than eight terawatt hours produced and almost thirty terawatt hours sold. The 2013 results are a good motivation and, at the same time, warning, that the coming years will require further effort and cost cutting and simultaneous searching for new growth opportunities.

I am certain that we will manage to close ranks and do everything in our power to make 2014 even greater success. That it will be at least very good.

Ljubljana, 30 June 2014

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

1.2 Report of the Supervisory Board

Pursuant to provisions of Article 282 of the Companies Act (ZGD-1) and with the provisions of Article 14 of the Articles of Incorporation of the Limited Liability Company Holding Slovenske elektrarne d.o.o., the Supervisory Board of the company Holding Slovenske elektrarne d.o.o. in this report informs the founder of the following:

- method and extent of examination of the company HSE's management in the 2013 financial year,
- the review and confirmation of the Annual Report of the Company HSE and the HSE Group for 2013,
- examination of the proposal for allocation of accumulated profit,
- the Supervisory Board's position on the auditor's reports,
- disclosure of the Supervisory Board's operating costs,
- opinion on the company's operations,
- opinion on the work of the Managing Director in 2013.

In the financial year of 2013, the HSE SB was composed of the following owner's representatives: Marko Zidanšek, MSc, as the president, Vlasta Krmelj, PhD, Peter Kralj, PhD, and Milenko Ziherl.

On the basis of provisions of the Worker Participation in Management Act (ZSDU), the employee representatives were: Stanislav Prevalnik during the entire period, Marjana Molan from 1 January 2013 to 30 April 2013, and Boštjan Jančar from 9 May 2013 to 31 December 2013.

In the period from 15 April 2013 to 31 December 2013, five-member Supervisory Board Audit Committee was represented by: Milenko Ziherl, the president, Peter Kralj, PhD, and Jožef Kocuvan and Darja Turk, who were appointed external members of the Audit Committee as independent experts for the accounting and tax area in line with Article 280 of ZGD-1. Stanislav Prevalnik, employee representative, was elected member of the Audit Committee by the HSE d.o.o. Workers' Council in accordance with the Worker Participation in Management Act (ZSDU).

1.2.1 OPINION ON THE WORK OF THE MANAGING DIRECTOR IN 2013

In 2013, the Supervisory Board comprehensively controlled management and operations of the company HSE and the HSE Group, in line with the legislation and good practice.

The SB meetings were attended also by the company HSE d.o.o. Managing Director Blaž Košorok (hereinafter: the Managing Director of the company HSE), who along with members of the company's professional services reported in detail on every issue and answered the questions posed by the Supervisory Board members, while the professional services members provided explanations from their expert areas. The Managing Director and the president of the Supervisory Board had regular communication also outside meetings.

The Supervisory Board members were provided with all information, reports and data necessary for their work, while the Managing Director of the company HSE presented them extended or additional reports upon their request. The members received materials five working days prior to an individual meeting. The HSE professional services organised meetings, implemented regular technical improvements and ensured administrative and organisational support.

The Managing Director's work was regularly monitored and assessed by the Supervisory Board during its discussion of periodic operating performance, comparison of the company's and the Group's operation with their competition and discussion about external analysts' opinions on the company HSE and the HSE Group.

Throughout the year, the Managing Director was diligent and active in his efforts to achieve the best results of the company and the Group and commendably cooperated with the Supervisory Board.

1.2.2 MONITORING AND SUPERVISION OF COMPANY OPERATIONS

In 2013, the SB held seventeen regular and one extraordinary meeting.

During the period, the Supervisory Board was informed about the company's and the Group's operations and realisation of the SB 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.

At its meetings, the HSE Supervisory Board was informed on and discussed the founder's recommendations, which were reasonably taken into account, and carefully monitored the company's liquidity and provision of sufficient financing for realisation of the HSE Group's development projects.

In the discussed period, the HSE SB actively supervised the investment in 600 MW replacement Unit 6 at Termoelektrarna Šoštanj d.o.o. (in particular the information on drawing of the long-term loans from EIB (EUR 440 million) and EBRD (EUR 117.5 million), comprehensive information by the Committee for Active Supervision of Investments and the TEŠ d.o.o. management on actual state of the investment, and on the RIP 6 preparation), and regularly monitored liquidity of the company Premogovnik Velenje d.d., position of the company and the sales procedure regarding business share in Termoelektrarna Trbovlje d.o.o. (TET), project CPH on biomass in Šoštanj, and the project of the HSE d.o.o. capital entry in the company Elektro Gorenjska Prodaja d.o.o. During the period, the HSE SB issued several preliminary approvals for borrowing and adopted important business and strategic decisions, described in detail below:

- discussed the framework Programme of the SB work and the SB plan for 2013;
- at the 2nd regular meeting held on 16 January 2013, the HSE SB issued a preliminary approval for short-term loans to ensure bridge financing of the company Termoelektrarna Šoštanj d.o.o. (TEŠ) for the construction of 600 MW replacement Unit 6 at TEŠ and for TEŠ's drawing of the long-term loans from EIB and EBRD;
- at the 4th regular meeting held on 5 February 2013, the HSE SB issued a preliminary approval for TEŠ d.o.o. recapitalisation, which was planned in the Business Plan of the company HSE and the HSE Group for 2012 with additional plans for years 2013 and 2014 and projected in the Revised Investment Programme for 600 MW replacement Unit 6 in TEŠ d.o.o. - RIP 5 of 12 September 2012 (RIP5 U6 TEŠ);
- at the 5th regular meeting held on 4 March 2013, the HSE SB approved the Business Plan of the company HSE and the HSE Group for 2013 with indicative plan for years 2014 and 2015 (PLAN 2013), received the information about the sale of the share in the company TET d.o.o., and gave its consent for the beginning of the sales process;
- at the 7th regular meeting held on 15 April 2013, the HSE SB appointed five-member Audit Committee for HSE;
- at the 8th regular meeting held on 20 May 2013, the HSE SB received the document Memorandum of Understanding on the sale of the business share in TET d.o.o., gave its preliminary approval for TEŠ recapitalisation in accordance with PLAN 2013 and RIP5 U6 TEŠ, and issued preliminary approval for short-term borrowing in the form of issuing commercial notes in total nominal value of the issue and long-term borrowing for the purpose of TEŠ recapitalisation;
- at its 10th regular meeting held on 11 June 2013, the HSE SB:
  - » received the Report on the state of the project of construction of 600 MW replacement Unit 6 at TEŠ d.o.o. of 27 May 2013 by the TEŠ's Managing Director Peter Dermol, and the Report of the Committee for Active Supervision of Investments (CASI) in the period 7 December 2012 – 1 April 2013 dated 16 April 2013 by the CASI president Marko Tandler, PhD, and ordered to the management to analyse responsibility of everyone involved, based on the two reports regarding alleged deception of the Government of RS and the National Assembly pursuant to the Act

on Guarantee for Unit 6, and launch legal proceedings against those responsible;
  - obliged the management to verify the possibility of a strategic partner entry in TEŠ or to provide financing for completion of the Unit 6 investment;
  - was submitted the Report on the company HSE and the HSE Group operations I-III 2013;
  - was informed of further recommendations of the manager of direct and indirect capital investments of the Republic of Slovenia, i.e. the Slovenian Restitution Fund, d. d. (SOD);
  - received the information on implementation of recommendations 1-14 by the Capital Assets Management Agency for HSE d.o.o. in 2012;
  - received the Corporate Governance Code for Capital Assets of the Republic of Slovenia and was regularly informed about other relevant documents, notes or recommendations issued by SOD as the manager of capital assets of the Republic of Slovenia;
  - approved the proposal of the HSE Managing Director Blaž Košorok that a half of the company's net profit for 2012 is used for other revenue reserves when preparing 2012 financial statements;
  - was informed about the course of regular liquidation proceeding of the subsidiaries HSE Hungary Kft. and HSE Bulgaria EOOD and agreed with closure of the subsidiary HSE Bulgaria EOOD;
  - received comprehensive information on the audit of the Control Centre of SENG d.o.o. and the audit of the HSE Invest d.o.o. operations;
  - received the PWC's Report on examination of individual transactions in the company TEŠ d.o.o. of 9 March 2011;
  - was informed on the payment of annual leave in the company and the Group;
- at its 11th regular meeting held on 19 and 29 July 2013, the HSE SB:
  - discussed the Annual Report of the Company HSE and the HSE Group for 2012 with the auditor's reports;
  - discussed the proposal on selection of the auditor of financial statements of the company and the Group;
  - issued a preliminary approval for TEŠ recapitalisation, as projected in documents RIP5 U6 TEŠ and PLAN 2013;
  - discussed the Report of the Risk Management Committee of HSE d.o.o.;
- at its 12th regular meeting held on 12 August 2013, the HSE SB:
  - discussed the content of D&O insurance;
  - adopted decision on payment of variable remuneration to the company's Managing Director Blaž Košorok;
- at its 13th regular meeting held on 30 August 2013, the HSE SB:
  - approved recapitalisation of the subsidiary HSE RO ENERGY S.R.L.;
  - was informed of potential joint projects/investments with Kelag;
  - was submitted the interim report on the company HSE and the HSE Group operations I-VI 2013,
- at its 14th regular meeting held on 8 October 2013, the HSE SB:
  - was informed about the PWC audit firm's findings of the analysis of cost effectiveness of the HSE Group companies and envisaged further activities in the HSE Group;
  - was informed about the revision of the investment programme Construction of 600 MW replacement Unit 6 at TEŠ d.o.o., rev.6 (RIP6 U6 TEŠ) on 1 October 2013;
  - issued a preliminary approval for long-term loan to the company TEŠ in total amount of EUR 83,000,000 in line with the terms in RIP5 U6 TEŠ;
  - issued preliminary approval for concluding contracts with commercial banks on approved limit for issuing guarantees for period 1 January 2014 - 31 December 2014;
  - issued a preliminary approval for concluding contracts on short-term borrowing in the year of 2014; short-term borrowing is to be carried out in the form of short-term loans with commercial banks or through issuing commercial notes in line with Decision no. 1376/8, adopted at the 8th regular meeting of the HSE SB held on 20 May 2013;
  - agreed with the approval of long-term loan to the company TEŠ subject to the conditions set out in RIP5 U6 TEŠ, namely by drawing several tranches in 2013 and

in 2014, at an interest rate of 4.00%, a repayment period for each tranche 5 years after the launch of Unit 6 TEŠ operation (year 2020) and a moratorium on repayment of principal until 2016; long-term loan to the company TEŠ is granted provided that the company TEŠ receives relevant approvals required in accordance with the Decree on the terms and conditions and methods of borrowing by legal entities from Article 87 of the Public Finance Act (Official Gazette no. 112/09), relevant approvals for borrowing by banks that are involved in the financing of Unit 6, and consent of the TEŠ Supervisory Board;
    - was informed about the current legal and administrative procedures in the company HSE and the HSE Group;
- at its 17th regular meeting held on 16 December 2013, the HSE SB:
    - was acquainted with the due diligence of the company Litostroj Power d.o.o. and the possibility of capital entry in the company in consortium with Gorenje d.d and GEN energija d.o.o.;
    - adopted decision on payment of variable remuneration to the company's Managing Director Matjaž Janežič, MSc;
- at the 1st extraordinary meeting held on 23 December 2013, in order to prevent economic loss, the HSE SB issued a preliminary approval for signing of the Debt Transfer Agreement with the company Termoelektrarna Šoštanj d.o.o. for assuming the TEŠ's debt to the company Alstom Power Systems GmbH.

In 2013, the HSE SB intensively directed its activities into the procedures for completing the project replacement Unit 6 at TEŠ and into control of the company Premogovnik Velenje d.d. (PV) liquidity position. 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.

WORK OF THE SB AUDIT COMMITTEE

The HSE Audit Committee was appointed in April 2013. In the reporting period, the AC held eight regular meetings, at which it was informed on the implementation of its decisions, reviewed the company's business reports, the Unit 6 report, it was informed on the risk management in the company HSE and the HSE Group, as well as on the activities of the company's internal audit, D&O insurance in the HSE Group, position of the company PV, and discussed the Annual Report of the Company HSE and the HSE Group for 2012 with the auditor's reports and selection of auditor of financial statements of the company and the Group for 2013.

1.2.3 DISCLOSURE OF COSTS OF THE SUPERVISORY BOARD

Remuneration of the 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.

REMUNERATION OF THE SUPERVISORY BOARD MEMBERS

in EUR

	Gross attendance fee	Net attendance fee	Travel costs	D&O bonus	Total
Zidanšek Marko	21,717	16,702	0	147	21,864
Krmelj Vlasta	16,647	14,306	1,978	147	18,772
Kralj Peter	16,162	12,478	106	147	16,415
Ziherl Milenko	15,792	12,197	113	147	16,052
Molan Marjana	6,853	5,311	0	0	6,853
Prevalnik Stanislav	16,002	12,633	381	82	16,465
Jančar Boštjan	9,149	7,579	713	82	9,944
Total	**102,322**	**81,206**	**3,291**	**752**	**106,365**

REMUNERATION OF THE AUDIT COMMITTEE MEMBERS

in EUR

	Gross attendance fee	Net attendance fee	Travel costs	Total
Kralj Peter	3,526	2,808	97	3,623
Prevalnik Stanislav	3,526	2,911	231	3,757
Ziherl Milenko	4,408	3,461	57	4,465
Total	**11,460**	**9,180**	**385**	**11,845**

* the receipts of external members of the Audit Committee are not disclosed

1.2.4 OPINION ON THE COMPANY OPERATIONS IN 2013

Given the general economic situation in 2013, conditions on financial markets, safe and reliable electricity supply in Slovenia, and the activities performed on key development projects, the company HSE finished the year successfully and achieved net profit in the amount of EUR 76.5 million, which is 78% more than 2012.

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

It needs to be emphasised that in 2013 the company HSE realised net sales revenue of more than EUR 1.6 billion and sold more than 28 TWh of electricity. Despite lower net sales revenue and smaller quantity of electricity sold compared with 2012, the company HSE realised greater difference between the selling and purchasing prices of electricity, which is reflected in a higher operating profit by 63%. In relation to 2012, the company generated also 52% higher added value and 81% higher cash flow from operations.

1.2.5 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 2013 Annual Report of the Company HSE and the HSE Group including the auditor's reports on 10 July 2014. The Supervisory Board discussed the Annual Report at its 8th regular meeting on 17 July 2014 and determined that the management prepared the 2013 Annual Report within the legal deadline and that the report contained all the elements laid down by the Companies Act.

The audit of the 2013 Annual Report of the company HSE and the HSE Group was performed by Deloitte Revizija, d.o.o., which issued qualified opinions 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 2013.

At its 5th regular meeting on 14 July 2014, the HSE AC discussed the audited Annual Report of the Company HSE and the HSE Group for 2013 and proposed to the HSE SB to confirm it as it includes all the required elements/disclosures.

On the basis of the Audit Committee's opinion and auditor's reports, the Supervisory Board confirmed the Annual Report of the Company HSE and the HSE Group for 2013 and its content, as submitted by the company's management.

1.2.6 DETERMINATION AND PROPOSED ALLOCATION OF ACCUMULATED PROFIT

The company ended the 2013 financial year with a net profit of EUR 76,539,166.

At its 7th regular meeting held on 19 June 2014, the Supervisory Board agreed with the management's proposal that half of the net profit of 2013 in the amount of EUR 38,269,582.96 be allocated to other revenue reserves as early as during preparation of financial statements for 2013.

The remaining net profit represents the accumulated profit of 2013 and amounts to EUR 38,269,582.97.

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 2013, which represents the remainder of the net profit of 2013, in the amount of EUR 38,269,582.97 to be allocated to other revenue reserves.

The Supervisory Board of the company prepared the report in accordance with Article 282 of the Companies Act. The report is intended for the company's founder and sole member.

Ljubljana, 21 July 2014

Miloš Pantoš, PhD
President of the HSE Supervisory Board

1.3 Electricity production and trading in the HSE Group

SALES IN FOREIGN MARKETS

18,420 GWh	64% of sales

SALES IN DOMESTIC MARKET

10,363 GWh	36% of sales

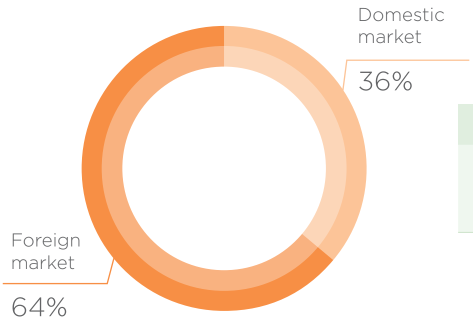
HSE COMPANY

129 employes as at 31/12/2013	28,783 GWh	100% RS

OTHER SOURCES

20,498 GWh	71% of resources

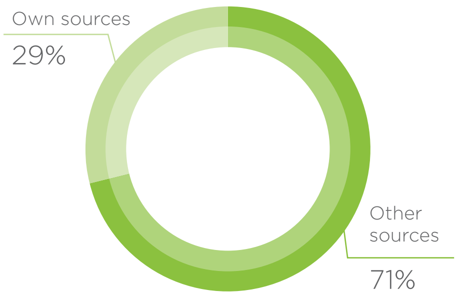
SALES OF ELECTRICITY



OWN PRODUCTION SOURCES

2,418 employes as at 31/12/2013	8,285 GWh 1,870 MW	29% of resources

SOURCES OF ELECTRICITY



51% OF SOURCES

HYDRO

457 - employes as at 31/12/2013
4,194 GWh - production
1,040 MW - capacity
76 turbines

DEM

288 employes as at 31/12/2013	2,840 GWh 592 MW 28 turbines	100% HSE

SENG

132 employes as at 31/12/2013	903 GWh 342 MW 39 turbines	100% HSE

HESS*

37 employes as at 31/12/2013	451 GWh 106 MW 9 turbines	84.6% HSE

49% OF SOURCES

THERMAL

628 - employes as at 31/12/2013
4,091 GWh - production
830 MW - capacity
4 units and 4 gas turbines

TEŠ

450 employes as at 31/12/2013	3,607 GWh 662 MW 3 units and 2 gas turbines	100% HSE

TET

178 employes as at 31/12/2013	484 GWh 168 MW 1 units and 2 gas turbines	81.3% HSE

PRIMARY SOURCES

1,333 - employes as at 31/12/2013
43,423 TJ - production

PV

1,333 employes as at 31/12/2013	43,423 TJ	77.7% HSE

* According to the contract, 15.4% of HESS production is sold outside the HSE Group.

1.4 Operating highlights of the Company and the Group

The financial year of 2013 was successful for the company HSE, as it achieved greater difference between the selling and purchasing prices of electricity, despite lower net sales revenue and volume of electricity sold compared to 2012, which is reflected in a higher operating profit by 63%. Consequently, in spite of impaired long-term investment in the company TET, HSE d.o.o. generated 78% higher net profit compared to 2012, 52% higher added value and 81% higher cash flow from operations by 81%, at a lower average number of employees.

The company HSE's assets as at 31 December 2013 decreased by 10% in relation to the end of 2012, as a result of the company's bridge financing of replacement Unit 6 at TEŠ in 2012 due to the delay in obtaining the government guarantee. As a result, the company took short-term loans and repaid them in 2013. Accordingly, the company's assets decreased along with its indebtedness (by 69%), while the equity increased by 8%.

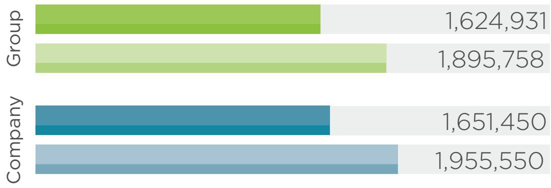
The company HSE d.o.o.	**2013**	**2012**
Net sales revenue in EUR	1,637,396,249	1,932,488,711
Revenue in EUR	1,651,449,982	1,955,550,197
EBIT in EUR	103,459,338	63,509,542
EBITDA in EUR	105,172,251	65,525,398
Net profit or loss in EUR	76,539,166	42,954,179
Assets in EUR	1,374,260,490	1,534,472,368
Equity in EUR	1,069,336,239	988,423,184
Operating cash flow in EUR	104,819,550	57,917,957
Added value in EUR	114,017,236	75,131,222
Electricity sold in GWh	28,783	31,380
Number of employees as at 31 December	129	132

The HSE Group, the leading electricity producer and trader in Slovenia, concluded the financial year of 2013 with success. Despite low prices of electricity on the European markets and reduced sales quantities, the HSE Group realised a considerably better trading result compared to 2012. However, in spite of improved trading result and 2% lower labour costs, the Group's operating profit or loss was 12% lower due to the impairment of assets of the PV Group companies. As a result, the HSE Group's net profit or loss decreased by 23%. The HSE Group equity as at 31 December 2013 is 5% higher compared to the end of 2012, while its assets increased by 9% due to significant investment in the HSE Group companies. We successfully drew the remaining part of the European Investment Bank (EIB) loan in the amount of EUR 440 million and of the European Bank for Reconstruction and Development (EBRD) in the amount of EUR 117.5 million for the construction of replacement Unit 6 at TEŠ, and ensured uninterrupted continuation of works on this key project of the HSE Group. Trough preparation of expert basis for optimisation and streamlining of the HSE Group operations, we made a great progress towards increasing profitability for the owner.

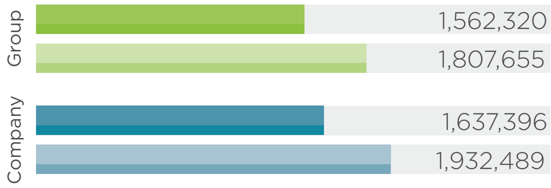
Our priority was orientation towards ensuring safe and reliable electricity production. Our focus remains on completion of the TEŠ replacement Unit 6 construction, which includes active involvement of the entire HSE Group and is carried out in line with the planned timelines: the first synchronisation with the network is planned already for October 2014. We also continue with the construction of the chain of hydro power plants (HPP) on the lower Sava River. In April 2014, HPP Krško started with pilot run which turned into regular operations. We carry on with the construction of the next HPP in the chain – HPP Brežice. In 2014, we obtained environmental and building permits for the discussed HPP, and began with construction works. For HPP Mokrice, the last in the lower Sava chain, a design project was prepared in 2013 and the National Spatial Plan (NSP) was adopted. We proceed also with the activities for reconstruction of HPPs on the Soča River, i.e. HPP Doblar 1, which will be completed in 2014, and HPP Plave 1, which is expected to be finished in 2016.

HSE Group	**2013**	**2012**
Net sales revenue in EUR	1,562,320,279	1,807,655,487
Revenue in EUR	1,624,931,118	1,895,758,366
EBIT in EUR	100,173,760	113,297,265
EBITDA in EUR	189,341,387	202,965,858
Net profit or loss in EUR	66,610,459	85,980,549
Assets in EUR	2,830,521,497	2,595,852,738
Equity in EUR	1,546,787,072	1,473,462,757
Operating cash flow in EUR	220,253,996	156,048,670
Added value in EUR	355,542,441	377,149,993
Electricity produced (in GWh)	8,285	7,839
Electricity sold in GWh	26,630	28,734
Number of employees as at 31 December	3,869	3,900
Number of Group companies as at 31 December	33	32

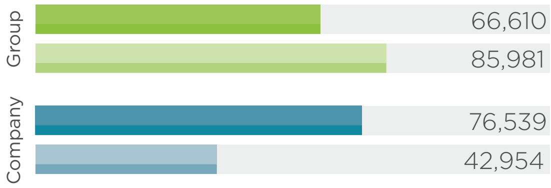
TOTAL REVENUE IN EUR THOUSAND



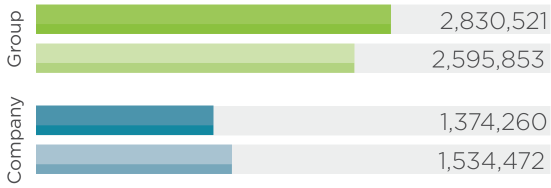
NET SALES REVENUE IN EUR THOUSAND



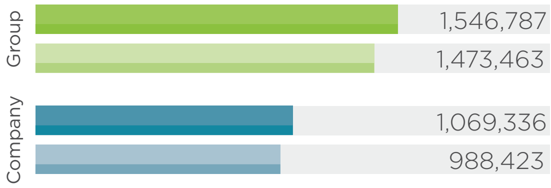
NET PROFIT OF LOSS IN EUR THOUSAND



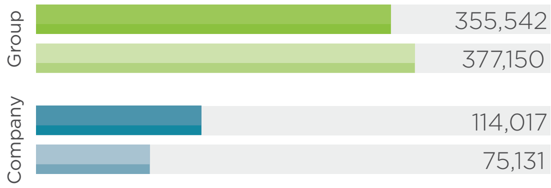
ASSETS IN EUR THOUSAND



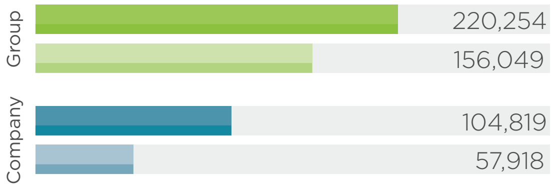
EQUITY IN EUR THOUSAND



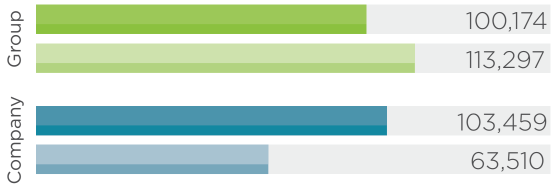
ADDED VALUE IN EUR THOUSAND



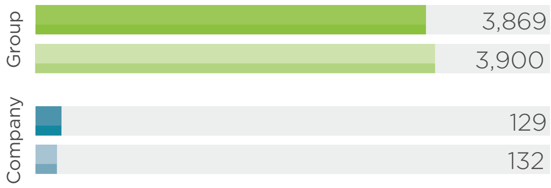
CASH FLOWS FROM OPERATING ACTIVITIES IN EUR THOUSAND



EBIT IN EUR THOUSAND



EMPLOYESS



ELECTRICITY PRODUCTION OF HSE GROUP COMPANIES IN GWh

02/ BUSINESS REPORT

2.1 Significant events in the HSE Group in 2013

JANUARY

- At the TEŠ Supervisory Board (SB) meeting of 17 January, Simon Tot, MSc, resigned as the TEŠ's managing director. Mr Fran Rosec was appointed acting managing director.
- Soške elektrarne Nova Gorica d.o.o. (SENG) obtained extension of trial run for PSP Avče.

FEBRUARY

- HSE and the HSE Group production companies were listed on the List of suppliers in the sector of electricity production, transport and distribution in line the Public Procurement in Water Management, Energy, Transport and Postal Services Act (ZJNVETPS).

MARCH

- On 4 March, the HSE SB approved the closure of representative office in Slovakia after acquiring own trading licence.
- On 6 March, the Managing Director of HSE Invest d.o.o. (HSE Invest), Miran Žgajner, MSc, resigned. The HSE Invest SB appointed Sandi Ritlop as new Director for the period until the appointment of new Managing Director.
- On 11 March, the Ministry of Infrastructure and Spatial Planning issued the decision for trial run of the HPP Krško dam structure for one year after the trial run launch.
- On 13 March, we successfully completed the first stage of rotation with water flow on the HPP Formin turbine 2, which was damaged during the November 2012 floods. The restoration was entirely carried out by the DEM experts.
- On 14 March, TEŠ drew the long-term EIB loan in the amount of EUR 440 million, while on 19 March 2013 the company drew the EBRD loan of EUR 117.5 million loan, in order to finance the construction of replacement Unit 6.
- On 18 March, the company HSE Hungary Kft. was officially struck-off the Hungarian Companies Register, while the company became inactive already in 2012.
- 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 SB of Hidroelektrarne na spodnji Savi, d.o.o. (HESS) gave the Managing Director its consent for purchase of 100% stake in the company Partner, storitveno in trgovsko podjetje, d.o.o., Senovo.

APRIL

- On 1 April, HPP Krško started one-year trial run.
- On 10 April, the TEŠ SB appointed Peter Dermol the new Managing Director of the company.
- On 15 April, the HSE SB approved liquidation of the company HSE Bulgaria EOOD.
- From 24-25 April, the 8th 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 and optimisation.
- SENG acquired water permit for sHPP Kneža.

MAY

- On 16 May, the Slovenian government adopted the decision on the preparation of the National Spatial Plan (NSP) for the area HPP Hrastje Mota on the Mura River and appointment of the engagement team members for its preparation.
- On 24 May, based on the Contract regulating relationships regarding the replacement Unit 6 project between the Republic of Slovenia and TEŠ, the TEŠ's management informed relevant ministries for infrastructure and finances about the assessment results regarding the Unit 6 project. The TEŠ management assessed that the final price of the project could amount to EUR 1.44 billion. This increase in the assessed value of the project is mostly a result of belated provision of long-term funding, which resulted from the delayed acquisition of the government guarantee, and consequential suspension and increased costs. The management also assessed that the company will not obtain the operating permit by the estimated date, i.e. 15 February 2016. TEŠ actively approached the negotiations with suppliers on the possibility of bringing forward the project completion.

JUNE

- Since 13 June, after successful completion of reconstruction, HPP Formin has operated with both generating units.
- On 28 June, the DEM SB reappointed Viljem POzeb, MSc, the Managing Director of the company.
- SENG obtained building permit for reconstruction and extension of the railway building at PSP Avče.
- From April to the end of June, TEŠ underwent overhaul of Units 3 and 4. Overhaul was complete a week before the deadline and with lower costs than predicted.

JULY

- On 4 July the SB of HSE Invest appointed Sandi Ritlop the new Managing Director of the company.
- The company HSE Ro Energy S.r.l., established in June, was registered on 5 July.
- On 15 July, the Slovenian Government received the information about the state of the TEŠ Unit 6 construction, and adopted relevant decisions, requesting that TEŠ prepare revision of the investment programme for the replacement Unit 6 project by 30 October.
- On 19 and 29 July, the HSE SB adopted the Annual Report of the company HSE and the HSE Group for 2012, and agreed with the management's proposal to the founder to use the company's 2012 accumulated profit of EUR 21,477,089.70 for creating other revenue reserves.
- On 31 July, the procedure for closure of the HSE Croatian branch started.
- TEŠ carried out overhaul of gas turbine PLT 51.

AUGUST

- On 21 August, TEŠ, Alstom Power Systems S.A. and Alstom Power Systems GmbH concluded Annex No. 3 to the contract for the supply of main technological equipment for replacement Unit 6 at TEŠ, setting the PAC date on 26 June 2015 and bringing forward the deadline for the project.
- On 22 August, the Slovenian Government adopted the Decision on preparation of NSP for HPP Suhadol, HPP Trbovlje and HPP Renke on the middle Sava River, and appointed the engagement team for its preparation.
- On 22 August, the NSP for HPP Mokrice was adopted.

SEPTEMBER

- On 1 September, failure occurred on the export plant at PV during the import of material and equipment in the pit. An automatic safety brake occurred and the conveyor device broke down. The production was reassumed on 9 September.
- DEM finished the reconstruction of the HPP Vuhred embankment, which was damaged during the great floods in November 2012.
- PV launched the first phase of trial operation of new main pit pumping station on the location k.-41.5 m; depth of export shaft NOP II exceeded 200 meters.

OCTOBER

- On 1 October, the company PV Invest d.o.o. cancelled from the Companies Register due to the merger with the acquirer PV Zimzelen d.o.o. On this date, also all existing contracts, receivables and liabilities, which were related to the operation of PV Invest do.o.o. were transferred to the discussed company. Along with the status, the name of the merged company changed from PV Zimzelen d.o.o. to PV Invest d.o.o
- DEM acquired two water permits for the sHPP at the Markovci dam – tailrace channel and Rogoznica, and sHPP Razbremenilnik on watercourse Pesnica. Both sHPPs are based on already existing infrastructure and will bring more than 1.7 GWh of electricity annually.
- In line with the conclusions of the 8th strategic conference, and with the help of an external contractor, HSE carried out a comparative analysis of the HSE Group cost efficiency. The results showed that further streamlining and optimisation of the Group operations is possible with certain measures.

NOVEMBER

- On 11 November, regular planning conference of the HSE Group took place.
- In line with the schedule, TEŠ managed to begin the first pressure test of the replacement Unit 6 boiler.
- PV started to construct the south ventilation line, which was connected with the research area. Moreover, new excavation was successfully started in the Pesje pit, which was joined the existing excavations. All three excavations provide 20 thousand tonnes of coal a day.

DECEMBER

- Regular annual General Meeting of the company HSE was held on 5 December, at which the founders were presented the Annual Report of the company and the group for 2012, and adopted the decision on allocation of the 2012 profit and selection of the auditor for 2013.
- On 18 December, PV reached record production results, as the largest daily extraction reached as much as 26,444 tonnes of coal.

2.2 Important events after the end of the period

- On 7 January, the HSE Supervisory Board members, Marko Zidanšek, MSc, Vlasta Kremelj, PhD, and Milenko Ziherl, submitted their statements of resignation, which the Slovene Restitution Fund (Slovenska odškodninska družba d.d. - SOD) was informed about on 21 January.
- On 7 January, the company HSE Bulgaria EOOD was officially eliminated from the Bulgarian Companies Register, which was the last formal step in the voluntary liquidation procedure upon the fact that at the end of December 2013 the company closed its operations with preparation of key liquidation balances.
- On 21 January, the founder dismissed the HSE SB member Peter Kralj, PhD, and appointed the following new SB members: Črt Slokan, Miloš Pantoš, PhD, Boštjan Markoli, PhD, and Drago Štafe, MSc
- On 21 January, the founder adopted a new Articles of Incorporation of the Limited Liability Company HSE, which became effective as of 3 February.
- On 21 January, the HSE founder issued its decision to the HSE management to proceed with the implementation of measures for optimisation and streamlining of the HSE Group operations.
- On 21 January, the HSE founder requested that the HSE management within the scope of its authority and with help of external institution based on realistically feasible plan 'Operational and Financial Restructuring Plan of the Premogovnik Velenje Group' (OFRP) and in cooperation with the PV management and SB, define the reality of achievable selling prices of the PV coal to TEŠ, which will be the basis for revision of the Investment programmed for Unit 6 at TEŠ.
- On 28 January, the HSE SB dismissed some members of the HSE Audit Committee (AC), namely: Peter Kralj, PhD, Jožef Kocuvan and Darja Turk.
- In January, the company TEŠ and the main supplier of the equipment for replacement Unit 6, Alstom, concluded an agreement postponing the planned payment of compensation for works performed in 2014 in 2015. The agreement was entered into due to changed possibilities of ensuring financing of the TEŠ Unit 6 construction in 2014.
- On 24 February, the HSE SB appointed Boštjan Markoli the new Chairman of Audit Committee, Stanislav Prevalnik a member of Workers Council, and Darinka Virant and Damir Rakela for external members of the Audit Committee.
- On 24 February, the National Assembly (NA) adopted the Energy Act (EZ-1).
- Pursuant to the HSE management's request for alignment of Revised Investment Programme RIP 6 among the companies HSE, TEŠ and PV, which was issued based on the SOD's decision of 21 January 2014 and changed key input data, i.e. electricity prices, prices of emission coupons and the scope of production, the company TEŠ prepared a new issue of Revised Investment Programme: RIP 6 – February 2014 issue.
- At the 11th regular Supervisory Board meeting held on 5 March, the PV Management Board resigned. On 6 March, an extraordinary meeting of the PV SB took place, at which the SB members dismissed the PV Management Board. The PV Supervisory Board appointed Ivan Pohorec the new Board President with full powers until 6 June; Ivan Pohorec was subsequently, at the SB regular meeting of 19 May, appointed the Board President of PV for full term.
- On 19 March, amended organisational chart of the HSE company entered into force, which in line with the new Articles of Incorporation of HSE stipulates two new members of the HSE management (CFO and COO). As a consequence, the Managing Director Office was dismissed.

- On 24 March, the Ministry of Infrastructure and Spatial Planning issued the operating permit to HESS for the HPP Krško dam structure. The one-year trial period thus ended.
- On 25 March, official launch of the HPP Brežice construction took place, and was attended by the Prime Minister Alenka Bratušek, MSc On 1 April, HPP Krško started with regular operations.
- In the period from January to March 2014, the HSE Group companies reached output of 2,176 GWh of electricity thanks to favourable hydrology, which is 26% of the electricity produced in 2013. In that period, the Group operated with net profit of EUR 23.9 million or 36% of the profit realised in 2013.
- As the sole member in DEM, SENG and TEŠ, on 29 April HSE decided to adopt new Articles of Incorporation, brining dismissal of Supervisory Boards in SENG (30 April), DEM (5 May) and TEŠ (5 May).
- At the request of the HSE shareholder, the 21 General Meeting of PV took place on 26 May, at which the shareholders adopted all proposed amendments to the Articles of Association of PV, which among other stipulate also reduction in the number of the Supervisory Board members from six to three. With the adoption of these amendments, all previous shareholder representatives to the Supervisory Board, Marjan Ravnikar, MSc, Jana Vrtovec Trček, MSc, and Marko Bregar (the latter as representatives of the HSE) and Kristian Verbič as a representative of minor shareholders, were dimissed. Jože Kaligaro and Klemen Potisek, MSc were appointed members of the Supervisory Board. The third SB member according to the new Articles, is an employee representative proposed by the PV Workers Council.
- On 27 and 28 May, the HSE Group held the 9th strategic conference of took place, at which measures with defined implementation deadlines were determined. The measures cover all main areas of the Group operations, from joint maintenance to purchase, investment optimisation, salary policy and employment policy.
- Activities for sale of the HSE's business share in HESS and TET are underway.
- Due to the unresolved issues of state aid for recapitalisation of TEŠ, in 2014 the company HSE settles overdue liabilities of TEŠ to its suppliers for the investment in replacement Unit 6, based on the contracts on the debt transfer.
- On 11 June, the register court issued its decision on entry of the Slovenian Sovereign Holding (Slovenski državni holding, d. d. - SDH) in the Companies Register. In accordance with the Slovenian Sovereign Holding ACT (SDH-1), continuation of all powers, authorities, rights and responsibilities is ensured before the transformation of the Slovenian Restitution Fund, d. d. (SOD). SDH assumes also all duties performed so far by SOD.

2.3 Controlling company

2.3.1 PROFILE OF THE CONTROLLING COMPANY

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

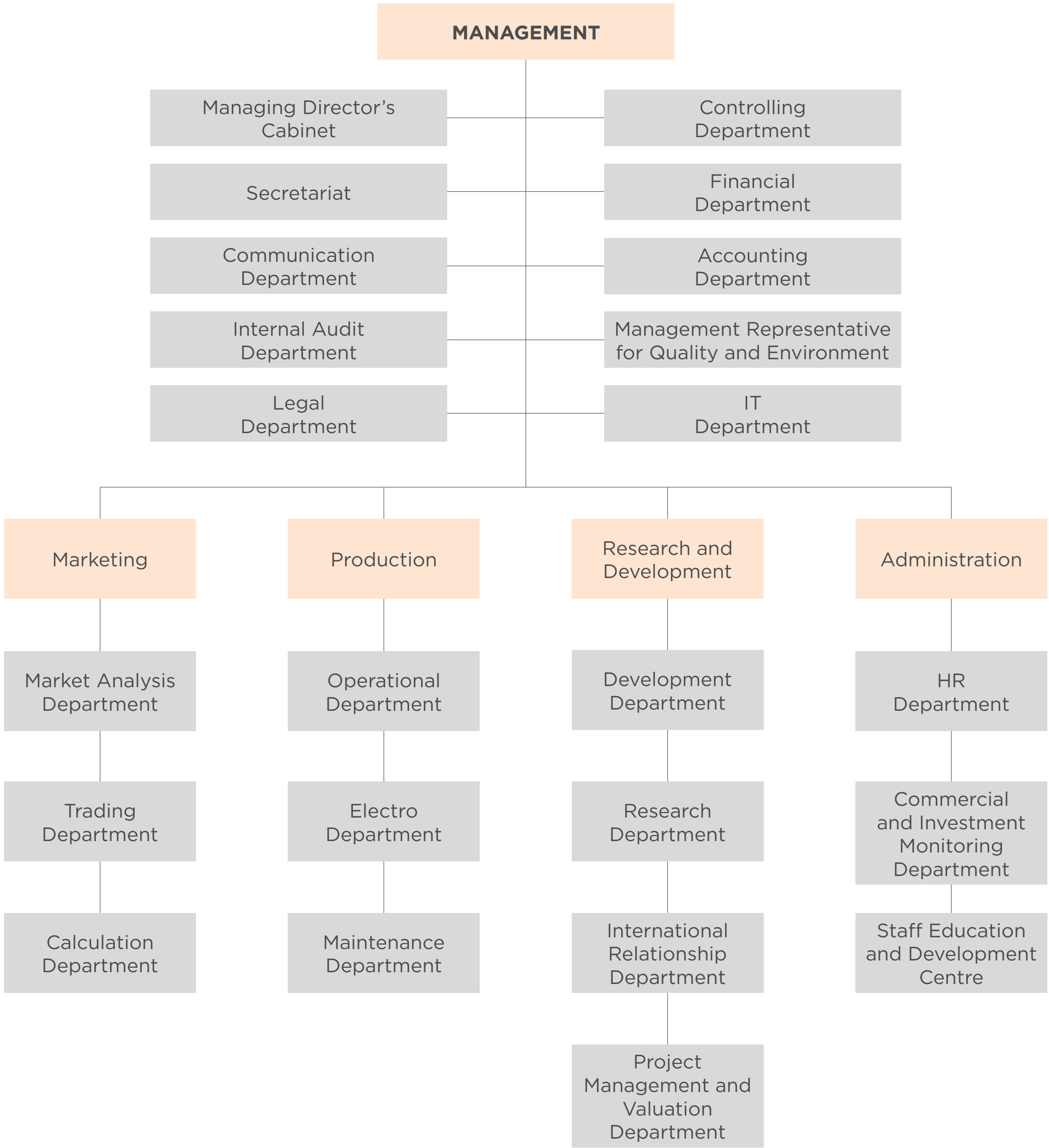
Company profile of Holding Slovenske elektrarne d.o.o. as at 31/12/2013	
Full company name	Holding Slovenske elektrarne d.o.o.
Abbreviated name	HSE d.o.o.
Legal form	Limited liability company
Address	Koprska ulica 92, 1000 Ljubljana, Slovenia
Telephone	+386 1 470 41 00
Fax	+386 1 470 41 01
Entry No.	1/35036/00, registered with the District Court in Ljubljana
Nominal capital in EUR	29,558,789
Size	Large company
Ownership structure	100% Republic of Slovenia
Year of establishment	2001
Tax number	99666189
VAT ID no.	SI99666189
Company registration number	1662970
Main activity	Electricity trading
Website	www.hse.si
E-mail	hse@hse.si; info@hse.si
Managing Director	Blaž Košorok
Chairman of the Supervisory Board	Miloš Pantoš, PhD

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

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

2.3.2 ORGANISATIONAL STRUCTURE OF THE CONTROLLING COMPANY

THE COMPANY'S ORGANISATIONAL CHART AS AT 31 DECEMBER 2013



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 by business units depending on the possibility of exploiting synergies within the HSE Group.

2.3.3 MANAGEMENT OF THE CONTROLLING COMPANY

As the only stakeholder, the Republic of Slovenia managed the controlling company through the managing company SOD in the role of founder and sole member, and through the HSE Supervisory Board and management.

GOVERNING BODIES OF THE CONTROLLING COMPANY AS AT 1 JANUARY 2013

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

GOVERNING BODIES OF THE CONTROLLING COMPANY AS AT 31 DECEMBER 2013

GENERAL MEETING

Company members

RS - 100% stake

SUPERVISORY BOARD

Owner's representatives

Marko Zidanšek, MSc - *President*

Vlasta Krmelj, PhD - *Deputy President*

Peter Kralj, PhD

Milenko Ziherl

Employee representatives

Stanislav Prevalnik

Boštjan Jančar

MANAGING DIRECTOR

Blaž Košorok

AUDIT COMMITTEE

Milenko Ziherl - *Chairman*

Peter Kralj, PhD

Jožef Kocuvan

Darja Turk

Stanislav Prevalnik

CHANGES IN HSE'S MANAGEMENT IN 2013

SB member, the employee representative, Marjanca Molan resigned on 30 April 2013. On 13 May 2013, Boštjan Jančar was appointed a new employee representative in the HSE Supervisory Board.

2.3.4 CORPORATE GOVERNANCE STATEMENT

HSE, Koprska ulica 92, 1000 Ljubljana, in accordance with Paragraph 5 of Article 70 of the Companies Act (ZGD-1), with regard to the period from 1 January 2013 to 31 December 2013 declares as follows:

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 of 29 August 2011 (Act of Incorporation of HSE), decisions adopted by the founder and sole member ant the company Supervisory Board, 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 of the company HSE and the HSE Group 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 (IFRS).

1. STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE FOR CAPITAL ASSETS OF THE REPUBLIC OF SLOVENIA AND THE RECOMMENDATIONS OF THE MANAGER OF DIRECT AND INDIRECT CAPITAL ASSETS OF THE REPUBLIC OF SLOVENIA

As the Managing Director of the company HSE, I hereby declare that the governance of the company HSE in 2013 was in line with the recommendations provided in the Corporate Governance Code for Capital Assets of the Republic of Slovenia (Code), adopted by SOD on 15 May 2013 (previously referred to as the Corporate Governance Code for Companies with State Capital Investments, AUKN, of 18 January 2011), and pursuant to the Recommendations of the Manager of Direct and Indirect Capital Assets of the Republic of Slovenia of 12 April 2013 (previously referred to as the Reporting Guidelines of the Companies with State Capital Investments and Recommendations of AUKN) (Recommendations of SOD). Due to changed membership structure of the Supervisory Board, the company did not realise Recommendation of SOD no. 3, while Recommendations of SOD no. 10 and 11 are being discussed and will be realised in 2014.

As the Managing Director of the company HSE, I declare pursuant to point 72 of the Code that the company HSE has opted to apply AUKN Code on a voluntary basis.

2. COMPANY BODIES

Pursuant to the Articles of Incorporation of HSE, in 2013 the company was managed by SOD as the founder and the only member. Other bodies of the company were also the HSE Supervisory Board and the Managing Director.

2.1 FOUNDER AND SOLE MEMBER

The founder and sole member decides independently on the following:

- amendments to the Articles of Incorporation;
- adoption of the fundamentals of business policy and the company development plan;
- adoption of the annual report when the HSE 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 HSE 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 HSE 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 Incorporation of HSE.

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

2.2 MANAGING DIRECTOR

In accordance with provisions of the Articles of Incorporation of HSE, the Managing Director represents and runs the company on his/her own responsibility. The Managing Director is appointed and dismissed by the HSE Supervisory Board. When his or her term of office expires, the Managing Director may be reappointed.

2.3 SUPERVISORY BOARD

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

The Articles of Incorporation of HSE define the structure, term of office and powers of the HSE SB. The HSE 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. The HSE 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 HSE SB 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, 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 EUR 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 HSE SB may perform also other duties in line with the law, company's acts and decision of the founder and sole member.

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 the HSE 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 HSE 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 the HSE SB and HSE AC are presented in the HSE SB report.

3. INTERNAL CONTROLS AND RISK MANAGEMENT IN 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, environmental management system in line with ISO 14001, 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.

Under the company's internal control system we intentionally and systematically use 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, rules for management bodies and system regulations of the company.

The company established the Risk Management Committee, in order to establish a comprehensive risk management system in the company to guarantee a quality management and supervisory bases and information to its management and Supervisory Board. 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 Internal Audit as an independent organisational unit is responsible for constant and comprehensive examination of regulatory and legal compliance, as well as of economic efficiency and organisational structure of operations. It performs independent and objective audit activity within the company HSE and the Group.

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

Ljubljana, 30 June 2014

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

2.3.5 REPORT ON IMPLEMENTATION OF SOD RECOMMENDATIONS IN 2013

In 2013, the company HSE regularly monitored recommendations by SOD and informed the HSE SB of their implementation on regular basis. The company reasonably pursued SOD recommendations, as explained in the Report on Implementation of Recommendations of the Manager of Direct and Indirect Capital Assets of the Republic of Slovenia for HSE.

2.4 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 electricity 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 other similar 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 market, are all the more important.

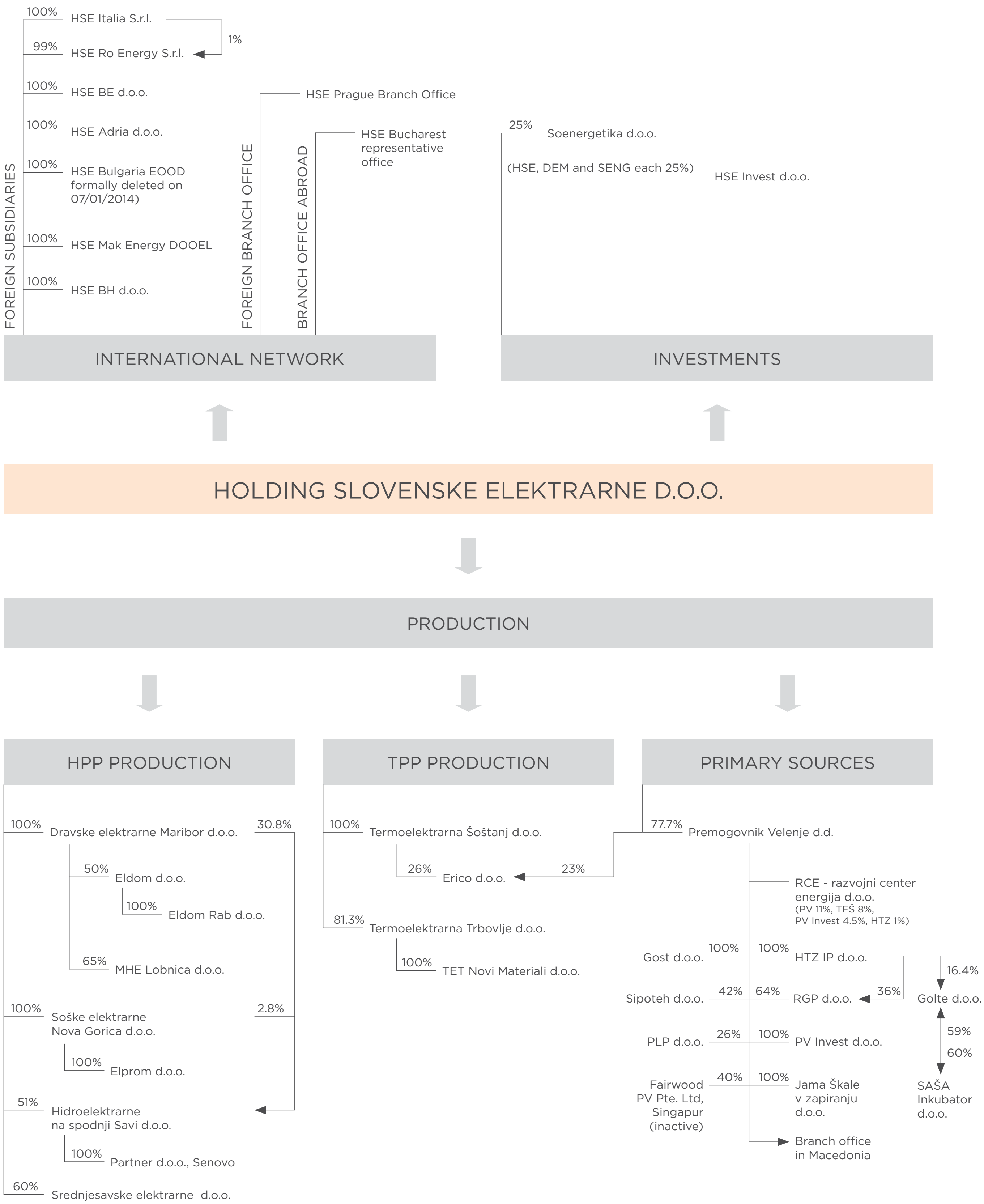
RELATED COMPANIES OF THE HSE GROUP

In 2013, 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 with a subsidiary,
- Srednjesavske elektrarne d.o.o. (SRESA),
- Termoelektrarna Šoštanj d.o.o. with an associate,
- Termoelektrarna Trbovlje d.o.o. with a subsidiary,
- Premogovnik Velenje d.d., with seven subsidiaries and four associates and a branch office in Skopje;
- HSE Invest d.o.o.,
- HSE Italia S.r.l.,
- HSE Ro Energy S.r.l.,
- HSE Balkan Energy d.o.o.,
- HSE Adria d.o.o.,
- HSE Bulgaria EOOD, in liquidation (offical elimination on 7 January 2014),
- HSE MAK Energy DOOEL,
- HSE BH d.o.o.
- HSE Prague Branch Office,
- HSE Bucharest Representative Office.

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

RELATED COMPANIES OF THE HSE GROUP AS AT 31 DECEMBER 2013



Hydro production

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

Dravske elektrarne Maribor d.o.o.	
Managing Director	Viljem Pozeb, MSc
Main activity	Electricity production in HPP
Supervisory Board composition as at 31/12/2013	Marko Tandler, PhD - *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). The total net output of DEM power plants amounts to 592 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, owners and external environment. In the area of hydropower activity the company fully controls and markets all processes, while the care for environment is always criterion of assessing working and economic success at existing capabilities and those that it still intends to establish. Efficiency, reliability, adaptability, completeness and environmental responsibility represent the basic values of the company DEM.

MHE LOBNICA D.O.O. is a DEM's subsidiary, established in May 2011 for electricity production.

ELDOM D.O.O. is a subsidiary of DEM. The company's main activity is property management, organisation of meals in restaurants and management of holiday facilities for Slovenia's electricity sector.

ELDOM RAB D.O.O. is a subsidiary of the company ELDOM and fully owned by it. The company performs the following services: real estate management, legal and property transactions and contracting, management of accounting and administrative service, categorisation of tourist facilities, smaller and larger investment works, maintenance of facilities and surroundings, cleaning and preparation facilities for winter, reception services and accommodation facilities marketing.

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 31/12/2013	Matjaž Eberlinc, PhD - *President* Nenad Trkulja, MSc Silvester Medvešček

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. The average annual production in HPPs amounts to 947 GWh, while overall installed capacity of the SENG power plants amounts to 342 MW.

ELPROM D.O.O. is a subsidiary of SENG. It was established for the purposes of electricity trading. In the second quarter of 2013, the company was activated for trading of electricity from renewable sources on the Italian market.

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 01/01/2013	Matjaž Janežič, MSc - *President* Andrej Kovač Primož Stropnik Nikola Galeša Vladimir Gabrijelčič
Supervisory Board composition as at 31/12/2013	Blaž Košorok - *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. Three of projected five HPPs (HPP Boštanj, HPP Arto-Blanca and HPP Krško) are operating, while HPP Brežice entered into the construction phase in the first half of 2014. In August 2013, the Slovenian Government adopted the Decree on Detailed Plan of national importance for HPP Mokrice area. The overall installed capacity of the lower Sava HPPs amounts to 106 MW. 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.

PARTNER D.O.O. is a subsidiary of HESS, which carries out the services of debris cleaning and minor maintenance work at HPP Boštanj, HPP Arto-Blanca and HPP Krško.

SREDNJESAVSKE ELEKTRARNE D.O.O. (SRESA)

Srednjesavske elektrarne d.o.o.	
Managing Director as at 01/01/2013	Matjaž Janežič, MSc
Managing Director as at 31/12/2013	Matjaž Eberlinc, PhD
Main activity	Electricity production in HPP
Supervisory Board composition as at 01/01/2013	Marjanca Molan - *President* Marko Štrigl Primož Stropnik Janez Žlak Drago Polak Mitja Dušak
Supervisory Board composition as at 31/12/2013	Blaž Košorok - *President* Jana Pogačnik Karl Vukovič Drago Polak Primož Stropnik 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. SRESA is a dormant company.

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 as at 01/01/2013	Simon Tot, MSc
Managing Director as at 31/12/2013	Peter Dermol
Main activity	Production of electricity in thermal power plants
Supervisory Board composition as at 01/01/2013	Roman Šturm, PhD - *President* Janja Špiler Marjan Ravnikar, MSc Aljoša Tomaž
Supervisory Board composition as at 31/12/2013	Roman Šturm, PhD - *President* Janja Špiler Herman Janež Marjan Penšek, MSc Andrej Višnar Janez Ramšak

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

With a net output of 662 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. Povprečna letna proizvodnja EE se giblje med 3,500 in 3,800 GWh. The average annual thermal energy production for Šalek Valley district heating 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.

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. The main activity the ERICO Institute is performance of environmental management services required by law. ERICO is an environmental service company, which has successfully provided environmental solutions to its clients for more than 15 years. The institute operates in line with international quality standards. The majority owner with a 51% stake is the company Gorenje d.d., while the other two owners are TEŠ (26%) and PV (23%). ERICO 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 01/01/2013	Drago Skornšek - *President* Zvonko Petan, MSc Jaroslav Vrtačnik, MSc Borut Dolanc, MSc Samo Moškon Janez Balog
Supervisory Board composition as at 31/12/2013	Matjaž Eberlinc, PhD - *President* Borut Dolanc, MSc Aleš Gerčar

TET is one of the two power plants in Slovenia that produce electricity from coal. TET is the largest energy production facility in Zasavje. The company has two production units: steam unit with capacity of 125 MW, which uses lignite, and two gas units with capacity of 2x34 MW, which use Extra light fuel oil (ELFO). Both units are intended for purposes of ancillary services of the Slovenian energy system.

The average annual production in TET amounts to 618 GWh, while its overall installed capacity amounts to 168 MW.

In order to ensure and maintain the energy production location in the Zasavje region, we are searching for strategic partner to continue with the energy activity at the existing location based on economic, technical and environmental acceptability.

TET NOVI MATERIALI D.O.O. is a subsidiary of TET, the main activity of which is wholesale of wood, construction materials and sanitary equipment. The new company is a result of activities of the development centre RC eNeM, through which TET participates on two development projects. The company is dormant.

Primary sources

PREMOGOVNIK VELENJE D.D. (PV)

Premogovnik Velenje d.d.	
Management Board	Milan Medved, PhD - *President* Vladimir Malenković, PhD - *Member* Sonja Kugonič - *Member (Worker Director)*
Main activity	Mining and agglomeration of lignite
Supervisory Board composition as at 01/01/2013	Matjaž Janežič, MSc - *President* Marko Štrigl Jana Vrtovec Trček, MSc Rajko Arlič Kristjan Verbič, MSc Bojan Brcar
Supervisory Board composition as at 31/12/2013	Marjan Ravnikar, MSc - *President* Marko Bregar Jana Vrtovec Trček, MSc Rajko Arlič Kristjan Verbič, MSc Bojan Brcar

PV is registered in the Companies Register as a joint stock company for lignite extraction. The company's other activities are: underground and aboveground extraction planning for mining, machinery and electricity purposes, construction of all types of underground structures, drilling, geo-mechanical research, cave surveying, hydrogeological and technological services, training services. The Velenje coal extraction method is becoming renowned among foreign partners as one of the most productive extraction methods for thick coal layers which us also environment-friendly.

PV produces approximately 4 million tonnes of lignite each year, most of which is used by TEŠ for production of electricity and increasingly also by TET for heat production.

SUBSIDIARIES AND ASSOCIATES OF PV

HTZ I.P. D.O.O. is the largest disability company in Slovenia and also the largest company in the PV Group. The company's business activities are as follows: Electro services, service and production of equipment, construction material production, rescue and servicing activities, insurance, studio for design and copying, construction activity, manufacture of protective equipment, washing facility, bathrooms and maintenance.

PV INVEST D.O.O. is registered for carrying out the following activities: investments, landscaping and land survey services. The company is involved also in the activities regarding establishments for care of elder and handicapped persons and other welfare-based residential facilities, as well as accompanying activities which are necessary for the performance of the main and marketing activities.

GOST D.O.O. is registered for carrying out the following activities: accommodation and food service, tourism and event organisation. 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 hotel services.

JAMA ŠKALE V ZAPIRANJU D.O.O. was established for the purposes of closing down the Škale pit. It is a dormant company.

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.

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 a PV associate, engaged in the machinery and production equipment business and in the production of metal structures and their components.

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

PV FAIRWOOD is an associate of PV for international trading of its knowledge. PV Fairwood is a dormant company.

BRANCH OFFICE IN THE REPUBLIC OF MACEDONIA, SKOPJE
On 20 October 2011, PV established a branch office in the Republic of Macedonia, through which the company operated to a minimum degree in 2013.

RCE–RAZVOJNI CENTER ENERGIJA D.O.O., research and development centre is an associate company of the HSE Group companies, with the following interests: PV 11%, TEŠ 8%, PV Invest 4.5% and HTZ 1%. The main activity of RCE is development of samples, prototypes, production lines and technological procedures in the area of: EEU, RES, design of modern energy systems, technologies for reduction of environmental impact, processing and beneficial use of waste materials, better use of existing technologies, automation and supervision of processes at using advanced energy technologies and intellectual property protection.

International network

Since the beginning of the company HSE, we had to establish also different types of organisations in other European countries in line with their local legislations, due to our presence on several electricity markets and performance of various trading activities.

HSE ITALIA S.R.L.

HSE Italia S.r.l.	
Management Board of the company as at 31/12/2013	Tomaž Štokelj, PhD - *President* Ana Zaljetelj Damjan Lipušček
Main activity	Electricity trading

HSE Italia, established in 2003, is involved in supporting electricity trading activities on the Italian market. Before Slovenia joined the EU, the company served as a basis for the establishment of balancing group in the EU. In recent years, it has been used for taking advantage of market opportunities for exporting electricity to Italy.

HSE RO ENERGY S.R.L.

HSE Ro Energy S.r.l.	
Managing Director as at 01/01/2013	/
Managing Directors as at 31/12/2013	Irena Stare Drago Skornšek
Main activity	Electricity trading

Despite its representative office in Romania and acquired licence for electricity trading, HSE did not meet the conditions for electricity trading on the Romanian stock exchange OPCOM, due to limitations of the local legislation. The entry to OPCOM itself was otherwise possible; however, HSE could not participate with a Slovenian tax residence. For this reason, subsidiary HSE Ro Energy S.r.l. was established in 2013, which with Romanian VAT ID and electricity trading licence should not have any issues with the OPCOM stock market participation. The licencing procedure was still ongoing at the end of 2013.

HSE BALKAN ENERGY D.O.O.

HSE Balkan Energy d.o.o.	
Managing Directors as at 31/12/2013	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. The company was officially eliminated from the Bulgarian Companies Register on 7 January 2014.

HSE ADRIA D.O.O.

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

The Zagreb-based company was founded with the purpose to establish connections with the Central and Eastern European markets and is involved in cross-border electricity trade. Since HSE is unable to trade independently in Croatia due to legal restrictions, HSE Adria serves the main connection between out trading activities on the Balkans and in Slovenia.

HSE BULGARIA EOOD IN LIQUIDATION

HSE Bulgaria EOOD "in liquidation"	
Managing Directors as at 01/01/2013	Drago Skornšek Irena Šlemic
Managing Directors as at 31/12/2013	/
Main activity	Electricity trading

The HSE Bulgaria subsidiary was established in 2007 with the aim of expanding electricity trading to SE European markets. At the end of 2012, as a result of amended legislation now enabling electricity trading also for the companies registered abroad, HSE started the procedure for obtaining the electricity trading licence for the Bulgarian territory, and in 2013 started the activities for voluntary liquidation of HSE Bulgaria, which was finalised right before the year-end. HSE has the electricity trading licence for Romania through its representative office HSE Bucharest.

HSE MAK ENERGY DOOEL

HSE MAK Energy DOOEL	
Managing Directors	Tomaž Štokelj, PhD Drago Skornšek
Main activity	Electricity trading

In May 2009, the company HSE MAK Energy 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, PhD
Main activity	Electricity trading

The main reason for establishing a branch in the Czech Republic was acquisition of an electricity trading licence enabling trade inside the Czech Republic and on OTE energy exchanges. Due to amendments in legislation in 2010, the electricity trading was transferred to the company HSE. As the legislation requires registration of a minimum form of enterprise, the subsidiary is formally still active.

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 has also the largest power exchange in SE Europe and a liberalised market. For these reasons, HSE decided to open a representative office in Bucharest and obtain an electricity trading licence.

Investments

HSE INVEST D.O.O.

HSE Invest d.o.o.	
Managing Director as at 01/01/2013	Miran Žgajner, MSc
Managing Director as at 31/12/2013	Sandi Ritlop
Main activity	Other project engineering and technical consulting
Supervisory Board composition as at 01/01/2013	Irena Šlemic - *President* Alida Rejec, MSc Andrej Tumpej Drago Polak Igor Žurga Nives Podgornik
Supervisory Board composition as at 31/12/2013	Irena Šlemic - *President* Alida Rejec, MSc Andrej Tumpej Drago Polak Katja Rejec Gregor Cenc

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

The company has a vision of efficient realisation of projects in the energy sector, with the purpose to generate significant added value for the owners at acceptable risk levels. Its main mission is complete realisation of projects regarding electricity and heat production and subsequent administration of the realised projects.

Partners in the project are the companies Elektro Gorenjska, Petrol, Domplan and HSE. Each partner's participation in the project amounts to 25%.

The company successfully carried out the project Planina for supply of thermal energy to the residents of Kranj municipality, which is bringing the projected economic return.

2.4.1 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.

Strategic Development Concept (SDC) for the company and the Group is being prepared, on the basis of which we will fulfil our vision: to ensure optimum utilisation of Slovene energy sources and personnel, and to establish a competitive company in the global energy market, while also expanding its business operations so as to reduce business risks arising from market fluctuations in relation to individual products. An important part of the HSE Group and company SDC will be also provision of safe and reliable electricity supply, development of the Slovenian energy economy, as well as development of science and its implementation in the domestic and international environment.

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. Better management and business practice, more efficient risk management, optimised organisational structure and mutual relationships in the Group are the areas that require new bases and renewed strategy. The Strategic Development Concept of the company HSE and 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 added value of the company,
- maximised synergy effects,
- efficient risk management,
- reaching even better operating results,
- ensuring constant progress, innovativeness and development and, consequently, investments.

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. Also the content of these documents clearly shows that a need for greater exploitation of synergies, equity consolidation and more intensive coordination of activities exists. Important questions to which we will have to find answers are consolidation of all companies on the corporate governance level and ensuring adequate long-term finance for the projects. In the coming period, we will focus on risk management and improvement of cost efficiency, which are preconditions of long-term competitiveness of the Group and all of its members.

MANAGEMENT BODIES

The majority of HSE 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 committees responsible for supervision of investments.

COMMITTEE FOR ACTIVE SUPERVISION OF INVESTMENTS

Committee for active supervision of investments was established in November 2009 in order to monitor investments in replacement Unit 6 at TEŠ and to prevent increases in capital investments and maintenance costs of the TEŠ's existing systems. The committee consists of four members, three appointed by HSE and one by TEŠ.

WORKER PARTICIPATION IN MANAGEMENT

The HSE Group 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).

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 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.

WORKERS' COUNCILS AND JOINT WORKERS' COUNCIL OF THE HSE GROUP (JWC)

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

On the basis of the Agreement on the establishment of a Joint Workers' Council for related companies, the workers' councils of the HSE Group established the Joint Workers' Council of the HSE Group (JWC).

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

In addition, the JWC's task is to supervise implementation of the Worker Participation in Management Act (ZSDU). The JWC thus acts as a facilitator between all employees of the HSE Group, cooperates with management in a manner laid down by the law and the Participation agreement and, together with the union, represents the interests of employees. An important contribution of the JWC to the successful business policy of the HSE Group is the unanimous support of common projects defined in the development plans of the HSE Group.

ECONOMIC AND SOCIAL COUNCIL (ESC)

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

2.5 Business policy of the HSE Group

MISSION

Besides maintaining the leading position in the domestic market and ensuring safe and reliable energy supply, the mission of the HSE Group is also the development of the Slovenian energy economy and science and gaining its prominence in the international environment.

VISION

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

VALUES

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

- having satisfied HSE service users;
- building responsible, long-term partnerships with business partners;
- environment protection and use of RES;
- achieving professional competence;
- ensuring sufficient level of security and reliability of the management systems;
- 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.

2.6 Strategic policies of the HSE Group

The HSE Group pursues the main long-term guidelines of the national and EU policy and is bound to contribute its share to solve the key challenge of European and thus national energy sector: ensure safe, competent and sustainable energy supply for users. This challenge demands that we remain active in light of achieving the goals set in all priority areas: exploitation of RES, reduction of CO_2 emissions and ensuring effective and reliable electricity supply to users at competitive prices.

The HSE Group has the following key strategic objectives and policies for the coming period:

- Focus on increasing added value through the entire chain, from design to realisation of environmentally acceptable energy facilities, sustainable electricity production, electricity and other energy products trading, and provision of comprehensive energy services to end-customers, to whom we must be the best choice.
- Strengthen business operation through consolidation of ownership and modern corporate governance with the aim of continued business processes optimisation and streamlining, maximize the available Group potentials, exploit mutual synergy effects, and consolidate business processes at the Group level to achieve improvement in competitiveness, profitability and added value of all group companies and the entire HSE Group.
- Offer the market comprehensive energy solutions for businesses and individual partners, thus take care of our experience and knowledge.

- Enter the electricity and gas retail market through ownership or contractual links with key stakeholders in such markets.
- Continue the development and expansion of production capacities in an environment-friendly, socially acceptable, sustainable and pro-competitive manner, taking into account all employees and the fact that the HSE Group represents the pillar of referential social responsibility in Slovenia.
- Strengthen stable, long-term business relations, establish new strategic partnerships and acquire the status of appreciated and respected partner in terms of sale of electricity and other electricity-related products, as well as investment projects.
- Invest only in the technologies of distributed production which require minimum operational support or which are capable of providing electricity according to market conditions.
- Dedicate much more attention to the possibility of using environmentally friendly alternative fuels in the existing facilities as well as in new investments.

In 2013, we realised our policies through continuation of activities on the projects, which are already underway: construction of the lower Sava River HPP chain, thereby increasing RES production, and construction of replacement Unit 6 at TEŠ, which reduces specific CO_2 emissions per unit of electricity production. We carried out spatial planning activities for projects that will be implemented after 2014, especially the construction of the last two HHPs in the chain on the lower Sava, i.e. HPP Brežice and HPP Mokrice, the construction of HPPs on the middle Sava and the Mura and other small RES power plants. We were actively involved in the transformation of the current legislative framework in order to obtain the possibility of construction of HPPs on the Soča River tributaries and in search of a strategic partner and investor in the energy location of TET.

The main uncertainties that have and will continue to affect our business and can be defined as increased regulatory risk, are also:

- non-defined national energy policy (Energy Concept of Slovenia – ECS),
- CO_2 emissions market operation (price of CO_2 emission coupons),
- unclear policy of subsidising RES, CPH projects and EEU projects, and
- implementation of mechanisms for ensuring sufficient production capacities or the so-called CRM mechanisms.

In 2013, we actively monitored and participated in preparations of the Energy Act (EZ-1), which was adopted by the National Assembly on 24 February 2014. The Act introduces to the legal order a relevant European legislation and provides a legal basis for the adoption of national strategic documents that will determine long-term policies in the area of energy use and supply in the future. We are still waiting the basic development document - Energy Concept of Slovenia (ECS), which will set targets for competitive, sustainable and reliable energy supply for the next 20 years and roughly for the next 40 years, based on which we can design also our strategic goals. The ECS will be the basis for preparation of National Development Energy Plan, which will represent a framework plan for major investments in energy infrastructure.

2.7 Management system policy

2.7.1 CERTIFICATES OBTAINED BY THE HSE GROUP COMPANIES

	HSE	DEM	SENG	HESS	TEŠ	TET	PV	HSE Invest
ISO 9001	✓	✓	✓		✓	✓	✓	✓
ISO 14001	✓	✓	✓		✓	✓	✓	
OHSAS 18001	✓	✓	✓		✓	✓	✓	✓
ISO 27001	✓	✓			✓			✓
ISO 50001							✓	
ISO/IEC 17025:2005					✓			
EE TÜV	✓	✓	✓	✓				
EE+ TÜV	✓	✓	✓	✓				
EEnew TÜV	✓			✓				
RECS	✓	✓	✓	✓				
PoI	✓	✓	✓	✓				
DPP	✓	✓						
HACCP					✓	✓		
DOP					✓			

ISO 9001: Quality management system
ISO 14001: Environment management system
OHSAS 18001: Occupational health and safety system
ISO/IEC 27001: Information security management systems
ISO 50001: Energy Management system
ISO/IEC 17025: General requirements for the competence of testing and calibration laboratories
EE TÜV: Certification for electricity production from renewable sources(Electricity production)
EE+ TÜV: Electricity production by providing guarantee of operations and efficiency
EEnew TÜV: Electricity production in line with the requirements for new HPPs
RECS: International certification system for RES electricity
PoI: Guarantee of origin
DPP: Family-friendly company
HACCP: Hazard Analysis Critical Control Point (food safety in preparation process)
DOP: Corporate Social Responsibility certificate.

2.7.2 ACHIEVING OBJECTIVES IN THE AREA OF QUALITY

Our permanent objectives regarding quality are as follows:

- to meet customer demands;
- to achieve the strategic and tactical business objectives;
- to attain optimal organisational structure and transparency of business operations;
- to operate in accordance with applicable regulations; and
- to exercise permanent control over the efficiency of operations.

The objectives set for 2013 have been achieved. System procedures were amended and supplemented. Training for the employees in the area of management systems were carried out. We performed regular audit for ISO 9001:2008, recertification audit for ISO 14001:2004, and regular audit for OHSAS 18001:2007 and ISO/IEC 27001:2005.

We successfully completed the internal and external audit, management review and external audit of the RES production compliance with the criteria of EE TÜV, EE+ TÜV, EEnew TÜV, SÜD and RECS for HHP chains on Drava (DEM), Sava (HESS) and Soča (SENG).

Preparation of the Management System Policy and the Data and Information Protection Policy for the HSE Group is underway.

2.7.3 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. Companies implement 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 2013, we carried out internal and external verification of compliance with ISO 14001:2004 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.

2.7.4 ACHIEVING OCCUPATIONAL SAFETY AND HEALTH OBJECTIVES

On 26 November, the revised Statement of safety and risk assessment for the company HSE was adopted. The revised version took into account all amendments in the occupational safety legislation as well as organisational changes in the company. Based on the requirements of revised Occupational Safety and Health Act, Rules on promoting occupational safety and Rules on the Prohibition of the work under the influence of alcohol, drugs and other illicit substances were also adopted. Pursuant to the identified Occupational Safety and Health aspects, we performed various activities to increase the occupational safety and health levels.

2.7.5 ACHIEVING INFORMATION SECURITY OBJECTIVES

In 2013, the implementation of information security management measures continued in accordance with the ISO 27001:2005 standard.

The following was carried out:

- updated inventory count of information resources was performed within individual systems at TEŠ and HSE;
- updated risk assessment for all IT resources, paper documents, services (contracts) and people;
- amended procedures for monitoring of events in the area of information security and business IT, as well as methods for their classification based on changes, possible incidents and actual incidents, and their appropriate allocation and resolution;
- revised system management rules of procedure;
- amended four system instructions;
- 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.

Providers are required to sign the HSE company data and information protection statement. The HSE company has the Rules on business secrecy and personal data protection implemented.

Due to significant connection with subsidiaries, it is necessary to continue implementing measures in accordance with ISO 27001:2005 also in subsidiaries.

2.7.6 FAMILY-FRIENDLY COMPANY

On the basis of due diligence, on 23 September the Audit Committee adopted the decision on issuing complete Family-Friendly Company certificate (FFC) for the company HSE. The validity of complete certificate was thus extended for the next three years. Additional measures regarding the FFC certificate were chosen and approved: training for balancing professional and family life for the leadership, scholarships for children of our employees and providing information on major emerging changes. Our FFC team prepared adequate protocols for these actions, which were approved by the management. Our brochure for FFC measures was also updated. The company DEM also holds the Family-Friendly Company certificate.

2.8 Market position

Circumstances in the European economy slowly stabilised in 2013 and, at the end of the year, the Eurozone GDP saw the end of seven consecutive quarters of decrease. In the last quarter, we recorded a 0.5% GDP growth compared to the same period in 2012. Nevertheless, the economic growth in the Eurozone was negative throughout 2013, and GDP dropped by 0.4%. Stabilisation and recovery of confidence in the Eurozone reflected also in decrease in required rate of return for the government bonds. Better conditions on larger European market were the main reason for the decrease in the required rate of return on Slovenian 10-year bond, which decreased under 5% at the end of the year, after standing at app. 6.5% for most of the year. The Eurozone unemployment rate remains high at 12%, which is one of the key reasons of the ECB projection to keep the base interest rate (currently 0.25%) at low levels for a longer time. In 2013, the Eurozone inflation rate was considerably lower than the ECB target inflation rate.

Recovered trust in the Eurozone had a positive effect on the value of euro, which in 2013 increased compared to dollar. This somewhat affected the European exporters competitiveness on the global marker, but lowered the price of energy products listed in dollars. Decreased demand and consumption due to high unemployment and austerity measures caused a significant drop in the Eurozone industrial production, which on annual basis amounted to -0.8%, resulting in reduced electricity consumption in 2013.

2.8.1 FEATURES OF THE SLOVENIAN ECONOMIC ENVIRONMENT[1]

The situation of public finance in Slovenia in 2013 was marked by further decrease in revenue and increase in expenses; consolidation, along with the reorganisation of the banking system, will have a crucial impact on the economic activity dynamics. The government deficit (regardless of financial transactions regarding reconstruction of banks) slightly increased again in 2013, as a result of reductions in revenue and increase in expenses. In order to prevent fast deficit increase, additional measures within the revised budget framework were adopted during the year, of which the greatest impact on revenue was caused by increased VAT, while in terms of expenditure an agreement was reached for further reduction in salaries and other labour costs in the public sector.

In 2013, banks additionally shrank their loans to domestic non-banking industries and continued to struggle with liquidity pressures. The volume of loans by Slovenian banks to private sector decreased by EUR 5.2 billion. This decrease, which surpassed the 2012 decrease by EUR 3.4 billion, mostly reflects the transfer of non-performing assets to the Bank Assets Management Company (DUTB) in December 2013, which reduced the volume of loans by EUR 3.3 billion.

The competitiveness of the Slovenian economy improved in 2013, as shown by larger market share in the global commodity market and a further decline in labour costs per unit of output. The Slovenian market share in the global commodity market in the period 2008-2012 decreased by 21.7%. In 2013, this trend saw a turnaround, as the share in the global market increased by 3.3% on year-on-year basis in the first nine months. This increase was a result of larger market shares in eleven most important trade partner countries, to which we export 70% of all goods. The growth involved majority of our most relevant products. In the same period, due to a year-on-year decline in labour costs per unit of output, the cost competitiveness improved as well, which represented one of the highest improvements in the Eurozone and the EU. This lead to further improvement of relative position of our economy for the third year in a row. To this continuation of positive trend contributed also lower salaries and increased productivity due to relatively higher unemployment.

In 2013, inflation declined significantly despite the higher VAT rates, due to further decrease in economic activity and in raw materials prices. Consumer prices in December 2013 were 0.7%

[1]Source: SURS, UMAR.

higher compared with 2012, which is significantly less than in the previous year (2.7%), despite relatively high contribution of tax measures. This is mainly associated with additionally reduced economic activity and relevant deterioration of labour market conditions. With reduction in oil and other commodity prices, the contribution of food and energy products prices halved in relation to the previous year. Growth of services prices was also lower, which was mainly a result of one-off factors over the previous two years, while prices of other goods decreased.

The situation on the labour market in 2013 exacerbated due to further drop in employment (by 2.0%), while the average number of registered unemployed rose to 119.8 thousand. In 2013, the employment rate decreased in the first quarter, which was partly associated with an increased transition into inactivity after the adoption of pension reform at the end of 2012, while it remained at approximately the same level over the next three quarters. The number of employees decreased in most of the private sector, again most notably in construction, whereas a decline on annual basis was noted for the first time also in the public sector (-1.6%). The number of registered unemployed was on average 8.8% higher than in 2012.

2.8.2 MARKET ENVIRONMENT OF THE ELECTRICITY INDUSTRY

In 2013, the Slovenian 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 (annual, monthly). The allocation of daily cross-border transmission capabilities to Slovenian-Italian border was performed with the help of market coupling also in 2013, which had a positive influence on trading liquidity of the electricity exchange.

Adverse economic trends reflected also on the emission coupons market, which recorded lower demand for the coupons due to reduced industrial production. According to the final report of the European Commission, the CO_2 emissions in 2013 decreased by 3% compared with 2012. Lower emissions were also a result of fast growth of RES electricity production, especially in solar and wind power plants, which reached record levels of growth rates in installed capacity over the past years. The above factors caused sale pressure on the CO_2 emission coupons price, which was between 3 and 6 EUR/tonne for almost entire year and reached the lowest value of 2.6 EUR/tonne in April. Due to the European Parliament adoption of new legal frameworks for reducing the amount of CO_2 emission coupons on the market with delayed issuance, the price stabilised between 4 and 5 EUR/tonne in the second half of 2013.

2.8.3 CONDITIONS IN THE ELECTRICITY MARKET

SLOVENIA

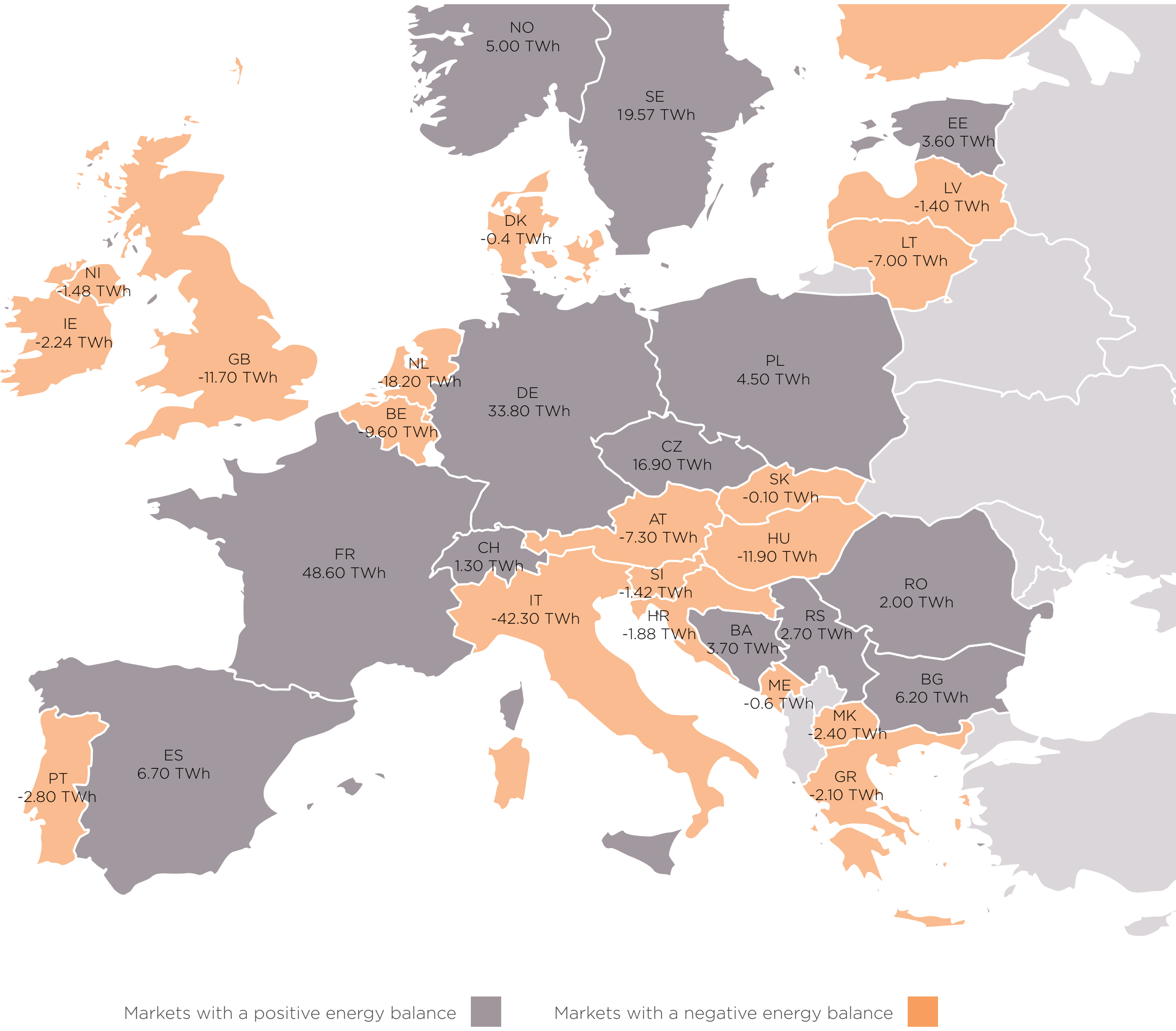
Similar to previous years, Slovenia imported electricity also in 2013, since the consumption exceeded production by 1.4 TWh. The largest contribution to the production, which was significantly higher than in 2012, was made by HPPs, predominantly DEM and SENG; nevertheless, the HESS production can no longer be considered as insignificant. Taking into account the government's half ownership in NEK, we can conclude that the electricity production in NEK in 2013 was by something less than 60 GWh higher than in the previous year. Price conditions, mainly in terms of low electricity prices in comparison with the prices of energy products and emission coupons, resulted in significantly lower production in conventional TPPs, where the most relevant drop was recorded in TEŠ, which produced 136 GWh less electricity than a year ago.

In the first half of the year, the monthly average of hourly day ahead prices on the Hungarian market was nearly equal to the German one, while in the second half of the year this difference increased significantly. In the second half of 2013, the monthly average of hourly prices in Germany increased by something more than EUR 0.50 compared with the first half, while the Hungarian market price increased by almost EUR 10 in the second half of the year. Consequently, the prices of cross-border transmission capabilities on the Slovenia-Austrian border and the price of electricity on the Slovenian electricity market, i.e. BSP Southpool exchange, increased significantly. The average electricity day ahead price in Slovenia in 2013 amounted to 43.17 EUR/MWh, which is almost 10 EUR/MWh less than in 2012. If the highest hourly price in 2012 reached 224 EUR/MWh, in 2013 it amounted to slightly over 123 EUR/MWh.

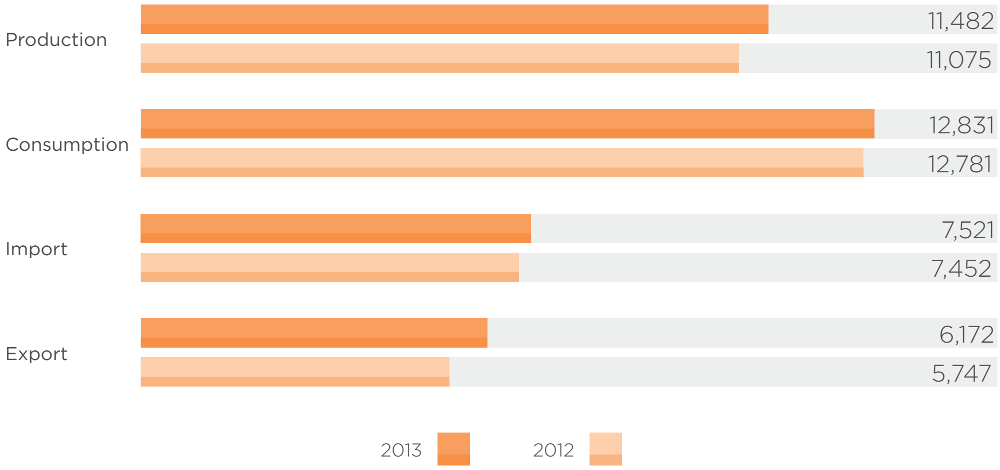
Various production facilities in the HSE Group production park allow us a relatively high flexibility and responsiveness to market conditions. By pursuing optimum operation in each power plant, we strive to reach the best possible operating results. On the basis of the market prices dynamics, current production sources availability, technical limitations of individual units and respective variable costs, we allocated the produced energy in more expensive hours. In difference among the markets, we recognised business opportunities and strategic position of Slovenia as the intersection of three markets. We used this for sales of energy from our own production in the most favourable way for the HSE Group.

With daily trading, 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. Electricity trading amounts in the BSP Southpool exchange increase every year, and in 2013 exceeded 5.7 TWh, which is 1.3 TWh more than in 2012.

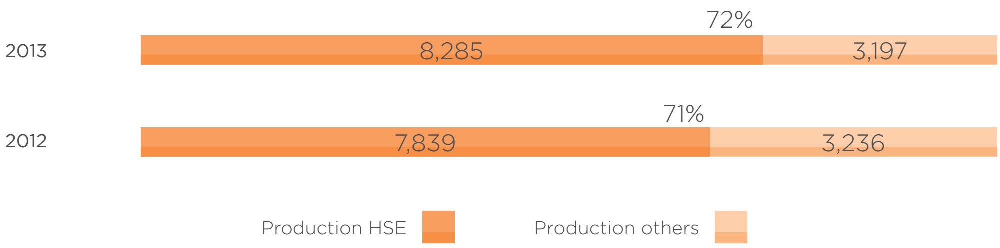
BALANCE OF EUROPEAN ELECTRICITY MARKETS IN 2013 (IN TWh)



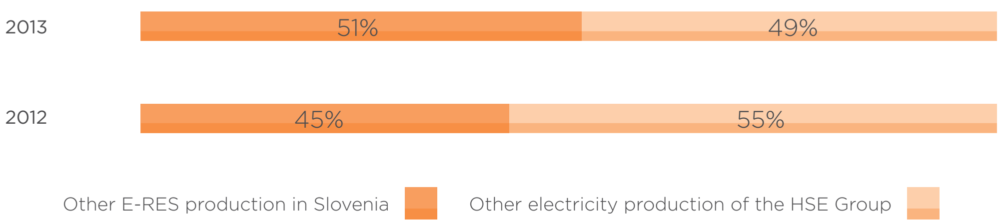
SLOVENIAN ELECTRICITY MARKET IN 2013 AND 2012 (IN GWh)



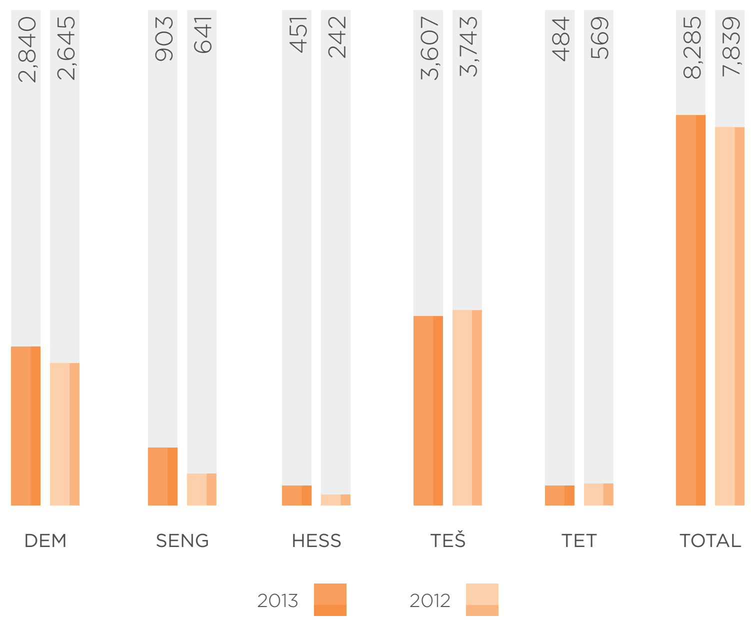
SHARE OF HSE GROUP'S PRODUCTION IN TOTAL ELECTRICITY PRODUCTION IN SLOVENIA IN 2013 AND 2012 (IN GWh)



SHARE OF ELECTRICITY PRODUCED FROM RES IN PRODUCTION OF HSE GROUP



NET ELECTRICITY PRODUCTION OF THE HSE GROUP IN 2013 AND 2012 (IN GWh)



CONTINENTAL EUROPE

After a considerable 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 trend of decrease in price of long-term contracts on electricity supply occurred. This negative trend continued in 2012 and then throughout 2013. The price of long-term contract for base load electricity in 2014 thus decreased since the beginning of 2013, from 45.6 to 36.4 EUR/MWh at the year-end, which represents a 20% drop. The reasons for such significant decrease partly lie in reduced coal prices on global markets, but mostly in considerably higher production in solar and wind power plants. Both factors caused strong pressure on supply prices under short-term contracts, which resulted in lower 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 tension in the Middle East, the Brent crude oil price resisted between 100 to 115 USD/barrel basically throughout 2013. Coal prices on international markets in 2013 continued to be subject to negative trends. In 2013, the price of coal supply in the European North Sea harbours under long-term contracts amounted to 102 USD/tonne in the first half, while at the end of the year it reached 82 USD/tonne, representing a 19.6% decrease. In 2013, we entered the new period of CO_2 emission coupons trading, when the electricity producers were forced to cover their CO_2 emissions entirely through purchase of CO_2 emission coupons. Continued decrease in the Eurozone industrial production and in TPP electricity production reduces CO_2 emission, thus the demand for CO_2 emission coupons. Emission market is highly dependent on political decisions of the EU leaders, which in 2013 set regulatory directives for withholding issuance of one part of emission coupons of the European trading scheme.

The Continental Europe represents the market in which we generate an important part of our turnover. This market is exploited particularly due to high liquidity and price risk management in trading in other regional markets.

The Italian market was an important sink of electricity from basically all neighbouring countries also in 2013. HSE was involved in electricity export to Italy from Slovenia, Austria, Switzerland and France. Due to general economic and political conditions in Greece in 2013, we were not active in transmission on the Greek-Italian border. Newly installed solar power plants played an important role on the Italian market, as they too result in strong sale pressure on electricity prices. Namely, in

2013, we did not witness traditionally high energy prices during summer; instead, the average price on daily market in the second and third quarter of 2013 was approximately 20% lower in relation to the previous year. The average price on the day-ahead market amounted to 63 EUR/MWh in 2013, while in 2012 it amounted to 75.5 EUR/MWh.

SE EUROPE

Stagnating electricity consumption from previous years continued on fragmented SE European markets, which along with favourable hydrology period contributed to significant electricity surpluses in the region. We also witnessed receivership of some of the largest companies which used relevant amounts of electricity for their operations.

In 2013, HSE participated – directly or through its subsidiaries abroad – in most auctions for lease of cross-border transmission capacities in the SE Europe. Despite years of the international community efforts, the cross-border capacities are still allocated very fragmentarily by individual countries and borders and under diverse allocation rules, which makes trading difficult. The trend of unifying certain borders is present, but there is still a long way until models as envisaged by CAO or CASC are established. Fragmentation of monthly published capacity additionally contributed to the increased risks in setting trading strategy in these markets.

Due to liquid electricity exchange, Hungary is the most important SE Europe market for HSE, both for entering into risks insurance contracts and portfolio balancing. Also liquid on the Hungarian market are trade portals, we used for long-term trading.

In 2013, Croatia joined the EU and became a full member; however, preparations and, particularly, the implementation of legislation in the field of energy and, of course, electricity trade is still in significant delay.

The effect of investing in RES in 2013, especially solar and wind power plants, was not very obvious in SE Europe; however, changes in the structure of production park will eventually shape changes also in these markets. Due to daily fluctuations in production, regional markets will have to become more open and to connect with each other, market mechanisms for management and charging discrepancies will have to be implemented, assignment of cross-border transmission capacities will have to be standardised, etc. Transition to unified market seems closer than ever.

2.9 Sales and customers

ELECTRICITY AND ELECTRICITY PRICES

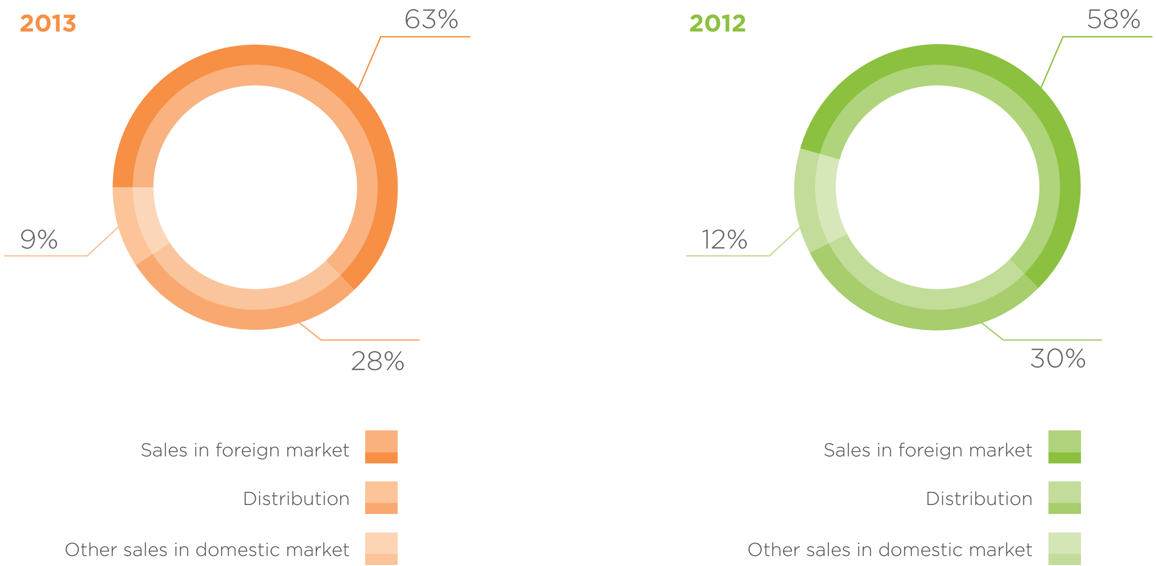
The financial year of 2013 was undoubtedly successful for the HSE Group. In spite of weaker realisation of trading quantities and the decrease in electricity prices in relation to 2012, the HSE Group successfully used its exceptionally favourable international position and market opportunities and realised bigger difference between the electricity sale and purchase prices compared with 2012.

SALES VOLUME AND STRUCTURE

The HSE Group sold 26,630 GWh of electricity in 2013. 9,974 GWh of electricity were sold on the Slovenian market, which accounts for 37%, while 16,656 GWh were sold on foreign markets representing 63% of sales. The decrease in trading quantities was mostly a result of reduced electricity sales on the domestic market. The sales on international markets decreased by less than 1%.

In domestic market, 75% of electricity was sold to distribution companies, large consumers bought 7% of electricity, while 18% of electricity was sold to ELES (energy of secondary and tertiary control, deviations), Borzen and other buyers in Slovenia.

STRUCTURE OF THE HSE GROUP ELECTRICITY SALES IN 2013 AND 2012



LONG-TERM CONTRACTS AND DAY-AHEAD MARKET

Most of the company's electricity 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. Additionally, electricity surpluses generated at the time of high water levels and additional electricity produced during periods when the market price exceeded variable costs were sold in intraday markets.

ANCILLARY SERVICES

In addition to electricity, the following contractually required ancillary services were provided in 2013:

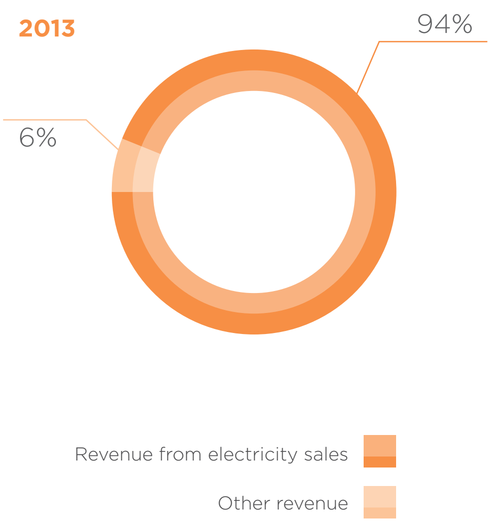
- secondary frequency control in the regulatory range of +/- 77 MW,
- tertiary frequency control in the amount of 138 MW,
- black start capability,
- reactive power support,
- control energy of secondary and tertiary control (energy produced upon activation of secondary or tertiary frequency control).

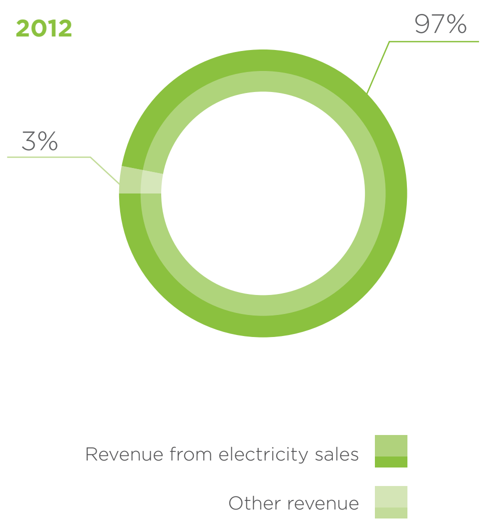
2.9.1 OTHER ACTIVITIES

NET SALES REVENUE STRUCTURE

The HSE Group generated EUR 1.6 billion in net sales revenue in 2013. Accounting for 94%, electricity sales was by far the most important in the structure of the HSE Group's net sales revenue, with other revenue amounting to 6%.

STRUCTURE OF THE HSE GROUP NET SALES REVENUE IN 2013 AND 2012





OTHER REVENUE

The HSE Group generated other revenues through sales of emission coupons, gas, services related to electricity, rents, sales of thermal energy, catering services, performance of activities regarding institutional care for the elderly, services related to the construction of residential and commercial buildings, installation of electrical and mechanical installations, energy renovation on buildings and maintenance of electrical and mechanical devices, mining construction services, rehabilitation of landslides in the environment Šalek Valley, protection of the construction pits and embankments at various buildings and other construction works for various clients.

HEAT

In 2013, 349 GWh of heat were produced, which is 4 GWh more than in 2012.

2.10 Purchasing and suppliers

2.10.1 ELECTRICITY

To maximise efficiency, HSE endeavours to take advantage of the synergies of production units within the HSE Group. Because the operating and cost-related characteristics of individual production plants differ significantly, the cost-effective production of electricity can be achieved through appropriate production scheduling. Since production capacity by production units as well as the electricity market prices change over the time, a regular and efficient dispatching of production units, while observing technical characteristics of power plants and market conditions, is all the more important.

HSE GROUP'S ELECTRICITY PRODUCTION UNITS IN 2013

DEM	No. of gen. unit	Dravograd	Vuzenica	Vuhred	Ožbalt	Fala	MB otok	Zlatoličje	Formin	sHPP+SPP	TOTAL
		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	4.7	592.0
Rated generator capacity	MVA	36.0	78.0	90.0	90.0	74.0	78.0	170.0	148.0	7.3	771.3
Gross head	m	8.9	13.7	17.4	17.4	14.6	14.2	33.0	29.0		148.2
Rated flow Qi	m^3/s	405.0	550.0	550.0	550.0	505.0	550.0	463.0	500.0		

HESS	No. of gen. unit	Boštanj	Arto-Blanca	Krško	TOTAL
		3	3	3	
Net output	MW	31.0	39.0	36.0	106.0
Rated generator capacity	MVA	43.5	49.5	49.5	142.5
Gross head	m	7.5	9.3	9.1	25.9
Rated flow Qi	m^3/s	500.0	500.0	500.0	

SENG	No. of gen. unit	Doblar I.	Doblar II.	Plave I.	Plave II.	Solkan	PSP Avče	Zadlaščica	sHPP	TOTAL
		3	1	2	1	3	1	2	26	
Net output	MW	30.0	40.0	15.0	19.0	32.0	185.0	8.0	13.4	342.4
Rated generator capacity	MVA	48.0	50.0	22.0	23.0	39.0	195.0	10.0	17.6	404.6
Gross head	m	47.2	48.5	27.5	27.5	23.0	521.0	440.0		1,134.7
Rated flow Qi	m^3/s	90.0	105.0	75.0	105.0	180.0	40.0	2.2		

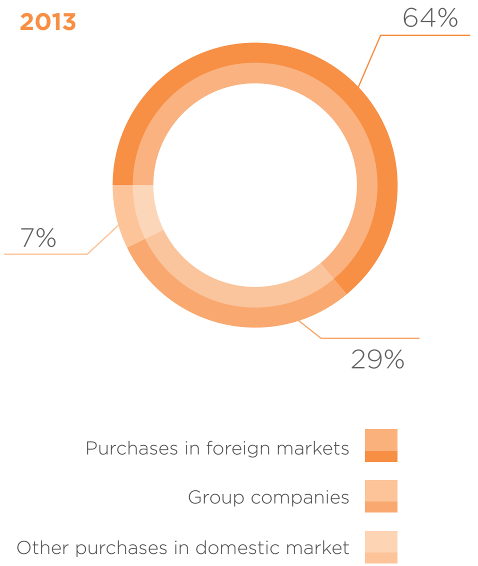
TEŠ		PT 51	PT 52	Unit 3	Unit 4	Unit 5	TOTAL
Net output	MW	42.0	42.0	25.0	248.0	305.0	662.0
Rated generator capacity	MVA	56.3	56.3	94.0	324.0	377.0	907.5

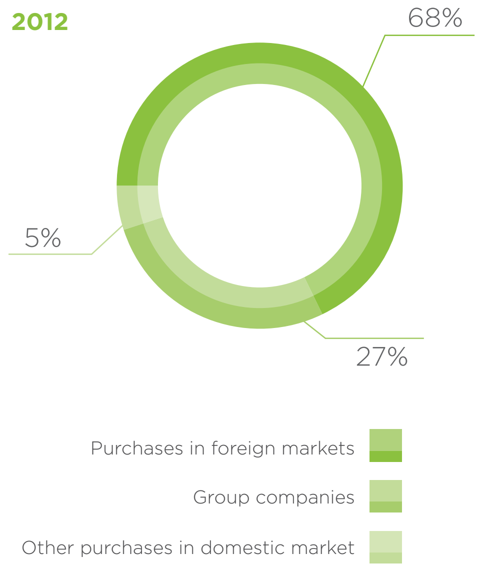
TET		PB I.	PB II.	Unit 4	TOTAL
Net output	MW	29.0	29.0	110.0	168.0
Rated generator capacity	MVA	39.7	39.7	156.0	235.4

STRUCTURE OF SOURCES

The electricity HSE supplied to its customers in 2013 was purchased in the domestic market from the HSE Group companies (29%) and other electricity suppliers in Slovenia (7%). The HSE Group purchased the remaining energy (64%) in foreign markets.

STRUCTURE OF THE HSE GROUP ELECTRICITY PURCHASES IN 2013 AND 2012





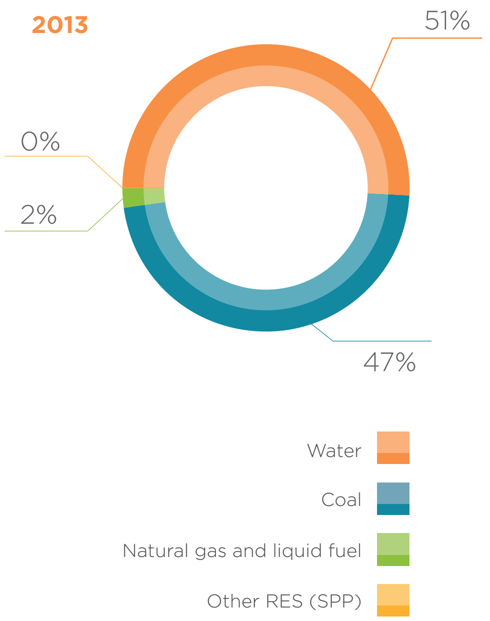
OPTIMISING PURCHASES

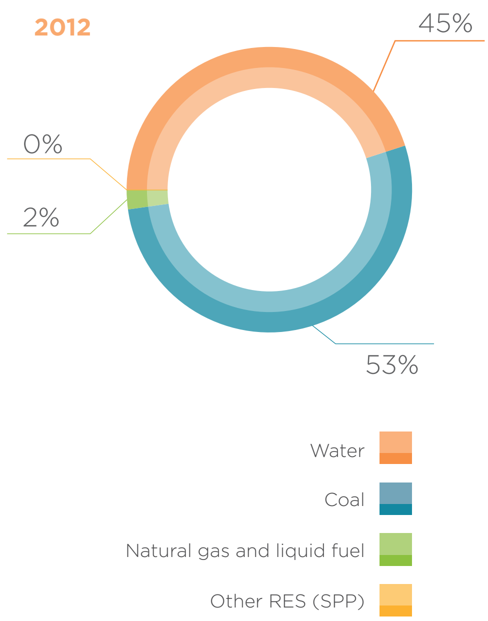
In order to offset shortfalls arising from supply interruptions at power plants or unfavourable hydrology, as well as to optimise production and trading, HSE purchased electricity in the day-ahead electricity market.

PRIMARY RAW MATERIALS

In 2013, primary raw materials used in the production of electricity included coal (47%), water potential (51%), and natural gas and extra light heating oil (2%). The electricity produced by solar power plants accounted for less than 0.1% of total electricity production in the HSE Group.

PRIMARY RAW MATERIALS USED IN ELECTRICITY PRODUCTION IN 2013 AND 2012





PURCHASE PRICE

In 2013, the purchase price of electricity was mostly affected by the following factors:

- electricity production at HPPs was 10.3% higher than planned;
- electricity production from coal at TEŠ was 4.6% lower than planned;
- 100.8% of realised electricity production from gas at TEŠ;
- 96.8% realisation of planned electricity production at TET;
- conditions in the electricity market;
- failure at DEM's HPP Formin due to November 2012 floods.

COAL

39,795 TJ of coal was used for purposes of electricity production at TEŠ and 5,512 TJ at TET.

COAL SUPPLIES

As at 31 December 2013, PV's and TET coal stocks amounted to 3,447 TJ and 415 TJ, respectively.

2.11 Investments

The HSE Group is bound to contribute its share to solve the key challenge of European and thus national energy industry: ensure safe, competent and sustainable energy supply of users. This challenge demands that we remain active in light of achieving ambitious goals 3 x 20 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 government 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 2013 are presented below.

2.11.1 REPLACEMENT UNIT 6

The main reason for new replacement unit is in the wear and tear of existing production units, since they are operating with an obsolete technology that will gradually no longer fulfil minimum environmental requirements. In terms of assessing the reasonableness of the 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.

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

BASIC TECHNICAL DATA:

Generator capacity	600 MW
Net output	545.5 MW
Average annual output of electricity	3,500 GWh
Specific net consumption	8,451 kl/kwh
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
Timescale for construction	2010 – 2015

Replacement Unit 6 in TEŠ has a clear economic effect, as it ensures lower electricity price compared to the prices currently achieved at TEŠ's old units, as well as a significant ecological effect. After replacement Unit 6 is launched, we will decrease sulphur oxide emissions from 400 to 100 mg/Nm^3 and nitrogen oxide emissions from 500 to 150 mg/Nm^3 relative to achieved emission of both pollutants in 2008, taking into account the TEŠ's annual production.

Project design and supply of the main technological equipment (MTE) in 2013 were carried out in line with the planned project timeline. At the end of the year, approximately 99% of all equipment was delivered to the replacement Unit 6 construction site, while the level of design realisation is estimated at approximately 88%. The installation of the main steel construction and secondary steel construction as well as roofs and façade is completed. Installation of larger generating units of boiler plant is in the final stage. Installation of the pressure part of the boiler is completed. Pressure tests were carried out and completed at the beginning of December 2013. Finishing works are underway in the powerhouse on the condenser and pipeline systems of low, mid and high pressure. Installation of turbocharger and adjacent subsystems of the steam cycle and district heating is in the final stage. At the end of 2013, activities for trial runs were began and have been carried out in accordance with the project timeline.

In addition to MTE, work was carried out also on other important equipment: flue gas desulphurisation plant, cooling system, preparative construction works, design documentation, MTE construction works, coal transport, cooling water preparation, 440 kV switchyard, etc.

The project investor is the company TEŠ.

2.11.2 LOWER SAVA HPPs

Construction of HPP chain on the lower Sava River represents a project of national importance. The project is economically and environmentally efficient. Its design as well as subsequent construction performance are mainly a result of Slovenian know-how and participation of Slovenian businesses in the project. With the HPPs construction, the local area is protected from high waters, while the local communities have achieved much needed sources of financing, i.e. concession fee.

Besides already existing HPP Vrhovo (owned by Savske elektrarne Ljubljana d.o.o. - SEL), HPP Boštanj, HPP Arto-Blanca and HPP Krško, the lower Sava HPPs will comprise also HPP Brežice and HPP Mokrice, both in the process of preparation of proper investment documentation and obtaining building permits.

BASIC TECHNICAL DATA:

HPP	HPP BOŠTANJ	HPP ARTO-BLANCA	HPP KRŠKO	HPP BREŽICE	HPP MOKRICE
Design flow	500 m^3/s	500 m^3/s	500 m^3/s	500 m^3/s	500 m^3/s
Head	7.74 m	9.29 m	9.14 m	11.00 m	7.47 m
Maximum capacity	36 MW	42 MW	42 MW	54.1 MW	33.72 MW
Average annual output	109 GWh	140 GWh	154 GWh	161 GWh	128 GWh
Reservoir live storage	1,170,000 m^3	1,300,000 m^3	1,180,000 m^3	3,400,000 m^3	2,640,000 m^3
Mean annual discharge	193 m^3/s	201 m^3/s	205 m^3/s	207 m^3/s	261 m^3/s
Timescale for construction	2002 – 2006	2005 – 2009	2007 – 2013	2014 – 2017	2016 – 2019

Construction of HPP KRŠKO was completed with technical inspection on 7 March 2013. Contractual trial run of generating unit was completed successfully. Prior to the technical inspection, master technical inspection was carried out at the facility. After the technical inspection of the dam structure, a trial period of one year was determined, starting on 1 April 2013. On 7 June 2013, official opening HPP Krško with reservoir and Krško bypass took place.

At HPP BREŽICE, activities regarding preparation of project design, tender and technical documentation for the construction, operation and maintenance of the plant's facilities were carried out in 2013. The company continued with the activities in relation to substantive completion of the assessment of environmental impact (Environmental Impact Report) for obtaining environmental permit. Public tenders for provision of works per individual lots were implemented.

Final version of NSP for the HPP MOKRICE area was submitted at the beginning of 2013. The government adopted the decree on NSP for HPP Mokrice on 22 August 2013. In the first half of 2013, review of the HPP Mokrice conceptual design was also carried out and was completed in June 2013. The completion of conceptual design review was followed by preparation of investment programme for HPP Mokrice, which, however, was later suspended due to the proposal of the Ministry of the Environment and Spatial Planning on new financing allocation between the concession grantor and the concessionaire regarding the construction of infrastructure in the HPP Mokrice area. The proposal was not in line with the Governing the Conditions of the Concession for the Exploitation of Energy Potential of the Lower Sava River Act (ZPKEPS-1), as it proposed that HESS assume one part of infrastructure arrangement costs. The Ministry's proposal was initially rejected; however the decision is not yet final.

The project investor is the company HESS. The companies HSE, DEM, SENG, Termoelektrarna Brestanica d.o.o. (TEB) and GEN Energija d.o.o. finance the lower Sava River HPPs construction in proportion to their equity stakes in HESS and in accordance with the investment payment plans.

2.11.3 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. 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.

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 RES production by 1 TWh/year and the installed capacity by 300 MW, and expanding the volume of ancillary services.

BASIC TECHNICAL DATA OF PROJECTED HPPs ON MIDDLE SAVA, BETWEEN MEDVODE AND ZIDANI MOST:

No.	Facility	Installed capacity [MW]	Electricity [GWh/year]
1	HPP Suhadol	39.3	153.4
2	HPP Trbovlje	27.8	97.6
3	HPP Renke	28.6	97.9
4	HPP Ponoviče	63.0	190.7
5	HPP Kresnice	27.7	96.4
6	HPP Jevnica	22.9	101.4
7	HPP Zalog	15.7	52.8
8	HPP Šentjakob	15.9	52.4
9	HPP Gameljne	26.5	70.0
10	HPP Tacen	32.6	89.0
	TOTAL	**300.0**	**1,001.6**

The project of constructing HPP chain on the middle Sava, which would connect the HPPs of lower and upper Sava is still in the initial designing phase. In 2013, the project was carried out in accordance with the plan, but with smaller intensity than expected. Government of the Republic of Slovenia adopted the Decree on preparation of NSP for HPP Suhadol, HPP Trbovlje and HPP Renke.

Besides the NSP, activities for site selection for the remaining HPPs on the middle Sava in the Ljubljana and Litija area began as well. In this view, the 'Initiative for starting NSP for the siting of HPPs at the Ljubljana and Litija section of the middle Sava River' was prepared in September 2013. The document was submitted to the Ministry of Infrastructure and Spatial Planning in November 2013.

In 2011, the company SRESA was established (with the partners on the project – SEL and GEN). In 2013, the company still did not operate in full extent, since the holder of concession is HSE; therefore, all activities are still managed by HSE as the investor.

2.11.4 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.

The procedure for obtaining the environmental permit was continued in 2013; the permit is in the final stage and represents the most important consent before completing the procedure of Comprehensive Environmental Impact Assessment or continuation of the project. An external audit was carried out, bringing a positive technical result. Geologic and geo-mechanical studies to confirm the cavern option (850 m borehole) were carried out.

The project investor is the company DEM.

2.11.5 PHASE II OF RECONSTRUCTION OF HPPs DOBLAR I AND PLAVE I

In relation to reconstruction Phase II at HPP Doblar I, in 2013 the reconstruction of generating unit 2 was completed, while the reconstruction of generating unit 1 was also carried out and completed in December 2013. Since then, trial runs and functional tests of the equipment have been carried out. In 2013, project for obtaining building permit for reconstruction Phase II for HPP Plave 1 and tender documentation were also prepared.

The project investor is the company SENG.

2.11.6 INVESTMENTS IN PV

The main investment continued from the previous years is the construction of long-lasting pit roadways, connected to the opening parts of the pit centre and to the extraction of the pillar of central part. Therefore, pit roadways for the purpose of connections and conveyor tracks for transport of coal from this area of the pit were built. Some investment works were carried out also for reconstruction of other pit roadways. The construction of new exportable shaft NOP II continued also in 2013.

2.12 IT

OPTIMISATION OF THE HSE GROUP DATA CENTRE

In 2013, we performed upgrades and migration of key system and application tools (Share Point Portal, MS - Exchange Server, System Center Configuration Manager (SCCM), etc.) on highly-available (HA) system infrastructure in the DEM and TEŠ safe rooms. We also carried out a preventative verification of the existing system hardware and software (including external partners) and implemented streamlining of maintenance and license agreements for joint infrastructure IS HSE.

HSE IT SECURITY POLICY

In mid-2013, we started the project of renovation of the HSE Group firewalls that will allow reliable protection against external attacks and separation of security mechanisms and independent management of related companies PV, TEŠ, HSE and HESS. This technical solution meets the security and technology requirements of IS HSE and covers technological and operational part of the HSE communication TC network.

CONSOLIDATION OF SERVER AND DATA STRUCTURE OF THE HSE IT SYSTEM

Based on the requirements of end-users and the dynamics of data capacities availability, the company HSE adequately upgraded data warehouse at DEM and TEŠ (in safe rooms) in 2013. Given the nature of its activity and organisation, HSE has several business locations, and its IT system is based on the same, complex structure. 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. To this end, the so-called fire drill in line with the ISO standard requirements was repeated in data centres at the beginning of 2013 (TEŠ - DEM). Within this scope, system instructions were prepared and professional training of the IT personnel for restoration in the event of failure of individual location was organised.

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 the ASAP methodology and with a special emphasis on preparation of detailed project plans for individual areas. At the beginning of the year, based on the approved project plan, the company continued with the implementation of SAP ERP in all business functions, and in mid-2013 passed over to production use of the SAP ERP business information system (transition took place on 1 July 2013), covering all key business processes of the company HSE. For the needs of business consolidation of the HSE Group, the SAP BW module (Business Warehouse) has been introduced, which will serve as a data warehouse for the HSE Group's subsidiaries when applying the SAP information system, and the data will be automatically collected at the HSE Group level, in module BW.

2.13 Business performance analysis

In 2013, the HSE Group realised NET SALES REVENUE in the amount of EUR 1,562,320,279, which is 14% less than in 2012, due to decreased quantities of electricity sold of the controlling company and to lower electricity prices.

In spite of improved trading result and 2% lower labour costs, the HSE Group's OPERATING PROFIT OR LOSS, which in 2013 totalled EUR 100,173,760, was 12% lower compared with the previous year, as a result of impairment of assets of the PV Group companies. Consequently, NET PROFIT of the HSE Group totalling EUR 66,610,459 is 23% lower in relation to 2012. Lower net profit is a result of higher costs of CO_2 emission coupons, reduced other operating revenue and impaired assets of the PV Group companies.

ASSETS of the HSE Group as at 31 December 2013 amount to EUR 2,830,521,497 and are 9% higher compared with the end of 2012, particularly due to high group investments.

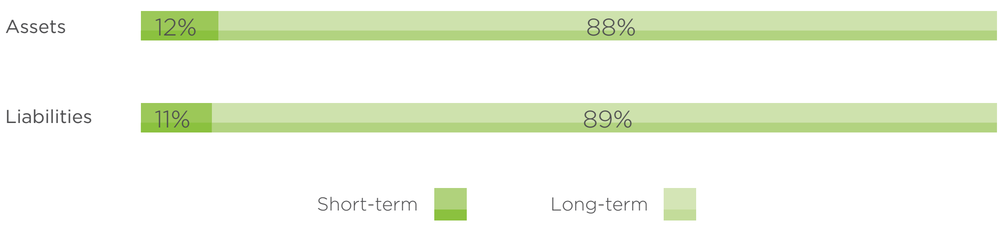
As at 31 December 2013, the HSE Group EQUITY amount to EUR 1,546,787,072, which is 5% more than at the end of 2012, particularly due to net profit in 2013.

In the discussed period, the HSE Group companies PRODUCED 8,285 GWh of electricity. Production increased by 6%, mostly due to larger production of HPPs (better hydrologic conditions and the trial run of HPP Krško since 1 April 2013).

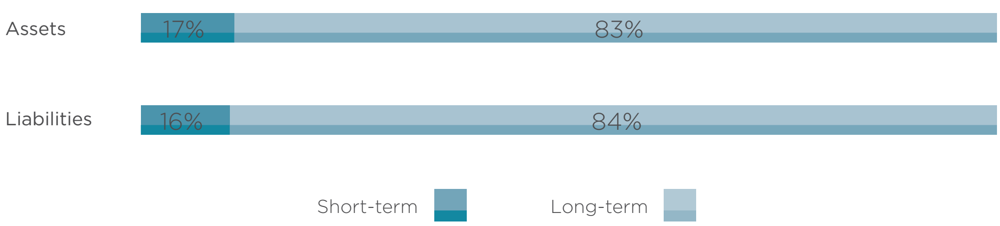
In 2013, the Group realised positive CASH FLOW from operating and financing activities; however, a negative cash flow arose from large HSE Group's investments, particularly the investment in replacement Unit 6 at TEŠ. As at 31 December 2013, cash was by EUR 68 million higher compared with the end of 2012.

STRUCTURE OF THE STATEMENT OF FINANCIAL POSITION OF THE HSE GROUP AND THE CONTROLLING COMPANY AS AT 31 DECEMBER 2013

HSE GROUP



CONTROLLING COMPANY



STATEMENT OF FINANCIAL POSITION STRUCTURE

On the basis of the statement of financial position of the HSE Group, it is evident that as at 31 December 2013 the Group finances long-term assets with long-term financial sources.

CAPITAL ADEQUACY

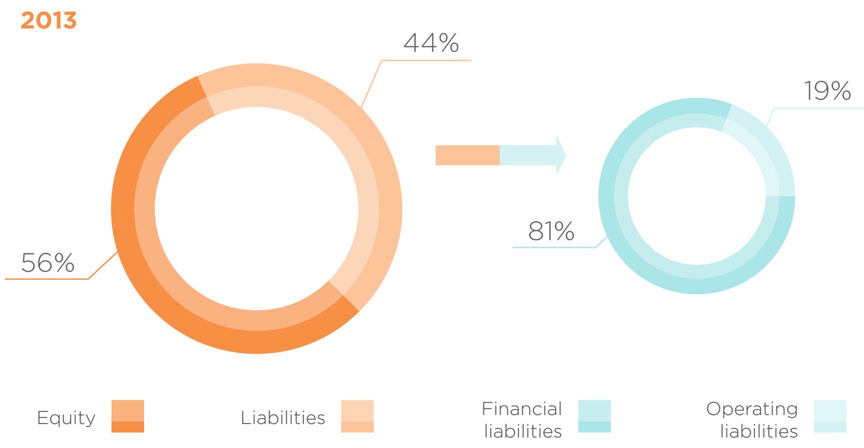
Ensuring capital adequacy is one the most important responsibilities of HSE Group managers. Considering the debt and predictions regarding events on electricity markets, monitoring and ensuring of capital adequacy remains one of key duties of the HSE Group companies' managements.

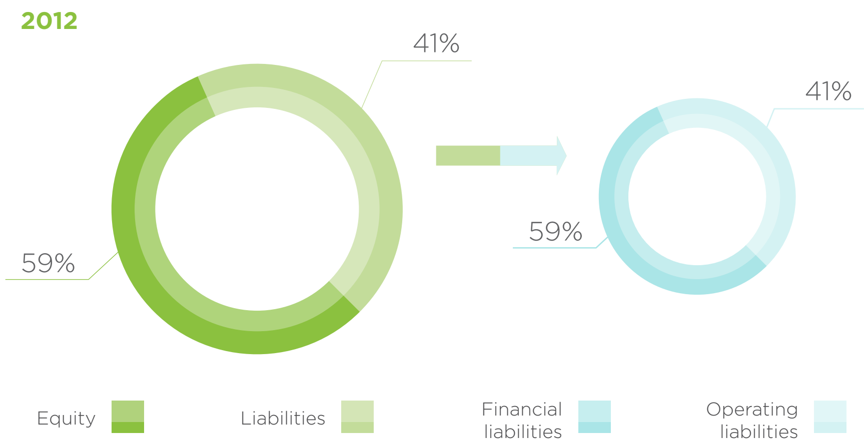
DEBT RATIO

An important indicator of the business and financial position is also the HSE Group's debt, which at the end of 2013 is higher than at the end of the previous year, because the company TEŠ drew long-term loans by the EIB and the EBRD to finance replacement Unit 6 at TEŠ. The Group's debt ratios are at debt ceiling defining safe operations. In 2013, the HSE Group companies adopted measures to rationalise and optimise operations, which already in 2013 reflects 2% lower Group labour costs compared with 2012. The Group companies continue with the activities in this area.

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 19% and to 44% within the group. In the debt structure of the parent company and the Group, financial liabilities account for 41% and 81%, respectively. A more detailed structure of liabilities is presented in the financial report of the controlling company HSE and the HSE Group.

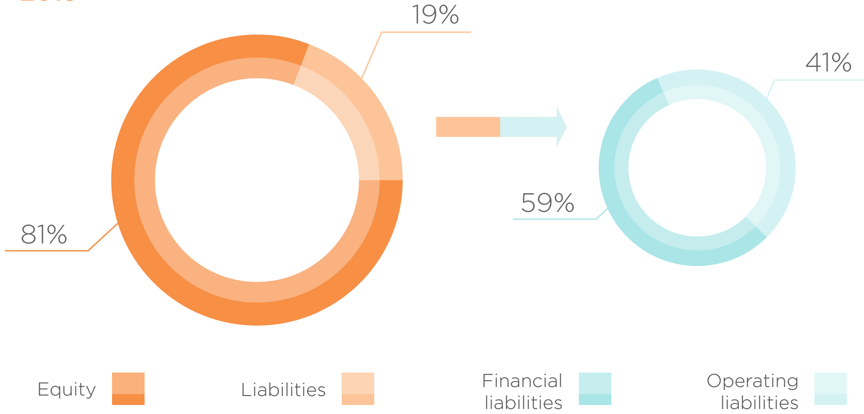
HSE GROUP'S (FINANCIAL AND OPERATING) EQUITY-TO-DEBT RATIO AS AT 31 DECEMBER 2013



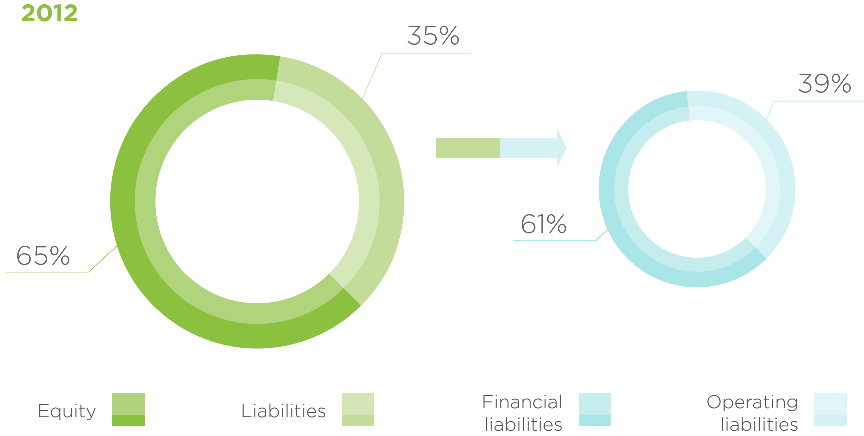


THE CONTROLLING COMPANY'S (FINANCIAL AND OPERATING) EQUITY-TO-DEBT RATIO AS AT 31 DECEMBER 2013

2013



2012



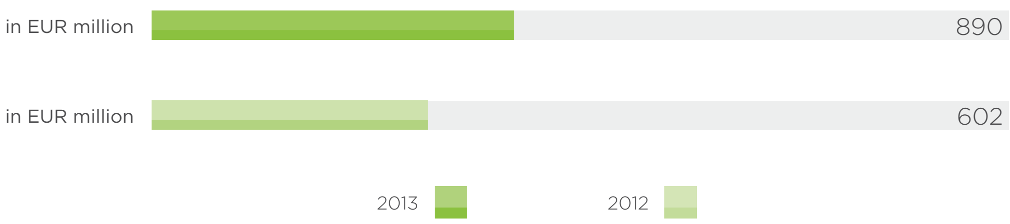
The controlling company's liabilities to banks at the end of 2013 were 64% lower compared with the balance at the end of 2012. In 2012, the company HSE implemented bridge financing of replacement Unit 6 at TEŠ due to the delay in obtaining the government guarantee, and as at 31 December 2013 recorded high amount of short-term revolving loans given to TEŠ and took short-term loans from banks and the Group. In 2013, TEŠ managed to draw the EIB and EBRD long-term loans and to repay the company HSE the short-term revolving loans, which allowed HSE to settle short-term loans from banks and the Group.

The Group's liabilities to banks at the end of 2013 were 59% higher, because TEŠ drew long-term loans from the EIB and the EBRD (the Group's debt is presented more in detail in the Financial Report of the HSE Group).

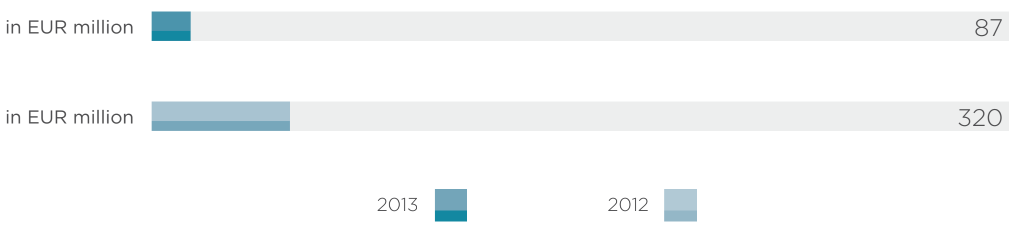
The net financial debt of the controlling company at the end of 2013 was 73% lower than at the end of 2012, while the net financial debt of the Group increased by 48% as a result of drawing of long-term loans for financing the construction of replacement Unit 6 at TEŠ.

NET FINANCE DEBT OF THE HSE GROUP AND THE CONTROLLING COMPANY AS AT 31 DECEMBER 2013

HSE GROUP

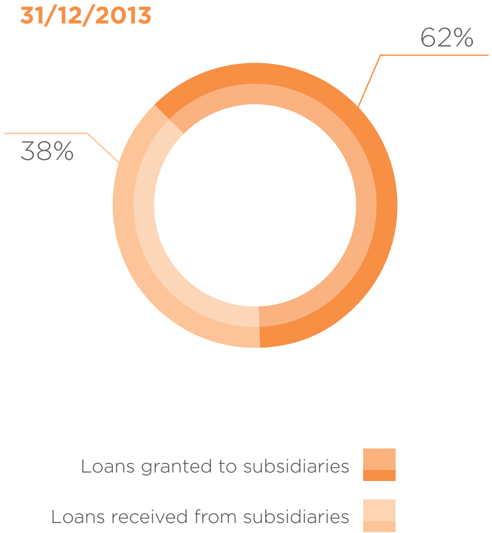


CONTROLLING COMPANY

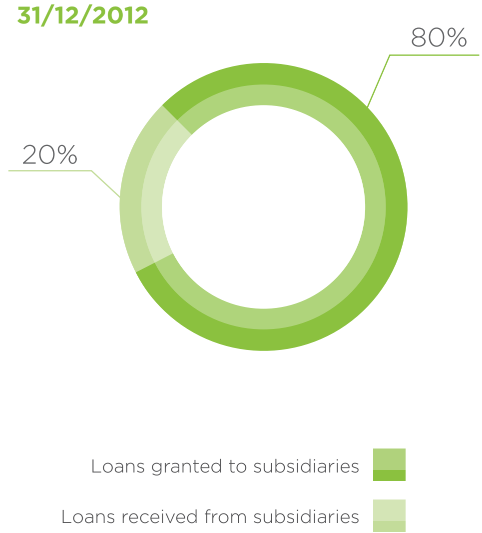


STRUCTURE OF MUTUAL BORROWING

31/12/2013



31/12/2012



THE VALUE OF ASSETS AND TOTAL EQUITY AS AT 31 DECEMBER 2013 AND OPERATING RESULTS OF HSE GROUP COMPANIES IN 2013

HOLDING SLOVENSKE ELEKTRARNE d.o.o.	
Total assets in EUR	1,374,260,490
Total equity in EUR	1,069,336,239
Net profit or loss in EUR	76,539,166

SLOVENIA

DRAVSKE ELEKTRARNE d.o.o.	
HSE's stake	100.0%
Total assets in EUR	572,034,253
Total equity in EUR	558,391,673
Net profit or loss in EUR	12,113,808

SOŠKE ELEKTRARNE NOVA GORICA d.o.o.	
HSE's stake	100.0%
Total assets in EUR	264,772,774
Total equity in EUR	199,200,888
Net profit or loss in EUR	8,409,430

HIDROELEKTRARNE NA SPODNJI SAVI d.o.o.	
Direct HSE's stake	51.0%
Indirect HSE's stake	84.6%
Total assets in EUR	272,497,705
Total equity in EUR	269,743,465
Net profit or loss in EUR	2,202,312

SRESA d.o.o.*	
HSE's stake	60.0%
Total assets in EUR	79,386
Total equity in EUR	77,186
Net profit or loss in EUR*	(3,080)

TERMOELEKTRARNA ŠOŠTANJ d.o.o.	
HSE's stake	100.0%
Total assets in EUR	1,408,821,630
Total equity in EUR	515,676,986
Net profit or loss in EUR	2,050,122

TERMOELEKTRARNA TRBOVLJE d.o.o.	
HSE's stake	81.3%
Total assets in EUR	41,292,441
Total equity in EUR	22,231,444
Net profit or loss in EUR	(12,483,463)

PREMOGOVNIK VELENJE d.d.	
HSE's stake	77.7%
Total assets in EUR	184,874,649
Total equity in EUR	74,403,379
Net profit or loss in EUR	(37,178,520)

* 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.

HSE INVEST d.o.o.	
Direct HSE's stake	25.0%
Indirect HSE's stake	75.0%
Total assets in EUR	2,601,367
Total equity in EUR	1,246,856
Net profit or loss in EUR	222,519

SOENERGETIKA d.o.o	
Delež HSE	25.0%
Total assets in EUR	6,044,246
Total equity in EUR	1,708,535
Net profit or loss in EUR	679,408

ABROAD

HSE ITALIA S.r.l.	
HSE's stake	100.0%
Total assets in EUR	181,718
Total equity in EUR	176,074
Net profit or loss in EUR	26,559

HSE ADRIA d.o.o.	
HSE's stake	100.0%
Total assets in EUR	4,559,596
Total equity in EUR	1,177,860
Net profit or loss in EUR	262,851

HSE RO ENERGY S.r.l.	
Direct HSE's stake	99.0%
Indirect HSE's stake	100.0%
Total assets in EUR	545,469
Total equity in EUR	535,846
Net profit or loss in EUR	(12,167)

HSE MAK ENERGY DOOEL	
HSE's stake	100.0%
Total assets in EUR	95,518
Total equity in EUR	84,007
Net profit or loss in EUR	17,748

HSE BULGARIA EOOD*	
HSE's stake	100.0%
Total assets in EUR	0
Total equity in EUR	0
Net profit or loss in EUR	13,065

* On 30/12/2013 the company stopped operating.

HSE BALKAN ENERGY d.o.o.	
HSE's stake	100.0%
Total assets in EUR	1,740,930
Total equity in EUR	1,019,320
Net profit or loss in EUR	79,558

HSE BH d.o.o.	
HSE's stake	100.0%
Total assets in EUR	1,403,792
Total equity in EUR	727,495
Net profit or loss in EUR	134,179

2.13.1 CONTROLLING COMPANY'S RATIOS

in EUR

EQUITY FINANCING RATE	31/12/2013	31/12/2012
1. Equity and liabilities	1,374,260,490	1,534,472,368
2. Equity	1,069,336,239	988,423,184
Equity financing rate = 2 / 1	77.81	64.41

At the end of the year, the company's equity constituted almost 78% of its total liabilities. In relation to 2012, the equity financing rate was higher as a result of EUR 77 million of the 2013 net profit and decreased shot-term debt.

in EUR

LONG-TERM FINANCING RATE	31/12/2013	31/12/2012
1. Equity	1,069,336,239	988,423,184
2. Long-term liabilities	80,825,843	96,726,143
3. Total (1 + 2)	1,150,162,082	1,085,149,327
4. Equity and liabilities	1,374,260,490	1,534,472,368
Long-term financing rate = 3 / 4	83.69	70.72

The company financed 84% of its assets with long-term resources, while the other 16% were financed through short-term resources. Compared with the end of 2012, the long-term financing rate increased by 13 p. p. due to an increase in equity as a result of added 2013 net profit and lower short-term debt.

in EUR

OPERATING FIXED ASSETS RATE	31/12/2013	31/12/2012
1. Property, plant and equipment	12,411,428	12,307,202
2. Intangible assets	48,531,538	23,653,281
3. Total fixed assets at carrying amount (1 + 2)	60,942,966	35,960,483
4. Assets	1,374,260,490	1,534,472,368
Operating fixed assets rate = 3 / 4	4.43	2.34

The share of fixed assets accounts for 4.4% of the company's assets and is higher compared with the end of 2012, due to increased inventories of CO_2 emission coupons for the purpose of the HSE Group's electricity production.

in EUR

LONG-TERM ASSETS RATE	31/12/2013	31/12/2012
1. Property, plant and equipment	12,411,428	12,307,202
2. Intangible assets	48,531,538	23,653,281
4. Long-term investments in subsidiaries	1,079,866,693	968,572,290
5. Other long-term financial assets and loans	366,500	366,500
6. Long-term operating receivables	659,866	676,352
8. Total (1 + 2 + 3 + 4 + 5 +6 + 7)	1,141,836,025	1,005,575,625
9. Assets	1,374,260,490	1,534,472,368
Long-term assets rate = 8 / 9	83.09	65.53

The company's long-term assets account for 83% of its total assets. The ratio increased compared with the end of 2012, mainly due to an increase in long-term investments (mainly TEŠ recapitalisation) and to increased inventories of CO_2 emission coupons for the purpose of the HSE Group's electricity production.

in EUR

EQUITY TO FIXED ASSETS RATIO	31/12/2013	31/12/2012
1. Equity	1,069,336,239	988,423,184
2. Property, plant and equipment	12,411,428	12,307,202
3. Intangible assets	48,531,538	23,653,281
4. Total fixed assets at carrying amount (2 + 3)	60,942,966	35,960,483
Equity to fixed assets ratio = 1 / 4	17.55	27.49

The ratio stood at 18 at the end of 2013, meaning that all of the company's most illiquid assets were financed from equity. The ratio is slightly lower than a year before as a result of increased inventories of CO_2 emission coupons for the purpose of the HSE Group's electricity production.

in EUR

ACID TEST RATIO	31/12/2013	31/12/2012
1. Cash and cash equivalents	13,014,445	3,200,494
2. Short-term financial assets and loans	31,115,746	303,599,771
3. Total liquid assets (1 + 2)	44,130,191	306,800,265
4. Short-term liabilities	224,098,408	449,323,041
Acid test ratio = 3 / 4	0.20	0.68

The acid test ratio describes the relationship between liquid assets and short-term liabilities. At the end of 2013, it stood at 0.2, meaning that 20% of the company's short-term liabilities were covered by liquid assets. The ratio decreased relative to 2012, mostly due to lower short-term loans given. In 2012, the company HSE implemented bridge financing of replacement Unit 6 at TEŠ and, consequently, as at 31 December 2013 recorded high amount of short-term revolving loans given to TEŠ. More details available in chapter 2.13.

in EUR

QUICK RATIO	31/12/2013	31/12/2012
1. Cash and cash equivalents	13,014,445	3,200,494
2. Short-term financial assets and loans	31,115,746	303,599,771
3. Short-term operating receivables	179,475,270	215,552,162
4. Total (1 + 2 + 3)	223,605,461	522,352,427
5. Short-term liabilities	224,098,408	449,323,041
Quick ratio = 4 / 5	1.00	1.16

The quick ratio stood at 1 at the end of 2013, meaning that the company covers its short-term liabilities through cash, short-term investments and short-term operating receivables. The ratio is slightly lower compared to the end of 2012, mostly due to lower short-term loans given as a result of aforementioned reasons.

in EUR

CURRENT RATIO	31/12/2013	31/12/2012
1. Current assets	227,316,643	524,780,555
2. Short-term liabilities	224,098,408	449,323,041
Current ratio = 1 / 2	1.01	1.17

The current ratio stood at 1.01 at the end of 2013, which means that the Group covered all of its current liabilities through short-term assets. The ratio is somewhat lower compared with the end of 2012, due to lower short-term loans for the reasons mentioned above.

in EUR

OPERATING EFFICIENCY RATIO	REALISATION 2013	REALISATION 2012
1. Operating revenue	1,643,151,820	1,943,501,488
2. Operating expenses	1,539,692,482	1,879,991,946
Operating efficiency ratio = 1 / 2	1.07	1.03

The company's operating revenue exceeded its operating expenses by 7% in 2013. Compared with 2012, the ratio is higher, mostly because of better trading result and lower costs.

in EUR

NET RETURN ON EQUITY RATIO (ROE)	REALISATION 2013	REALISATION 2012
1. Net profit or loss	76,539,166	42,954,179
2. Average equity	1,028,879,712	979,276,064
ROE = 1 / 2	0.074	0.044

In 2013, the company generated EUR 7 of net profit per EUR 100 of equity invested. The ratio is higher than in 2012, mostly due to higher 2013 net profit resulting from better trading result and lower operating costs of HSE.

in EUR

NET RETURN ON ASSET RATIO (ROA)	REALISATION 2013	REALISATION 2012
1. Net profit or loss	76,539,166	42,954,179
2. Average assets	1,454,366,429	1,422,843,383
ROA = 1 / 2	0.053	0.030

The return on assets in 2013 of 5% was higher compared with the previous year, mainly due to increased net profit realised in 2013.

in EUR

ADDED VALUE	REALISATION 2013	REALISATION 2012
1. Operating revenue	1,643,151,820	1,943,501,488
2. Costs of goods, material and services	1,528,703,390	1,867,670,826
3. Other operating expenses	431,194	699,440
Added value = 1-2-3	114,017,236	75,131,222

Compared with the previous period, added value in 2013 increased by 52%, mostly as a result of better treading results.

in EUR

ADDED VALUE / EMPLOYEE	REALISATION 2013	REALISATION 2012
1. Added value	114,017,236	75,131,222
2. Average number of employees	131	134
Added value/employee = 1 / 2	873,695	562,781

Added value per employee in 2013 increased by 55% in relation to the previous year, thanks to higher trading results and lower average number of employees.

in EUR

TOTAL FINANCIAL LIABILITIES / EQUITY	31/12/2013	31/12/2012
1. Short-term financial liabilities	22,614,252	233,694,331
2. Long-term financial liabilities	76,987,315	89,558,481
3. Total financial liabilities (1+2)	99,601,567	323,252,812
4. Equity	1,069,336,239	988,423,184
Total financial liabilities / Equity= 3 / 4	0.09	0.33

The ratio shows the relationship between the company's debt and equity. At the end of 2013, the ratio stood at 0.09 and was higher than in 2012 as a result of decreased short-term debt. In 2012, the company HSE implemented bridge financing of replacement Unit 6 at TEŠ for the already discussed reasons.

in EUR

TOTAL FINANCIAL LIABILITIES / EBITDA	31/12/2013	31/12/2012
1. Short-term financial liabilities	22,614,252	233,694,331
2. Long-term financial liabilities	76,987,315	89,558,481
3. Total financial liabilities (1+2)	99,601,567	323,252,812
4. EBIT – Operating profit or loss	103,459,338	63,509,542
5. Depreciation and amortisation expense	1,712,913	2,015,856
6. EBITDA (4+5)	105,172,251	65,525,398
Total financial liabilities / EBITDA = 3 / 6	0.95	4.93

The ratio showing the relationship between the indebtedness of the company and EBITDA was better relative to 2012, due to lower short-term debt of the company.

in EUR

EBITDA / FINANCIAL EXPENSES FROM LOANS RECEIVED	REALISATION 2012	REALISATION 2012
1. EBIT – Operating profit or loss	103,459,338	63,509,542
2. Depreciation and amortisation expense	1,712,913	2,015,856
3. EBITDA (1+2)	105,172,251	65,525,398
4. Financial expenses from loans received	7,599,489	7,753,911
EBITDA / Financial expenses from loans received = 3 / 4	13.84	8.45

The EBITDA/financial expenses from loans ratio was better than in 2012, as a result of higher operating profit or loss.

in EUR

TOTAL FINANCIAL LIABILITIES / ASSETS	31/12/2013	31/12/2012
1. Long-term financial liabilities	76,987,315	89,558,481
2. Short-term financial liabilities	22,614,252	233,694,331
3. Total financial liabilities (1+2)	99,601,567	323,252,812
4. Assets	1,374,260,490	1,534,472,368
Total financial liabilities / Assets = 3 / 4	0.07	0.21

The total financial liabilities to assets ratio decreased relative to the end of 2012 due to lower short-term financial liabilities.

DIVIDEND-TO-EQUITY RATIO

In 2013, the company HSE did not pay accumulated profit to the owner. Following the proposal of the company HSE management and SB, the owner decided to allocate the 2012 accumulated profit in the amount of EUR 21 million to other revenue reserves due to significant Group investments planned.

2.13.2 HSE GROUP'S RATIOS

in EUR

EQUITY FINANCING RATE	31/12/2013	31/12/2012
1. Equity and liabilities	2,830,521,497	2,595,852,738
2. Equity	1,546,787,072	1,473,462,757
Equity financing rate = 2 / 1	54.65	56.76

At the end of 2013, the Group's equity represented 55% of its total liabilities. Relative to 2012, the equity financing rate decreased despite the increase in equity, due to higher long-term debt of the HSE Group, as explained in chapter 2.13.

in EUR

LONG-TERM FINANCING RATE	31/12/2013	31/12/2012
1. Equity	1,546,787,072	1,473,462,757
2. Long-term liabilities	962,567,334	458,930,107
3. Total (1 + 2)	2,509,354,406	1,932,392,864
4. Equity and liabilities	2,830,521,497	2,595,852,738
Long-term financing rate = 3 / 4	88.65	74.44

The Group financed 89% of its assets with long-term resources, while the remaining 11% were financed with short-term resources. Long-term financing rate was higher than in 2012 because of the increase in short-term financial liabilities.

in EUR

OPERATING FIXED ASSETS RATE	31/12/2013	31/12/2012
1. Property, plant and equipment	2,437,538,638	2,231,808,245
2. Intangible assets	31,500,841	46,605,673
3. Total fixed assets at carrying amount (1 + 2)	2,469,039,479	2,278,413,918
4. Assets	2,830,521,497	2,595,852,738
Operating fixed assets rate = 3 / 4	87.23	87.77

The Group's fixed assets represented 87% of its total assets, at the end of 2013. Operating fixed assets rate decreased by 1% compared with the ned of 2012. Fixed assets and short-term assets both increased relative to 2012; however, short-term assets were higher only because of increased cash.

in EUR

LONG-TERM ASSETS RATE	31/12/2013	31/12/2012
1. Property, plant and equipment	2,437,538,638	2,231,808,245
2. Intangible assets	31,500,841	46,605,673
3. Investment property	231,497	266,073
4. Long-term investments in subsidiaries	13,500	422,300
5. Other long-term financial assets and loans	3,323,960	3,995,914
6. Long-term operating receivables	1,178,571	1,234,782
7. Other long-term assets	632,851	520,189
8. Total (1 + 2 + 3 + 4 + 5 +6 + 7)	2,474,419,858	2,284,853,176
9. Assets	2,830,521,497	2,595,852,738
Long-term assets rate = 8 / 9	87.42	88.02

The Group's total long-term assets account for 87% of its total assets. Compared with the end of 2012, the long-term financing rate decreased by 1%. Long-term assets and short-term assets both increased relative to 2012; however, short-term assets were higher only because of the increase in cash cash.

in EUR

EQUITY TO FIXED ASSETS RATIO	31/12/2013	31/12/2012
1. Equity	1,546,787,072	1,473,462,757
2. Property, plant and equipment	2,437,538,638	2,231,808,245
3. Intangible assets	31,500,841	46,605,673
4. Total fixed assets at carrying amount (2 + 3)	2,469,039,479	2,278,413,918
Equity to fixed assets ratio = 1 / 4	0.63	0.65

The equity to fixed assets ratio stood at 0.63 at the end of 2013, meaning that more than 50% of illiquid assets were financed from equity. Compared to the balance at the end of 2012, the ratio decreased as the equity increased less than the fixed assets. Reason for that are large investments in replacement Unit 6 at TEŠ and the EIB and EBRD long-term loans drawn in 2013.

in EUR

ACID TEST RATIO	31/12/2013	31/12/2012
1. Cash and cash equivalents	75,184,323	6,795,197
2. Short-term financial assets and loans	33,569,492	1,210,394
3. Total liquid assets (1 + 2)	108,753,815	8,005,591
4. Short-term liabilities	321,167,091	663,459,874
Acid test ratio = 3 / 4	0.34	0.01

The acid test ratio describes the relationship between liquid assets and short-term liabilities. At the end of 2013, the acid ratio stood at 0.34, which means that the Group covered 34% its current liabilities with its liquid assets. Compared with 2012, the ratio increased due to higher amount of liquid assets. Despite the ratio standing below 1, the HSE Group companies monitored and managed their short-term liquidity regularly.

in EUR

QUICK RATIO	31/12/2013	31/12/2012
1. Cash and cash equivalents	75,184,323	6,795,197
2. Short-term financial assets and loans	33,569,492	1,210,394
3. Short-term operating receivables	209,255,988	247,340,093
4. Total (1 + 2 + 3)	318,009,803	255,345,684
5. Short-term liabilities	321,167,091	663,459,874
Quick ratio = 4 / 5	0.99	0.38

The quick ratio stood at 0.99 at the end of 2013, meaning that the Group finances 99% of all short-term liabilities from current assets. The ratio improved relative to the end of 2012 as a result of higher liquid assets.

in EUR

CURRENT RATIO	31/12/2013	31/12/2012
1. Current assets	350,856,414	301,532,840
2. Short-term liabilities	321,167,091	663,459,874
Current ratio = 1 / 2	1.09	0.45

The current ratio amounted to 1.09 at the end of 2013, which means that the Group covered all of its current liabilities through short-term assets. The ratio improved relative to the end of 2012 as a result of higher current assets.

in EUR

OPERATING EFFICIENCY RATIO	REALISATION 2013	REALISATION 2012
1. Operating revenue	1,620,667,167	1,894,454,884
2. Operating expenses	1,515,826,587	1,783,491,020
Operating efficiency ratio = 1 / 2	1.07	1.06

The Group's operating revenue exceeded its operating expenses by 7% in 2013. The ratio increased relative to 2012 mainly due to better trading results.

in EUR

NET RETURN ON EQUITY RATIO (ROE)	REALISATION 2013	REALISATION 2012
1. Net profit or loss	66,610,459	85,980,549
2. Average equity	1,510,124,914	1,441,280,260
ROE = 1 / 2	0.044	0.060

Net return on equity ratio – ROE in 2013 amounts to 4.4%, which is less than in 2012 when it amounted to 6.0%. The ratio decreased due to lower net profit of the Group in 2013, as explained in chapter 2.13.

in EUR

NET RETURN ON ASSET RATIO (ROA)	REALISATION 2013	REALISATION 2012
1. Net profit or loss	66,610,459	85,980,549
2. Average assets	2,713,187,117	2,435,869,385
ROA = 1 / 2	0.025	0.035

Net return on assets ratio – ROA in 2013 amounts to 2.5%, which is less than in 2012 when it amounted to 3.5%. The reason for this decrease is lower net profit of the Group in 2013.

in EUR

ADDED VALUE	REALISATION 2013	REALISATION 2012
1. Operating revenue	1,620,667,167	1,894,454,884
2. Costs of goods, material and services	1,173,166,153	1,459,518,583
3. Other operating expenses	91,958,573	57,786,308
Added value = 1-2-3	355,542,441	377,149,993

The Group's added value is 6% lower compared with 2012, mainly due to higher costs of CO_2 emission coupons (namely, the coupons were not distributed free of charge in 2013).

in EUR

ADDED VALUE / EMPLOYEE	REALISATION 2013	REALISATION 2012
1. Added value	355,542,441	377,149,993
2. Average number of employees	3,883	3,860
Added value/employee = 1 / 2	91,564	97,720

Compared with 2013, the added value per employee of the Group in 2012 was lower by 6%, mostly due to lower added value of the Group (higher costs of CO_2 emission coupons).

in EUR

TOTAL FINANCIAL LIABILITIES / EQUITY	31/12/2013	31/12/2012
1. Short-term financial liabilities	70,663,266	224,986,772
2. Long-term financial liabilities	894,228,959	383,769,140
3. Total financial liabilities (1+2)	964,892,225	608,755,912
4. Equity	1,546,787,072	1,473,462,757
Total financial liabilities / Equity= 3 / 4	0.62	0.41

The ratio shows the relationship between the Group's indebtedness and equity. The ratio is higher than at the end of 2012, mostly as a result of higher long-term debt of the Group, which is explained in chapter 2.13. Due to net profit of the HSE Group in the amount of EUR 66 million, the equity has also increased. However, the equity increase is lower than increase in Group indebtedness.

in EUR

TOTAL FINANCIAL LIABILITIES / EBITDA	31/12/2013	31/12/2012
1. Short-term financial liabilities	70,663,266	224,986,772
2. Long-term financial liabilities	894,228,959	383,769,140
3. Total financial liabilities (1+2)	964,892,225	608,755,912
4. EBIT – Operating profit or loss	100,173,760	113,297,265
5. Depreciation and amortisation expense	89,167,627	89,668,593
6. EBITDA (4+5)	189,341,387	202,965,858
Total financial liabilities / EBITDA = 3 / 6	5.10	3.00

The ratio shows the relationship between the Group's debt and EBITDA. The ratio increased relative to 2012, mainly because of higher long-term debt of the HSE Group.

in EUR

EBITDA / FINANCIAL EXPENSES FROM LOANS RECEIVED	REALISATION 2013	REALISATION 2012
1. EBIT – Operating profit or loss	100,173,760	113,297,265
2. Depreciation and amortisation expense	89,167,627	89,668,593
3. EBITDA (1+2)	189,341,387	202,965,858
4. Financial expenses from loans received	11,773,301	11,466,705
EBITDA / Financial expenses from loans received = 3 / 4	16.08	17.70

The ratio showing the relationship between the indebtedness of the Group and financial expenses from loans is lower than in 2012 due to lower operating result, as explained in chapter 2.13.

in EUR

TOTAL FINANCIAL LIABILITIES / ASSETS	31/12/2013	31/12/2012
1. Long-term financial liabilities	894,228,959	383,769,140
2. Short-term financial liabilities	70,663,266	224,986,772
3. Total financial liabilities (1+2)	964,892,225	608,755,912
4. Assets	2,830,521,497	2,595,852,738
Total financial liabilities / Assets = 3 / 4	0.34	0.23

The ratio showing the relationship between the Group's indebtedness and assets slightly increased in comparison with 2012, mostly due to the Groups' increased indebtedness.

DIVIDEND-TO-EQUITY RATIO

Due to large investment cycle in 2013, the controlling company did not pay the accumulated profit to the owner. The dividend-to-equity ratio is consequently 0.

2.14 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,
- credit risks,
- corporative risks,
- information system risks,
- R&D risks,
- HR risk.

Risk management involves identification, measurement or assessment, controlling and monitoring of risks the group is or might be exposed to. In doing so, our goals are most of all timely identification of potential threats and related risks, their monitoring and prompt actions to ensure they only result in the smallest possible deviations from projected results.

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.

Taking into account the given limitations, it is estimated that the risks identified within the operations of the company HSE and the HSE Group were managed appropriately.

2.14.1 REPORT ON WORK OF THE RISK MANAGEMENT COMMITTEE OF HSE FOR THE YEAR 2013

In a period of challenging economic condition, risk management is of the utmost importance, while implementation of system policies of the EU to promote the RES production makes everything more complex; therefore, in order to achieve high-quality bases for decision-making in managing the owner and the management of HSE, besides professional services, require another professional body with multidisciplinary structure and able to asses risk from all operational viewpoints. This role was assigned to the Risk management committee (hereinafter: Committee), which acts in accordance with its proper Rules of Procedure.

COMMITTEE MEMBERS AND MEETINGS

The Committee has ten members, which according to their function in HSE are responsible for risk management in individual business areas they manage. In its work, the Committee is assisted by Subcommittee for credit risk management and three expert co-workers. At the beginning of 2013, the Committee structure partially changed due to reorganisation.

In 2013, the Committee held four meetings, where it discussed risk-related issues and monitored the implementation of the adopted decisions. The basis for the Committee's activities is the adopted work programme. In 2013, the Committee adopted 71 decisions, most of which were carried out.

COMMITTEE WORK OVERVIEW

Besides discussing and assessing the adequacy of trade limits and the balance of insurance instruments received or granted, which is its main and regular task, in 2013 the Committee dedicated a lot of its attention to the management of risks generating liquidity position. Within the scope of analysing the financial situation of the company, the Committee reviewed the report on financial indicators of the company HSE in terms of Article 14 of ZFPPIPP, the activities for recovery of overdue receivables and appointed a team to develop instructions for the system of monitoring compliance with credit agreements commitments at the Group level.

The Committee continued to monitor preparation of the final draft of Controlling Manual of the company and the Group, which based on the adopted decision should be implemented in the Group operations in 2014. The main purpose of the Controlling Manual, which is a follow-up of the already introduced 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.

The Committee continued also with monitoring of preparation of the final draft of the Rules on Deciding, Valuation, Monitoring and Performing of Projects, the main objective of which should be establishment of harmonised bases for decision-making, preparation and implementation of investment projects in the HSE Group companies.

As an expert body, the Committee agreed with the proposal of Policy of Risk Insurance in Energy and Related Products Trading, and proposed to the HSE management to adopt it. The Committee was presented with drafts of Risk Management Policy in the HSE Group Companies and of Risk Assessment Methodology for the HSE Group Companies, and the Examination of Risk assessment in the HSE Group and Company.

Based on its ongoing duty, the Committee proposed to the HSE management the adoption of the Decision on Defining the Cumulative Amount of the Issued Parental Guarantees for the Purpose of trading of Electricity, Energy and Other Related Products, and discussed some narrow areas (e.g. classification on the informative list of public procurement subscribers, the report on received bids for receivables insuring, the payment deadlines and default interest policy for entering into contracts on electricity sale, the report on transfer pricing documentation, etc.).

CONCLUSION

According the abstract of the report on the Committee work, the Committee monitored and discussed all key risks of the company, despite challenging situation in 2013, and prepared and presented adequate recommendations to the management and other responsible. All of the above remains the Committee's responsibility also in the future considering the fact of intensive investment cycle implementation.

It should be taken into account, however, that the Committee is an advisory body; therefore, its decisions do not have executive power. This is the right solution, as the accountability could be unclear otherwise.

Ljubljana, May 2014

Irena Stare
President of the RMC

2.14.2 BUSINESS RISKS

MARKET RISKS

Changed market conditions, increasing RES production, as well as reduction and unpredictability of prices of electricity and other primary energy products, brought numerous business challenges and additionally stressed the importance of market risk management. 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, and has been designed to ensure an increase in the value of HSE by assuming risks that fall within the prescribed limits enabling identification and exploitation of market opportunities. The risk management process is incorporated in daily operations of 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. HSE monitors exposure of portfolios in individual trading years as well as in the whole trading period.

From the analytical perspective HSE is continuing the development of tools for monitoring influencing factors of market exposures in trade. This predominantly involves monitoring of price dynamics, volatility and correlations in individual markets and products in certain periods, and the company's position. Parallel to that, improvements are being made to the existing tools, while new ones are introduced in relation to optimisation 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 2013, the company HSE managed these risks with the following activities and methods:

- segmentation and prioritisation of markets and partners;
- 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 market 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 2013, 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 other energy products (coal, gas, CO_2 emission coupons, oil etc.) that have a direct impact on electricity prices or HSE's operations. On one hand, price risks affect the sales revenue (e.g. lower market prices of electricity lead to lower market values of electricity not yet sold by HSE subsidiaries), and on the other, expenses associated with the company's operations (e.g. higher prices of CO_2 emission coupons increase production costs of subsidiaries emitting CO_2).

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

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

The mentioned variables are included in the calculation of VaR parameter (eng. Value-at-Risk), which is the key indicator of company's direct exposure to price fluctuations and indirect exposure to quantity risks (through market position). The company HSE monitors 5-day VaR with a 95%

confidence interval for a six-year period. This tells us, with a 95% probability, what the maximum trading loss of HSE's trading activities can be in a 5-day period given the market data on prices, HSE's position, volatility and correlation.

In 2013, the company HSE managed these 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). In 2013, the market position never exceeded the limits defined by the rules.
- Daily monitoring and limitation of trade in illiquid markets, as well as liquid markets where supply is expected further away in the future, in connection with market volatility.
- Daily hedging – conclusion of counter-transactions involving the same quantity in the same market, or purchase of derivatives involving financial settlement (futures), if they exist for the market in question, depending on the type of the trading transaction.
- Daily monitoring and analyses of prices of energy products and projections regarding the expected changes in prices of energy products in various markets.
- Daily monitoring of market activities in the CO_2 emission coupons market, investment decisions in the EU energy sector, and monitoring of economic growth of leading countries.
- Daily monitoring and analyses of the value of VaR and MtM (Mark-to-Market) parameters by individual groups of transactions of the company HSE with a similar purpose or significance, taking into account the limitations or values of VaR determined by the rules.
- Daily monitoring of the value of the coverage used for price fluctuations for transactions intended to generate added value or minimise the risk of losses in accordance with the principle of good management.
- Weekly examination of conditions, prices and developments in the electricity market.
- Bi-weekly examination of the company's exposure to risks by individual groups of transactions with similar purpose and examination of conditions in oil and coal markets.

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 2013, the company HSE managed these risks with the following activities and methods:

- daily analysis of scenarios involving different hydrology conditions and periodical 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 or maintenance of transmission network). 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 2013, the company HSE managed these risks 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;
- analysis of potential new limitation on the market of cross-border transmission capacities, especially in terms of RES production growth.

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 2013, 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 2013, 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 almost a half 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.

DEPARTURE FROM PLANS

In 2013, the HSE Group HPPs, including small HPPs and PSP Avče, produced 382 GWh more than planned. TEŠ generated 162.9 GWh of electricity less than planned, while TET produced 16.2 GWh less than planned. Production units of the HSE Group in total produced 202 GWh more than 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 2013, TEŠ's unexpected production shortfall totalled 3.9%. TET's losses amounted to 8.2%.

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).

In September 2013, a failure occurred on the drive part of the service lift at PV, due to which the coal supply was interrupted for four days. During that period, the coal from the repository stock was used and the interrupted production was covered with additional working Saturdays.

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:

- provision of operative production planning that allows achieving of optimum technical and positive economic effects, with ensuring safe and reliable production, and enable optimum trading of the HSE Group's production sources;
- management of the HSE Group production so that deviations from the planned amounts will be below +/- 10 MW;
- optimum distribution of power among individual power plants by taking into account optimum exploitation of energy resources;
- ensure system solutions with economic distribution of demand for power among production units;
- periodical coordination of the HSE balancing group production with the analysis of current operation and planning of production units shutdown, with the aim of improving operational availability and utilisation of production facilities.

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 2013, 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 2013 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

In 2013, the HSE Group continued to focus on its exposure to various types of financial risks and to carry out risk management measures and activities. 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 2013, 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 in the given conditions.

Given the financial and economic crisis and difficult situation of the HSE Group, the Group particularly intensified its liquidity risk management, which in 2013 continued to be implemented through cash management of the HSE Group and cash pooling, which are based on the adopted internal guidelines of the HSE Group companies for cash management and cash pooling. In connection with the liquidity risk management, in 2013 the HSE Group companies had already adopted measures for updating long-term projections of the Group companies' operations and preparation of implementation of appropriate measures with the aim to streamline operations, increase profitability, and, in particular, to improve the liquidity situation of the HSE Group.

Prior to TEŠ's drawing of the EIB and EBRD long-term loans, the Group carried out bridge financing of the project replacement Unit 6 at TEŠ within the scope of the HSE Group cash pooling. In line with loan agreements provisions, TEŠ is allowed to take only up to EUR 12.5 million short-term loans on financial markets. For bridge financing of liabilities from the replacement Unit 6 investment, it was necessary to ensure funding with loans within the HSE Group and with proper assets. As the Group did not possess a sufficient amount of available funds to provide bridge financing for the replacement 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 risk management. In March 2013, the company TEŠ drew the long-term EIB (EUR 440 million) and EBRD (EUR 117.5 million) loans for financing the construction of replacement Unit 6 at TEŠ. TEŠ immediately repaid all short-term revolving loans it received within the scope of the HSE Group cash management from the controlling company HSE. Consequently, the company HSE settled short-term revolving loans received within the HSE Group cash management and in advance repaid one portion of short-term loans from commercial banks, taken out for bridge financing of TEŠ. By the end of 2013, the company HSE repaid all short-term loans from commercial banks.

In line with RIP 5, the company HSE in 2013 provided to TEŠ the entire capital increase planned within the scope the replacement Unit 6 financing, in the amount of EUR 118.4 million. At the end of the year, TEŠ submitted an application to HSE for additional recapitalisation to finance the construction of replacement Unit 6, because it had been established that the value of the investment was higher than projected in RIP 5. Pursuant to the guarantee agreement with the EBRD (GFA of 12 January 2011), in the event of excess of the investment over the initially planned amount HSE is obliged to cover the difference. Therefore, to avoid the suspension of works by Alstom and thereby causing economic loss, pursuant to the debt transfer agreement, HSE paid the TEŠ's liabilities to Alstom in total amount of EUR 10.2 million, creating a receivable from TEŠ, which is expected to be collected when the recapitalisation will be possible.

2013 was a challenging year also for the company PV due to its tough liquidity position. Namely, the company is facing a liquidity deficit, which is on the short run solved through postponement of payments to suppliers and through the HSE Group cash management. However, PV will have to promptly provide realistic and feasible actions which will ensure its long-term operation. At the beginning of 2014, the General Meeting decision was adopted, demanding that the HSE management, within the framework of its powers and with help from external professional institution and in cooperation with the PV management and SB, provide a realistic and feasible Operational and Financial Restructuring Plan, which will define also all necessary actions to meet contractual commitments under Annex 1 to the Long-term Contract for the Purchase of Coal, Lease of Capacity and Purchase of Electricity.

CREDIT RISK

Credit risks as the risk of non-fulfilment of contractual obligations to contractual partners and within that scope, the risk of non-payment of overdue liabilities, presents an important risk segment for HSE due to the nature of its activities. The most exposed to credit risk is the controlling company, since it purchases the largest amount of the Group companies' production and enters into agreements with third parties. Considering the changing structure of the partners portfolio, credit risks is estimated at 1.0% to 1.5% of invoiced realisation. These risks are mainly managed with detailed examination and careful selection of partners prior to their confirmation, subsequent regular monitoring of their operations, and with a conservative approach to setting limits to the scope of operations. A lot of attention is dedicated to studying legal restrictions and specifics of partner's registered office, mostly from the perspective of feasibility and indisputability of settlements in case of early cassation due to insolvency and entitlement to insurances received or given according to their exercise, which is also taken into account in determining transaction terms and conditions and in preparing the contractual framework. For an efficient credit risk management, good cooperation among all business functions involved, especially commercial, legal and financial functions, is fundamental. Unstable economic and financial environment in Slovenia and Europe require additional attention to loan portfolio management in terms of greater dispersion and insurance of contractual relationships with adequate instruments. The HSE RMC is regularly informed about the balance of the trade partners' limits and the balance of insurance instruments received or issued.

Within the framework of the Committee, as an expert advisory body, is active also Subcommittee for credit risk management, which monitors current issues, monitors and evaluates the adequacy of the function of credit risk management, and with its findings provides a basis for easier decision-making of the management in implementing measures in the area of credit risk management.

The HSE Group's financial risks were appropriately managed in 2013.

Financial risks are disclosed in the financial part of this Annual Report, in chapters 4.5.8.8 and 5.5.8.8.

CORPORATIVE RISKS

Corporate risks have been adequately managed through regular collegiums of managements and boards of the HSE Group companies, regular development committees of the HSE Group, performance of the HSE Group strategic conference, meetings with the Joint Workers' Council of the HSE Group, meetings of investment control committees, etc. Additionally, a project for assessment of quality of the existing situation is being prepared, and measures to improve corporate governance at the level of the HSE Group have been proposed.

INFORMATION SYSTEM RISKS

In the last quarter of 2013, renovation and optimisation of maintenance and license agreements, which provide a reliable and professional implementation of services provided by external partners, i.e. HSE IT infrastructure management, was successfully carried out, with which the risk of failure or non-functioning of the HSE IT system resources was successfully managed.

In 2013, the project for renovation of the business-information system SAP ERP was transferred to production, which allowed optimisation of performance of key business functions of the company HSE. At the same time, the integration of SAP ERP with existing support systems (document management system ODOS, Endur trading system, Ajpes, working time register Špica, the Bank of Slovenia, etc.) of the company HSE was completed, thereby a correct and efficient data transmission in the central ERP system was ensured. Operating risks are fully managed.

Throughout 2013, in the field of communication infrastructure, the project 'Firewall upgrade' was intensively carried out to ensure high reliability and safety in the area of electronic operations (internet, payment transactions, control and protection centre, electricity trading, etc.) and e-mail. Within its own support centre HSE IT, until the completion of the firewall project, the IT service ensures high reliability and 100% responsiveness of communication devices and systems through alternative software solutions. IT risks are adequately managed.

R&D RISK

DELAYED PERFORMANCE OF INVESTMENTS PLANNED

For the purpose of risk management in the area of delays in realisation of investments, HSE monitors and coordinates the preparation and implementation of investment projects in the HSE Group within the scope of Development Committee, Committee for Active Supervision of Investments and Risk Management Committee. All potential deviation and risks are managed in accordance with determined measures. Certain activities planned for individual investments are behind the planned dynamics. This is predominantly a result of long duration and obstacles on the side of administrative procedures conducted by certain authorities and the failure to adopt fundamental sector policies, i.e. administrative obstacles. At the 8th HSE Group strategic conference, strategic policies and development projects of the Group companies were presented, as well as the measures for adapting operations to adverse conditions on the electricity market.

WRONG PRIORITIES IN PREPARATION AND IMPLEMENTATION OF STRATEGIC POLICIES

Strategic policies of the HSE Group 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. In 2013, the 'Strategic development concept of the HSE Group' was drafted, which has not yet been completely aligned. An issue in establishing strategic policies of the HSE Group has been for a long time non-adopted national energy and climate policy (the National Energy Programme or sector policy for the energy area, Climate Act).

Risks arising from failure to comply with a sustainable energy policy requirements are managed with a variety of activities in the preparation and implementation of investment and other development projects. In the implementation of new production facilities and the reconstruction of existing ones, we pursue the goals of sustainable energy and environmental policies, which are based on efficient and environmentally friendly use of natural resources. With performance of key investments (mainly construction of HPPs), we meet the requirements of joint EU and national climate and energy package (20/20/20) targets until 2020. Besides increasing the share of electricity produced from RES, with the construction of replacement Unit 6 we are also pursuing the goal of reducing emissions and other harmful substances in the air.

FAILURE TO CLASSIFY THE HSE GROUP DEVELOPMENT PROJECTS ON THE LIST OF NATIONAL PRIORITIES

The HSE Group actively cooperates with relevant ministries, representatives of the owner and other participants in the electricity and energy area (relevant ministries, system operators, JARSE, etc.). The goals of the HSE Group development projects are coordinated with the sector goals of the Republic of Slovenia in the area of energy and climate policy. For this purpose, we proactively monitor the sector policy and cooperate with the relevant ministries. Since the national energy policy has not been adopted, the preparation of strategic development programme, i.e. the concept of the HSE Group falls behind for some years, which represents a long-term risk, especially in preparing priorities of development projects for the period until 2030.

RISK OF INVESTMENT ACTIVITIES

Majority of investment risks arises from the ongoing projects, i.e. the construction of replacement Unit 6 at TEŠ and the construction of the lower Sava HPPs chain.

The key risks identified for the replacement Unit 6 project are the following:

- Risks related to obtaining additional financing of the Unit 6 construction. For this purpose, we continue to optimise and streamline business processes, divestment of non-core assets, maximisation of the potentials of the entire HSE Group and proactive cooperation with the authorities for timely acquisition of all consents and permits in connection with ensuring liquid assets.
- Risks related to investment value of the project. Given the situation and 90% completion of the

project and the fact that the contracts for this investment are concluded at 94%, we estimate that no major changes in investments should occur.

- The risk of insufficient quantities of coal at a reasonable quality and price. In accordance with the mentioned risk, a realistic and feasible plan of financial and operational restructuring of the PV Group is being developed, which will clearly define all the necessary activities to meet contractual commitments arising from the Long-term Contract for the Purchase of Coal, Lease of Capacity and Purchase of Electricity, and the aim of which is to assess the realistic selling, and the aim of which is to assess the realistic selling price of coal within acceptable operations of the entire PV Group, taking into account optimisation and streamlining of business processes of the PV Group, divestment of non-core assets of the Group, disposal of subsidiaries that are not directly related to the core activity of the coal industry, etc.
- Market risk related to the price of electricity and emission CO_2 coupons. Risks are managed with monitoring of developments on the electricity and CO_2 emission coupons markets and regulatory changes, and with appropriate strategy for long-term sale of electricity from our own production.
- The risk in the period of replacement Unit 6 trial run from the perspective of coordinated operation of Units 5 and 6, as well as the synchronisation of all technologic components required for reliable operation of replacement Unit 6 after passing into regular operation. The risk will be managed on the basis of intensive cooperation between HSE, TEŠ, ELES, as well as cooperation between the investor and subsequent administrator of replacement Unit 6 and the contractor Alstom, taking into account all the findings from trial operation on comparable thermal power plants.

Three of five new constructions on the lower Sava, i.e. HPP Boštanj, HPP Arto-Blanca and HPP Krško are in operation, and construction of HPP Brežice and HPP Mokrice is underway. The following risks in connection with the project are identified:

- Risks regarding construction, managed with: better control of HPPs construction; intensive coordination with INFRA, DRSC and ELES as finance providers for infrastructure arrangements that are inevitable for undisturbed operations of power plants, Ministry for Infrastructure and Spatial Planning and the Ministry of Agriculture and the Environment, etc.; adequate tender conditions and contractual provisions for achieving the planned investment values, and dispersion of contractors.
- Risks associated with spatial planning and administrative permits, managed with intensive coordination with all stakeholders (NEK, HEP), which are affected by the construction of power plants and the selection of OVS contractors with appropriate qualifications.
- Risks regarding construction of infrastructure part of facilities based on sources of finance. The risk will be managed with proactive cooperation with the company INFRA and with the relevant ministries.

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

HUMAN RESOURCES RISK

HR risks in 2013 were adequately monitored and managed. For better management of all risks regarding HR management, the company HSE started to carry out the first annual interviews, which should lead to better working efficiency and motivation of all employees. Nevertheless, the risk of losing key and perspective resources increased considerably in the last period. Effective management of talents in the company is a prerequisite for realisation of objectives set in terms of HR-related risk management and is also inextricably linked to realisation of business objectives, strategy and vision of the company. With this aim, in 2013 we prepared a comprehensive HR management strategy, which thoroughly recasts the HR management area. In the event of successful implementation and realisation of the strategic goals set in the adopted strategy, these risks will be better and more effectively managed in the future.

2.15 External communication

The metaphorically unlucky number 13 kicked off with positive communication of thirteen reasons for luck that we strived to fulfil throughout the year. At the beginning of spring, we were happy to let out the news that TEŠ had received EUR 440 million approved by the EIB for financing the project replacement Unit 6. The remaining part of the year was also characterised by the largest investment of the HSE Group in terms of external communications.

In June, we held a ceremonial opening of HPP Krško, the third in the lower Sava River chain, and at the end of the year we already reported about conclusion of the contract on purchase of turbines and generating units for HPP Brežice. Communications with all stakeholders about further steps of the Mura River exploitation project continued throughout the year. We offered our communication support also to the DEM and SENG projects, in particular in relation to renovation of production facilities and projecting the construction of HPPs on the middle Sava, as well as the procedure for selling the HSE's share in TET.

At the end of the year, our communication activities were dedicated to the necessity of increasing the HSE Group's cost-effectiveness, which mainly results from intensive investment cycle and deteriorated circumstances on other electricity markets in Europe.

To raise the awareness about the importance of environment protection among the little ones, we started the year with a contest for kindergartens 'Mother's day' and continued it with the project 'Blue plaquette', with which we wanted to encourage the children and their educators to care about the nature and to act responsibly towards the environment daily and all year round.

For the primary school pupils and their teachers or mentors, we organised the already established ECOPROJECT 4, and we upgraded our webpage www.modri-jan.si with 'Blue encyclopedia', with the goal to create a different classroom where children will be able to learn concepts related to electricity, renewable energy resources and ecology in an interesting way. 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 18,000 subscribers.

The HSE Group's constant effort to change the established society habits regarding the children's attitude towards the environment has brought a logical upgrade. Namely, 'Blue generation' was born - a movement to teach the youth how to think eco and preserve nature and through which we inform them about environmental issues in an adequate and pleasing way. In this view, on World Environment Day, 5 June, we launched website www.modra-generacija.si.

2.16 Research and development

Research and development activities in 2013 were aimed at supporting the realisation of a complex investment programme of the HSE Group, the drafting of the HSE Group Strategic Development Concept and addressing the key legal and other strategic and development documents in the area of energy sector and environment.

2.16.1 COORDINATION OF INVESTMENT AND DEVELOPMENT PROJECTS OF THE HSE GROUP

Timely implementation of the planned programme of investments in new production facilities is crucial for long-term success of the HSE Group operations; therefore, a large part of development activities represented tasks in support of realisation of the complex investment programme in the area of new production capacity, with which the Group pursues its goals of sustainable electricity production.
In addition to monitoring and coordination, our priority in 2013 in terms of investments was introduction of a unified planning, evaluation and implementation of investments at the Group level in accordance with the adopted policies which will provide guidance for further development of the HSE Group. The rules governing this area is almost completed. The HSE Group is in a period of adverse conditions on the energy and financial markets, coinciding with the period of 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.

The HSE Group established several expert groups for monitoring and coordination of investment projects (Committee for Active Supervision of Investments, Risk Management Committee, Development Committee, etc.), the duties and responsibilities of which are clearly defined. In the context of the Development Committee, we regularly monitor the realisation of current investments as well as preparation of investments that are still in projecting stage. The purpose of monitoring the implementation of investments is to identify deviations from the activities planned, as well as communication and transfer of information to the key users.

2.16.2 REPARATION OF STRATEGIC DEVELOPMENT CONCEPT OF THE HSE GROUP FOR PERIOD 2013-2020, LOOKING AHEAD TO 2030

Preparation of strategic development concept of the HSE Group represented one of the main tasks in 2013, as it is the basic document for implementation of all development projects planned for the HSE Group. Currently effective development document is still the Development Plan of the HSE Group 2006-2015, looking ahead to 2025. In 2013, we developed a draft 'Strategic Development Concept (SDC) of the HSE Group 2013-2020, looking ahead to 2030, which is based on the national energy policy guidelines and international commitments of the government, with an emphasis on strategic investments, with which the HSE Group will contribute its share to achieve commitments; however, SDC is not yet fully coordinated due to lack of key documents at the national level.

2.16.3 PARTICIPATION IN PREPARATION OF RELEVANT LEGISLATIVE AND STRATEGIC DOCUMENTS

In 2013, the HSE's activities in the national legislation area were primarily focused on active participation in drafting new Energy Act, which the Ministry for Infrastructure and Spatial Planning submitted for public discussion on 11 June 2013. The Energy Act (EZ-1) introduces to the Slovenian legal order 8 EU directives and 3 regulations, by which the third energy legislative package will be finally implemented. The HSE Group was intensely involved in a very long-term preparation of the new EZ-1 and warned the legislator about potential ambiguities or inadequate solutions in the act proposal. The act stipulates also amended procedure of strategic planning in the energy industry. Energy Concept of Slovenia (ECS) will be the main development document, which represents the national energy programme and which will be adopted by the National Assembly by a resolution based on the Government proposal. The document will define the goals of reliable, sustainable and competent energy supply for the next 20 years and approximately for 40 years. The National Development Energy Plan (NDEP) will be a framework plan of investments in the energy infrastructure to achieve the objectives in the energy sector for the period covered by ECS.

In April 2013, the Government adopted four acts by which it introduced changes into Natura 2000 area: Decree amending the Decree on special protection areas (Natura 2000 areas), Decree amending the Decree on ecologically important areas, Decree amending the Decree on habitat types, Plan establishing the effects of Natura 2000 impact areas and determining development measures. The amended decree expanded the existing Nature 2000 area by app. 480 km^2 – on land by 477 km^2 and at sea by 3 km^2. This increase represents 2.4% of the national territory. Slovenia has the largest share of such areas in the EU (37% of national territory). We believe that potential effects of the Natura area extension should be evaluated in the light of various factors that influence the activities on the discussed area of extension. Potential impacts should be assessed in the context of individual assessments of acceptability of projects impacts on the environment and activities affecting nature in protected areas in accordance with applicable relevant law. We also believe that the Ministry of Agriculture and the Environment should consider financial implications of changes in Natura 2000 areas, presented in 'Plan establishing the effects of Natura 2000 impact areas and determining development measures', before implementing the amendments of the Decree.

At European level, the operation of the HSE was affected by the change of the EU system of CO_2 emission coupons trading, since free allocation of coupons in the energy industry was cancelled at the beginning of the year, while preparation of legislation for 'back-loading' was also in the process. Relevant were also the activities for adaptation to new obligations, which for HSE arise from regulations EMIR and REMIT.

The purpose of Regulation 1227/2011 on the integrity and transparency of the wholesale energy market (i.e. REMIT Regulation) is to prevent market manipulation and abuse of insider information. Energy traders must respect clear rules prohibiting the abuse of inside information when selling or buying on the wholesale energy market, while market participants are obliged to publish the inside information held by the participants themselves or their parent or related company in efficient and timely manner.

On the basis of Regulation 648/2012 on derivatives 'over-the-counter' (OTC - the conclusion bilateral transaction through trading portals), central counterparties and concluded transaction repositories (EMIR Regulation), the company HSE is required to report on transactions concluded by all derivatives and to the use of risk mitigation techniques for contracts on derivatives.

2.16.4 NON-REFUNDABLE FINANCING OF R&D PROJECTS

In 2013, we closely monitored mainly the activities within the scope of call for proposals for programme NER 300, the tender of the Slovenian Research Agency for (co-)funding research projects for 2014 and tenders for projects under the EU Framework Programme for Research and Innovation – Horizon 2020.

2.17 Plans for the future

The HSE Group is aware that business conditions in 2014 both on the financial and economic area will continue to be very difficult for all of the HSE Group companies. Nevertheless, our targets for 2014 are ambitious – great emphasis is placed on the envisaged operational optimisation and streamlining of all costs, but we believe that the planned goals can be achieved with the engagement of all employees of the HSE Group. In this regard, the crucial tasks will be completion and implementation of the plan for financial and operational restructuring of the PV Group and verification of a coordinated and reviewed revised investment programme for replacement Unit 6 at TEŠ by key stakeholders, which will be the basis for a timely acquisition of necessary additional financing for the HSE Group. Sale of the HSE Group business share in the company of TET and partially in HESS is also envisaged for 2014.

Low electricity prices and trends which do not point to any major improvement in coming years, and the fact that the Group has recently launched a comprehensive investment cycle to renovate as much as one third of proper productions capacity, position the HSE Group in a situation where it is forced to undertake comprehensive measures aimed at operational streamlining, profitability increase, and in particular improvement of liquidity, in order to ensure continued operations, to maintain liquidity, financial stability and to achieve its objectives.

The complexity and size of projects of the HSE Group demand not only additional external sources of financing, but also additional internal sources. Besides the ongoing streamlining of operations, lowering of costs, a greater attention will be also on searching additional synergies within the HSE Group and on consolidation of business processes at the Group level.

We will especially focus on risk management and improvement of cost efficiency, which are preconditions of long-term competitiveness of the Group and all of its members. This will allow us to continue the successfully launched investment activities, to improve the management of associated risks and continued safe, reliable and environmentally friendly electricity supply in Slovenia at competitive prices.

03/ SOCIAL RESPONSIBILITY REPORT
3.1 Responsibility to employees

We defined the responsibility to employees as one of the key values and strategic policies in 2013. In HSE, we do not want to just routinely swear by our employees as an active asset, but we strive to act in this direction as well. We want to optimise and exploit our potential with staff development which is strategically designed and stresses the importance of an effective talent management, with the projected introduction of target management, with ensuring constant improvements in the area of education and training, with raising motivation through establishing an effective and fair remuneration and promotion system, as well as through measuring the effectiveness and establishing and maintaining a strong organisational culture and system of values, and the ability of quickly adapting to changes.

HR management represents the main process in fulfilling the vision, strategy and goals of the company in this constantly changing environment. However, we do not want to be just able to adapt, we want to be the change. Always ahead and better. To this purpose we committed also the HR management in 2013, which significantly contributed to creating adequate working conditions for highly motivated, innovative, competent, self-conscious colleagues. We are proud of the fact that HSE Group is distinguished by employees with a broad range of expertise, interests and skills.

In 2013, the HSE Group approached the optimisation of labour costs, which will be intensively implemented also in 2014. At the same time we strive to ensure a motivational business environment. Based on the cooperation at the HSE Group level, we are actively involved in unification of HR management in the Group through introduction of common standards, common recruitment policy, education and training, while implementing labour cost optimisation.

The company HSE is aware of new challenges and considers them as opportunities. The competition has long and inexorably moved into the labour market, putting the HR management among top conditions and reasons for achieving success, excellence and development. Our social responsibility is implemented also through creation of new jobs with higher added value and requiring a higher level of knowledge with clear and pre-defined economic performance criteria. The common denominator of success is us, people. As owners of knowledge and experience, we are able and eager to acquire, use and transfer, we are also the most important source of competitive advantage of every organisation. For this reason, it is right to think the employees, we represent the 'human capital' or continuous investment, the return on which the company expects to maximise in the future.

The year of 2013 was characterised by strengthening our partnership with all stakeholders. If in the past the most important among them were 'only' the suppliers, customers and owners, today they include also the HSE Group members, which are the source of knowledge, our spokespersons, and as holders of values also important 'architects' of organisational culture and which, consequently, represent the basis of business excellence.

3.1.1 EMPLOYEES IN THE CONTROLLING COMPANY

In line with the labour costs optimisation while ensuring quality and motivational working environment, the employment policy in the company and the HSE Group is based on:

- recruitment primarily from the HSE Group, i.e. the internal labour market, which offers highly qualified experts of various profiles with a wide range of general and specific competences and experience, and
- recruitment from the external labour market, by means of which an inflow of fresh ideas, energy, different views and experience is ensured.

We strive to represent personal and career advancement for the employees, a reward for success and career perspective, which must be based on quality, knowledge and experience. Formation of our executives and experts is based primarily on the policy of raising our own staff. With the adopted HR management strategy, we have set the goal of establishing a quality and knowledge-based succession model.

In the period from January to December 2013, the company HSE hired five employees, while eight employees left. As at 31 December 2013, the company had 129 employees.

HSE has a pension plan or programme of voluntary supplementary pension insurance, which includes the majority of 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.

In 2013, our colleagues participated in various professional education and training programmes, and actively attended local and international conferences, professional seminars, symposiums and forums, especially in the field of finance, accounting, auditing, marketing, electricity trade, renewable energy, production and labour law.

Compared with 2012, the total number of training hours increased, resulting in higher average number of training hours per employee; in relation to previous year, the number of average hour increased by 7. In 2013, total number of training hours amounted to 4,163. On average, the employees spent 32 hours for improving their skills.

Compared with the previous years, the share of employees included in education also increased, which confirms the thesis that employees are willing to intensively invest in their education and training, thus to use their potential.

That knowledge is an important value in the company is supported also by great interest of employees for further education and achieving higher education degree. The company supports them with co-financing the cost of education and study leave. In 2013, we had four employees attending undergraduate studies and ten employees enrolled in postgraduate study programmes, mostly in the area of economics and electrical engineering. Two of them completed their studies, one at the postgraduate level and the other at the undergraduate level.

3.1.2 EMPLOYEES IN THE HSE GROUP

At the end of 2013, the HSE Group had 3,869 employees, or 31 less than as at 31 December 2012.

The most significant drop in the number of employees (15) occurred in the company TET, followed by TEŠ (14), HSE Invest (5), HSE (3), DEM (2) and the PV Group (1). The most important increase in the number of employees is disclosed by the company HESS, namely by 6 (1 in the business and 5 in technical department as a result of construction of new HPPs).

NUMBER OF HSE GROUP EMPLOYEES

COMPANY	31/12/2013	%	31/12/2012	%	IND 13/12
HSE	129	3	132	3	98
DEM	288	7	290	7	99
SENG	132	3	129	3	102
HESS	37	1	31	1	119
TEŠ	450	12	464	12	97
TET	178	5	193	5	92
PV Group	2,581	67	2,582	66	100
HSE Invest	71	2	76	2	93
HSE Italia	0	0	0	0	0
HSE Balkan Energy	1	0	1	0	100
HSE Ro Energy	0	0	0	0	0
HSE Adria	1	0	1	0	100
HSE Bulgaria in liquidation	0	0	0	0	0
HSE Mak Energy	0	0	0	0	0
HSE BH	1	0	1	0	100
TOTAL	**3,869**	**100**	**3,900**	**100**	**99**

NUMBER OF EMPLOYEES AS AT 31 DECEMBER 2013 AND AVERAGE NUMBER OF EMPLOYEES IN 2013 BY EDUCATION

EDUCATION LEVEL	NUMBER OF EMPLOYEES AS AT 31/12/2013		AVERAGE NUMBER OF EMPLOYEES IN 2013	
	Controlling company	HSE Group	Controlling company	HSE Group
1	0	195	0	200
2	0	150	0	155
3	0	84	0	86
4	1	1,338	1	1,347
5	16	1,070	16	1,071
6/1	13	398	14	395
6/2	21	222	22	222
7	54	323	55	320
8/1	17	74	18	74
8/2	7	15	7	15
TOTAL	**129**	**3,869**	**131**	**3,883**

Company success 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. In accordance with the 'Agreement on the training organisation at the HSE Group level' of 26 August 2008, in the event of common interest, the HSE Group will organise training 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:

- electricity production with a minimum environmental impact,
- respect of legal norms and recommendations,
- introduction of the best technologies available in order to minimise the impact on the environment,
- promotion of RES development,
- achievement of partnership with local communities and joint solution for environmental issues and planning for sustainable development of electricity production,
- achievement of sustainable operation and development of energy capacities.

All electricity-producing companies in the HSE Group (except HESS) and the controlling company have the ISO 9001 international quality certificate and the ISO 14001 international environmental certificate. Through consistent observance of these standards, the companies ensure safe and environment-friendly production of electricity in all hydropower plants. Thanks to environmental rehabilitation and modernisation, both thermal power plants also introduced more environment-friendly technologies, while PV was among the first coalmines in the world to demonstrate comprehensive and responsible environmental management in compliance with the requirements of the respective standard.

RENEWABLE ENERGY SOURCES

The HSE Group pursues the goal of RES electricity production with minimum environmental impact of rational energy exploitation, because we are aware of our responsibility to the environment in which the Group operates.

Following the example of other European countries, the area of RES is developing quickly in Slovenia. A large part of the new Energy Act is dedicated to RES, and within that scope to guarantees of origin (GoO). 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%.

BLUE ENERGY

The project is aimed at encouraging the purchase of energy from renewable sources, establishing the market in such energy and selling this energy in Slovenia. 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. The owner of the brand is HSE.

MODRI JAN

Behavioural patterns acquired in the early years remain a part of us even when we grow up. Therefore, children have to learn the importance of responsible behaviour towards the environment. For this purpose, we started an all-Slovenian project 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), which with proper webpage www.modri-jan.si and activities informs the little ones about the importance of energy and the environment in a entertaining and educative way.

BLUE GENERATION

Blue Generation project is an upgrade of Modri Jan, intended for teenagers at the threshold of adulthood and independence. The aim of the project is to create a movement of youth of different interests and subcultures who are aware of the future and would themselves like to contribute to positive changes. Blue Generation is the initiator of environmental questions. The project website www.modra-generacija.si is interactive so each member can publish their own contribution regarding ecology, environmental protection, renewable resources and energy, and comment on them. The structure of content is tailored to the age group and the topics that interest them, and promotes positive attitude of teenagers towards the environment.

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.

The development trend of HSE in the direction of EEU and RES, which has been realised for almost a decade through the campaign 'You are Energy – Be Efficient' and the network for business and social utility 'Synergy', is based on the EU policies and sustainable development principles. It is important that in planning its development HSE considers its entrepreneurial, individual and social interest in a balanced way which represents the basic of socially responsible sustainable approach.

EKOMOBIL

Within the framework of promoting 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 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, which is a part of the campaign You are Energy – Be Efficient and which was adopted and upgraded by the HSE Group hydro-companies.

3.3 Responsibility to the broader social community

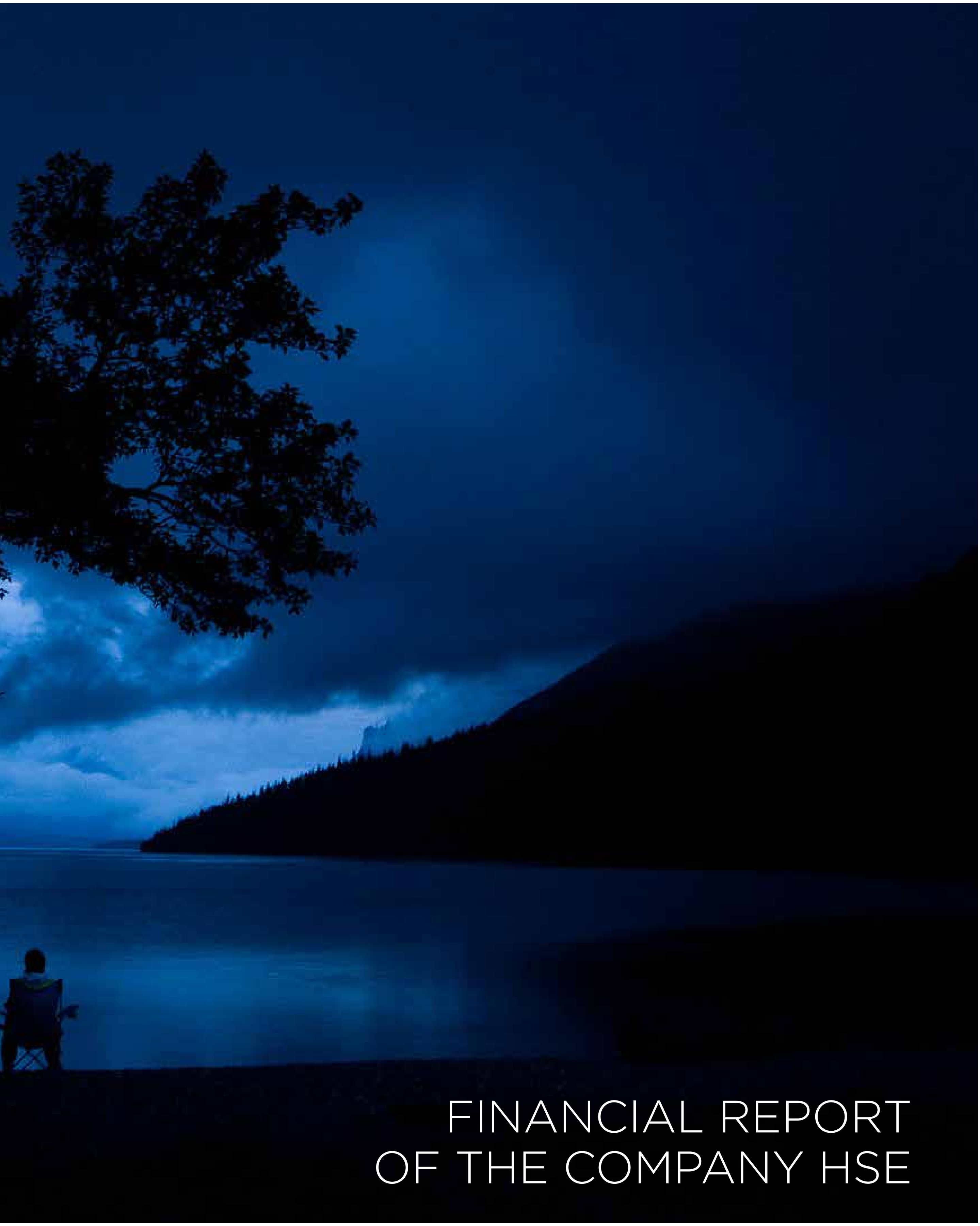
Not only standards prescribed by the government, but mostly the organisational culture have bound us to socially responsible behaviour since the beginning.

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 PORABIMANJ (consume less). We financially supported the research of energy efficiency in Slovenia (REUS 2013).

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 were proud sponsors of some of the main sports and cultural events in Slovenia. Within the framework of the newly established 'CENTRE FOR SOCIAL RESPONSIBILITY OF THE HSE GROUP', we carried out two charity campaigns for collecting props for holidays and school supplies, which with help of the association Zveza prijateljev mladine (Friends of Youth) we gave to deprived families and children.

We do not act responsibly only towards external participants and environment, but also towards our employees, where we got additionally motivated in 2013 by obtaining full Family Friendly Company certificate in 2013 that we supplemented with further measures that help our employees to balance their professional and private life.

We concluded the year with the online charity event we named 'A VERY GOOD BITE', photo gallery on www.modri-jan.si, we collected photographs of animals, some of which were contributed also by the company HSE employees, and turned them into financial contribution for 14 animal shelters in Slovenia in order to buy food for sheltered animals.


FINANCIAL REPORT
OF THE COMPANY HSE

04/ FINANCIAL REPORT OF THE COMPANY HSE

4.1 Auditor's report

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 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 2013, 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 the 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 selected procedures depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion – Limitation of Scope

As described in Note 4.5.8.1. -3 *Investments in subsidiaries* to the statement of financial position, as at 31December 2013 the Company discloses long-term investments in Premogovnik Velenje d.d. in the amount of EUR 60,409 thousand and in Termoelektrarna Šoštanj d.o.o. in the amount of EUR 342,664 thousand. As explained in the note, there are signs of potential overestimation of the discussed long-term investments due to considerable changes in the economic and market environment of the two companies, high uncertainty about the future development of their operations, and the disclosed excess of short-term liabilities over short-term assets. The abovementioned circumstances indicate the existence of a material uncertainty that may raise substantial doubt about the discussed companies' ability to continue as a going concern. As explained in the note, the Company did not prepare the assessment of amortised cost of the discussed long term investments as at 31 December 2013 in line with IAS 36 - *Impairment of assets*; consequently, we could not establish whether certain adjustments of these amounts might have been required.

Qualified Opinion

In our opinion, except for the potential effects of the matter referred to in the *Basis for Qualified Opinion - Limitation of Scope* paragraph, the unconsolidated financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2013, and its financial performance and its other comprehensive income for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Emphasis of Matter

a) Contingent Liabilities

As discussed in Note 4.5.8.1 - 16 *Contingent liabilities and contingent assets* to the statement of financial position, the Company is exposed to the risk arising from guarantees granted in contracts of Termoelektrarna Šoštanj d.o.o. (hereinafter: TEŠ) and/or the Company regarding financing of the TEŠ Unit 6 project, and from parent guarantees for TEŠ's liabilities to Alstom, in total amount of EUR 404,618 thousand. We have to emphasise that in the contract with EBRD, the Company committed to provide all the necessary funds in the event of increase in costs of the project Replacement Unit 6 at TEŠ. As at 31 December 2013, this increase amounts to EUR 125,965 thousand. We have audited the financial statements of the discussed company, and on 30 June 2014 issued our qualified opinion and in the auditor's report drew attention to the circumstances indicating significant uncertainty that can cast serious doubt about ability of the company TEŠ to continue as a going concern. The financial statements do not include potential adjustments that may have been the consequence of this uncertainty.

b) Consolidated Financial Statements

The Company is the controlling company in the Group of Holding Slovenske elektrarne (hereainfter: the Group) that prepares consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU. We have audited the consolidated financial statements of the Group and issued a qualified opinion on 30 June 2014.

Our opinion is not modified in respect of these matters.

Report on Other Legal and Regulatory Requirements:

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

DELOITTE REVIZIJA d.o.o.

Kristian Milošič
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, 30 June 2014

TRANSLATION ONLY – SLOVENIAN ORIGINAL PREVAILS

4.2 Statement of management's responsibility

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

The Managing Director 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 Manging Director'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.

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

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

As at 30 June 2014, 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 2013.

Ljubljana, 30 June 2014

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 prepared the Independent Auditor's Report included in the beginning of the section.

4.4 Financial statements

4.4.1 STATEMENT OF FINANCIAL POSITION

in EUR

	Note	31/12/2013	31/12/2012
ASSETS		**1,374,260,490**	**1,534,472,368**
A. LONG-TERM ASSETS		**1,146,943,847**	**1,009,691,813**
I. Intangible assets	1	48,531,538	23,653,281
II. Property, plant and equipment	2	12,411,428	12,307,202
IV. Long-term investments in subsidiaries	3	1,079,866,693	968,572,290
V. Other long-term financial assets and loans		366,500	366,500
VI. Long-term operating receivables		659,866	676,352
VIII. Deferred tax assets	4	5,107,822	4,116,188
B. SHORT-TERM ASSETS		**227,316,643**	**524,780,555**
II. Inventories		0	620
III. Short-term financial assets and loans	5	31,115,746	303,599,771
IV. Short-term operating receivables	6	179,475,270	215,552,162
V. Current tax assets		0	5,885
VI. Other short-term assets	7	3,711,182	2,421,623
VII. Cash and cash equivalents	8	13,014,445	3,200,494
EQUITY AND LIABILITIES		**1,374,260,490**	**1,534,472,368**
A. EQUITY	**9**	**1,069,336,239**	**988,423,184**
I. Called-up capital		29,558,789	29,558,789
II. Capital surplus		561,243,185	561,243,185
III. Revenue reserves		444,060,621	384,313,947
IV. Fair value reserve		(3,795,939)	(8,169,827)
V. Retained earnings		38,269,583	21,477,090
B. LONG-TERM LIABILITIES		**80,825,843**	**96,726,143**
I. Provisions for termination and jubilee benefits	10	593,296	665,705
II. Other provisions	11	3,241,609	6,501,957
IV. Long-term financial liabilities	12	76,987,315	89,558,481
VI. Deferred tax liabilities		3,623	0
C. SHORT-TERM LIABILITIES		**224,098,408**	**449,323,041**
II. Short-term financial liabilities	13	22,614,252	233,694,331
III. Short-term operating liabilities	14	145,197,802	210,997,352
IV. Current tax liabilities	24	7,478,195	1,457,530
V. Other short-term liabilities	15	48,808,159	3,173,828

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

4.4.2 INCOME STATEMENT

in EUR

	Note	2013	2012
OPERATING REVENUES		**1,643,151,820**	**1,943,501,488**
1. Net sales revenue	17	1,637,396,249	1,932,488,711
4. Other operating revenue	18	5,755,571	11,012,777
GROSS OPERATING INCOME		**1,643,151,820**	**1,943,501,488**
OPERATING EXPENSES		**1,539,692,482**	**1,879,991,946**
5. Costs of goods, material and services	19	1,528,703,390	1,867,670,826
6. Labour costs	20	8,820,466	8,774,928
7. Write-downs in value	21	1,737,432	2,846,752
8. Other operating expenses		431,194	699,440
OPERATING PROFIT OR LOSS		**103,459,338**	**63,509,542**
9. Financial revenue	22	8,298,162	12,048,709
10. Financial expenses	23	18,803,146	21,361,116
TOTAL PROFIT OR LOSS		**(10,504,984)**	**(9,312,407)**
PROFIT OR LOSS BEFORE TAX		**92,954,354**	**54,197,135**
TAX	**24**	**16,415,188**	**11,242,956**
11. Corporate income tax		17,622,677	11,717,691
12. Deferred taxes		(1,207,489)	(474,735)
NET PROFIT OR LOSS FOR THE FINANCIAL YEAR	**25**	**76,539,166**	**42,954,179**
Majority stakeholder		76,539,166	42,954,179

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

4.4.3 STATEMENT OF OTHER COMPREHENSIVE INCOME

in EUR

	Note	2013	2012
13. Net profit or loss for the period	**25**	**76,539,166**	**42,954,179**
17. Actuarial gains and losses of employee defined benefit plans	10	13,649	0
Items that will not be transferred to profit or loss		**13,649**	**0**
21. Net effective part of change in fair value of instrument for cash flow hedging	10	4,360,239	(4,659,940)
Items that may be transferred to profit or loss		**4,360,239**	**(4,659,940)**
23. Total comprehensive income for the period	**4.5.8.3**	**80,913,054**	**38,294,239**
Majority owner's total comprehensive income for the reporting period		80,913,054	38,294,239

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

4.4.4 CASH FLOW STATEMENT

in EUR

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
a) Items of income statement	**90,665,154**	**60,690,652**
Operating revenues (except from revaluation) and financial revenues from operating receivables	1,639,595,807	1,945,621,389
Operating expenses (except from revaluation and amortisation/depreciation) and financial expenses for operating liabilities	(1,537,421,040)	(1,880,711,950)
Income tax and other taxes not included in operating expenses	(11,509,613)	(4,218,787)
b) Changes in net operating assets in statement of financial position items	**14,154,396**	**(2,772,695)**
Opening less closing operating receivables	36,095,270	(68,015,868)
Opening less closing other assets	(1,289,559)	5,149,399
Opening less closing inventories	620	704
Closing less opening operating liabilities	(66,320,236)	65,116,108
Closing less opening other liabilities and provisions	45,668,301	(5,023,038)
c) Net cash from operating activities	**104,819,550**	**57,917,957**
CASH FLOWS FROM INVESTING ACTIVITIES		
a) Cash receipts from investing activities	**473,812,864**	**26,714,998**
Cash receipts from interest related to investing	8,043,336	6,576,287
Cash receipts from profit participations related to investing activities	43,355	2,711,268
Cash receipts from disposal of intangible assets	1,607,700	3,856,426
Cash receipts from property, plant and equipment (including advances)	17,910	74,967
Cash receipts from short-term loans	463,600,000	10,286,800
Cash receipts from disposal of long-term financial investments in associated companies, subsidiaries and joint ventures	500,563	3,209,250
b) Cash disbursements from investing activities	**(339,340,576)**	**(214,355,682)**
Cash disbursements to acquire intangible assets	(23,974,467)	(8,073,222)
Cash disbursements to acquire property, plant and equipment (including advances)	(1,459,563)	(1,315,660)
Cash disbursements from short-term loans granted	(190,907,923)	(201,786,800)
Cash disbursements for acquisition of long-term financial investments in associated companies, subsidiaries and joint ventures	(122,998,623)	(3,180,000)
c) Net cash from investing activities	**134,472,288**	**(187,640,684)**
CASH FLOWS FROM FINANCING ACTIVITIES		
a) Cash receipts from financing activities	**102,000,000**	**190,764,740**
Cash receipts from short-term loans received	102,000,000	190,764,740
b) Disbursements from financing activities	**(331,477,887)**	**(76,044,651)**
Cash disbursements from paid interest pertaining to financing	(8,012,492)	(7,286,419)
Cash disbursements from long-term loans received	(11,350,656)	(9,108,232)
Cash disbursements from short-term loans received	(312,114,739)	(39,650,000)
Cash disbursements from the distribution of dividends and other profit participations	0	(20,000,000)
c) Net cash from financing activities	**(229,477,887)**	**114,720,089**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**3,200,494**	**18,203,132**
Increase/(decrease) of cash and cash equivalents	9,813,951	(15,002,638)
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	**13,014,445**	**3,200,494**

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

4.4.5 STATEMENT OF CHANGES IN EQUITY

in EUR

	CALLED-UP CAPITAL	SHARE PREMIUM	REVENUE RESERVES	FAIR VALUE RESERVES	RETAINED EARNINGS		TOTAL
	Share capital		Other revenue reserves		Retained earnings	Net profit or loss for the period	
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)**
Dividend payment					(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**
Net profit or loss for the reporting period						**42,954,179**	**42,954,179**
Items that may be transferred to profit or loss	**0**	**0**	**0**	**(4,659,940)**	**0**	**0**	**(4,659,940)**
Net effective part of change in fair value of instrument for cash flow hedging				*(4,659,940)*			*(4,659,940)*
B.3. Changes within equity	**0**	**0**	**24,841,899**	**0**	**(3,364,810)**	**(21,477,089)**	**0**
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
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**
Balance as at 01/01/2013	**29,558,789**	**561,243,185**	**384,313,947**	**(8,169,827)**	**21,477,090**	**0**	**988,423,184**
B.2. Changes in total comprehensive income	**0**	**0**	**0**	**4,373,888**	**0**	**76,539,166**	**80,913,054**
Net profit or loss for the reporting period						**76,539,166**	**76,539,166**
Items that will not be transferred to profit or loss	**0**	**0**	**0**	**13,649**	**0**	**0**	**13,649**
Actuarial gains and losses of employee defined benefit plans				*13,649*			*13,649*
Items that may be transferred to profit or loss	**0**	**0**	**0**	**4,360,239**	**0**	**0**	**4,360,239**
Net effective part of change in fair value of instrument for cash flow hedging				*4,360,239*			*4,360,239*
B.3. Changes within equity	**0**	**0**	**59,746,673**	**0**	**(21,477,090)**	**(38,269,583)**	**0**
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			38,269,583			(38,269,583)	0
Allocation of a portion of net profit to additional reserves in accordance with the general meeting resolution			21,477,090		(21,477,090)		0
Balance as at 31/12/2013	**29,558,789**	**561,243,185**	**444,060,620**	**(3,795,939)**	**0**	**38,269,583**	**1,069,336,238**
Accumulated profit						**38,269,583**	**38,269,583**

* 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. The address of its registered head office is 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 2013 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 2013, the company considered:

- IFRS, which include International Accounting Standards (IAS), Interpretations issued by the International Financial Reporting Interpretations Committee, International Financial Reporting Standards (IFRS) and Interpretations issued by International Financial Reporting Interpretations Committee (IFRIC) as adopted by the European Union (EU);
- Companies Act (ZGD);
- Energy Act (EZ);
- Corporate Income Tax Act;
- Rules on the implementation of the Corporate Income Tax Act and its implementing regulations;
- Accounting Rules of the company; and
- other applicable legislation.

The financial statements are prepared taking into account the basic accounting assumptions:

- accrual basis and
- going concern.

The impacts of transactions and other business events are recognised when they occur, not when they are paid, and are recorded and reported for the periods to which they apply. Accordingly, the financial statements include also the information on liabilities regarding future payments and on receivables bringing cash inflow in the future.

The financial statements are based also on the assumption that the company will not considerably shrink the volume of its operations or even terminate them, thus that it will continue to operate in the foreseeable future.

The following qualitative characteristics of financial statements have also been observed:

- Fair presentation and compliance with IFRS: the financial statements give a fair view of the company's financial position, financial performance and cash flows.
- Consistency of presentation: presentation and classification of items in the financial statements is the same for each period.
- Relevance and aggregation: each material class of similar items is presented separately in the financial statements. Items of a dissimilar nature or function are presented separately unless they are immaterial.
- Offsetting: assets and liabilities, and income and expenses, are not offset unless required or permitted by a standard or an interpretation.
- Comparative information: except when a standard or an interpretation permits or requires otherwise, comparative information is disclosed in respect of the previous period for all amounts reported in the financial statements. Comparative information is included for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.

The company uses the same accounting policies for all periods presented in the financial statements for 2013.

The applied accounting policies and methods are the same as for the last annual reporting, with the exception of newly adopted standards and interpretations. Both are presented below and were taken into account during the preparation of financial statements, provided that the discussed events occurred in the reporting period.

A) STANDARDS AND INTERPRETATIONS EFFECTIVE IN THE CURRENT PERIOD

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

- 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 or after 1 July 2012).

The change requires separate disclosure of the other comprehensive income items, namely to those the company will transfer to the income statement in the future periods, and to those that will never be recognised in profit or loss. The amendments also confirm the existing requirements about items being presented as single statement or two consecutive statements within other comprehensive income or profit or loss.

The amendment affects the presentation of the other comprehensive income items, but has no influence on the company's financial position or performance.

- Amendments to IAS 12 'Income taxes' - Deferred tax: Recovery of underlying asset, adopted by the EU on 11 December 2012 (applicable to the annual periods starting on or after 1 January 2013).

The amendment requires that the company measures deferred tax asset depending on whether it expects to recover the carrying amount of the asset through use or sale. If an asset is measured using the fair value model from IAS 40 Investment property, the estimation of its recovery based on use or sales could not be objective. The amendments provide practical solution to issues regarding the introduction of assumption that carrying amount recovery will usually occur with sale.

The revised standard has no influence on the financial position or performance of the company, since it does not disclose the investment property.

- 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).

The amendments will bring the following significant improvements: (1) dismissal of the option regarding deferral of gains or loss recognition, which improves the comparability and reliability of presentation; (2) rationalisation of presentation in connection with changes in assets or liabilities arising from defined benefit plans, including the requirement for presentation of revaluation in other comprehensive income, and consequently, their distinction from the changes that are largely considered as the result of day-to-day operations of entities; (3) betterment of requirements regarding disclosure of defined benefit plans, which enables better data on the nature of such plans and the risks entities are exposed to due to their involvement with these plans.

The amendment affects the disclosure of adjustments of the company's liabilities to employees arising from termination and jubilee benefits in 2013; namely, adjustments are not recognised in full in the income statement, i.e. one part of adjustments (unrealised actuarial gain or loss) is recognised in the statement of other comprehensive income. Considering the amount of the discussed liabilities, the effect on profit or loss for the year is immaterial.

- 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).

IFRS 13 defines fair value, gives guidelines on determining it, and requires disclosures regarding fair value measurements. Nevertheless, IFRS 13 does not change any requirement concerning which items should be disclosed or measured at fair value.

The definition of fair value under IFRS 13: as the amount received from disposal of an asset or paid for transfer of liabilities in regular transaction between market participants (seller and buyer) on the measurement day.

The revised standard has no influence on the financial position or performance of the company.

- 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).

The amendments require the information about all recognised financial instruments that are offset in accordance with paragraph 42 of IAS 32. They also determine disclosure of the information about recognised financial instruments subjected to executable master contracts on offsetting and similar agreements, even if not offset according to IAS 32.

The revised standard has no influence on the financial position or performance of the company.

- Amendments to various standards – 'Improvements to IFRSs (2009-2011)', resulting from the annual project for improvement of IFRSs (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to remove inconsistencies and to clarify wording, adopted by the EU on 27 March 2013 (the amendments will need to be applied for annual periods beginning on or after 1 January 2013).

The revisions clarify the required accounting recognition in cases where free interpretation used to be permitted. The most important changes include new or revised requirements regarding: (a) reuse of IFRS 1, (b) borrowing costs under IFRS 1, (c) interpretations of requirements for comparable data, (d) classification of maintenance equipment, (e) interim financial reporting and segments of information for all assets and liabilities.

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

- 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 interpretation determines that the costs in connection with 'activities of stripping' must be accounted for as an addition to the existing asset or its improvement, and that this component be depreciated or amortised during the expected useful life of the recognised ore body, which becomes more accessible due to the stripping activities (with use of production method units, unless another method is more appropriate).

The revised standard has no influence on the financial position or performance of the company.

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

The company has not adopted any standards or interpretations that will come into effect on or after 1 January 2014.

At the date of authorisation of these financial statements, the following standards, amendments of the existing standards and interpretations issued by IASB and adopted by the EU were published but not yet effective:

- IFRS 10 'Consolidated financial statements', adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014).

IFRS 10 standard replaces the requirements regarding consolidation in IAS 27 'Consolidated and separate financial statements' and SIC – 12 'Consolidation – Special purpose entities', with introduction of unified consolidation model for all companies, which is based on controlling regardless of characteristics of the investee (i.e. whether an entity is controlled by voting rights of the investors or by other contractual agreements, as is usual for the special purpose entities). According to IFRS 10, controlling depends on the investor's (a) control of the investee, (b) exposure and rights to variable return from its operations with the investee, and (c) possibility to use its power over the investee to influence the return amount.

Since the company does have any such investments, this standard will have no influence on its financial position or performance.

- IFRS 11 'Joint arrangements', adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014).

IFRS 11 introduces new accounting requirements for joint arrangements which replace IAS 31 Interests in joint ventures. The option of using the proportionate consolidation method when accounting for jointly controlled companies was removed. Additionally, IFRS 11 currently reverses jointly controlled assets and defines only the distinction between joint operations and joint ventures. Joint operation is a joint arrangement in which the parties with joint control have the right to assets and are bound by liabilities. Joint venture is a joint arrangement in which the parties with joint control have the right to net assets.

Since the company does not have any such investments, this standard will have no influence on its financial position or performance.

- IFRS 12 'Disclosure of interests in other entities', adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014).

IFRS 12 requires better disclosures for controlled consolidated as well as unconsolidated entities. The aim of IFRS 12 is to require information so that the financial statements users can evaluate the controlling base, any limits to consolidated assets and liabilities, risk exposures arising from controlling of unconsolidated structured entities and involvement of non-controlling equity owners with the activities of consolidated companies.

It is estimated that this standard will have no influence on the financial position or performance of the company.

- 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).

Requirements regarding separate financial statements remain unchanged and are included in the amendment to IAS 27. The other parts of IAS 27 were replaced by IFRS 10.

It is estimated that the revised standard will have no influence on the company's financial position or performance.

- 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).

IAS 28 was amended in accordance with the issuance of IFRS 10, 11 and 12.

The revised standard will not affect the financial position or performance of the company.

- Amendments to IFRS 10 'Consolidated financial statements', IFRS 11 'Joint arrangements' and IFRS 12 'Disclosure of interests in other entities' - Transition Guidance, adopted by the EU on 4 April 2013 (effective for annual periods beginning on or after 1 January 2014).

The aim of amendments is to make the transition to IFRS 10, IFRS 11 and IFRS 12 easier with 'limiting the requirement for providing adjusted comparable data to only comparable transition period'. IFRS 11 and IFRS 12 were also amended to remove the requirement to provide comparable data for the periods prior to the current transition period.

The revised standards will not affect the financial position or performance of the company.

- Amendments to IFRS 10 'Consolidated financial statements', IFRS 12 'Disclosure of interests in other entities' and IAS 27 (revised in 2011) 'Separate financial statements' – Investment entities, adopted by the EU on 20 November 2013 (effective for annual periods beginning on or after 1 January 2014).

The amendments bring an exception in relation to the consolidation requirement in IFRS 10 and require that investment entities carry out fair value measurements for individual subsidiaries through profit or loss, and not through consolidation. The amendments include also disclosure requirements for investment entities.

It is estimated that the revised standards will have no influence on the company's financial position or performance.

- 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).

The amendments provide explanations of the use of offsetting rules and focus on four major areas: (a) the meaning of 'currently has a legally enforceable right to set-off'; (b) use of simultaneous realisation and settlement; (c) offsetting guarantee amounts; (d) unit of account for offsetting requirements.

The revised standard will not affect the financial position or performance of the company.

- Amendments to IAS 36 'Impairment of assets' - Recoverable amount disclosures for non-financial assets, adopted by the EU on 19 December 2013 (effective for annual periods starting on or after 1 January 2014).

The amendments refer to disclosure of information on recoverable amount of impaired assets, if the value is based on fair value, less the cost of disposal. When preparing IFRS 13 'Fair value measurement', IASB decided to revise IAS 36 by requiring disclosure of recoverable amount of impaired assets. Current changes explain the IASB's initial purpose to limit the scope of such disclosures to recoverable amount of impaired assets, which is based on fair value, less the cost of disposal.

The company assesses that the revised standard will have no influence on its financial position or performance.

- Amendments to IAS 39 'Financial Instruments: Recognition and measurement' – Novation of derivatives and continuation of hedge accounting, adopted by the EU on 19 December 2013 (effective for annual periods starting on or after 1 January 2014).

The discussed amendments allow continued hedge accounting in cases when a derivative, previously defined as a hedging instrument, is redefined for the purpose of clearing with the central counterparty pursuant to laws and regulations, if certain conditions are met (in this case, novation requires all contracting parties to agree that the previous counterparty be replaced with a new one).

The company assesses that the revised standard will have no influence on its financial position or performance.

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 ESTIMATES 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 a branch office in the Czech Republic and a representative office in Romania. The Slovakian branch office closed in 2013. In 2013, the company did not perform any transactions through the branch office since the trade with electricity was transferred to the company itself. 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.

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

4.5.7.1 INTANGIBLE ASSETS

Intangible assets are long-term assets enabling performance of the company's registered activities, whereas physically they do not exist. The company's intangible assets comprise long-term property rights and emission coupons for the purposes of electricity production in the HSE Group. Emission coupons for trading are disclosed among inventories.

Upon initial recognition, an intangible asset is measured at cost. 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.

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 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.

Estimated amortisation rates used for individual intangible assets are:

AMORTISATION RATE – INTANGIBLE ASSETS

	in % from - to
Software	5 - 33%

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.

Estimated depreciation rates for individual items of property, plant and equipment are the following:

DEPRECIATION RATE - PROPERTY, PLANT AND EQUIPMENT

	in % from - to
Buildings	2%
Production equipment	4%
Computer equipment	20 - 50%
Furniture	10 - 25%
Small tools	20 - 33%
Cars	20%
Other devices and equipment	10 - 33%

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 dislosed 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 its recoverable amount (the higher of fair value less selling costs and value in use) and is recognised as a financial expense.

V 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 INVESTMENTS IN ASSOCIATES AND JOINTLY CONTROLLED COMPANIES

Investments in associates are investments in which the company has an important influence and usually its stake in such company ranges between 20 and 50%.

Investments in jointly controlled companies are investments in which the company controls the operations of such companies together with other owners, namely on the basis of contractually agreed division of control.

In the company's financial statements, investments in associates as well investments in jointly controlled companies are carried at cost.

4.5.7.5 FINANCIAL INSTRUMENTS

Financial instruments include the following assumptions:

- non-derivative financial assets;
- non-derivative financial liabilities;
- derivatives.

4.5.7.5.1 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.

4.5.7.5.2 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.

4.5.7.5.3 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 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.

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

4.5.7.11 CONTINGENT LIABILITIES AND ASSETS

Contingent liability is:

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

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.

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.

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.

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.

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

4.5.7.13 EXPENSES

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

Operating expenses are recognised once the merchandise has been sold.

COSTS OF GOODS SOLD include expenses related to the sales of electricity, gas, trading emission coupons and their contingent costs. 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, energy products, 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 (interest on loans received), 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 using tax rate that is applicable on the reporting date. Current tax liabilities decrease in the event of advance payments of corporate income tax during the year.

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 rate 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.

In 2013, the applicable tax rate for corporate income tax amounted to 17%, which will remain the same also in the next tax periods, based on the currently applicable tax legislation.

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. Values are verified in the company's financial department.

4.5.7.19 MANAGEMENT OF FINANCIAL RISKS

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

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

4.5.8 NOTES TO THE FINANCIAL STATEMENTS

4.5.8.1 STATEMENT OF FINANCIAL POSITION

INTANGIBLE ASSETS (1)

in EUR

	31/12/2013	31/12/2012
Emission coupons	46,740,686	21,820,152
Other long-term property rights	1,790,852	1,833,129
TOTAL	**48,531,538**	**23,653,281**

INTANGIBLE ASSETS comprise emission coupons for the purposes of electricity production within the HSE Group and software.

Among its intangible assets, the company records emission coupons for covering proper electricity production at TEŠ and TET. Compared with the previous periods, when free emission coupons for electricity production were given to TPPs by the government, this system changed in 2013, forcing TPPs to purchase emission coupons entirely on the market. In 2011, the Agreements on Managing the Emission Coupon Portfolio were signed with the companies TEŠ and TET. According to these agreements, HSE manages emission coupons of both companies. HSE purchases the required quantity of coupons for several years in advance (depending on the quantities of electricity sold in those periods). The amount of coupons needed at TEŠ and TET for the current period is determined at the beginning of the next year, thus the sales of coupons to the companies is carried out in the next period. However, all sales effects are included in the operating result of these two companies in the current year.

The software in use comprises various computer applications. Increases in 2013 mainly refer to implementation of business information system ERP SAP.

In 2013, the company reviewed useful life of relevant software and determined that useful life of one item of software had changed with respect to current projections, which resulted in decreased amortisation rate. Due to extended useful life of this software, the amortisation charge in 2013 totalled EUR 10,367, which is EUR 15,172 less than the amortisation of the initially determined useful life.

CHANGES IN INTANGIBLE ASSETS

in EUR

	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		**3,110,012**	**3,110,012**
Amortisation expense		452,299	452,299
Written-down value as at 31/12/2012		**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**

in EUR

	Emission coupons	Other long-term property rights	Total
Cost as at 01/01/2013	**21,820,152**	**5,395,440**	**27,215,592**
Acquisitions	26,528,234	451,183	26,979,417
Disposals	(1,607,700)	(189,459)	(1,797,159)
Cost as at 31/12/2013	**46,740,686**	**5,657,164**	**52,397,850**
Written-down value as at 01/01/2013		**3,562,311**	**3,562,311**
Disposals		(189,458)	(189,458)
Amortisation expense		493,459	493,459
Written-down value as at 31/12/2013		**3,866,312**	**3,866,312**
Carrying amount as at 01/01/2013	**21,820,152**	**1,833,129**	**23,653,281**
Carrying amount as at 31/12/2013	**46,740,686**	**1,790,852**	**48,531,538**

PROPERTY, PLANT AND EQUIPMENT (2)

in EUR

	31/12/2013	31/12/2012
Buildings	1,399,582	1,434,579
Production equipment	111,769	116,849
Other equipment	2,248,715	3,001,999
Property, plant and equipment being acquired	8,651,362	7,753,775
TOTAL	**12,411,428**	**12,307,202**

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.

The investments in construction of HHPs on the middle Sava amounts to EUR 8,651,362 at the end of the year (the largest share refers to preparation of project and investment documentation). The investment in HPP on the middle Sava increased by EUR 897,587 in 2013. In 2011, the company Srednjesavske elektrarne d.o.o. (SRESA) was established for realisation of the investment in middle Sava HPPs. HSE investments in this project will probably be transferred to SRESA upon signing the concession contract on exploitation of the HPPs on the middle Sava.

In 2013, the company reviewed useful life of its relevant equipment and determined that useful life did not change with respect to previous estimates.

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

The company did not impair the plant and equipment in 2013, so that the useful life of relevant equipment does not exceed five years. The company examined also the reasons for potential impairment of business premises, by comparing the market value at the end of 2013 with their carrying amount. It was determined that the market value is somewhat higher and that impairment is not necessary.

CHANGES IN PROPERTY, PLANT AND EQUIPMENT

in EUR

	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				1,114,372	1,114,372
Disposals			(556,812)		(556,812)
Transfers from investments			496,944	(496,944)	0
Transfers - re-entries				(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**		**5,154,725**
Disposals			(486,020)		(486,020)
Depreciation expense	34,995	5,081	1,523,481		1,563,557
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**

in EUR

	Buildings	Production equipment	Other equipment	Property, plant and equipment being acquired	Total
Cost as at 01/01/2013	**1,733,284**	**127,010**	**8,925,394**	**7,753,775**	**18,539,463**
Acquisitions				1,359,298	1,359,298
Disposals			(491,107)		(491,107)
Transfers from investments			464,055	(461,711)	2,344
Cost as at 31/12/2013	**1,733,284**	**127,010**	**8,898,342**	**8,651,362**	**19,409,998**
Written-down value as at 01/01/2013	**298,705**	**10,161**	**5,923,395**		**6,232,261**
Disposals			(453,145)		(453,145)
Depreciation expense	34,997	5,080	1,179,377		1,219,454
Written-down value as at 31/12/2013	**333,702**	**15,241**	**6,649,627**	**0**	**6,998,570**
Carrying amount as at 01/01/2013	**1,434,579**	**116,849**	**3,001,999**	**7,753,775**	**12,307,202**
Carrying amount as at 31/12/2013	**1,399,582**	**111,769**	**2,248,715**	**8,651,362**	**12,411,428**

INVESTMENTS IN SUBSIDIARIES (3)

in EUR

	31/12/2013	31/12/2012
DEM d.o.o.	387,058,979	387,058,979
SENG d.o.o.	152,692,249	152,692,249
HESS d.o.o.	134,169,548	130,089,548
TEŠ d.o.o.	342,664,278	224,289,677
TET d.o.o.	491,000	11,682,000
PV d.d.	60,408,543	60,408,543
HSE Invest d.o.o.	80,000	80,000
SRESA d.o.o.	60,000	60,000
HSE Italia S.r.l.	29,690	29,690
HSE Balkan Energy d.o.o.	1,025,063	1,025,063
HSE Adria d.o.o.	102,553	102,553
HSE Bulgaria EOOD	0	513,220
HSE MAK Energy DOOEL	26,778	26,778
HSE BH d.o.o.	513,990	513,990
HSE RO Energy S.r.l.	544,022	0
TOTAL	**1,079,866,693**	**968,572,290**

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.

INFORMATION ABOUT SUBSIDIARIES

Company	Address	Country	Activity	% of ownership	% voting rights
DEM d.o.o.	Obrežna ulica 170, 2000 Maribor	Slovenia	Hydroelectricity generation	100%	100%
SENG d.o.o.	Erjavčeva 20, 5000 Nova Gorica	Slovenia	Hydroelectricity generation	100%	100%
TEŠ d.o.o.	Cesta Lole Ribarja 18, 3325 Šoštanj	Slovenia	Electricity production at thermal power plants	100%	100%
PV d.d.	Partizanska 78, 3320 Velenje	Slovenia	Mining and agglomeration of lignite	77.7%	77.7%
TET d.o.o.	Ob železnici 27, 1420 Trbovlje	Slovenia	Electricity production at thermal power plants	81.3%	81.3%
HESS d.o.o.	Cesta bratov Cerjakov 33a, 8250 Brežice	Slovenia	Hydroelectricity generation	51%	51%
HSE Invest d.o.o.	Obrežna ulica 170 a, 2000 Maribor	Slovenia	Other project engineering and technical consulting	25%	25%
SRESA d.o.o.	Ob železnici 27, 1420 Trbovlje	Slovenia	Hydroelectricity generation	60%	60%
HSE Balkan Energy d.o.o.	Bulevar Mihaila Pupina 117, Beograd	Serbia	Electricity trading	100%	100%
HSE RO Energy S.r.l.	75-77 Buzesti Street, Bucharest	Romania	Electricity trading	99%	99%
HSE MAK Energy DOOEL	Belasica no. 2, 1000 Skopje	Macedonia	Electricity trading	100%	100%
HSE Italia S.r.l.	Via Roma 20, 34170 Gorizia	Italy	Electricity trading	100%	100%
HSE Adria d.o.o.	Miramarska 24, 10 000 Zagreb	Croatia	Electricity trading	100%	100%
HSE BH d.o.o.	Ul. Alije Isakovića br.1, Sarajevo	Bosnia and Herzegovina	Electricity trading	100%	100%

SIGNIFICANT AMOUNTS FROM STATEMENTS OF SUBSIDIARIES FOR 2013

in EUR

Company	Assets	Liabilities (without equity)	Revenue	Net profit or loss for the period	Total equity
TEŠ d.o.o.	1,408,821,630	893,144,644	248,042,778	2,050,122	515,676,986
PV d.d.	184,874,649	110,471,270	117,045,452	(37,178,520)	74,403,379
DEM d.o.o.	572,034,253	13,642,580	75,092,949	12,113,808	558,391,673
HTZ VELENJE, IP d.o.o.	43,281,735	35,514,240	62,997,845	(5,103,739)	7,767,495
HSE Adria d.o.o.	4,559,596	3,381,736	62,524,957	262,851	1,177,860
SENG d.o.o.	264,772,774	65,571,886	45,830,455	8,409,430	199,200,888
TET d.o.o.	41,292,441	19,060,997	35,647,448	(12,483,463)	22,231,444
RGP d.o.o.	15,885,620	11,646,874	22,477,178	29,640	4,238,746
HSE Balkan Energy d.o.o.	1,740,930	721,610	20,175,564	79,558	1,019,320
HSE BH d.o.o.	1,403,792	676,297	19,480,941	134,179	727,495
HESS d.o.o.	272,497,705	2,754,240	14,241,707	2,202,312	269,743,465
PV Invest d.o.o.	22,678,072	11,588,616	8,159,120	(4,037,455)	11,089,456
HSE MAK Energy DOOEL	95,518	11,511	6,766,205	17,748	84,007
ELPROM d.o.o.	63,019	14,588	6,672,708	39,418	48,431
HSE Italia S.r.l.	181,718	5,644	6,640,498	26,559	176,074
HSE Invest d.o.o.	2,601,367	1,354,511	6,500,855	222,519	1,246,856
HSE Bulgaria EOOD	0	0	6,219,979	13,065	0
GOST d.o.o.	6,959,225	5,760,000	4,933,778	(690,328)	1,199,225
GOLTE d.o.o.	13,770,598	8,175,136	1,702,651	(741,828)	5,595,462
PARTNER d.o.o.	59,984	37,175	120,868	14,598	22,809
MHE LOBNICA d.o.o.	645,654	2,280	40,688	15,655	643,374
HSE RO Energy S.r.l.	545,469	9,623	12,003	(12,167)	535,846
SRESA d.o.o.	79,386	2,200	58	(3,080)	77,186
TOTAL	**2,858,845,135**	**1,183,547,658**	**771,326,685**	**(34,619,118)**	**1,675,297,477**

The following changes in investments in subsidiaries were realised in 2013:

CHANGES IN LONG-TERM INVESTMENTS IN GROUP COMPANIES

in EUR

	2013
Increase in investment in the company TEŠ d.o.o.	118,374,601
Increase in investment in the company HESS d.o.o.	4,080,000
Foundation of the company HSE Ro Energy S.r.l.	544,022
Voluntary liquidation of the company HSE Bulgaria	-513,220
Impairment of investment in the company TET d.o.o.	-11,191,000
TOTAL	**111,294,403**

The company increased its investments in TEŠ and HESS in 2013 by EUR 122,454,601, which represents an agreed-upon contribution of the owner for the construction of replacement Unit 6 at TEŠ and of HPPs on the lower Sava for 2013.

Subsidiary HSE Ro Energy was established in 2013, while the subsidiary HSE Bulgaria was subject to liquidation procedure (within the procedure, HSE Bulgaria prepared final financial statements as at 31 December 2013 and terminated its operations; with deletion from the companies register on 7 January 2014, the liquidation was also officially completed).

None of the 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 with most subsidiaries higher than the carrying amounts of long-term investments in individual company.

Despite the awareness that due to high uncertainty of future development of the company's operations and great changes in the economic and market environment of the companies PV and TEŠ, there are signs of potential overestimation of long-term investments in those two companies, the investments could not be estimated as at 31 December 2013, since only the maximum average sales price of coal for period 2014-2027 was known by the date of this Annual Report, while the annual sales price of coal is not known yet. Plan for financial and operational restructuring of the PV Group is being prepared. Its adoption would define the coal price for electricity production at replacement Unit 6 at TEŠ and all the activities necessary to reach that price. This would allow determining the value of the company's interest in both subsidiaries.

As at 31 December 2013, a valuation of the stake in the company TET was carried for accounting purposes; as recoverable amount, fair value less sales costs was considered (using the adjusted book value method). The valuation was made by a certified company appraiser from the Slovenian Institute of Auditors. According to the 'Report on assessment of value of 81.33% share in the company TET as at 31 December 2013', the fair value less sales costs amounts to EUR 491,000. As at 31 December 2013, the impairment amounts to EUR 11,191,000.

The audit of Slovenian subsidiaries for 2013 was performed by the audit company Deloitte revizija d.o.o., while the companies HSE Balkan Energy, HSE Adria in HSE BH were audited abroad. Other companies abroad were not audited in 2013 due to noncompliance with auditing criteria under the local legislation. The company SRESA was not audited in 2013 either, as it has not yet started to operate.

CHANGES IN LONG-TERM INVESTMENTS IN SUBSIDIARIES

in EUR

	2013	2012
Purchase value 1 Jan.	**1,094,420,782**	**1,095,365,747**
Acquisitions	122,998,623	3,060,000
Disposals	(513,220)	(4,004,965)
Carrying amount 31 Dec.	**1,216,906,185**	**1,094,420,782**
Carrying amount 1 Jan.	**(125,848,492)**	**(113,027,152)**
Impairments	(11,191,000)	(12,821,340)
Written-down value as at 31 Dec.	**(137,039,492)**	**(125,848,492)**
Book value 1 Jan.	**968,572,290**	**982,338,595**
Book value 31 Dec.	**1,079,866,693**	**968,572,290**

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 2013, changes in deferred tax assets amount to EUR 991,634. EUR 1,207,490 is recognised in the income statement, while EUR -215,856 is disclosed in the statement of financial position.

Deferred tax assets are recalculated to 17% tax rate applicable for 2013 and the next periods.

CHANGES IN DEFERRED TAX ASSETS

in EUR

	Provisions	Impairment	Depreciation and amortisation expense	Other	Total
As at 01/01/2012	**102,729**	**2,928,686**	**23,962**	**561,910**	**3,617,287**
To debit/(credit) of profit or loss	(41,015)	498,374	17,376		474,735
To debit/(credit) of other comprehensive income				24,166	24,166
As at 31/12/2012	**61,714**	**3,427,060**	**41,338**	**586,076**	**4,116,188**
As at 01/01/2013	**61,714**	**3,427,060**	**41,338**	**586,076**	**4,116,188**
To debit/(credit) of profit or loss	(4,652)	1,242,708	(30,566)		1,207,490
To debit/(credit) of other comprehensive income				(215,856)	(215,856)
As at 31/12/2013	**57,062**	**4,669,768**	**10,772**	**370,220**	**5,107,822**

SHORT-TERM INVESTMENTS AND LOANS (5)

SHORT-TERM INVESTMENTS

in EUR

	31/12/2013	31/12/2012
Other short-term investments	21,309	23,066
TOTAL	**21,309**	**23,066**

As at 31 December 2013, the company discloses positive fair value of currency swaps among its short-term investments.

SHORT-TERM FINANCIAL RECEIVABLES AND LOANS

in EUR

	31/12/2013	31/12/2012
Short-term loans to Group companies	17,742,297	301,453,507
Short-term financial receivables from Group companies	13,352,140	2,123,198
TOTAL	**31,094,437**	**303,576,705**

SHORT-TERM LOANS GIVEN TO THE GROUP COMPANIES of EUR 17,700,000 include short-term loans to the companies PV and RGP.

Short-term loans given to RGP total EUR 1,700,000 and are approved until 31 March 2014 at 3.50% fix interest rate p.a. The loans are secured with blank bills of exchange.

Short-term framework loans given to PV total EUR 16,000,000 and are approved until 31 March 2014 at 3.50% fix interest rate p.a. The loans are secured with blank bills of exchange.

Loans were approved within the framework of cash management within the HSE Group – borrowing among the HSE Group companies.

Calculated interest on the discussed loans for 2013 amounts to EUR 239,870. Not yet due portion of interest at the end of 2013 amount to EUR 42,297.

SHORT-TERM FINANCIAL RECEIVABLES FROM THE GROUP COMPANIES include receivables from TEŠ arising from the debt transfer agreement for EUR 10,207,923 and from compensations for parent guarantees given to the group companies in total amount of EUR 3,144,217.

At the end of 2013, the company concluded the agreement on transfer of debt with TEŠ, on the basis of which the company directly settled the TEŠ's liabilities to the supplier of equipment for replacement Unit 6 in total amount of EUR 10,207,923. With the debt transfer agreement between HSE and TEŠ a financial receivable of HSE due from TEŠ was created. This receivable bears interest at the interest rate for loans among related parties.

The debt transfer agreement was concluded to prevent economic loss and to avoid suspension of works by Alstom and other suppliers for replacement Unit 6 at TEŠ. Regardless of the contractual provisions, we expect that this receivable will be closed when the issues regarding TEŠ recapitalisation will be solved (through government assistance). The receivable is therefore projected to be converted into the TEŠ's equity.

To solve the question of conversion of the receivable into equity of TEŠ, Private Investor Test (PIT) has to be carried out within the scope of an independent review. A successful PIT would mean that the recapitalisation of TEŠ as projected above would be allowed, as it would not represent an unlawful state aid.

CHANGES IN SHORT-TERM FINANCIAL RECEIVABLES AND LOANS

in EUR

	2013	2012
As at 1 Jan.	**303,576,705**	**109,317,324**
Acquisitions	197,078,773	210,972,697
Repayments	(469,561,041)	(16,713,316)
As at 31 Dec.	**31,094,437**	**303,576,705**

SHORT-TERM OPERATING RECEIVABLES (6)

in EUR

	31/12/2013	31/12/2012
Short-term operating receivables due from the Group companies	5,819,618	14,934,325
Short-term operating receivables due from associated companies	299,907	
Short-term operating receivables due from customers	147,371,132	163,052,316
Short-term advances	5,394,472	7,493,366
Short-term operating receivables due from government and other institutions	20,387,783	24,030,619
Short-term operating receivables due from others	202,358	6,041,536
TOTAL	**179,475,270**	**215,552,162**

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:

SHORT-TERM OPERATING RECEIVABLES DUE FROM THE GROUP COMPANIES

in EUR

		31/12/2013	31/12/2012
DEM d.o.o.	Slovenia	106,505	71,365
SENG d.o.o.	Slovenia	1,141,482	3,032,970
ELPROM d.o.o.	Slovenia	5,350	0
HESS d.o.o.	Slovenia	23,276	39,650
TEŠ d.o.o.	Slovenia	177,617	32,004
TET d.o.o.	Slovenia	35,210	0
PV d.d.	Slovenia	759,336	662,711
GOST d.o.o.	Slovenia	0	356
GOLTE d.o.o.	Slovenia	0	376
HSE Italia S.r.l.	Italy	10,359	5,599
HSE Balkan Energy d.o.o.	Serbia	228,438	721,458
HSE Adria d.o.o.	Croatia	3,302,677	5,166,612
HSE Bulgaria EOOD	Bulgaria	0	14,085
HSE MAK ENERGY DOOEL	Macedonia	10,501	3,256,353
HSE BH d.o.o.	Bosnia and Herzegovina	17,153	1,930,786
HSE RO ENERGY S.r.l.	Romania	1,714	0
TOTAL		**5,819,618**	**14,934,325**

SHORT-TERM TRADE RECEIVABLES mostly comprise receivables from electricity sales in Slovenia and abroad. Compared with the previous period, the 2013 trade receivables decreased, due to shrunk electricity trading.

The majority of SHORT-TERM OPERATING RECEIVABLES FROM ADVANCES GIVEN is represented by the advance for transferred electricity capacities (deposit settlement account). SHORT-TERM OPERATING RECEIVABLES FROM THE GOVERNMENT AND OTHER INSTITUTIONS mainly refer to input VAT receivable.

The company had no receivables due from management and Supervisory Board members at the end of 2013.

OTHER SHORT-TERM ASSETS (7)

in EUR

	31/12/2013	31/12/2012
Short-term deferred costs and expenses	1,555,226	1,975,957
Accrued revenues	2,155,956	445,666
TOTAL	**3,711,182**	**2,421,623**

OTHER SHORT-TERM ASSETS comprise short-term deferred costs and short-term accrued revenue, mostly related to electricity trade.

CASH AND CASH EQUIVALENTS (8)

in EUR

	31/12/2013	31/12/2012
Cash in banks	3,411,288	3,179,992
Deposits redeemable at notice	9,603,157	20,502
TOTAL	**13,014,445**	**3,200,494**

For the purposes of carrying out its activities, the company holds bank accounts in Slovenia and abroad.

As at 31 December 2013, the company discloses deposits redeemable at notice, mainly as overnight deposits on the treasury account within the framework of the HSE Group cash pooling.

EQUITY (9)

in EUR

	31/12/2013	31/12/2012
Called-up capital	29,558,789	29,558,789
Capital surplus	561,243,185	561,243,185
Revenue reserves	444,060,621	384,313,947
Fair value reserve	(3,795,939)	(8,169,827)
Retained earnings	38,269,583	21,477,090
TOTAL	**1,069,336,239**	**988,423,184**

CAPITAL SURPLUS

in EUR

	31/12/2013	31/12/2012
Paid-in capital surplus	561,243,072	561,243,072
Amounts arising from general capital revaluation adjustments.	113	113
TOTAL	**561,243,185**	**561,243,185**

The value of NOMINAL CAPITAL and CAPITAL SURPLUS remained unchanged in 2013.

OTHER REVENUE RESERVES increased by EUR 59,746,674, namely

- in line with the General Meeting decision, by the amount of the 2012 net profit of EUR 21,477,090,
- in accordance with a Supervisory Board decision based on the Managing Directors' proposal, by a half of the 2012 net profit, i.e. EUR 38,269,583.

Under FAIR VALUE RESERVE in total amount of EUR -3,795,939, the company discloses at the end of 2013:

- results of futures for electricity;
- fair value of currency changes;
- fair value of interest rate swaps for loans received, and
- actuarial loss from severance pays.

In 2013, the fair value reserve increased by EUR 4,373,888, mostly as a result of closure of futures contracts for emission coupons at the end of the year. 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 2013 that were collateralised with futures, while cost of goods sold cumulatively increased in the income statement by EUR 1,888,015. On the basis of electricity fluctuations on stock exchange, a cumulative negative financial effect in the amount of EUR -1,604,292 was realised in forwards concluded in 2013. 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 2013, compared with the period of conclusion of futures for electricity purchase, and it amounts to EUR -2,019,728.

In 2013, the company closed forwards contracts for hedging against changes in emission coupons purchase prices. This resulted in decreased fair value reserve and increased cost of emission coupons among intangible assets in the amount of EUR 7,212,680, while at the same time contingent costs of emission coupons purchase increased by EUR 23,228.

At the end of March 2011, the company concluded a contract on interest rate swap, the negative fair value of which amounted to EUR -1,807,546 (including deferred taxes), at the end of 2013.

At the end of 2013, the company discloses positive fair value of currency swaps in the amount of EUR 17,686 (including deferred taxes).

At the end of 2013, the company discloses EUR 13,649 of actuarial gain from calculation of severance pay in the fair value reserve, due to amended IAS 19.

CHANGE IN FAIR VALUE RESERVE

in EUR

	Standard futures for electricity	Forward contracts for emission coupons	Interest rate swaps	Currency swaps	Actuarial gains/losses in severance upon retirement	Total
As at 01/01/2012	**(1,262,247)**		**(1,998,986)**	**(248,654)**		**(3,509,887)**
Increase - establishment	1,438,632	2,935,023	(821,582)	38,639		3,590,712
Decrease	(10,769,778)	(6,125,036)		169,155		(16,725,659)
Transfer to expenses	8,289,942	185,065				8,475,007
As at 31/12/2012	**(2,303,451)**	**(3,004,948)**	**(2,820,568)**	**(40,860)**	**0**	**(8,169,827)**
As at 01/01/2013	**(2,303,451)**	**(3,004,948)**	**(2,820,568)**	**(40,860)**		**(8,169,827)**
Increase - establishment	442,292	7,362,700	1,013,022	58,617	13,649	8,890,280
Decrease	(2,046,584)	(11,593,660)		(71)		(13,640,315)
Transfer to expenses	1,888,015	7,235,908				9,123,923
As at 31/12/2013	**(2,019,728)**	**0**	**(1,807,546)**	**17,686**	**13,649**	**(3,795,939)**

RETAINED EARNINGS increased by EUR 16,792,493 in 2013. The value:

- decreased by EUR 21,477,090, representing a part of the 2012 accumulated profit that was transferred in other reserves on the basis of the General Meeting decision, and
- increased by the amount of the 2013 net profit of EUR 38,269,583.

PROVISIONS FOR TERMINATION AND JUBILEE BENEFITS (10)

in EUR

	31/12/2013	31/12/2012
Provisions for severance	398,053	472,685
Provisions for jubilee benefits	195,243	193,020
TOTAL	**593,296**	**665,705**

At the end of 2013, the company discloses PROVISIONS FOR TERMINATION AND JUBILEE BENEFITS created on the basis of actuarial calculation as at 31 December 2013.

The actuarial calculation was based on:

- the number of employees in the company as at 30 September 2013 (gender, age, overall and pension qualifying period of service, average net and gross salary for the period July – September 2013);
- method for calculating termination and jubilee benefits in the company;
- average salary growth of 1.4% in 2014, 1.3% in 2015 and 2016 and 3.0% in the following years;
- discount interest rate of 4.5% p.a.; and
- employee turnover by age category.

In 2013, the provisions decreased by EUR 72,409. The company created provisions for termination and jubilee benefits in the amount of EUR 32,358 and drew them for payment of jubilee benefits in the amount of EUR 30,135, and reversed provisions for termination benefits upon retirement in the amount of EUR 74,632.

OTHER PROVISIONS (11)

in EUR

	31/12/2013	31/12/2012
For lawsuits	3,241,609	6,501,957
TOTAL	**3,241,609**	**6,501,957**

In its OTHER PROVISIONS in 2013, the company discloses the provision regarding the lawsuits by the company W&P Profil-Solarvalue Holding d.o.o. (its receivable was transferred to the company Gomar d.d.) and the company TDR-Metalurgija d.d. (in liquidation proceedings), created in 2008. The amount of the claim decreased, therefore, that portion of the discussed provision was reduced accordingly. The value of provision includes also default interest.

CHANGES IN OTHER PROVISIONS

in EUR

	For lawsuits	Total
As at 01/01/2012	**7,982,714**	**7,982,714**
Increase - establishment	412,947	412,947
Decrease - reversal	(1,893,704)	(1,893,704)
As at 31/12/2012	**6,501,957**	**6,501,957**
As at 01/01/2013	**6,501,957**	**6,501,957**
Increase - establishment	188,323	188,323
Decrease - reversal	(3,448,671)	(3,448,671)
As at 31/12/2013	**3,241,609**	**3,241,609**

LONG-TERM FINANCIAL LIABILITIES (12)

in EUR

	31/12/2013	31/12/2012
Long-term financial liabilities to banks	74,809,549	86,160,206
Other long-term financial liabilities	2,177,766	3,398,275
TOTAL	**76,987,315**	**89,558,481**

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 taken out with a Slovene bank in 2007 for a period of 10 years,
- long-term financial loan taken out with the EIB in 2008 for 20 years.

The values of loan principals due in 2014 are recorded as short-term liabilities to banks.

Interest on loans received is settled on a quarterly or semi-annual basis, and its undue portion payable in 2013 is recorded under short-term financial liabilities or other short-term liabilities (accruals/ deferrals).

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

The long-term loan taken out in 2007 will be fully repaid in January 2017. The principal is repaid on a semi-annual basis. The agreed-upon interest rate is a 6-month EURIBOR plus a minimum mark-up. The loan is secured with six promissory notes.
The long-term loan taken out 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 -2,177,766 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.

CHANGES IN LONG-TERM FINANCIAL LIABILITIES

in EUR

	Long-term financial liabilities to banks	Other long-term financial liabilities	Total
As at 01/01/2013	**86,160,206**	**3,398,275**	**89,558,481**
Transfers to short-term liabilities	(11,350,657)		(11,350,657)
Other		(1,220,509)	(1,220,509)
As at 31/12/2013	**74,809,549**	**2,177,766**	**76,987,315**

SHORT-TERM FINANCIAL LIABILITIES (13)

in EUR

	31/12/2013	31/12/2012
Short-term financial liabilities to Group companies	11,002,110	77,169,836
Short-term financial liabilities to banks	11,541,509	156,452,200
Other short-term financial liabilities	70,633	72,295
TOTAL	**22,614,252**	**233,694,331**

SHORT-TERM FINANCIAL LIABILITIES in 2013 were lower than in 2012 due to repayment of short-term loans regarding bridge financing of the project replacement Unit 6 at TEŠ as a consequence of delayed drawing of the long-term loans of the EIB and EBRD to TEŠ, which was realised in March 2013.

SHORT-TERM FINANCIAL LIABILITIES ARISING FROM LOANS FROM COMPANIES IN THE GROUP comprise short-term framework loan received within the scope of cash management. Interest rate is 3.50% fixed p.a., which is the agreed interest rate for borrowing among the HSE Group companies within the scope of cash management. The loan is secured with a blank bill of exchange. For obtaining the short-term framework loans within the HSE Group cash management from the company DEM, the company HSE 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.

SHORT-TERM FINANCIAL LIABILITIES FROM BANK LOANS include a portion of principals of long-term loans which fall due in 2014.

At the end of the year, undue calculated interest on short-term loans amount to EUR 192,963.

OTHER SHORT-TERM FINANCIAL LIABILITIES include the liability for payment of bank guarantee management costs in the amount of EUR 70,633. In 2012, the company disclosed these liabilities among short-term operating liabilities amounting to EUR 71,580. Other short-term financial liabilities at the end of 2012 comprise negative fair value of currency swaps in the amount of EUR 72,294.

CHANGES IN SHORT-TERM FINANCIAL LIABILITIES

in EUR

	Short-term financial liabilities to Group companies	Short-term financial liabilities to banks	Other short-term financial liabilities	Total
As at 01/01/2013	**77,169,837**	**156,452,200**	**72,294**	**233,694,331**
Increase		65,000,000		65,000,000
Transfers from short-term liabilities		11,350,656		11,350,656
Repayments	(66,167,727)	(221,261,347)	(72,294)	(287,501,368)
Other			70,633	70,633
As at 31/12/2013	**11,002,110**	**11,541,509**	**70,633**	**22,614,252**

SHORT-TERM OPERATING LIABILITIES (14)

in EUR

	31/12/2013	31/12/2012
Short-term operating liabilities to Group companies	40,630,611	82,492,658
Short-term operating liabilities to joint ventures	106,753	153,522
Short-term operating liabilities to suppliers	86,558,209	105,974,513
Short-term operating liabilities from advances	59,767	5,252
Short-term operating liabilities to employees	695,124	923,290
Short-term operating liabilities to government and other institutions	17,108,609	21,411,321
Short-term operating liabilities to others	38,729	36,796
TOTAL	**145,197,802**	**210,997,352**

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 company in the Group as at the reporting date are listed in the table on the next page:

SHORT-TERM OPERATING LIABILITIES TO GROUP COMPANIES

in EUR

		31/12/2013	31/12/2012
DEM d.o.o.	Slovenia	10,853,487	10,528,603
MHE LOBNICA d.o.o.	Slovenia	5,605	5,323
SENG d.o.o.	Slovenia	7,709,112	10,028,796
HESS d.o.o.	Slovenia	1,886,453	1,560,923
TEŠ d.o.o.	Slovenia	10,214,327	39,782,384
TET d.o.o.	Slovenia	5,136,059	5,360,895
PV d.d.	Slovenia	23,494	22,933
HTZ VELENJE, IP d.o.o.	Slovenia	4,302	5,182
HSE INVEST d.o.o.	Slovenia	213,241	210,934
HSE Balkan Energy d.o.o.	Serbia	658,560	1,484,517
HSE Adria d.o.o.	Croatia	3,701,571	6,162,081
HSE Bulgaria EOOD	Bulgaria	0	584,777
HSE MAK ENERGY DOOEL	Macedonia	0	3,306,213
HSE BH d.o.o.	Bosnia and Herzegovina	224,400	3,449,097
TOTAL		**40,630,611**	**82,492,658**

The company's SHORT-TERM OPERATING LIABILITIES TO SUPPLIERS mainly relate to liabilities associated with the electricity purchased in Slovenia and abroad. Compared with the previous period, the 2013 trade liabilities decreased, due to shrunk electricity trading.

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.

OTHER SHORT-TERM LIABILITIES (15)

in EUR

	31/12/2013	31/12/2012
Short-term accrued costs and expenses	48,808,159	3,173,828
TOTAL	**48,808,159**	**3,173,828**

The company's other short-term liabilities comprise accrued costs.

These costs were incurred in 2013 and are included in the profit or loss for the year, but the company did not receive the relevant bills or invoices in the reporting year. The largest part of costs is from electricity purchases made in 2013 from TEŠ and TET amounting to EUR 43,617,571, deviations from commuter schedules in December 2013, interest on loans received for 2013 and liabilities arising from unutilised annual leave.

CONTINGENT LIABILITIES AND ASSETS (16)

Contingent liabilities include the guarantees granted and parent guarantees.

in EUR

	31/12/2013	31/12/2012
Guarantees and parent guarantees granted to subsidiaries in Slovenia	433,568,299	660,581,437
Guarantees and parent guarantees granted to subsidiaries abroad	10,600,916	5,500,000
Law suits by natural persons	212,186	0
Guarantees granted to others	126,115,400	62,124,606
TOTAL	**570,496,801**	**728,206,043**

Majority of guarantees granted arises from the difference between the value of replacement Unit 6 at TEŠ according to RIP 6 (February 2014 issue: EUR 1,428,544,300) and RIP 5 (EUR 125,965,400). This refers to the obligation of the company under the loan agreement with the EBRD to provide additional financing in the event of increase in the TEŠ project costs.

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

GUARANTEES AND PARENT GUARANTEES GRANTED TO SUBSIDIARIES IN SLOVENIA

in EUR

Beneficiary	Debtor	Guarantee type	Basic legal transaction	Validity		Nominal value	Contingent liability as at 31/12/2013	Contingent liability as at 31/12/2012
				From	Up to			
European Investment Bank/ bank consortium**	SENG	Guarantee for bank guarantee	Guarantee Facility Agreement as at 15/02/2006	15/2/06	Effective for the period of agreement applicability	Total EUR 43 million + interest + costs	28,950,000	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, purchase and sales agreement for natural gas no. 277/2013-2015 dated 16/10/2013	23/11/06, 1/8/13	Effective for the period of agreement applicability	for 2011-2015 a total of EUR 96 million + costs + interest; according to new agreement from 01/08/2013 until 2015 EUR 40 million	29,800,000	61,500,000
Alstom consortium*	TEŠ	Parent guarantee	Agreement between TEŠ and Alstom consortium (Contract on the design, procurement and erection of the power island for the facility called "Sostanj Unit 6"), as at 27/06/2008, 19/10/2009	25/11/09	Effective for the period of agreement applicability	Total EUR 695 million + escalation clause + installation + interest + costs (RIP5)	126,818,299	407,831,437
European Investment Bank/ bank consortium**	TEŠ	Guarantee for bank guarantee	Guarantee Facility Agreement as at 24/11/2010	24/11/10	Effective for the period of agreement applicability	Total EUR 88 million + interest + costs	88,000,000	88,000,000
UniCredit Slo, SID**	TEŠ	Guarantee for bank loan	Loan agreement no. K 1967/07-SIN-107/07 as at 21/12/2007, 24/11/2010	21/12/07, 24/11/10	Effective for the period of agreement applicability	Total EUR 24 million + interest + costs	0	4,000,000
EBRD**	TEŠ	Guarantee for EBRD loan	Agreement on guarantee and loss reimbursement between HSE and EBRD as at 12/01/2011	12/1/11	Effective for the period of loan agreement applicability	Total EUR 160 million + interest + costs	160,000,000	66,000,000
Total							**433,568,299**	**660,581,437**

* Contingent liability refers to the unrealised value of the contracts (without VAT).
** Contingent liability refers to the principal under the loan received.

Granted and parent guarantees decreased compared with 2012 due to realised transactions and payments to the suppliers Geoplin and Alstom and repayments of loans to the bank Unicredit and, partially, to the EIB. The guarantees for the EIB loan drawn by TEŠ in 2013 increased.

The tax authorities have the right to audit the company's operations within 10 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 no longer include the principal 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 lost the lawsuit in front of the European Commission for repayment of the penalty in the amount of EUR 9,100,000. The judgement was received at the end of 2013.

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 and sales of gas.

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

NET SALES REVENUES

in EUR

	2013	2012
On the domestic market	**598,981,458**	**753,439,978**
Electricity	577,025,708	720,742,697
Other mechandise and material	20,758,758	31,476,038
Other services	1,196,992	1,221,243
On the foreign market	**1,038,414,791**	**1,179,048,733**
Electricity	992,078,389	1,131,285,517
Other mechandise and material	23,704,262	28,450,553
Other services	22,632,140	19,312,663
Total	**1,637,396,249**	**1,932,488,711**

OTHER OPERATING REVENUE (18)

The main part of OTHER OPERATING REVENUE includes revenue from reversal of provisions and the compensation for loss of revenue from electricity sales due to the Drava River floods in November 2012 and, consequently, longer interruption of the HPP Formin operations.

OTHER OPERATING REVENUE

in EUR

	2013	2012
Revenue from the reversal of provisions	3,555,540	1,893,704
Profit from sales of fixed assets and reversed impairment of receivables	474	5,071
Revenue from compensations and contractual penalties	2,005,802	24,345
Other operating revenue	193,755	9,089,657
Total	**5,755,571**	**11,012,777**

COSTS OF GOODS, MATERIALS AND SERVICES (19)

in EUR

	2013	2012
Cost of goods sold	1,478,055,511	1,807,947,665
Contingent costs of goods sold	44,196,990	53,524,452
Total cost of goods sold	**1,522,252,501**	**1,861,472,117**
Total costs of material	**277,241**	**259,732**
Total costs of services	**6,173,648**	**5,938,977**
Total	**1,528,703,390**	**1,867,670,826**

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 and gas, 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.

The most important COSTS OF MATERIALS refer to costs of fuel, office materials and technical literature.

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

AUDIT FEES

in EUR

	2013	2012
Audit of the Annual Report	21,396	23,940
Total	**21,396**	**23,940**

LABOUR COSTS (20)

Costs of labour comprise costs of salaries and other receipts by employees, including employer's contributions. This includes also the costs of compensations for unutilised leaves in 2013, which can be utilised until 30 June 2014.

LABOUR COSTS

in EUR

	2013	2012
Salaries	6,702,649	6,834,693
Pension insurance costs	865,850	871,801
Other insurance costs	503,681	506,078
Other labour costs	748,286	562,356
Total	**8,820,466**	**8,774,928**

Other labour costs in 2013 comprise provisions for jubilee benefits in the amount of EUR 32,358. In 2012, these provisions were disclosed among other operating expenses and amounted to EUR 66,452. The change in disclosing is due to amended single chart of accounts recommended by the Association of Accountants, Treasurers and Auditors of Slovenia.

In 2013, the company received additional requests from individual former employees and current employees regarding payments based on legal provisions. The probability that the company will be ordered to settle such payments has been estimated as low, therefore, the company discloses these liabilities among its contingent liabilities.

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

WRITE-DOWNS (21)

in EUR

	2013	2012
Amortisation of intangible assets	493,459	452,299
Depreciation of property, plant and equipment	1,219,454	1,563,556
Allowance for or write-down in receivables	3,993	824,349
Sale and write-down in property, plant and equipment and intangible assets	20,526	6,548
Total	**1,737,432**	**2,846,752**

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

FINANCIAL REVENUE (22)

in EUR

	2013	2012
Dividends and other profit shares	43,355	2,711,269
Financial revenue from loans granted and deposits	5,108,843	7,214,242
Other financial revenue	3,145,964	2,123,198
Total	**8,298,162**	**12,048,709**

FINANCIAL REVENUE FROM INTEREST mainly includes charged interest on loans given to group companies and interest on deposits.

OTHER FINANCIAL REVENUE mostly comprises compensations for parent guarantees given to group companies.

FINANCIAL EXPENSES (23)

in EUR

	2013	2012
Financial expenses from loans received	7,599,489	7,753,911
Financial expenses from impairment of financial assets	11,191,000	12,821,340
Other financial expenses	12,657	785,865
Total	**18,803,146**	**21,361,116**

FINANCIAL EXPENSES FOR LOANS RECEIVED are mainly composed of interest on long-and short-term loans from banks and group companies.

FINANCIAL EXPENSES ARISING FROM IMPAIRMENT OF INVESTMENTS comprise impaired investment in the company TET.

TAX (24)

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

In accordance with the Corporate Income Tax Act, the tax for 2013 amounted to 17% of the tax base reported in the company's tax return.

The company's 2013 current tax amounts to EUR 17,622,677. Based on the 2012 tax return, the company made a EUR 10,144,482 advance payment of income tax for 2013. Its current tax liability amounts to EUR 7,478,195 at the end of 2013.

TAXES

in EUR

	2013	2012
a. Current tax liabilities	17,622,677	11,717,691
b. Deferred taxes	(1,207,489)	(474,735)
Income tax disclosed in income statement	**16,415,188**	**11,242,956**

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

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.

EFFECTIVE TAX RATE CALCULATION

in EUR

	2013	2012
Profit or loss before tax	92,954,354	54,197,135
Tax calculated at applicable tax rate	15,802,240	9,755,484
Tax from revenue reducing tax base	(7,370)	(488,028)
Tax from tax breaks	(130,967)	(129,547)
Tax from expenses reducing tax base	(47,083)	(30,303)
Tax from non-deductible expenses	2,005,445	2,585,684
Tax from other changes in tax calculation	412	24,401
TAX	**17,622,677**	**11,717,691**
Effective tax rate	**18.96%**	**21.62%**

NET PROFIT OR LOSS (25)

The company ended the year of 2013 with total profit of EUR 76,539,166.

NET PROFIT OR LOSS

in EUR

	2013	2012
Gross operating income	1,643,151,820	1,943,501,488
Operating profit or loss	103,459,338	63,509,542
Net cash	(10,504,984)	(9,312,407)
Profit or loss before tax	92,954,354	54,197,135
Net profit or loss for the period	**76,539,166**	**42,954,179**

4.5.8.3 STATEMENT OF OTHER COMPREHENSIVE INCOME

In the statement of other comprehensive income among the items that will be subsequently reclassified in the income statement, the company discloses results of futures contracts for the purchase of electricity and emission coupons and fair value of interest and currency swaps in total amount of EUR 4,360,239.

Results arising from realised and newly concluded futures for electricity in 2013 amount to EUR 283,723. A detailed disclosure is available in sections 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.

The result arising from realised futures for emission coupons in 2013 amounts to EUR 3,004,948. A detailed disclosure is available in sections 4.5.8.1.(9).

In 2011, the company concluded an interest rate swap for which the 2013 net effect of fair value change amounts to EUR 1,013,022, which means a final negative IRS fair value in the amount of EUR -2,177,766, of which the company accounted for EUR 370,220 of deferred tax assets.

In 2013, the company closed the currency swap transactions, the fair value of which amounted to EUR -40,860 as at 31 December 2012, including account deferred taxes. In 2013, the company concluded new transactions, some of which were closed in the same year. The difference totals EUR 58,546. At the end of 2013, the fair value of open currency swaps amounts to EUR 21,309, of which the company accounted for EUR 3,623 of deferred tax liabilities. Thus, the net effect amounts to EUR -17,686.

The items that subsequently will not be reclassified in the profit or loss include the actuarial deficit regarding liabilities to employees for severance pay in the amount of EUR 13,649. The change is due to the amended IAS 19 effective as of 1 January 2013. This amount was previously disclosed among other operating expenses in the income statement.

Taking into account all of the above, the total comprehensive income at the end of 2013 amounts to EUR 80,913,054.

4.5.8.4 CASH FLOW STATEMENT

Data from the cash flow statement is obtained from the balance sheets for the current and previous year and the income statement for the current period.

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

- the decrease from futures for purchases of electricity and emission coupons for 2013 in the fair value reserve and in operating expenses,
- the decrease arising from fair value of interest rate and currency swaps in the fair value reserve and disbursements from financing activities.

CASH FLOW TYPES

in EUR

	2013	2012
Cash flows from operating activities	104,819,550	57,917,957
Cash flows from investing activities	134,472,288	(187,640,684)
Cash flows from financing activities	(229,477,887)	114,720,089
Net cash for the period	**9,813,951**	**(15,002,638)**

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.

Total comprehensive income of the reporting period increased by EUR 80,913,054, with the increase consisting of:

- net profit for the year in the amount of EUR 76,539,166, and
- change in other comprehensive income components in the amount of EUR 4,373,888 (disclosed in detail in section 4.5.8.3.).

In the reporting period, individual items of equity changed in total amount of EUR 59,746,672, due to:

- transfer of accumulated profit in 2012 in the amount of EUR 21,477,089 (in accordance with the General Meeting decision) to other revenue reserves, and
- allocation of half of the net profit for the year in the amount of EUR 38,269,583 to other revenue reserves, in accordance with a Supervisory Board decision adopted on the proposal of the company's management.

Accumulated profit for 2013 totals EUR 38,269,583 and represents the net profit for the period. The decision regarding allocation of accumulated profit is made by the owner.

ACCUMULATED PROFIT OR LOSS

in EUR

	2013	2012
Net profit or loss for the period	76,539,166	42,954,179
Increase (additional establishment) of revenue reserves	(38,269,583)	(21,477,089)
Accumulated profit or loss	**38,269,583**	**21,477,090**

4.5.8.6 ASSOCIATED COMPANIES

The columns of sales and purchases represent the turnover of all transactions (excl. VAT), including interest on loans received and granted between the company HSE and related companies in 2013. For loans granted and received the balance at the end of 2013 is presented (loan with interest). Revenue from parent guarantees granted in 2013 are disclosed separately, 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.

DATA ON ASSOCIATED COMPANIES

in EUR

	Disposals	Acquisitions	Granted loans with interest	Raised loans with interest	Income from issued per. guar.
DEM d.o.o.	64,421	70,397,411		11,002,110	
MHE LOBNICA d.o.o.		21,133			
SENG d.o.o.	10,754,701	44,999,045			189,155
ELPROM d.o.o.	6,163,317	6,625,802			
HESS d.o.o.	83,315	11,278,340			
TEŠ d.o.o.	3,654,620	238,458,452	10,207,922		2,912,857
TET d.o.o.	392,405	33,842,859			
PV d.d.	4,084,507	222,123	16,037,781		
HTZ VELENJE, IP d.o.o.		29,644			
GOST d.o.o.		23,046			
RGP d.o.o.	13,051		1,704,516		
HSE Invest d.o.o.		912,400			
HSE Italia S.r.l.	6,371,594	6,538,276			
HSE Balkan Energy d.o.o.	10,772,906	17,043,358			27,205
HSE Adria d.o.o.	53,424,700	58,508,422			15,000
HSE Bulgaria EOOD	5,898,736	6,174,552			
HSE MAK Energy DOOEL	6,593,550	6,385,429			
HSE BH d.o.o.	6,101,642	9,189,400			
HSE RO Energy S.r.l.	1,715				
TOTAL 2013	**114,375,180**	**510,649,692**	**27,950,219**	**11,002,110**	**3,144,217**

TRANSACTIONS WITH THE REPUBLIC OF SLOVENIA AND LEGAL ENTITIES WHICH ARE DIRECTLY OR INDIRECTLY OWNED BY THE REPUBLIC OF SLOVENIA

in EUR

Business partner	Open receivables as at 31/12/2013	Open liabilities as at 31/12/2013	Expenses in 2013	Revenue in 2013
ELEKTRO ENERGIJA d.o.o.	14,802,953	817,581	13,703,286	142,030,190
ELEKTRO CELJE ENERGIJA d.o.o.	10,292,842	72,280	1,032,351	91,306,240
ELEKTRO MARIBOR ENERGIJA PLUS d.o.o.	8,565,368	353,088	1,653,629	75,965,805
E3, energetika, ekologija, ekonomija, d.o.o.	10,678,656	7,485	292,116	59,015,564
ELEKTRO GORENJSKA PRODAJA d.o.o.	12,760,111	8,094,478	6,874,637	46,856,367
ELEKTRO-SLOVENIJA d.o.o.	3,895,720	952,880	7,031,469	31,779,662
TALUM d.d.	2,734,776	0	0	20,922,690
GEN-I d.d.	388,674	335,802	6,468,424	5,628,926

HSE is fully owned by the Republic of Slovenia. In 2013, the company did not conclude any transactions with the government.

The table represents transactions with legal entities which are directly or indirectly majorly owned by the Republic of Slovenia and perform energy activity or they 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 statement,
- 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 members in 2013.

Short-term operating liabilities include December salaries for managers and employees who are not subject to the tariff part of the collective agreement as well as December attendance fees payable to Supervisory Board members for their work in the Supervisory Board.

RECEIPTS

in EUR

	Salary	Other receipts	Bonuses	Cost reimbursement	Total
Members of the Management Board	142,263	4,120	2,872	1,915	151,170
Members of the Supervisory Board and the Audit Committee	0	120,833	752	4,494	126,079
Employees who are not subject to the tariff part of the collective agreement	1,732,268	360,821	39,536	39,755	2,172,380
GROSS RECEIPTS IN 2013	**1,874,531**	**485,774**	**43,160**	**46,164**	**2,449,629**

RECEIPTS OF THE MANAGEMENT

in EUR

	Gross salary	Net salary	Other receipts - bonus for working performance	Other receipts - recourse	Bonus use of car	Accident insurance benefit	Bonus D&O insurance	Voluntary supplementary pension insurance	Cost/expenses reimbursement	Total
Blaž Košorok	142,263	68,602	799	784	2,709	40	123	2,537	1,915	151,170
TOTAL PAYMENTS	**142,263**	**68,602**	**799**	**784**	**2,709**	**40**	**123**	**2,537**	**1,915**	**151,170**

RECEIPTS OF THE SUPERVISORY BOARD MEMBERS

in EUR

	Gross attendance fee	Net attendance fee	Travel costs	D&O bonus	Total
Zidanšek Marko	21,717	16,702	0	147	21,864
Krmelj Vlasta	16,647	14,306	1,978	147	18,772
Kralj Peter	16,162	12,478	106	147	16,415
Ziherl Milenko	15,792	12,197	113	147	16,052
Molan Marjana	6,853	5,311	0	0	6,853
Prevalnik Stanislav	16,002	12,633	381	82	16,465
Jančar Boštjan	9,149	7,579	713	82	9,944
TOTAL	**102,322**	**81,206**	**3,291**	**752**	**106,365**

RECEIPTS OF THE AUDIT COMMITTEE MEMBERS

in EUR

	Gross attendance fee	Net attendance fee	Travel costs	Total
Kralj Peter	3,526	2,808	97	3,623
Prevalnik Stanislav	3,526	2,911	231	3,757
Ziherl Milenko	4,408	3,461	57	4,465
TOTAL	**11,460**	**9,180**	**385**	**11,845**

* the receipts of external members of the Audit Committee are not disclosed

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 electricity trading 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 the applicable policy of credit risks management 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 good 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, deposits and collectibles. Receivables are exceptionally 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 natural persons, receivables are secured with bills of exchange.

In 2013, our partners have regularly complied with their obligations with rare exceptions.

In case of delays, the customers in Slovenia and abroad are charged default interest at the contractual rate.

At the end of 2013, the company has EUR 849,584 of doubtful receivables. Majority of doubtful receivables refers to the electricity sales receivable, i.e. 75% of the receivable. Bankruptcy procedure for this matter is not yet concluded.

CHANGES IN ALLOWANCES FOR SHORT-TERM OPERATING RECEIVABLES

in EUR

	2013	2012
As at 1 Jan.	**854,273**	**29,965**
Formation of value adjustments for receivables	3,992	824,308
Final write-off of receivables	(8,681)	0
As at 31 Dec.	**849,584**	**854,273**

LONG-TERM RECEIVABLES BY MATURITY

in EUR

	DUE DATE			
	UP TO 2 YEARS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION	FROM 3 TO 5 YEARS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION	OVER 5 YEARS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION	TOTAL
Long-term operating receivables due from others	676,352			676,352
TOTAL 31/12/2012	**676,352**	**0**	**0**	**676,352**

in EUR

	DUE DATE			
	UP TO 2 YEARS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION	FROM 3 TO 5 YEARS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION	OVER 5 YEARS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION	TOTAL
Long-term operating receivables due from others	659,866			659,866
TOTAL 31/12/2013	**659,866**	**0**	**0**	**659,866**

Among its long-term operating receivables, the company discloses assets provided for collateralisation of trading transactions.

SHORT-TERM OPERATING AND FINANCIAL RECEIVABLES BY MATURITY

in EUR

	DUE DATE						
	NOT YET DUE	OVERDUE UP TO 3 MONTHS (90 days)	OVERDUE FROM 3 TO 6 MONTHS (from 90 days to 180 days)	OVERDUE FROM 6 TO 9 MONTHS (from 181 days to 270 days)	OVERDUE FROM 9 TO 12 MONTHS (from 271 days to 360 days)	OVERDUE MORE THAN ONE YEAR (more than 361 days)	TOTAL
Short-term operating receivables due from the Group companies	14,934,325						14,934,325
Short-term operating receivables due from customers	153,557,215	9,190,366			1,109,647	29,965	163,887,193
Short-term advances	7,493,366						7,493,366
Short-term operating receivables due from government and other institutions	24,030,619						24,030,619
Short-term operating receivables due from others	6,060,932						6,060,932
Short-term financial receivables and loans to Group companies	303,576,705						303,576,705
TOTAL AS AT 31/12/2012	**509,653,162**	**9,190,366**	**0**	**0**	**1,109,647**	**29,965**	**519,983,140**

in EUR

	DUE DATE						
	NOT YET DUE	OVERDUE UP TO 3 MONTHS (90 days)	OVERDUE FROM 3 TO 6 MONTHS (from 91 days to 180 days)	OVERDUE FROM 6 TO 9 MONTHS (from 181 days to 270 days)	OVERDUE FROM 9 TO 12 MONTHS (from 271 days to 360 days)	OVERDUE MORE THAN ONE YEAR (more than 361 days)	TOTAL
Short-term operating receivables due from the Group companies	5,752,189	44,953	22,476				5,819,618
Short-term operating receivables due from joint ventures	299,907						299,907
Short-term operating receivables due from customers	139,813,810	7,282,553				1,105,017	148,201,380
Short-term advances	5,394,472						5,394,472
Short-term operating receivables due from government and other institutions	20,387,783						20,387,783
Short-term operating receivables due from others	202,358					19,336	221,694
Short-term financial receivables and loans to Group companies	31,094,437						31,094,437
TOTAL AS AT 31/12/2013	**202,944,956**	**7,327,506**	**22,476**	**0**	**0**	**1,124,353**	**211,419,291**

The majority of overdue short-term receivables at the end of 2013 refers to invoices issued for electricity sold that have already been settled by the time this report was prepared.

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 HSE 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 monitoring of financial markets.

Due to financial and economic crisis as well as unfavourable position of the HSE Group, the management of liquidity risks is of utmost importance, which is why we are even more careful in managing liquidity risk with emphasis on intensifying an effective cash flow planning, which enables timely prediction of possible liquidity surpluses and deficits and their optimal management.

As at 31 December 2013, the company's overdue short-term liabilities were settled.

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

LONG-TERM LIABILITIES BY MATURITY

in EUR

	DUE DATE			
	UP TO 2 YEARS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION	FROM 3 TO 5 YEARS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION	OVER 5 YEARS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION	TOTAL
Long-term financial liabilities to banks	11,350,657	25,476,216	49,333,333	86,160,206
Other long-term financial liabilities	3,398,275			3,398,275
TOTAL AS AT 31/12/2012	**14,748,932**	**25,476,216**	**49,333,333**	**89,558,481**

in EUR

	DUE DATE			
	UP TO 2 YEARS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION	FROM 3 TO 5 YEARS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION	OVER 5 YEARS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION	TOTAL
Long-term financial liabilities to banks	11,350,656	14,125,559	49,333,334	74,809,549
Other long-term financial liabilities	2,177,766			2,177,766
TOTAL AS AT 31/12/2013	**13,528,422**	**14,125,559**	**49,333,334**	**76,987,315**

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 the procedures for drawing the long-term EIB and EBRD loans had a strong impact on the liquidity of HSE and TEŠ in the first quarter of 2013, as well as on other HSE Group companies. In March 2013, TEŠ drew the long-term loan from the EIB in the amount of EUR 440,000,000 and the difference of the long-term loan from the EBRD in the amount of EUR 117,500,000. In line with provisions of the contracts with the two banks, TEŠ cannot obtain additional short-term loans on financial markets; therefore, it was forced into bridge financing of the Unit 6 project through borrowing within the scope the HSE Group cash management and with proper assets. Prior to drawing the EIB and EBRD loans, TEŠ carried out bridge financing of the replacement Unit 6 investment in the form of short-term framework loans granted by HSE. As the Group did 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. The amount of short-term revolving loans HSE granted to the company TEŠ for the purpose of bridge financing of the replacement Unit 6 project totalled as much as EUR 335,600,000 at the end of March 2013, comprising assets of the company HSE, assets of the HSE Group companies and short-term loans from commercial banks.

With drawing of the long-term loans from EIB and EBRD in the amount of EUR 440,000,000 and EUR 117,500,00, respectively, in March 2013, TEŠ repaid short-term bridge loans to HSE. Consequently, the company HSE settled short-term revolving loans received within the HSE Group cash management and short-term loans from commercial banks, taken out for bridge financing of TEŠ. This released the liquidity crunch both for HSE and the HSE Group.

At the end of 2013, the company took short-term loan within the scope of the HSE Group cash management from the company DEM for the purpose of liquidity risk management. The contract on short-term revolving loan with DEM was concluded in the amount of EUR 70,000,000, of which EUR 11,000,000 were drawn by the end of 2013.

For liquidity risk management and for ensuring the company's liquidity in the next year, appropriate measures were taken already in 2013. HSE planned to ensure long-term funds for TEŠ recapitalisation already in 2013 by taking long-term loans in the amount of EUR 45,000,000 and for this purpose obtained a positive opinion of the competent ministry in accordance with the decree on borrowing. The Ministry of Finance sent HSE a negative response to its request for approval of the beginning of the process for long-term borrowing, as it is had determined that there was a probability that the planned long-term borrowing of HSE to recapitalise TEŠ would mean a state aid to TEŠ or an aid for its day-to-day operations, which in accordance with the rules on state aid is unlawful.

The company managed to recapitalise TEŠ in 2013 for the purposes of the replacement Unit 6 project, entirely through own assets in the amount of EUR 118,400,000. Moreover, due to the issues of possible unlawful state aid regarding the recapitalisation, the company assumed the TEŠ's debt in the amount of EUR 10,207,923 in December 2013 to prevent economic loss.

Liquidity risk management in 2013 was characterised also by activities in the international markets, which depended on bad credit ratings of the domestic banks. Namely, foreign banks began to restrict credit and guarantee lines for the company due to increased sovereign risk as well as low credit ratings of the domestic banks. Nevertheless, the company managed to ensure an adequate amount of credit and guarantee 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.

On the basis of the above, we estimate the 2013 liquidity management as adequate.

Expected future conditions in the area of electricity trading and projections of electricity prices in the coming years indicate that, at low prices of emission coupons and increased RES production, electricity prices will be at very low levels. Low electricity prices and, consequently, lower revenue, considering the HSE's large-scale investment cycle over the last years, put the company and the HSE Group in a position where, in order to ensure uninterrupted operations, maintain the financial stability and achieve the goals set, they have to implement extensive measures for streamlining of operations, increase of profitability, and in particular improved liquidity.

In terms of the state aid issues regarding the TEŠ recapitalisation and relative long-term borrowing, Private Investor Test (PIT) will be performed in 2014 within the scope of an independent review of RIP 6. After the RIP 6 review at the Government of the Republic of Slovenia and based on the PIT results, solving the issues of state aid in terms of recapitalisation and relative long-term borrowing will be approached again.

HSE plans to ensure funds for the company TEŠ in 2014 through recapitalisation or debt transfer, for which it will use proper funds; for this purpose, HSE took a liquidity loan from DEM for day-to-day operations, which it can subsequently fully convert into payment of unpaid accumulated profit, thus, ensure additional own assets. Also according to the 2014 liquidity plan, within the scope of its own regular operations, the company can ensure settlement of short-term loans it will take to manage the liquidity risk from commercial banks during the calendar year.

Based on the above, the company manages its liquidity risk appropriately also in 2014.

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).

In 2013, the company managed its currency risk adequately. 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.

The company constantly monitors currency risk and reports on its management regularly. Additionally, the company continuously follows developments on the money market, changes in prices and values of currency hedging contracts.

The following exchange rates were used to convert assets and liabilities as at 31 December 2013:

EXCHANGE RATES

in EUR

Country	Currency designation	Closing exchange rate in EUR for 2013	Closing exchange rate in EUR for 2012
Bosnia and Herzegovina	BAM	1.9558	1.9558
Bulgaria	BGN	1.9558	1.9558
Croatia	HRK	7.6265	7.5575
Macedonia	MKD	61.9360	61.4870
Serbia	RSD	114.1400	113.3900
Czech Republic	CZK	27.4270	25.1510
Hungary	HUF	297.0400	292.3000
Romania	RON	4.4710	4.4445
Switzerland	CHF	1.2276	1.2072
USA	USD	1.3791	1.3194

FOREIGN EXCHANGE RISK

in EUR

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

in EUR

	EUR	HUF	Other currencies	Total
Long-term operating receivables	477,517		182,349	659,866
Short-term financial receivables and loans	31,094,437			31,094,437
Short-term operating receivables	179,475,270			179,475,270
Long-term financial liabilities	(76,987,315)			(76,987,315)
Short-term financial liabilities	(22,614,252)			(22,614,252)
Short-term operating liabilities	(144,240,098)	(883,912)	(73,492)	(145,197,502)
Net exposure of the statement of financial position 31/12/2013	**(32,794,441)**	**(883,912)**	**108,857**	**(33,569,496)**

CONTRACTS CONCLUDED FOR CURRENCY SWAPS BY MATURITY

in EUR

	31/12/2013	31/12/2012
Contracts concluded for currency swaps by maturity - up to 12 months	971,717	4,900,045
	971,717	**4,900,045**

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. The company managed interest rate risks in 2013 successfully pursuing its aim to limit and reduce the risks of changes in interest rates, thus, ensuring stable cash flows. Accordingly, we have adopted a risk management strategy already in 2011, with the approval of the company HSE's Risk Management Committee, which defined the share or level up to which the company must hedge against risks and the instruments used for hedging. For this purpose, the company has a transaction of interest rate hedging with derivative interest swap (IRS). The interest rate swap transaction is highly efficient, since the interest rate hedging in all its characteristics fully complies with the hedged item, and was concluded exclusively with the intention to hedge against risks and not for speculation purposes. 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 is successful, the changes in fair value are recognised directly in equity. Interest rate hedging transaction was concluded on the basis of standard contract ISDA and the possibility of transaction non-realisation is estimated as minimum by the bank.

CONTRACTS CONCLUDED FOR INTEREST RATE SWAPS BY MATURITY

in EUR

	31/12/2013	31/12/2012
from 1 to 5 years	45,454,545	48,484,848
TOTAL	**45,454,545**	**48,484,848**

INTEREST RATE SWAP EFFECT

in EUR

	2013	2012
Unrealised loss from effective deals	(2,177,766)	(3,398,275)
Realised loss from effective deals	(1,216,328)	(915,197)
TOTAL	**(3,394,094)**	**(4,313,472)**

SENSITIVITY ANALYSIS OF CASH FLOW WITH FINANCIAL INSTRUMENTS WITH 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. Due to low interest rate for the EIB loan, we used the lowest rate possible, i.e. 0.01%, as a decreased interest rate for this loan, since a decrease by 50 b.p. would result in a negative interest rate. Consequently, the final result is different with +/- 50 b.p. change in interest rate.

FINANCIAL INSTRUMENTS FEATURING A VARIABLE INTEREST RATE

in EUR

FINANCIAL INSTRUMENTS	Net profit/loss 2013		Net profit/loss 2012	
	Increase by 50 bp	Decrease by 50 bp	Increase by 50 bp	Decrease by 50 bp
Financial instruments at variable interest rate	**(786,367)**	**754,911**	**(788,874)**	**788,874**
Financial assets			92,120	(92,120)
Financial liabilities	(786,367)	754,911	(880,994)	880,994

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 trades with futures with the purpose to protect long-term transactions against price risks. In sales and purchase of electricity with physical purchase after 2013 (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 futures contract with the purpose of position trading increases the price exposure of the company since it is concluded with the intention to generate 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 2013, the company had solely futures contracts concluded for hedging against price fluctuations of already concluded contracts with physical supply of electricity after 2013.

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 2013, the company adopted the Strategy on Sales of Own Production and Purchase of CO_2 Emission Coupons for the Purposes of Own Production with the goal of ensuring long-term and stable revenue from electricity sales. The strategy replaces the Decision on Sales of Own Production and the decision on Purchase of CO_2 Emission Coupons for the Purposes of Own Production after 2012. 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 to maximise profit and to ensure stable revenue from electricity sales.

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. The cost of 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, with the third trading period, the method of emission coupons allocation in the energy sector changed, as the abovementioned power plants have to fully cover all CO_2 emissions with the purchase of emission coupons in open market. This caused an increase in operating expenses of power plants and in 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.

Already in 2011, the company HSE decided to partly protect itself against risks of change in the price of CO_2 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 the subsidiaries, 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.

In 2013, the company HSE closed the concluded futures for purchase of emission coupons from previous years and records these coupons among intangible assets along with other coupons bought on the market. At the end of 2013, the company has no new futures for purchase of emission coupons.

Disclosures of futures for purchase of emission coupons are presented in sections 4.5.8.1(1) Intangible assets, 4.5.8.1.(9) Equity and 4.5.8.3 Statement of other comprehensive income.

CONCLUDED STANDARD CALL FUTURES

in EUR

	2013	2012
For electricity	5,884,092	15,049,106
For emission coupons		16,919,000
TOTAL	**5,884,092**	**31,968,106**

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 2013 was lower than in 2012, as a result of lower short-term debt. In 2012, the company HSE carried out bridge financing of replacement Unit 6, as TEŠ was unable to draw the long-term loans from EIB and EBRD by the end of 2012 due to delay in obtaining the government guarantee. For financing the replacement Unit 6 at TEŠ, the company used short-term loans from commercial banks and the HSE Group in 2012.

CAPITAL MANAGEMENT

in EUR

	31/12/2013	31/12/2012
Long-term financial liabilities	76,987,315	89,558,481
Short-term financial liabilities	22,614,252	233,694,331
Total financial liabilities	**99,601,567**	**323,252,812**
Equity	1,069,336,239	988,423,184
Financial liabilities/capital	**0.09**	**0.33**
Net financial liability	86,587,122	320,052,318
NET DEBT/EQUITY	**0.08**	**0.32**

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.

CARRYING AMOUNTS AND FAIR VALUES OF FINANCIAL INSTRUMENTS

in EUR

Financial instruments	31/12/2013		31/12/2012	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative financial assets at fair value	**387,809**	**387,809**	**389,566**	**389,566**
Available-for-sale financial assets	366,500	366,500	366,500	366,500
Derivatives (assets)	21,309	21,309	23,066	23,066
Non-derivative financial assets at amortised cost	**224,265,327**	**224,265,327**	**523,005,713**	**523,005,713**
Financial receivables	31,115,746	31,115,746	303,576,705	303,576,705
Operating receivables	180,135,136	180,135,136	216,228,514	216,228,514
Cash	13,014,445	13,014,445	3,200,494	3,200,494
TOTAL	**224,653,136**	**224,653,136**	**523,395,279**	**523,395,279**
Non-derivative financial liabilities at fair value	**2,177,766**	**2,177,766**	**3,470,570**	**3,470,570**
Derivatives (liabilities)	2,177,766	2,177,766	3,470,570	3,470,570
Non-derivative financial liabilities at amortised cost	**242,621,603**	**242,621,603**	**530,779,594**	**530,779,594**
Bank borrowings	97,353,168	97,353,168	319,782,242	319,782,242
Other financial liabilities	70,633	70,633	0	0
Operating liabilities	145,197,802	145,197,802	210,997,352	210,997,352
TOTAL	**244,799,369**	**244,799,369**	**534,250,164**	**534,250,164**

FINANCIAL ASSETS CARRIED AT FAIR VALUE BY HIERARCHY

in EUR

	31/12/2013	31/12/2012
Financial assets at second-level fair value	21,309	23,066
Financial assets at third-level fair value	366,500	366,500
TOTAL	**387,809**	**389,566**

4.5.8.10 OTHER DISCLOSURES

The company started producing electricity in SPP Velenje in 2011, while in 2013 it was involved also in gas trading, which means that besides electricity trading it is engaged in gas trading and electricity production activity as well. In accordance with the Energy Act provisions, the company monitors its additional activities, i.e. gas trading and electricity production in SPP, separately.

The income statement for the activities of electricity production in SPP and gas trading is composed based on the following rules:

- value of invoices issued to clients for gas or the SPP electricity is disclosed in net operating revenue,
- cost of gas is disclosed under the cost of goods sold,
- costs of maintenance and operations of the SPP are recorded among costs of materials and services,
- depreciation costs refer to depreciation of the SPP,
- labour costs represent salaries and duties of employees in gas trading,
- current tax is calculated as corporate income tax based on profit on the profit or loss of individual activity.

FINANCIAL STATEMENTS - ANNUAL REPORT 2013

in EUR

	Electricity trading	SP production	Gas trading	2013
OPERATING REVENUES	**1,640,889,767**	**19,460**	**2,242,593**	**1,643,151,820**
1. Net sales revenue	1,635,134,196	19,460	2,242,593	1,637,396,249
4. Other operating revenue	5,755,571			5,755,571
GROSS OPERATING INCOME	**1,640,889,767**	**19,460**	**2,242,593**	**1,643,151,820**
OPERATING EXPENSES	**1,537,441,693**	**9,205**	**2,241,584**	**1,539,692,482**
5. Costs of goods, material and services	1,526,466,786	4,125	2,232,479	1,528,703,390
6. Labour costs	8,811,361		9,105	8,820,466
7. Write-downs in value	1,732,352	5,080		1,737,432
8. Other operating expenses	431,194			431,194
OPERATING PROFIT OR LOSS	**103,448,074**	**10,255**	**1,009**	**103,459,338**
9. Financial revenue	8,298,162			8,298,162
10. Financial expenses	18,803,146			18,803,146
TOTAL PROFIT OR LOSS	**(10,504,984)**			**(10,504,984)**
PROFIT OR LOSS BEFORE TAX	**92,943,090**	**10,255**	**1,009**	**92,954,354**
TAX	**16,413,081**	**1,936**	**171**	**16,415,188**
11. Corporate income tax	17,620,763	1,743	171	17,622,677
12. Deferred taxes	(1,207,682)	193		(1,207,489)
NET PROFIT OR LOSS FOR THE FINANCIAL YEAR	**76,530,009**	**8,319**	**838**	**76,539,166**
Majority stakeholder	76,530,009	8,319	838	76,539,166

The statement of financial position for the activities of electricity production in SPP and gas trading is composed based on the following rules:

- carrying amount of the SPP is disclosed under the production equipment in property, plant and equipment,
- short-term operating receivables include receivables from buyers of electricity and gas, as well as input VAT,
- profit or loss of individual activity and the difference between assets and liabilities in the statement of financial position are disclosed in equity,
- short-term operating liabilities include liabilities to gas suppliers and providers of maintenance and operational services for the SPP, output VAT and corporate income tax liabilities.

FINANCIAL POSITION STATEMENT AS AT 31/12/2013

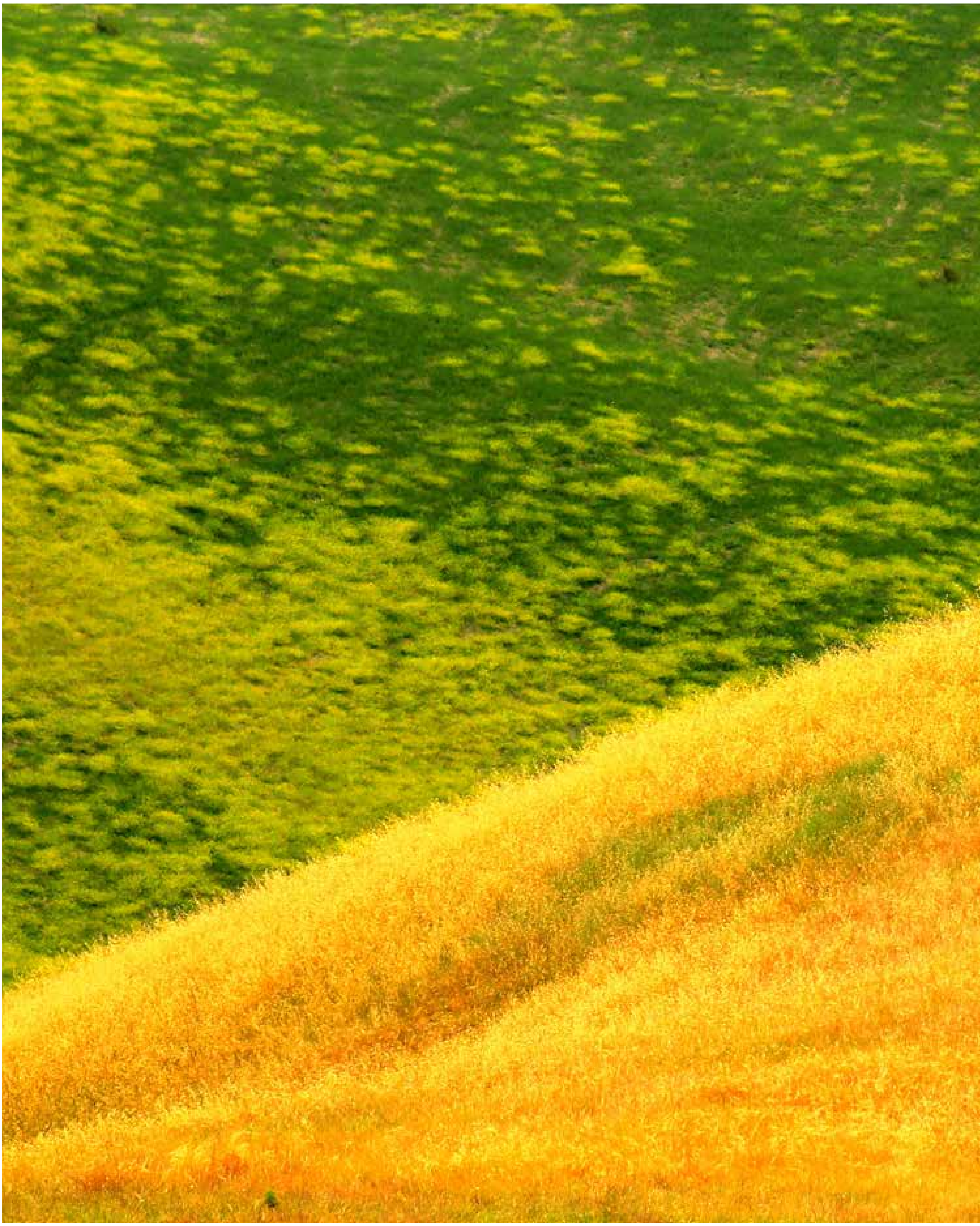
in EUR

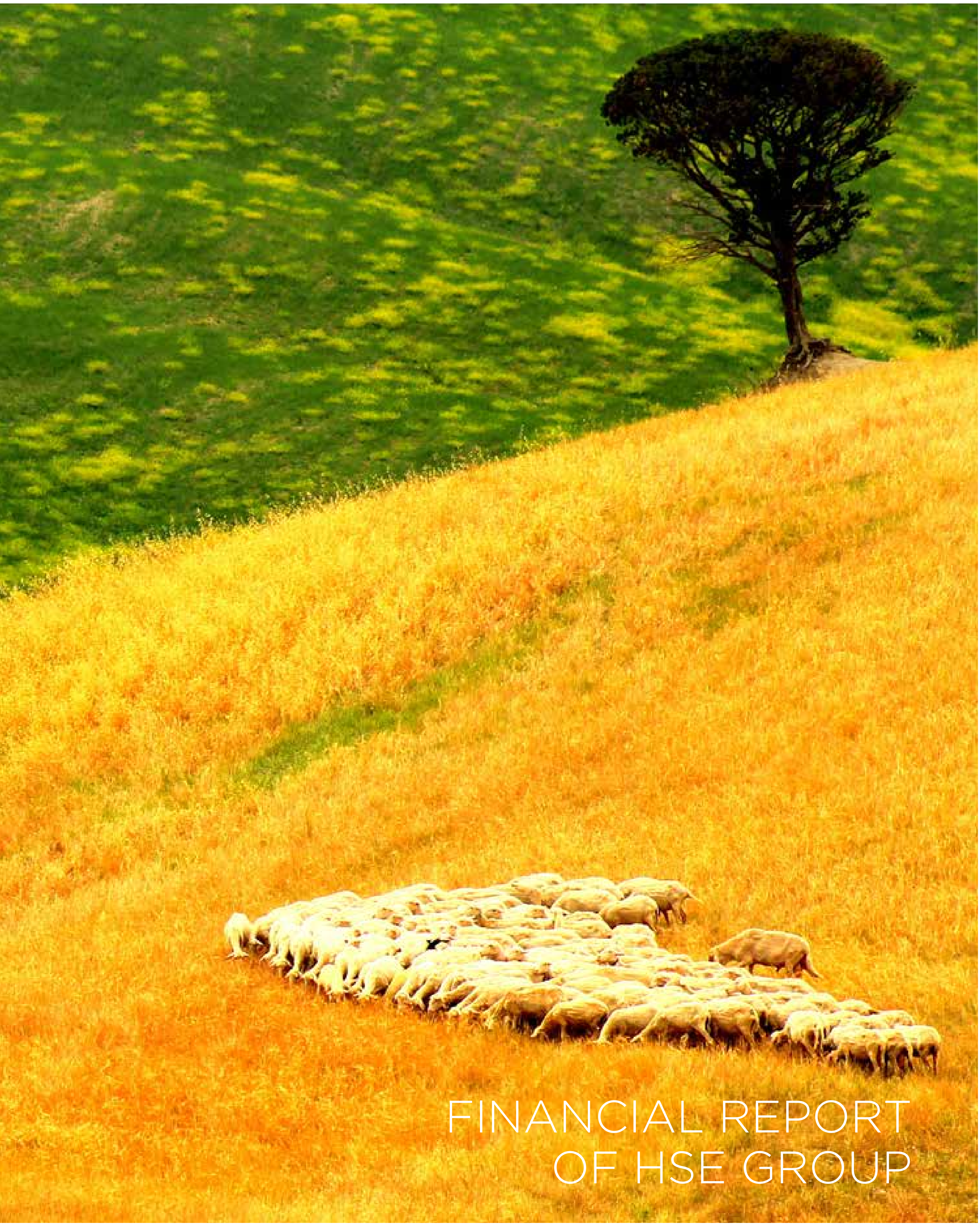
	Electricity trading	SP production	Gas trading	TOTAL
ASSETS	**1,373,747,678**	**153,759**	**359,053**	**1,374,260,490**
A. LONG-TERM ASSETS	**1,146,828,791**	**115,056**	**0**	**1,146,943,847**
I. Intangible assets	48,531,538			48,531,538
II. Property, plant and equipment	12,299,659	111,769		12,411,428
IV. Long-term investments in subsidiaries	1,079,866,693			1,079,866,693
V. Other long-term financial assets and loans	366,500			366,500
VI. Long-term operating receivables	659,866			659,866
VIII. Deferred tax assets	5,104,535	3,287		5,107,822
B. SHORT-TERM ASSETS	**226,918,887**	**38,703**	**359,053**	**227,316,643**
III. Short-term financial assets	31,115,746			31,115,746
IV. Short-term operating receivables	179,086,118	794	388,358	179,475,270
VI. Other short-term assets	3,711,182			3,711,182
VII. Cash and cash equivalents	13,005,841	37,909	-29,305	13,014,445
EQUITY AND LIABILITIES	**1,373,747,678**	**153,759**	**359,053**	**1,374,260,490**
A. EQUITY	**1,069,183,715**	**151,688**	**836**	**1,069,336,239**
I. Called-up capital	29,412,444	146,345		29,558,789
II. Capital surplus	561,243,185			561,243,185
III. Revenue reserves	444,060,621			444,060,621
IV. Fair value reserve	(3,795,939)			(3,795,939)
V. Retained earnings	38,263,404	5,343	836	38,269,583
B. LONG-TERM LIABILITIES	**80,825,843**	**0**	**0**	**80,825,843**
I. Provisions for termination and jubilee benefits	593,296			593,296
II. Other provisions	3,241,609			3,241,609
IV. Long-term financial liabilities	76,987,315			76,987,315
VI. Deferred tax liabilities	3,623			3,623
C. SHORT-TERM LIABILITIES	**223,738,120**	**2,071**	**358,217**	**224,098,408**
II. Short-term financial liabilities	22,614,252			22,614,252
III. Short-term operating liabilities	144,837,685	2,071	358,046	145,197,802
IV. Current tax liabilities	7,478,024		171	7,478,195
V. Other short-term liabilities	48,808,159			48,808,159

4.5.8.11 EVENTS AFTER THE REPORTING DATE

No events occurred in the company after the date of statement of financial position that could affect its financial statements for 2013 and related disclosures.

The deadline for settlement of the short-term loans given to the subsidiaries PV and RGP in total amount of EUR 17,700,000 was postponed from 31 March 2014 to 31 December 2014.





FINANCIAL REPORT OF HSE GROUP

05/ FINANCIAL REPORT OF HSE GROUP

5.1 Auditor's report for HSE Group

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the company Holding Slovenske elektrarne d.o.o. and its subsidiaries (hereinafter: the "Group"), which comprise the consolidated statement of financial position as at 31 December 2013, 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 consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the 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 consolidated 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 selected procedures 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 group'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 group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Basis for Qualified Opinion - Breach of Bank Covenants

As discussed in Note *5.5.8.1 – 14 Long-term financial liabilities* to the consolidated financial statement, as at 31 December 2013 the Group does not comply with bank covenants stipulated in some of long-term loan agreements. As at 31 December 2013, the value of loans totalling EUR 750,000 thousand should have been transferred from long-term financial liabilities to short-term financial liabilities, in accordance with IAS 1 - *Presentation of financial statements.*

Qualified Opinion

In our opinion, except for the potential effect of the matter referred to in the *Basis for Qualified Opinion – Breach of Bank Covenants* paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2013, and its financial performance and its other comprehensive income for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Emphasis of Matter

a) *Price Risk*

As discussed in Note 5.5.8.8.5 *Price risk* to the consolidated financial statements, the Group is exposed to risk arising from the amount of the selling price of electricity in relation to the cost price of electricity production in thermal power plants. The management's plans with regard to these matters are also discussed in the note. The financial statements do not include potential adjustments that may have been the consequence of this uncertainty.

b) Valuation of Assets

As discussed in Note 5.5.8.1. - 2 *Property, plant and equipment* to the consolidated statement of financial position, as at 31 December 2013 the Group discloses property, plant and equipment being acquired in relation to construction of replacement Unit 6 at TEŠ in the amount of EUR 1,137,463 thousand. Due to the risk that the planned price of coal as primary energy product of the Group will not be achieved, a risk exists in relation to valuation of the discussed assets in the future. The management's plans regarding this matter are discussed in the mentioned note and note 5.5.8.8.5 Price risk to the financial statements. The financial statements do not include potential adjustments that may have been the consequence of this uncertainty.

Our opinion is not modified in respect of these matters.

Report on Other Legal and Regulatory Requirements:

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

DELOITTE REVIZIJA d.o.o.

Kristian Milošič
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, 30 June 2014

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 the International Financial Reporting Standards ('IFRS') as adopted by the EU and applicable legislation 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.

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

As at 30 June 2014, the Managing Director adopted the consolidated financial statements of the HSE Group for the financial year ended 31 December 2013.

Ljubljana, 30 June 2014

Blaž Košorok
Managing Director of 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 as the founder representative adopted on 29 November 2010, as of 1 January 2011 the Group prepares financial statements and explanatory notes in accordance with the International Financial Reporting Standards ('IFRS') as adopted by the EU.

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 EUR

	Note	31/12/2013	31/12/2012
ASSETS		**2,830,521,497**	**2,595,852,738**
A. LONG-TERM ASSETS		**2,479,665,083**	**2,294,319,898**
I. Intangible assets	1	31,500,841	46,605,673
II. Property, plant and equipment	2	2,437,538,638	2,231,808,245
III. Investment property		231,497	266,073
IV. Long-term investments in subsidiaries		13,500	422,300
V. Other long-term financial assets and loans	3	3,323,960	3,995,914
VI. Long-term operating receivables		1,178,571	1,234,782
VII. Other long-term assets		632,851	520,189
VIII. Deferred tax assets	4	5,245,225	9,466,722
B. SHORT-TERM ASSETS		**350,856,414**	**301,532,840**
I. Assets held for sale		386,197	210,556
II. Inventories	5	27,404,605	33,913,722
III. Short-term financial assets and loans	6	33,569,492	1,210,394
IV. Short-term operating receivables	7	209,255,988	247,340,093
V. Current tax assets	28	33,094	3,026,808
VI. Other short-term assets	8	5,022,715	9,036,070
VII. Cash and cash equivalents	9	75,184,323	6,795,197
EQUITY AND LIABILITIES		**2,830,521,497**	**2,595,852,738**
A. EQUITY	**10**	**1,546,787,072**	**1,473,462,757**
I. Called-up capital		29,558,789	29,558,789
II. Capital surplus		561,243,185	561,243,185
III. Revenue reserves		444,060,622	384,313,947
IV. Fair value reserve		(4,416,429)	(9,391,631)
V. Retained earnings		455,682,820	438,408,173
VI. Consolidated capital adjustment - exchange rate differences		(1,243,072)	(1,203,048)
VII. Minority stakeholder equity		61,901,157	70,533,342
B. LONG-TERM LIABILITIES		**962,567,334**	**458,930,107**
I. Provisions for termination and jubilee benefits	11	14,278,111	14,509,581
II. Other provisions	12	42,595,906	45,113,607
III. Other long-term liabilities	13	11,077,987	13,277,434
IV. Long-term financial liabilities	14	894,228,959	383,769,140
V. Long-term operating liabilities		331,146	2,223,015
VI. Deferred tax liabilities		55,225	37,330
C. SHORT-TERM LIABILITIES		**321,167,091**	**663,459,874**
II. Short-term financial liabilities	15	70,663,266	224,986,772
III. Short-term operating liabilities	16	226,169,784	427,839,634
IV. Current tax liabilities	28	8,561,621	1,514,480
V. Other short-term liabilities	17	15,772,420	9,118,988

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

5.4.2 CONSOLIDATED INCOME STATEMENT

in EUR

	Note	2013	2012
OPERATING REVENUES		**1,620,667,167**	**1,894,454,884**
1. Net sales revenue	19	1,562,320,279	1,807,655,487
2. Change in inventories of products and work progress		(4,666,820)	2,333,401
3. Capitalised own products and own services	20	36,116,116	41,281,829
4. Other operating revenue	21	22,230,772	45,517,568
GROSS OPERATING INCOME		**1,616,000,347**	**1,896,788,285**
OPERATING EXPENSES		**1,515,826,587**	**1,783,491,020**
5. Costs of goods, material and services	22	1,173,166,153	1,459,518,583
6. Labour costs	23	144,611,585	148,039,926
7. Write-downs in value	24	106,090,276	118,146,203
8. Other operating expenses	25	91,958,573	57,786,308
OPERATING PROFIT OR LOSS		**100,173,760**	**113,297,265**
9. Financial revenue	26	4,263,951	1,303,482
10. Financial expenses	27	13,221,912	13,261,357
TOTAL PROFIT OR LOSS		**(8,957,961)**	**(11,957,875)**
PROFIT OR LOSS BEFORE TAX		**91,215,799**	**101,339,390**
TAX	**28**	**24,605,340**	**15,358,841**
11. Corporate income tax		20,718,715	13,996,266
12. Deferred taxes		3,886,625	1,362,575
NET PROFIT OR LOSS FOR THE FINANCIAL YEAR	**29**	**66,610,459**	**85,980,549**
Majority stakeholder		77,047,208	89,099,073
Minority stakeholder		(10,436,749)	(3,118,524)

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

5.4.3 CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

in EUR

	Note	2013	2012
13. Net profit or loss for the period	**29**	**66,610,459**	**85,980,549**
17. Actuarial gains and losses of employee defined benefit plans		38,856	0
19. Gains and losses from foreign currency translation of the financial statements of foreign operations		(66,639)	(379,343)
Items that will not be transferred to profit or loss		**(27,783)**	**(379,343)**
21. Net effective part of change in fair value of instrument for cash flow hedging		4,941,310	(5,060,543)
22. Change in fair value of financial assets available for sale		67,957	177,554
Items that may be transferred to profit or loss		**5,009,267**	**(4,882,989)**
23. Total comprehensive income for the period	**5.5.8.3**	**71,591,943**	**80,718,217**
Majority owner's total comprehensive income for the reporting period		81,955,771	83,838,010
Minority owner's total comprehensive income for the reporting period		(10,363,828)	(3,119,793)

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

5.4.4 CONSOLIDATED CASH FLOW STATEMENT

in EUR

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
a) Items of income statement	**153,305,795**	**168,972,633**
Operating revenues (except from revaluation) and financial revenues from operating receivables	1,578,396,718	1,844,345,680
Operating expenses (except from revaluation and amortisation/depreciation) and financial expenses for operating liabilities	(1,412,311,816)	(1,666,360,984)
Income tax and other taxes not included in operating expenses	(12,779,107)	(9,012,063)
b) Changes in net operating assets in statement of financial position items	**66,948,201**	**(12,923,963)**
Opening less closing operating receivables	38,141,798	(61,266,763)
Opening less closing other assets	1,703,516	(1,117,598)
Opening less closing deferred tax assets	(723,171)	1,360,649
Opening less closing assets (disposal groups) held for sale	(175,641)	3,274
Opening less closing inventories	6,509,117	(2,285,745)
Closing less opening operating liabilities	(22,325,592)	53,797,236
Closing less opening other liabilities and provisions	43,810,120	(3,450,053)
Closing less opening deferred tax liabilities	8,054	35,037
c) Net cash from operating activities	**220,253,996**	**156,048,670**
CASH FLOWS FROM INVESTING ACTIVITIES		
a) Cash receipts from investing activities	**250,749,243**	**21,791,014**
Cash receipts from interest related to investing	3,727,758	840,691
Cash receipts from profit participations related to investing activities	146,098	879
Cash receipts from disposal of intangible assets	1,607,700	14,067
Cash receipts from property, plant and equipment (including advances)	1,097,782	638,811
Receipts from disposal of investment property	50,960	11,700
Cash receipts from short-term loans	129,667,052	8,076,979
Cash receipts from disposal of other short-term financial assets	15,341	207,887
Cash receipts from disposal of other short-term financial assets	114,436,552	12,000,000
b) Cash disbursements from investing activities	**(751,089,132)**	**(315,482,696)**
Cash disbursements to acquire intangible assets	(24,973,710)	(9,148,159)
Cash disbursements to acquire property, plant and equipment (including advances)	(449,670,195)	(288,952,423)
Cash disbursements from short-term loans granted	(129,325,260)	(4,968,970)
Cash disbursements from investments in subsidiaries, associates and jointly controlled companies	0	(152,621)
Cash disbursements from acquisition of other long-term financial assets	(61,490)	(260,523)
Cash disbursements from acquisition of other short-term financial assets	(147,058,477)	(12,000,000)
c) Net cash from investing activities	**(500,339,889)**	**(293,691,682)**

in EUR

	2013	2012
CASH FLOWS FROM FINANCING ACTIVITIES		
a) Cash receipts from financing activities	**696,041,459**	**356,233,098**
Cash receipts from paid up capital	1,511,939	924,000
Cash receipts from long-term loans received	564,450,000	562,144
Cash receipts from short-term loans received	129,771,050	354,746,954
Cash receipts from increase in long-term financial liabilities	182,696	0
Cash receipts from increase in short-term financial liabilities	125,774	0
b) Disbursements from financing activities	**(347,501,485)**	**(278,554,560)**
Cash disbursements from paid interest pertaining to financing	(11,945,939)	(11,515,625)
Cash disbursements from long-term loans received	(35,245,020)	(42,357,168)
Cash disbursements from short-term loans received	(300,267,769)	(204,681,767)
Cash disbursements from repayment of short-term financial liabilities	(29,822)	0
Cash disbursements from the distribution of dividends and other profit participations	(12,935)	(20,000,000)
c) Net cash from financing activities	**348,539,974**	**77,678,538**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**6,795,197**	**67,007,238**
Effects of changes in exchange rates on cash and cash equivalents	(64,955)	(247,567)
Increase/(decrease) of cash and cash equivalents	68,454,081	(59,964,474)
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	**75,184,323**	**6,795,197**

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

5.4.5 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in EUR

	CALLED-UP CAPITAL		REVENUE RESERVES		RETAINED EARNINGS				
	Share capital	Capital surplus	Other revenue reserves	Fair value reserve	Retained earnings	Net profit for the financial year	Consolidation equity adjustment	Minority stakeholder equity	Total
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)**
Additional paid-in capital								924,000	924,000
Dividend payment					(20,000,000)				(20,000,000)
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**
Net profit or loss for the reporting period						**89,099,073**		**(3,118,524)**	**85,980,549**
Items that will not be transferred to profit or loss	**0**	**0**	**0**	**0**	**0**	**0**	**(379,343)**	**0**	**(379,343)**
Gains and losses from foreign currency translation of the financial statements of foreign operations							*(379,343)*		*(379,343)*
Items that may be transferred to profit or loss	**0**	**0**	**0**	**(4,881,720)**	**0**	**0**	**0**	**(1,269)**	**(4,882,989)**
Net effective part of change in fair value of instrument for cash flow hedging				*(5,059,274)*				*(1,269)*	*(5,060,543)*
Change in fair value of financial assets available for sale				*177,554*					*177,554*
B.3. Changes within equity	**0**	**0**	**24,841,899**	**(216,934)**	**(3,147,876)**	**(21,477,089)**	**0**	**0**	**0**
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	0
Allocation of a portion of net profit to additional reserves in accordance with the general meeting resolution			3,364,810		(3,364,810)				0
Other transfers within capital			0	(216,934)	216,934				0
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**

in EUR

	CALLED-UP CAPITAL		REVENUE RESERVES		RETAINED EARNINGS				
	Share capital	Capital surplus	Other revenue reserves	Fair value reserve	Retained earnings	Net profit for the financial year	Consolidation equity adjustment	Minority stakeholder equity	Total
Balance as at 01/01/2013	**29,558,789**	**561,243,185**	**384,313,947**	**(9,391,631)**	**438,408,171**	**0**	**(1,203,048)**	**70,533,344**	**1,473,462,757**
B.1. Transactions with owners	**0**	**0**	**0**	**0**	**731**	**0**	**0**	**1,731,641**	**1,732,372**
Additional paid-in capital	0	0						1,511,945	1,511,945
Other changes in equity					731			219,696	220,427
B.2. Changes in total comprehensive income	**0**	**0**	**0**	**4,975,202**	**0**	**77,047,208**	**(66,639)**	**(10,363,828)**	**71,591,943**
Net profit or loss for the reporting period						**77,047,208**		**(10,436,749)**	**66,610,459**
Items that will not be transferred to profit or loss	**0**	**0**	**0**	**33,218**	**0**	**0**	**(66,639)**	**5,638**	**(27,783)**
Actuarial gains and losses of employee defined benefit plans				*33,218*				*5,638*	*38,856*
Gains and losses from foreign currency translation of the financial statements of foreign operations							*(66,639)*		*(66,639)*
Items that may be transferred to profit or loss	**0**	**0**	**0**	**4,941,984**	**0**	**0**	**0**	**67,283**	**5,009,267**
Net effective part of change in fair value of instrument for cash flow hedging				*4,886,311*				*54,999*	*4,941,310*
Change in fair value of financial assets available for sale				*55,673*				*12,284*	*67,957*
B.3. Changes within equity	**0**	**0**	**59,746,675**	**0**	**(21,503,706)**	**(38,269,584)**	**26,615**	**0**	**0**
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			38,269,584		0	(38,269,584)			0
Allocation of a portion of net profit to additional reserves in accordance with the general meeting resolution		0	21,477,091		(21,477,091)	0		0	0
Other transfers within capital	0	0		0	(26,615)		26,615		0
Balance as at 31/12/2013	**29,558,789**	**561,243,185**	**444,060,622**	**(4,416,429)**	**416,905,196**	**38,777,624**	**(1,243,072)**	**61,901,157**	**1,546,787,072**

* 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 2013 are presented below.

5.5.1.1 THE HSE GROUP COMPANIES

GROUP COMPANIES INCLUDED IN CONSOLIDATED FINANCIAL STATEMENTS OF THE HSE GROUP

Company	Country of residence of the company
HSE d.o.o.	Slovenia
DEM d.o.o.	Slovenia
SENG d.o.o.	Slovenia
TEŠ d.o.o.	Slovenia
PV d.d.	Slovenia
TET d.o.o.	Slovenia
HESS d.o.o.	Slovenia
HSE Invest d.o.o.	Slovenia
SRESA d.o.o.	Slovenia
mHE LOBNICA d.o.o.*	Slovenia
ELPROM d.o.o.*	Slovenia
HTZ VELENJE, IP d.o.o.	Slovenia
GOST d.o.o.	Slovenia
PV Invest d.o.o.	Slovenia
RGP d.o.o.	Slovenia
PARTNER d.o.o.	Slovenia
GOLTE d.o.o.	Slovenia
HSE RO Energy S.r.l.	Romania
HSE MAK Enery DOOEL	Macedonia
HSE ITALIA S.r.l.	Italy
HSE ADRIA d.o.o.	Croatia
HSE BH d.o.o.	Bosnia and Herzegovina
HSE Balkan Energy d.o.o.	Serbia

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

Prior to the consolidation of the HSE Group, the Premogovnik Velenje Group (hereinafter: the PV Group) and Hidroelektrarne na spodnji Savi Group (hereinafter: the HESS Group) had been consolidated. In accordance with the consecutive consolidation method, consolidated financial statements are already prepared at the level of subsidiaries PV and HESS and are then included in the consolidated financial statements of the HSE 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.

The consolidated annual report of the HESS Group is available at the registered office of the company Hidroelektrarne na spodnji Savi d.o.o., Cesta bratov Cerjakov 33a, Brežice.

COMPANIES INCLUDED IN CONSOLIDATED FINANCIAL STATEMENTS OF THE PV GROUP

Name of the company	Country of residence of the company
PV d.d.	Slovenia
GOST d.o.o.	Slovenia
HTZ VELENJE, IP d.o.o.	Slovenia
PV Invest d.o.o.	Slovenia
RGP d.o.o.	Slovenia
GOLTE d.o.o.	Slovenia

COMPANIES INCLUDED IN CONSOLIDATED FINANCIAL STATEMENTS OF THE HESS GROUP

Name of the company	Country of residence of the company
HESS d.o.o.	Slovenia
PARTNER d.o.o.	Slovenia

In 2013, the subsidiary HSE Bulgaria was eliminated from consolidated financial reports, as its operations had been terminated based on the voluntary liquidation procedure on 30 December 2013.

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

5.5.1.2 ASSOCIATES

Name of the company	Country of residence of the company
ELDOM d.o.o.	Slovenia
ERICO d.o.o.	Slovenia
PLP d.o.o.	Slovenia
SIPOTEH d.o.o.	Slovenia
RCE d.o.o.	Slovenia
FAIRWOOD	Singapore

5.5.1.3 JOINTLY CONTROLLED COMPANIES

Name of the company	Country of residence of the company	Co-owner - HSE Group company
SOENERGETIKA d.o.o.	Slovenia	HSE

5.5.2 BASIS FOR PREPARATION

In the preparation of consolidated financial statements as at 31 December 2013, 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 (ZGD),
- Energy Act(EZ),
- 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 standards, amendments to the existing standards and interpretation issued by the International Accounting Standards Board (IASB) and adopted by the EU apply:

- 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 or after 1 July 2012).

The change requires separate disclosure of the other comprehensive income items, namely to those the Group will transfer to the income statement in the future periods, and to those that will never be recognised in profit or loss. The amendments also confirm the existing requirements about items being presented as single statement or two consecutive statements within other comprehensive income or profit or loss.

The amendment affects the presentation of the consolidated other comprehensive income items, but has no influence on the company's financial position or performance.

- Amendments to IAS 12 'Income taxes – Deferred tax: Recovery of underlying asset, adopted by the EU on 11 December 2012 (applicable to the annual periods starting on or after 1 January 2013).

The amendment requires that the Group measures deferred tax asset depending on whether it expects to recover the carrying amount of the asset through use or sale. If an asset is measured using the fair value model from IAS 40 'Investment property', the estimation of its recovery based on use or sales could not be objective. The amendments provide practical solution to issues regarding the introduction of assumption that carrying amount recovery will usually occur with sale.

The revised standard has no influence on the financial position or performance of the Group.

- 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).

The amendments will bring the following significant improvements: (a) dismissal of the option regarding deferral of gains or loss recognition, which improves the comparability and reliability of presentation; (b) rationalisation of presentation in connection with changes in assets or liabilities arising from defined benefit plans, including the requirement for presentation of revaluation in other comprehensive income, and consequently, their distinction from the changes that are largely considered as the result of day-to-day operations of entities; (c) betterment of requirements regarding disclosure of defined benefit plans, which enables better data on the nature of such plans and the risks entities are exposed to due to their involvement with these plans.

The amendment affects the disclosure of adjustments of the Group's liabilities to employees arising from termination and jubilee benefits in 2013; namely, adjustments are not recognised in full in the consolidated income statement, i.e. one part of adjustments (unrealised actuarial gain or loss) is recognised in the consolidated statement of other comprehensive income. Considering the amount of the discussed liabilities, the effect on consolidated profit or loss for the year is immaterial.

- IFRS 13 'Fair value measurement', adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).

IFRS 13 defines fair value, gives guidelines on determining it, and requires disclosures regarding fair value measurements. Nevertheless, IFRS 13 does not change any requirement concerning which items should be disclosed or measured at fair value.

The definition of fair value under IFRS 13: as the amount received form disposal of an asset or paid for transfer of liabilities in regular transaction between market participants (seller and buyer) on the measurement day.

The revised standard has no influence on the financial position or performance of the Group.

- Amendments to IFRS 7 'Financial instruments: Disclosures' - Offsetting financial assets and financial Liabilities, resulting from the annual project for improvement of IFRSs (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to remove inconsistencies and to clarify wording, adopted by the EU on 27 March 2013 (the amendments will need to be applied for annual periods beginning on or after 1 January 2013).

The amendments require the information about all recognised financial instruments that are offset in accordance with paragraph 42 of IAS 32. They also determine disclosure of the information about recognised financial instruments subjected to executable master contracts on offsetting and similar agreements, even if not offset according to IAS 32.

The revised standard has no influence on the financial position or performance of the Group.

- Amendments to various standards – 'Improvements to IFRSs (2009-2011)', resulting from the annual project for improvement of IFRSs (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to remove inconsistencies and to clarify wording, adopted by the EU on 27 March 2013 (the amendments will need to be applied for annual periods beginning on or after 1 January 2013).

The revisions clarify the required accounting recognition in cases where free interpretation used to be permitted. The most important changes include new or revised requirements regarding: (a) reuse of IFRS 1, (b) borrowing costs under IFRS 1, (c) interpretations of requirements for comparable data, (d) classification of maintenance equipment, (e) interim financial reporting and segments of information for all assets and liabilities.

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

- 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 interpretation determines that the costs in connection with 'activities of stripping' must be accounted for as an addition to the existing asset or its improvement, and that this component be depreciated or amortised during the expected useful life of the recognised ore body, which becomes more accessible due to the stripping activities (with use of production method units, unless another method is more appropriate).

The revised standard has no influence on the financial position or performance of the Group.

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

The Group has not adopted any standards or interpretations that will come into effect on or after 1 January 2014.

At the date of authorisation of these financial statements, the following standards, amendments of the existing standards and interpretations issued by IASB and adopted by the EU were published but not yet effective:

- IFRS 10 'Consolidated financial statements', adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014).

IFRS 10 replaces the requirements regarding consolidation in IAS 27 'Consolidated and separate financial statements' and SIC – 12 'Consolidation – Special purpose entities', with introduction of unified consolidation model for all companies, which is based on controlling regardless of characteristics of the investee (i.e. whether an entity is controlled by voting rights of the investors or by other contractual agreements, as is usual for the special purpose entities). According to IFRS 10, controlling depends on the investor's (a) control of the investee, (b) exposure and rights to variable return from its operations with the investee, and (c) possibility to use its power over the investee to influence the return amount.

It is estimated that this standard will have no influence on the financial position or performance of the Group.

- IFRS 11 'Joint arrangements', adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014).

IFRS 11 introduces new accounting requirements for joint arrangements which replace IAS 31 Interests in joint ventures. The option of using the proportionate consolidation method when accounting for jointly controlled companies was removed. Additionally, IFRS 11 currently reverses jointly controlled assets and defines only the distinction between joint operations and joint ventures. Joint operation is a joint arrangement in which the parties with joint control have the right to assets and are bound by liabilities. Joint venture is a joint arrangement in which the parties with joint control have the right to net assets.

It is estimated that this standard will have no influence on the financial position or performance of the Group.

- IFRS 12 'Disclosure of interests in other entities', adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014).

IFRS 12 requires better disclosures for controlled consolidated as well as unconsolidated entities. The aim of IFRS 12 is to require information so that the financial statements users can evaluate the controlling base, any limits to consolidated assets and liabilities, risk exposures arising from controlling of unconsolidated structured entities and involvement of non-controlling equity owners with the activities of consolidated companies.

It is estimated that this standard will have no influence on the financial position or performance of the Group.

- 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).

Requirements regarding separate financial statements remain unchanged and are included in the amendment to IAS 27. The other parts of IAS 27 were replaced by IFRS 10.

It is estimated that the revised standard will have no influence on the Group's financial position or performance.

- 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).

IAS 28 was amended in accordance with the issuance of IFRS 10, 11 and 12.

It is estimated that this standard will have no influence on the financial position or performance of the Group.

- Amendments to IFRS 10 'Consolidated financial statements', IFRS 11 'Joint arrangements' and IFRS 12 'Disclosure of interests in other entities' – Transition Guidance, adopted by the EU on 4 April 2013 (effective for annual periods beginning on or after 1 January 2014).

The aim of amendments is to make the transition to IFRS 10, IFRS 11 and IFRS 12 easier with 'limiting the requirement for providing adjusted comparable data to only comparable transition period'. IFRS 11 and IFRS 12 were also amended to remove the requirement to provide comparable data for the periods prior to the current transition period.

It is estimated that the revised standards will have no influence on the Group's financial position or performance.

- Amendments to IFRS 10 'Consolidated financial statements', IFRS 12 'Disclosure of interests in other entities' and IAS 27 (revised in 2011) 'Separate financial statements' – Investment entities, adopted by the EU on 20 November

2013 (effective for annual periods beginning on or after 1 January 2014).

The amendments bring an exception in relation to the consolidation requirement in IFRS 10 and require that investment entities carry out fair value measurements for individual subsidiaries through profit or loss, and not through consolidation. The amendments include also disclosure requirements for investment entities.

It is estimated that the amendments will have no influence on the financial position or performance of the Group.

- 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).

The amendments provide explanations of the use of offsetting rules and focus on four major areas: (a) the meaning of 'currently has a legally enforceable right to set-off'; (b) use of simultaneous realisation and settlement; (c) offsetting guarantee amounts; (d) unit of account for offsetting requirements.

It is estimated that the revised standard will have no influence on the Group's financial position or performance.

- Amendments to IAS 36 'Impairment of assets' – Recoverable amount disclosures for non-financial assets, adopted by the EU on 19 December 2013 (effective for annual periods starting on or after 1 January 2014).

The amendments refer to disclosure of information on recoverable amount of impaired assets, if the value is based on fair value, less the cost of disposal. When preparing IFRS 13 'Fair value measurement', IASB decided to revise IAS 36 by requiring disclosure of recoverable amount of impaired assets. Current changes explain the IASB's initial purpose to limit the scope of such disclosures to recoverable amount of impaired assets, which is based on fair value, less the cost of disposal.

It is estimated that the revised standard will have no influence on the Group's financial position or performance.

- Amendments to IAS 39 'Financial Instruments: Recognition and measurement' – Novation of derivatives and continuation of hedge accounting, adopted by the EU on 19 December 2013 (effective for annual periods starting on or after 1 January 2014).

The discussed amendments allow continued hedge accounting in cases when a derivative, previously defined as a hedging instrument, is redefined for the purpose of clearing with the central counterparty pursuant to laws and regulations, if certain conditions are met (in this case, novation requires all contracting parties to agree that the previous counterparty be replaced with a new one).

It is estimated that the revised standard will have no influence on the Group's financial position or performance.

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, 2),
- test of impairment of assets (disclosure 5.5.8.1 points 1, 2, 3),
- assessment of fair value of derivatives (disclosures 5.8.8.3 and 5.8.8.4),
- assessment of realisable values of receivables (disclosure 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 5.8. 1 point 11),
- assessment of other provisions (disclosure 5.8.1 point 12) and
- assessment of contingent liabilities and assets (disclosure 5.8.1 point 18).

5.5.6 BRANCH AND REPRESENTATIVE OFFICES

The Group has two foreign branch offices, in the Czech Republic and in Macedonia, and a representative office in Romania. In 2013, transactions through branch offices were performed to a minimum degree or were not carried out at all. 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.

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.

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

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.

Emission coupons are not amortised, since they are purchased for individual periods in which they are used.

Estimated amortisation rates used for individual intangible assets are:

AMORTISATION RATE – INTANGIBLE ASSETS

	in % from - to
Software	7 - 50%
Licences	10 - 50%
Concession rights	2%
Other long-term property rights	2 - 10%
Other intangible assets	10 - 25%

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.

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.

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.

Estimated depreciation rates for individual items of property, plant and equipment are the following:

DEPRECIATION RATE - PROPERTY, PLANT AND EQUIPMENT

	in % from - to
Buildings	1 - 10%
Parts of buildings	1.2 - 20%
Production equipment	1.5 - 20%
Parts of production equipment	5 - 33%
Computer equipment	5 - 50%
Furniture	3 - 25%
Small tools	10 - 33%
Cars	12.5 - 30%
Other vehicles	7 - 25%
Other devices and equipment	3 - 33%

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, and
- 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 DERIVATIVE FINANCIAL INSTRUMENTS

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 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 consolidated 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 for quality performance and other 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 and liabilities are not yet 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 the Group 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.

THE COST 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.

CORPORATE INCOME TAX RATES BY COUNTRY

Country	Effective tax rate in 2013
Slovenia	17%
Croatia	20%
Serbia	15%
Macedonia	10%
Bosnia and Herzegovina	10%
Romania	16%
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 defined 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 EUR

	31/12/2013	**31/12/2012**
Emission coupons	10,415,106	26,585,736
Other long-term property rights	8,690,035	7,627,026
Goodwill	12,389,845	12,387,056
Other intangible assets	5,855	5,855
TOTAL	**31,500,841**	**46,605,673**

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

The Group purchased emission coupons for the purposes of electricity production in the Group in the next years.

Until the end of 2012, the Group received free of charge most of emission coupons, necessary for electricity and heat production based on the Environment Protection Act, Ordinance on the National Plan for the Allocation of Emission Coupons and Decision on Emission Coupons. With the beginning of 2013, the method of emission coupons allocation in the energy sector changed, so that TPPs have to purchase all emission coupons in the market.

The opening balance of the Group's emission coupons amounts to 6,417,462 coupons or EUR 26,585,736. In 2013, 4,247,192 emission coupons were purchased and 5,381,508 coupons were sold or used. As a result, the Group had 5,283,146 emission coupons in the amount of EUR 10,415,106 at the end of 2013.

The Group determined no reasons for impairment of long-term property rights in 2013.

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. The recoverable amount of underlying long-term investment for the goodwill was assessed as at 31 December 2013. The assessment was made by a certified appraiser from the Slovenian Institute of Auditors. In the process, value in use was assessed using the method of present value of expected free cash flows. It was determined that the value in use exceeds carrying amount, so that impairment of goodwill was not necessary.

Goodwill created in 2013 in the amount of EUR 2,789 resulted from the acquisition of subsidiary in 2013.

Other intangible assets comprise long-term deferred development costs.

In 2013 the company reviewed the useful lives of important software items, determining that most of useful lives were appropriate given the current expectations regarding the usability of these assets. Due to extended useful life of some software, the amortisation charge in 2013 totalled EUR 10,367, which is EUR 25,539 less than the amortisation of the initially determined useful life.

In 2013, the group companies did not allocate interest from purchase before making available for use to the cost of intangible assets, since they were not financed with loans.

The Group has no intangible assets under finance lease or mortgage.

At the end of 2013, the Group has a total of EUR 2,381,286 of contracts concluded for purchase of intangible assets in the coming years.

CHANGES IN INTANGIBLE ASSETS

in EUR

	Emission coupons	Other long-term property rights	Goodwill	Other intangible assets	Total
Cost as at 01/01/2012	**26,128,868**	**18,986,019**	**12,387,056**	**70,571**	**57,572,514**
Acquisitions	10,108,465	(1,841,905)			8,266,560
Disposals	(9,651,597)	905,187			(8,746,410)
Transfers - re-entries		(555,844)		(58,568)	(614,412)
Exchange rate differences		943			943
Cost as at 31/12/2012	**26,585,736**	**17,494,400**	**12,387,056**	**12,003**	**56,479,195**
Written-down value as at 01/01/2012		**9,749,220**		**6,148**	**9,755,368**
Disposals		(1,506,168)			(1,506,168)
Amortisation expense		1,623,799			1,623,799
Exchange rate differences		523			523
Written-down value as at 31/12/2012		**9,867,374**		**6,148**	**9,873,522**
Carrying amount as at 01/01/2012	**26,128,868**	**9,236,799**	**12,387,056**	**64,423**	**47,817,146**
Carrying amount as at 31/12/2012	**26,585,736**	**7,627,026**	**12,387,056**	**5,855**	**46,605,673**

in EUR

	Emission coupons	Other long-term property rights	Goodwill	Other intangible assets	Total
Cost as at 01/01/2013	**26,585,736**	**17,494,400**	**12,387,056**	**12,003**	**56,479,195**
Acquisitions	31,346,686	2,519,780	2,789		33,869,255
Disposals	(47,517,316)	(220,506)		(1,168)	(47,738,990)
Transfers - re-entries		203,251			203,251
Exchange rate differences		(3)			(3)
Cost as at 31/12/2013	**10,415,106**	**19,996,922**	**12,389,845**	**10,835**	**42,812,708**
Written-down value as at 01/01/2013		**9,867,374**		**6,148**	**9,873,522**
Disposals		(211,481)		(1,168)	(212,649)
Transfers - re-entries		1,151			1,151
Amortisation expense		1,649,845			1,649,845
Exchange rate differences		(2)			(2)
Written-down value as at 31/12/2013		**11,306,887**		**4,980**	**11,311,867**
Carrying amount as at 01/01/2013	**26,585,736**	**7,627,026**	**12,387,056**	**5,855**	**46,605,673**
Carrying amount as at 31/12/2013	**10,415,106**	**8,690,035**	**12,389,845**	**5,855**	**31,500,841**

PROPERTY, PLANT AND EQUIPMENT (2)

in EUR

	31/12/2013	31/12/2012
Land	34,655,130	38,614,997
Buildings	589,644,529	557,929,901
Production equipment	584,910,680	560,356,644
Other equipment	13,831,756	15,496,029
Property, plant and equipment being acquired	1,214,496,543	1,059,410,674
TOTAL	**2,437,538,638**	**2,231,808,245**

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 fixed assets of the companies in the Group in 2013 include the investment in replacement Unit 6 at TEŠ (at the end of the year disclosed in the amount of EUR 1,137,463 among PPE), the investment in construction of a HPP on the lower Sava River, and renovation of plants and other production equipment in HPPs. Additional information on Group's investments is available in the business report (section 2.9 Investments).

In 2013, the companies recorded a total of EUR 31,366,363 of borrowing costs in the cost of property, plant and equipment.

In 2013, 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, the useful life of certain HPPs was extended, both for facilities and production equipment. Thus, depreciation of the facilities for 2013 amounted to EUR 1,609,324, which was EUR 1,564,873 less compared to the initial amount, while depreciation of production equipment totalled EUR 5,420,914 or EUR 3,038,176 than the initial amount.

For the replacement Unit 6 at TEŠ investment the Group verified for potential signs of impairment and established there were none. The Group determines that due to the risk of coal price increase, the investment in replacement Unit 6 at TEŠ does not show any signs of overestimation, i.e. is not overestimated, since based on the sensitivity analysis (RIP 6 – February 2014) and taking into account a 20% increase in coal price and use of 5.89% discount rate (WACC) net present value is still positive. With a 7% discount rate, net present value of the investment is positive, if coal price increases by max. 14.5%.

Required yield for projects in the energy industry or energy supply is considerably lower, especially due to stable and relatively regulated sector where governments have an important role in creating final price of a product, which is its result. For calculation of net present value in the financial and market analysis in RIP 6 (February 2014), individual discount rate of 5.89% is used and is calculated in the amount of weighted average cost of capital (WACC). The calculation of WACC is performed on the basis of required yield amounting to 9%, determined in the guarantee contract between TEŠ and the Republic of Slovenia, and on the basis of actually achieved or estimated interest rate on loans received. As already discussed, the calculation of net present value applies an individual discount rate, while the 7% discount rate determined in the Decree on the Uniform Methodology for the Preparation and Treatment of Investment Documentation in the Field of Public Finance is used only for comparison of this project with others.

Operational and Financial Restructuring Plan of the Premogovnik Velenje Group was drafted in May 2014, which besides stipulating measures for cost streamlining, operational and financial restructuring and divestment of non-core assets, confirms that the average selling price during the period from 2014 to 2027 will not exceed 14% increase compared with the average price during the same period provided in the Revised Investment Plan RIP 6 - February 2014 issue. Estimation of coal price, i.e. its projected maximum value, is confirmed also by the HSE and PV managements and currently represents the best estimation of coal price.

Electricity prices are determined on the basis of futures contracts until the end of 2016. In the subsequent years, when the liquidity in the electricity markets will be low, the model-based forecasts of future electricity prices at the middle scenario in the study prepared by Poyry Management Consulting Austria GmbH are taken into account.

For the real estate group, based on appraisals by certified appraisers the Slovenian Institute of Auditors, impairment was carried out on land in the amount of EUR 3,281,403, on underground constructions in the amount of EUR 1,242,208, on above-ground constructions in the amount of EUR 604,141, on apartments and garages in the amount of EUR 1,019,641, on land and buildings of hotel Oleander in total amount of EUR 374,141, on the 'Stara elektrarna' building in the amount of EUR 1,276,335, plus other impairments in the amount of EUR 162,931. For defining recoverable amount, market comparison and return-based approaches were applied, while for special purpose real estate the cost model was used.

In the procedure of the PV Group consolidation, based on a Slovenian Institute of Auditors certified appraiser's valuation, land, buildings, production and other equipment were impaired in total amount of EUR 4,815,462.

Impairment of buildings and production equipment in the amount of EUR 5,094,823 was reversed, as this impairment had been taken into account in the 2012 consolidation.

Disposals of property, plant and equipment mostly refer to disposal due to reconstruction. Some property and equipment were sold.

The Group had EUR 242,380 of production equipment under finance lease, but no property.

The Group's property and equipment are mortgaged in total amount of up to EUR 46,552,308. Precise balance of mortgages depends on the current balance of loan exposure and conditions of banks with regard to collateral with mortgage.

At the end of 2013, the Group has a total of EUR 213,651,985 of contracts concluded for purchase of property, plant and equipment in the coming years (excluding financing costs). As at 31 December 2013, no contracts are concluded in connection with the difference between the value of replacement Unit 6 at TEŠ according to RIP 6 (February 2014 issue: EUR 1,428,544,300) and RIP 5 (EUR 125,965,400).

CHANGES IN PROPERTY, PLANT AND EQUIPMENT

in EUR

	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					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 investments	143,437	15,292,742	62,867,066	5,304,424	(83,709,566)	(101,897)
Transfers - re-entries	211,082	9,007,770	6,173,023	476,772	(230,235)	15,638,412
Exchange rate differences			0	(1,925)	(3)	(1,928)
Impairments	0	(59,482)	(600,000)	0	(579,975)	(1,239,457)
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		**710,177,961**	**1,467,986,209**	**33,214,926**	**0**	**2,211,379,096**
Acquisitions	17,907	50,327	0			68,234
Disposals		(6,306,275)	(26,507,777)	(2,518,482)		(35,332,534)
Transfers - re-entries	0	486,081	(5,286,971)	7,096,092		2,295,202
Depreciation expense		22,955,480	59,942,017	5,132,351		88,029,848
Exchange rate differences	(1)		4	(1,435)		(1,432)
Impairments	279,833	5,930,119	10,242,046	0	0	16,451,998
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**

CHANGES IN PROPERTY, PLANT AND EQUIPMENT

in EUR

	Land	Buildings	Production equipment	Other equipment	Property, plant and equipment being acquired	Total
Cost as at 01/01/2013	**38,912,736**	**1,291,223,594**	**2,066,732,172**	**58,419,481**	**1,059,410,674**	**4,514,698,657**
Acquisitions		873		1,704	309,031,029	309,033,606
Disposals	(623,221)	(5,476,776)	(22,752,549)	(983,035)	(174,948)	(30,010,529)
Transfers from investments	356,460	61,173,505	85,244,994	5,182,502	(151,955,116)	2,345
Transfers - re-entries	5,197	361,885	3,596,367	(3,463,757)	(511,518)	(11,826)
Exchange rate differences			1	(164)	1	(162)
Impairments	(63,124)	(3,106,672)	(1,561,001)	(84,665)	(1,297,579)	(6,113,041)
Cost as at 31/12/2013	**38,588,048**	**1,344,176,409**	**2,131,259,984**	**59,072,066**	**1,214,502,543**	**4,787,599,050**
Written-down value as at 01/01/2013	**297,739**	**733,293,693**	**1,506,375,528**	**42,923,452**	**0**	**2,282,890,412**
Acquisitions		306	5,658	0		5,964
Disposals		(4,047,673)	(20,012,120)	(3,004,644)		(27,064,437)
Transfers - re-entries		61,694	33,205	(32,430)		62,469
Depreciation expense		22,201,818	59,947,033	5,354,083		87,502,934
Exchange rate differences				(151)		(151)
Impairments	3,635,179	3,022,042	0		6,000	6,663,221
Written-down value as at 31/12/2013	**3,932,918**	**754,531,880**	**1,546,349,304**	**45,240,310**	**6,000**	**2,350,060,412**
Carrying amount as at 01/01/2013	**38,614,997**	**557,929,901**	**560,356,644**	**15,496,029**	**1,059,410,674**	**2,231,808,245**
Carrying amount as at 31/12/2013	**34,655,130**	**589,644,529**	**584,910,680**	**13,831,756**	**1,214,496,543**	**2,437,538,638**

OTHER LONG-TERM INVESTMENTS AND LOANS (3)

in EUR

	31/12/2013	31/12/2012
Long-term investments in associated companies	1,596,044	853,938
Long-term investments in jointly controlled companies	470,489	300,637
Available-for-sale long-term financial assets	1,068,328	2,639,047
Other long-term financial assets	2,000	2,000
Long-term financial receivables and loans	187,099	200,292
TOTAL	**3,323,960**	**3,995,914**

INVESTMENTS IN ASSOCIATES

DATA ON ASSOCIATES AS AT 31/12/2013

Company	Address	Activity	Co-owner company	% co-owership
ELDOM d.o.o.	Vetrinjska ulica 2, Maribor, Slovenija	Property management for payment or under contract	Dravske elektrarne Maribor d.o.o.	50%
ERICO d.o.o.	Koroška cesta 58, Velenje, Slovenija	Ecologic research, monitoring	Termoelektrarna Šoštanj d.o.o. Premogovnik Velenje d.d.	26% 23%
PLP d.o.o.	Partizanska 78, Velenje, Slovenija	Timber activity	Premogovnik Velenje d.d.	26%
SIPOTEH d.o.o.	Partizanska 79, Velenje, Slovenija	Production of technological and mining equipment	Premogovnik Velenje d.d.	42%
PV Fairwood	Singapur	coal mining modernisation	Premogovnik Velenje d.d.	40%
RCE d.o.o.	Preloška cesta 1, Velenje, Slovenija	R&D in natural science and technology	Termoelektrarna Šoštanj d.o.o.	20.83%

Except for the company RCE, associates are not audited.

SIGNIFICANT AMOUNTS FROM STATEMENTS OF ASSOCIATES FOR 2013

in EUR

Company	Assets	Liabilities (without equity)	Revenue	Net profit or loss for the period	Total equity
ELDOM d.o.o.	438,389	229,213	895,842	-23,975	209,176
ERICO d.o.o.	1,737,171	406,419	2,280,256	20,451	1,330,752
PLP d.o.o.	1,741,034	922,951	2,856,213	56,016	818,083
SIPOTEH d.o.o.	2,432,110	2,060,652	3,239,491	26,985	371,458
RCE d.o.o.	9,466,631	6,441,413	2,237,806	18,887	3,025,218
Total	**15,815,335**	**10,060,648**	**11,509,608**	**98,364**	**5,754,687**

AMOUNTS OF LONG-TERM INVESTMENTS IN ASSOCIATES

in EUR

Associate	31/12/2013	31/12/2012
ELDOM d.o.o.	104,591	116,578
ERICO d.o.o.	402,111	391,475
PLP d.o.o.	173,354	158,790
SIPOTEH d.o.o.	191,911	184,895
PV Fairwood	2,200	2,200
RCE d.o.o.	721,877	0
TOTAL	**1,596,044**	**853,938**

CHANGES IN LONG-TERM INVESTMENTS IN ASSOCIATES

in EUR

	2013	2012
As at 1 Jan.	**853,938**	**802,184**
Acquisitions	0	308,624
Transfers - re-entries	612,500	(272,503)
Increases	141,593	15,633
Impairments	(11,987)	0
As at 31 Dec.	**1,596,044**	**853,938**

The increase includes the interest in the company Razvojni center energija d.o.o., in which several subsidiaries have a share, jointly exceeding 20%.

JOINTLY CONTROLLED COMPANIES

INVESTMENTS IN JOINTLY CONTROLLED COMPANIES include 25% stake in the company Soenergetika d.o.o. in the amount of EUR 255,000. The company ended the year of 2013 with a profit of EUR 679,408. The company was audited.

DATA ON JOINT VENTURES AS AT 31/12/2013

Company	Address	Activity	% of ownership	% voting rights
SOENERGETIKA d.o.o.	Stara cesta 3, 4000 Kranj	Production of electricity and thermal energy	25%	25%

SIGNIFICANT AMOUNTS FROM STATEMENTS OF JOINT VENTURES FOR 2013

in EUR

Company	Assets	Liabilities (without equity)	Revenue	Net profit or loss for the period	Total equity
SOENERGETIKA d.o.o.	6,044,246	4,335,711	4,267,902	679,408	1,708,535
Total	**6,044,246**	**4,335,711**	**4,267,902**	**679,408**	**1,708,535**

AVAILABLE-FOR-SALE FINANCIAL ASSETS

AVAILABLE-FOR-SALE LONG-TERM FINANCIAL ASSETS

in EUR

	31/12/2013	31/12/2012
Company shares	646,840	564,609
Company stakes	420,637	1,040,637
Bank shares	851	1,032,249
Other	0	1,552
TOTAL	**1,068,328**	**2,639,047**

CHANGES IN AVAILABLE-FOR-SALE FINANCIAL ASSETS

in EUR

	2013	2012
As at 1 Jan.	**2,639,047**	**3,879,701**
Acquisitions	0	(590,779)
Transfers - re-entries	(620,000)	0
Increases	82,230	213,798
Impairments	(1,032,949)	(863,673)
As at 31 Dec.	**1,068,328**	**2,639,047**

The Group's available-for-sale financial assets include shares and stakes of companies and banks. In 2013, the Group disposed of the NLB shares.

DEFERRED TAX ASSETS (4)

In 2013, 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 (mostly reversal for receivables from provisions for closing down coal mines),
- reversal of doubtful receivables,
- utilisation of differences between operating and tax depreciation/amortisation.

The change in deferred tax assets in 2013 amounts to EUR -4,221,497, of which EUR -4,151,290 is disclosed in the consolidated income statement and EUR -70,207 in equity.

Companies operating with loss did not create deferred tax assets from unused tax losses and unused tax brakes.

CHANGES IN DEFERRED TAX ASSETS

in EUR

	Provisions	Impairment	Depreciation and amortisation expense	Other	Total
As at 01/01/2012	**6,364,896**	**574,463**	**250,332**	**3,585,156**	**10,774,847**
To debit/(credit) of profit or loss	(2,325,207)	161,043	10,857	790,732	(1,362,575)
To debit/(credit) of other comprehensive income	0	0	0	54,450	54,450
As at 31/12/2012	**4,039,689**	**735,506**	**261,189**	**4,430,338**	**9,466,722**
As at 01/01/2013	**4,039,689**	**735,506**	**261,189**	**4,430,338**	**9,466,722**
To debit/(credit) of profit or loss	(2,814,080)	(17,187)	122,743	(1,442,766)	(4,151,290)
To debit/(credit) of other comprehensive income		264,663		(334,870)	(70,207)
As at 31/12/2013	**1,225,609**	**982,982**	**383,932**	**2,652,702**	**5,245,225**

INVENTORIES (5)

in EUR

	31/12/2013	31/12/2012
Material	21,928,556	23,001,935
Work-in-progress	31,544	52,536
Products and merchandise	5,444,505	10,859,251
TOTAL	**27,404,605**	**33,913,722**

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.

Due to the use of weighted average price method instead of FIFO, the difference in value of inventories was verified for the company TEŠ, which amounts to EUR -33,310. Since the amount was immaterial it was not taken into account in preparation of consolidated statement of comprehensive income.

Inventories of products mostly include coal.

In case of other inventories, net realisable value is not lower than the carrying amount.

No inventories have been used as collateral.

INVENTORY SURPLUSES AND DEFICITS

in EUR

	31/12/2013	31/12/2012
Surpluses in year-end count	386,053	12,705
Deficits in year-end count	201,128	6,035

SHORT-TERM INVESTMENTS AND LOANS (6)

SHORT-TERM INVESTMENTS

in EUR

	31/12/2013	31/12/2012
Other short-term investments	21,309	23,066
TOTAL	**21,309**	**23,066**

The Group discloses positive fair value of currency swaps among its short-term investments.

SHORT-TERM FINANCIAL RECEIVABLES AND LOANS

in EUR

	31/12/2013	31/12/2012
Short-term financial receivables and loans to associates	331,677	452,529
Short-term financial receivables and loans to others	61,340	330,481
Short-term deposits to others	33,155,166	404,318
TOTAL	**33,548,183**	**1,187,328**

Short-term deposits to others include deposits with banks with more than three-month repayment period after the balance sheet date.

SHORT-TERM OPERATING RECEIVABLES (7)

in EUR

	31/12/2013	31/12/2012
Short-term operating receivables due from the Group companies	0	360
Short-term operating receivables due from associated companies	243,004	223,613
Short-term operating receivables due from associated companies	299,907	0
Short-term operating receivables due from customers	163,648,158	175,603,420
Short-term advances	7,316,685	10,602,762
Short-term operating receivables due from government and other institutions	36,527,457	53,848,823
Short-term operating receivables from others	1,220,777	7,061,115
TOTAL	**209,255,988**	**247,340,093**

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 are mostly composed of cash on the settlement account for payment of transmission capacities and of advances for replacement Unit 6 at TEŠ.

Most of receivables from government or other institutions comprise input VAT receivables. 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 (8)

in EUR

	31/12/2013	31/12/2012
Short-term deferred costs and expenses	1,892,316	2,494,123
Accrued revenues	3,130,399	6,541,947
TOTAL	**5,022,715**	**9,036,070**

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 and accrued revenue from electricity trading).

CASH AND CASH EQUIVALENTS (9)

in EUR

	31/12/2013	31/12/2012
Cash in hand and cheques received	23,941	16,674
Cash in banks	7,060,539	4,697,236
Deposits redeemable at notice	42,085,069	1,581,287
Deposits tied up to three months	26,014,774	500,000
TOTAL	**75,184,323**	**6,795,197**

EQUITY (10)

in EUR

	31/12/2013	31/12/2012
Called-up capital	29,558,789	29,558,789
Capital surplus	561,243,185	561,243,185
Revenue reserves	444,060,622	384,313,947
Fair value reserve	(4,416,429)	(9,391,631)
Retained earnings	455,682,820	438,408,173
Consolidation equity adjustment	(1,243,071)	(1,203,048)
Minority stakeholder equity	61,901,157	70,533,342
TOTAL	**1,546,787,073**	**1,473,462,757**

The value of nominal capital and capital surplus of the Group remained unchanged in 2013.

CAPITAL SURPLUS

in EUR

	31/12/2013	31/12/2012
Paid-in capital surplus	561,243,072	561,243,072
Amounts arising from general capital revaluation adjustments.	113	113
TOTAL	**561,243,185**	**561,243,185**

Other revenue reserves in the amount of EUR 444,060,622 represent a part of transferred revenue of the controlling company and are disclosed in detail in the statement of changes in equity of the company.

Fair value reserve in the amount of EUR -4,416,429 includes:

- fair value reserve of the controlling company in the amount or EUR -3,795,939 (detailed disclosure in the financial report of the controlling company), and
- the controlling company's share in the fair value reserve of subsidiaries in total amount of EUR -620,490 (mostly fair value of financial instruments for hedging against changeability of cash flows).

- EUR (v glavnini gre za pošteno vrednost finančnih instrumentov za varovanje pred spremenljivostjo denarnih tokov).

Retained earnings are comprised of the controlling company's share in retained earnings of its subsidiaries in the amount of EUR 416,931,082, unallocated profit of the current year of the controlling company in the amount of EUR 38,269,583 and the share of the controlling company in operating profit or loss of the current year of the subsidiaries in the amount of EUR -24,742,796, increased in consolidation procedure by EUR 25,250,838. Retained earnings decreased by EUR 25,887 cumulatively, due to elimination and inclusion of subsidiaries in the consolidation.

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 separately presented and is disclosed in more detail in the statement of changes in equity.

PROVISIONS FOR TERMINATION AND JUBILEE BENEFITS (11)

in EUR

	31/12/2013	31/12/2012
Provisions for termination benefits	10,201,918	10,164,253
Provisions for jubilee benefits	4,076,193	4,345,328
TOTAL	**14,278,111**	**14,509,581**

At the end of 2013, the Group discloses provisions for termination and jubilee benefits created on the basis of actuarial calculation as at 31 December 2013.

The actuarial calculation was based on:

- the number of employees in individual company as at 30 September 2013 (gender, age, overall and pension qualifying period of service, average net and gross salary for the period July – September 2013),
- the method for calculating termination and jubilee benefits in an individual group company,
- average salary growth of 1.4% in 2014, 1.3% in 2015 and 2016 and 3.0% per year in the following years,
- discount interest rate of 4.5% p.a., and
- employee turnover by age category.

CHANGES IN PROVISIONS FOR TERMINATION AND JUBILEE BENEFITS

in EUR

	Provisions for severance	Provisions for jubilee benefits	Total
As at 01/01/2012	**10,037,410**	**3,972,735**	**14,010,145**
Increase - establishment	966,156	907,633	1,873,789
Decrease - disbursement	(737,345)	(535,040)	(1,272,385)
Decrease - reversal	(101,968)	0	(101,968)
As at 31/12/2012	**10,164,253**	**4,345,328**	**14,509,581**
As at 01/01/2013	**10,164,253**	**4,345,328**	**14,509,581**
Increase - establishment	918,231	439,983	1,358,214
Decrease - disbursement	(812,195)	(670,527)	(1,482,722)
Decrease - reversal	(68,371)	(38,591)	(106,962)
As at 31/12/2013	**10,201,918**	**4,076,193**	**14,278,111**

OTHER PROVISIONS (12)

in EUR

	31/12/2013	31/12/2012
For lawsuits	8,126,093	11,250,027
For closing works on mining caves	28,993,052	28,716,337
For compensations	43,293	43,293
Other provisions	5,433,468	5,103,950
TOTAL	**42,595,906**	**45,113,607**

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. One part of provisions was reversed in 2013 as a result of lower amount of the legal claim.

Provisions for closing down the remaining Velenje coal mining site are created on the basis of an assessment of the closing down activities in the expert report 'Valuation of closing-down activities of PV pits after the omission of exploiting the Velenje part of the site', which was prepared by the company's expert team. In 2013, the PV Group carried out another assessment of the activities valuation and confirmed the value of closing-down activities in the discussed expert report. On the basis of the assessment, additional provisions in the amount of EUR 276,715 were created in 2013 for closing-down activities.

Most of other provisions are represented by provision for restoration of disposal site of waste products. In 2013, the Group created new provisions for unpaid part of annual leave pay in the amount of EUR 740,081.

CHANGES IN OTHER PROVISIONS

in EUR

	For lawsuits	For closing works on mining caves	For compensations	Other provisions	Total
As at 01/01/2012	**12,319,134**	**37,331,283**	**43,293**	**3,710,212**	**53,403,922**
Establishment - increase	824,597			1,393,738	2,218,335
Decrease - reversal	(1,893,704)	(8,614,946)		0	(10,508,650)
As at 31/12/2012	**11,250,027**	**28,716,337**	**43,293**	**5,103,950**	**45,113,607**
As at 01/01/2013	**11,250,027**	**28,716,337**	**43,293**	**5,103,950**	**45,113,607**
Establishment - increase	601,923	276,715		769,019	1,647,657
Decrease - disbursement	(277,186)			(418,222)	(695,408)
Decrease - reversal	(3,448,671)			(21,279)	(3,469,950)
As at 31/12/2013	**8,126,093**	**28,993,052**	**43,293**	**5,433,468**	**42,595,906**

OTHER LONG-TERM LIABILITIES (13)

in EUR

	31/12/2013	31/12/2012
Emissions coupons	0	215,305
Quotas for disabled	5,892,680	6,083,837
Others state aids received	5,169,063	6,883,054
Others	16,244	95,238
TOTAL	**11,077,987**	**13,277,434**

The majority of other long-term liabilities comprise quotas for the disabled. These 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 indicated in the aforementioned Act.

Government and EU grants include the funds received for co-financing fixed assets which are decreased by the depreciation amounts.

CHANGES IN OTHER LONG-TERM LIABILITIES

in EUR

	Emissions coupons	Quotas for disabled	Others state aids received	Others	Total
As at 01/01/2012	**5,152,334**	**6,449,653**	**6,306,132**	**223,340**	**18,131,459**
Acquisitions		7,106,281	1,955,073		9,061,354
Disposals	(4,937,029)	(7,472,097)	(1,378,151)	(128,102)	(13,915,379)
As at 31/12/2012	**215,305**	**6,083,837**	**6,883,054**	**95,238**	**13,277,434**
As at 01/01/2013	**215,305**	**6,083,837**	**6,883,054**	**95,238**	**13,277,434**
Acquisitions	132,157	74,880	6,785,414	54,921	7,047,372
Disposals	(347,462)	(266,037)	(8,499,405)	(81,607)	(9,194,511)
Release				(52,308)	(52,308)
As at 31/12/2013	**0**	**5,892,680**	**5,169,063**	**16,244**	**11,077,987**

LONG-TERM FINANCIAL LIABILITIES (14)

in EUR

	31/12/2013	31/12/2012
Long-term financial liabilities to banks	890,846,843	378,466,499
Other long-term financial liabilities	3,382,116	5,302,641
TOTAL	**894,228,959**	**383,769,140**

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 0.4% 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 2038.

Long-term loans are mostly intended for the financing of property, plant and equipment.

The increase in long-term loans in 2013 is mostly a result of drawing of the long-term loans from EIB and EBRD for the replacement Unit 6 construction.

The Group is fully compliant with IFRS, except for the disclosure of a part of long-term financial liabilities according to IAS 1 Presentation of financial statements, because the managements of TEŠ and HSE expect that, within a twelve-month period of from the date of statement of financial position, there will be no actual requirement to repay the long-term financial liabilities under the loan agreements with EIB (EUR 440,000,000 and EUR 110,000,000 for a total of EUR 550,000,000) and EBRD (EUR 200,000,000) despite the fact that TEŠ notes that certain provisions of the loan agreements were breached as at 31 December 2013.

IAS 1.74 stipulates that long-term loans recognised under long-term financial liabilities should be classified as short-term financial liabilities, if before the end of the reporting period the company violates a provision of the long-term loan agreement, due to which the liability should be settled on demand and as at the statement of financial position date the company, as well as the Group, should not have unlimited right to defer settlement of the liability for at least twelve months from the date of the statement of financial position.

The company TEŠ regularly reported to both banks about any breaches or derogations; however, the banks did not start any actions or procedures to withdraw the long-term loans.

Derogations from the loan agreements are the following:

1. The loan agreement between the EIB and TEŠ for EUR 110,000,000 and EUR 440,000,000:

- Increase in costs of the project. In line with the loan agreement, in case of cost increase for more than 10% TEŠ should submit the financial plan to the bank in a timely manner. TEŠ informed the bank on the increased project costs and submitted the RIP 6 draft including the financing plan. The final version of RIP 6 has not been submitted to the bank.
- Loss of the qualified guarantor status. Due to decreased credit rating of the Intesa Sanpaolo bank, the bank no longer meets the criteria of qualified guarantor. The EIB was informed about this fact, but did not exercise the contractual right to request that TEŠ find another guarantor by a certain deadline or ensure that HSE or the discussed guarantor provide cash deposit or another adequate insurance. Procedures to correct this breach are underway. A concrete agreement has been reached regarding the bank's status, which the EIB finds acceptable.

2. The loan agreement between TEŠ and the EBRD for EUR 200,000,000:

- Compliance with relevant contracts. TEŠ committed to respect or fulfil all relevant contracts the company is a party to or which are binding for its assets. Based on the loan agreement, TEŠ has a possibility to repair such breach in additional 30 days from the date of the EBRD request. As breach in this case is especially considered non-settlement of liabilities to suppliers in November and December 2013, of which the bank was informed already in 2013. Officially, the bank did not send any request for repair of such breaches. The liabilities to Alstom were settled in February 2014 on the basis of the debt transfer agreement.
- Borrowing limit. TEŠ committed not to borrow, assume or allow existence of any financial debt, except of, among other, shareholder loan (any TEŠ debt to HSE or other HSE Group company). TEŠ and HSE concluded the Contract on Transfer of Liabilities to Alstom which arise from issued invoices, whereas TEŠ is obliged to repay such payments HSE along with interest. TEš has the possibility to repair such breach in additional 30 days from the date of the EBRD request, provided that such breach can be repaired. The company has not yet received the EBRD's request; however, such breach can be repaired through conversion of liabilities into capital or on the basis of a mutual agreement of the contractual parties.

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 greater detail in annual reports of individual companies in the Group.

CHANGES IN LONG-TERM FINANCIAL LIABILITIES

in EUR

	Long-term financial liabilities to banks	Other long-term financial liabilities	Total
As at 01/01/2013	**378,466,499**	**5,302,641**	**383,769,140**
Acquisitions	564,702,112	38,754	564,740,866
Transfers to short-term liabilities	(51,410,126)	21,727	(51,388,399)
Repayments	(911,642)	(60,410)	(972,052)
Other		(1,920,596)	(1,920,596)
As at 31/12/2013	**890,846,843**	**3,382,116**	**894,228,959**

For a part of the Group's long-term loans interest rate swaps have been concluded in order to lower the risk of increases in variable interest rates. Due to a fall in interest rates, their fair values have been recorded as part of other long-term financial liabilities and revaluation deficit. More detailed disclosures are presented in the section on interest rate risk.

Maturity of long-term liabilities is disclosed in the section on liquidity risk.

SHORT-TERM FINANCIAL LIABILITIES (15)

in EUR

	31/12/2013	31/12/2012
Short-term financial liabilities to banks	70,405,106	224,876,081
Other short-term financial liabilities	258,160	110,691
TOTAL	**70,663,266**	**224,986,772**

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 3.5% and 7.8%. Accounted for but not yet due interest on loans amounted to EUR 652,281, at the end of the period.

The Group transferred among its short-term financial liabilities EUR 22,433,867 of the long-term loan, which under the loan agreement with the EIB has inadequate guarantors as at 31 December 2012, which means that covenants have been breached. Corrective measures have been carried out and by the date of this Annual Report the bank did not request that the loan be repaid. However, the bank did not issue a waiver either.

Short-term financial liabilities in 2013 were lower than in 2012, mostly due to repayment of short-term loans regarding bridge financing of the project replacement Unit 6 at TEŠ as a consequence of delayed drawing of the long-term loans of the EIB and EBRD to TEŠ, which was realised in March 2013.

CHANGES IN SHORT-TERM FINANCIAL LIABILITIES

in EUR

	Short-term financial liabilities to banks	Other short-term financial liabilities	Total
As at 01/01/2013	**224,876,081**	**110,691**	**224,986,772**
Increase	209,424,946	747,524	210,172,470
Transfers from long-term liabilities	51,315,236	72,556	51,387,792
Repayments	(415,507,091)	(850,255)	(416,357,346)
Other	295,934	177,643	473,577
As at 31/12/2013	**70,405,106**	**258,160**	**70,663,265**

SHORT-TERM OPERATING LIABILITIES (16)

in EUR

	31/12/2013	31/12/2012
Short-term operating liabilities to Group companies	0	5,323
Short-term operating liabilities to associated companies	1,189,302	1,583,807
Short-term operating liabilities to joint ventures	106,753	153,522
Short-term operating liabilities to suppliers	180,219,215	374,655,800
Short-term operating liabilities from advances	186,415	439,633
Short-term operating liabilities to employees	11,676,832	10,547,379
Short-term operating liabilities to government and other institutions	28,728,368	36,892,824
Short-term operating liabilities to others	4,062,899	3,561,346
TOTAL	**226,169,784**	**427,839,634**

The largest share of short-term operating liabilities arises from liabilities to suppliers for the replacement Unit 6 and the liabilities for the electricity purchased in Slovenia and abroad.

Maturity of liabilities is disclosed in the section on liquidity risk.

OTHER SHORT-TERM LIABILITIES (17)

in EUR

	31/12/2013	31/12/2012
Short-term accrued costs and expenses	15,772,420	9,118,990
TOTAL	**15,772,420**	**9,118,990**

Other short-term liabilities include accrued costs, which mainly represent costs connected with electricity purchases (including costs of emission coupons), costs for unutilised annual leave.

CONTINGENT LIABILITIES AND ASSETS (18)

CONTINGENT LIABILITIES

in EUR

	31/12/2013	31/12/2012
Performance/warranty guarantees	6,840,524	4,387,598
Other	1,057,824	20,592,935
TOTAL	**7,898,348**	**24,980,533**

In the Annual Report for 2012, the Group disclosed all guarantees and parent guarantees given to subsidiaries in total amount of EUR 676,591,050.

Since those are values, which as at 31 December 2013 are already recognised either as a financial liability in the consolidated statement of financial position (loan guarantees for subsidiaries) or as a contractual obligation for investments in property, plant and equipment after 31 December 2013 (guarantees for supplier for the replacement block 6 investment at TEŠ) or for transactions that will affect the disclosed amount of the Group's operating liabilities (guarantee or parent guarantee for suppliers of electricity and gas) in the future, these items do not represent contingent liabilities of the Group.

The guarantees for appropriate execution of works and repair of irregularities comprise the guarantees the Group gave to third parties in connection with transactions performed.

In its 2012 Annual Report, the Group's contingent liabilities included also the liabilities that would occur due to the increase in the replacement Unit 6 investment in the amount of EUR 61,874,606. Since these liabilities will be posted upon realisation within the investment in replacement Unit 6 at TEŠ, in 2013 they are disclosed in section 5.5.8.1.(2).

In 2013, the Group no longer discloses the estimated cost of assets dismantlement in the amount of EUR 19,647,297, since, after a thorough examination of all relevant legislation and the effective authorisations, it was determined that there is no basis for the demolition or removal of facilities with equipment in the event of termination of operations at TET, only prescribed is continued mandatory maintenance of facilities. Other contingent liabilities, therefore, include the Group's guarantees to third parties and the estimated value of investments for which the possibility of the Group losing in legal procedures has been assessed as low.

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.

Contingent assets of the Group no longer include the principal of penalty, it paid in 2009 as the controlling company of then operating subsidiary TDR Metalurgija, since the latter had been accused of cartel agreement. The controlling company lost the lawsuit in front of the European Commission for repayment of the penalty in the amount of EUR 9,100,000. The judgement was received at the end of 2013.

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.

NET SALES REVENUES

in EUR

	2013	2012
On the domestic market	**610,649,659**	**760,216,444**
Electricity	558,879,032	720,439,875
Heat energy	3,841,638	3,797,846
Other products	407,769	76,173
Other mechandise and material	6,238,208	1,001,893
Other services	41,283,012	34,900,657
On the foreign market	**951,670,620**	**1,047,439,043**
Electricity	904,399,417	1,024,562,315
Other products	140,071	134,197
Other mechandise and material	24,145,368	2,417,575
Other services	22,985,764	20,324,956
TOTAL	**1,562,320,279**	**1,807,655,487**

CAPITALISED OWN PRODUCTS (20)

Capitalised own products and services mostly refer to:

- construction of the replacement Unit 6 at TEŠ,
- material and work regarding overhaul of Units 3 and 4 and gas turbine at TEŠ,
- 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.

OTHER OPERATING REVENUE (21)

Other operating revenue comprise relevant amounts of revenue from utilisation of assets assigned in accordance with legislation on disability organisations, revenue from reversal of provisions for lawsuits, revenue from compensations for damages estimated or received from insurance companies, and revenue from sales of fixed assets.

OTHER OPERATING REVENUE

in EUR

	2013	2012
Revenue from the reversal of provisions	4,783,086	10,159,646
Drawing of deferred revenue	8,312,019	14,350,418
Profit from sales of fixed assets and reversed impairment of receivables	2,125,982	1,660,154
Revenue from compensations and contractual penalties	5,030,921	8,797,860
Other operating revenue	1,978,764	10,549,490
TOTAL	**22,230,772**	**45,517,568**

COSTS OF GOODS, MATERIALS AND SERVICES (22)

The cost of merchandise sold in the amount of EUR 1,012,660,348 mostly comprises expenses for purchase of electricity and contingent costs of electricity purchase.

Most of costs of materials in the amount of EUR 75,848,159 are represented by costs of gas, coal and other energy products, necessary for electricity production, and costs of spare parts and maintenance material.

Most of costs of services in the amount of EUR 84,657,646 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.

COSTS OF GOODS, MATERIAL AND SERVICES

in EUR

	2013	2012
Cost of goods sold	968,263,938	1,233,989,682
Contingent costs of goods sold	44,396,410	54,284,671
Total cost of goods sold	**1,012,660,348**	**1,288,274,353**
Total costs of material	**75,848,159**	**94,663,652**
Total costs of services	**84,657,646**	**76,580,578**
TOTAL	**1,173,166,153**	**1,459,518,583**

In 2013, the financial statements of the HSE Group companies in Slovenia were audited by the audit firm Deloitte revizija d.o.o., which carried out also a preventive review of the companies abroad that are included in consolidation; 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 PKF d.o.o. and two by Deloitte.

AUDIT FEES

in EUR

	2013	2012
Audit of the Annual Report	141,758	157,023
Other assurance services		13,000
Other non-audit services	5,058	3,720
TOTAL	**146,816**	**173,743**

LABOUR COSTS (23)

in EUR

	2013	2012
Salaries	105,946,871	108,833,508
Pension insurance costs	18,680,883	18,492,461
Other insurance costs	7,349,137	8,199,367
Other labour costs	12,634,694	12,514,590
TOTAL	**144,611,585**	**148,039,926**

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 2013, which can be utilised until 30 June 2014.

As a result of unified presentation of meal allowances of employees in the group companies providing hot meal, EUR 593,120 was included among labour costs and, on the other hand, among net sales revenue, in consolidation process.

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

WRITE-DOWNS IN VALUE (24)

in EUR

	2013	2012
Amortisation of intangible assets	1,649,845	1,623,799
Depreciation of property, plant and equipment	87,502,934	88,029,848
Depreciation of investment property	14,848	14,946
Allowance for or write-down in receivables	2,254,740	6,145,521
Sale and write-down in property, plant and equipment and intangible assets	14,667,909	22,332,089
TOTAL	**106,090,276**	**118,146,203**

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.

Write-downs of fixed assets mainly represent impairment of fixed assets of the HSE Group companies based on appraisals.

OTHER OPERATING EXPENSES (25)

in EUR

	2013	2012
Provisions	598,080	3,448,585
Fee for building site use	8,754,503	8,334,534
Concessions	19,061,015	18,207,743
Environmental charges	54,664,676	18,854,305
Donations	1,010,121	1,331,463
Other operating expenses	7,870,178	7,609,678
TOTAL	**91,958,573**	**57,786,308**

Other operating expenses predominantly include environmental charges (costs of emission coupons and water charges), concession fee payable to the government, and compensation for the use of construction sites.

FINANCIAL REVENUE (26)

in EUR

	2013	2012
Dividends and other profit shares	120,292	87,615
Participation in the profit of associates and joint ventures, calculated using the equity method	311,445	109,294
Financial revenue from loans granted and deposits	3,790,320	919,062
Net exchange differences from financing activities	11,960	0
Other financial revenue	29,934	187,511
TOTAL	**4,263,951**	**1,303,482**

Interest on loans given and deposits accounts for the largest part of financial revenue.

FINANCIAL EXPENSES (27)

in EUR

	2013	2012
Financial expenses from loans received	11,773,301	11,466,705
Change in fair value of financial assets through profit or loss	48,874	1,752,524
Financial expenses from disposal of financial assets	984,077	0
Participation in the loss of associates and joint ventures, calculated using the equity method	11,987	0
Other financial expenses	403,673	42,128
TOTAL	**13,221,912**	**13,261,357**

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 2013, the HSE Group companies disposed of total of EUR 984,077 of NLB shares.

TAX (28)

The companies of the HSE Group are liable to pay corporate income tax, VAT, financial services tax and excise duties.

In 2013, seven out of seventeen group companies in Slovenia were liable to pay corporate income tax, as well as four out of seven companies abroad. Owing to tax breaks or tax losses and financial loss, the remaining companies did not determine the tax base.

Current tax of the group companies in 2013 amounts to EUR 20,718,715. On the basis of current tax at the end of 2013, group companies disclose EUR 33,094 of current tax assets (higher advances from calculated tax) and EUR 8,561,621 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 5,245,225 and EUR 55,225 of deferred tax liabilities. More detailed disclosures of deferred tax assets are disclosed in section 4.

CHANGES IN DEFERRED TAX LIABILITIES

in EUR

	Financial assets	Other	Total
As at 01/01/2012	**1,394**	**93**	**1,487**
To debit/(credit) of other comprehensive income	35,843		35,843
As at 31/12/2012	**37,237**	**93**	**37,330**
As at 01/01/2013	**37,237**	**93**	**37,330**
To debit/(credit) of profit or loss	13,476		13,476
To debit/(credit) of other comprehensive income	796	3,623	4,419
As at 31/12/2013	**51,509**	**3,716**	**55,225**

At the end of 2013, the group companies' unutilised tax losses amounted to EUR 70,921,623.

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.

EFFECTIVE TAX RATE CALCULATION

in EUR

	2013	2012
Profit or loss before tax	91,215,799	101,339,390
Tax calculated at applicable tax rate	20,693,938	19,035,697
Tax from revenue reducing tax base	(9,055)	(1,331,528)
Tax from tax breaks	(2,156,034)	(8,822,811)
Tax from expenses reducing tax base	(246,936)	(239,160)
Tax from non-deductible expenses	2,718,595	4,797,897
Tax from other changes in tax calculation	(281,793)	556,171
TAX	**20,718,715**	**13,996,266**
Effective tax rate	**22.71%**	**13.81%**

Increased effective interest rate is mostly a result of negative results of the companies in the Group, due to which the Group's profit or loss before tax decreases, while the calculated tax remains the same.

NET PROFIT OR LOSS (29)

Net operating profit or loss in the amount of EUR 66,610,459 comprises net profit of the company in the amount of EUR 76,539,166, the share of the controlling company in the profit or loss of subsidiaries in the amount of EUR -24,742,796, cumulative increase in profit or loss in consolidation procedure in the amount of EUR 25,250,838, which mostly refers to the exclusion of financial revenue due to impairment of subsidiaries, and net loss of minority owners in the amount of EUR -10,436,749.

NET PROFIT OR LOSS

in EUR

	2013	2012
Gross operating income	1,616,000,347	1,896,788,285
Operating profit or loss	100,173,760	113,297,265
Net cash	(8,957,961)	(11,957,875)
Profit or loss before tax	91,215,799	101,339,390
NET PROFIT OR LOSS FOR THE PERIOD	**66,610,459**	**85,980,549**

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, actuarial gains or losses from liabilities to employees regarding termination and jubilee benefits, and exchange rate differences arising from translation of financial statements of subsidiaries abroad. Total value of this change in 2013 amounts to EUR 4,981,484.

Items subsequently not reclassified to profit or loss include:

- actuarial deficit arising from liabilities to employees for jubilee benefits and severance pay in the amount of EUR 38,856; this is due to the amended IAS 19 effective as of 1 January 2013 – before that the item was disclosed among other operating revenue in consolidated income statement; negative effect from translations of items in financial statements of the subsidiaries operating abroad in the amount of EUR -66,639.

Items subsequently reclassified to profit or loss include:

- changes in fair value of available-for-sale assets in the amount of EUR 67,957, already comprising EUR 14,272 of deferred tax liabilities,
- change in fair value of hedges against changeability of cash flows in the amount of EUR 4,941,310, already including EUR 334,871 of deferred tax assets. Most of them refer to the controlling company, as disclosed in detail in the company HSE financial report.

Considering the abovementioned facts, the total comprehensive income, which includes the net profit or loss in the amount of EUR 66,610,459 and changes in other comprehensive income in the amount of EUR 4,981,484, amounts to EUR 71,591,943 at the end of 2013, of which EUR 81,955,771 belong to the majority owner and EUR -10,363,828 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 HSE Group companies, taking into account eliminations in the process of consolidation.

CASH FLOW TYPES

in EUR

	2013	2012
Cash flows from operating activities	220,253,996	156,048,670
Cash flows from investing activities	(500,339,889)	(293,691,682)
Cash flows from financing activities	348,539,974	77,678,538
NET CASH FOR THE PERIOD	**68,454,081**	**(59,964,474)**

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 2013, the following changes in equity in total amount of EUR 1,732,372 arose from transactions with owners:

- additional investments of minority owners in subsidiaries in the amount of EUR 1,511,945,
- inclusion of the subsidiary sHPP Lobnica into consolidation, hence of the disclosed minority owners' share in the company in the amount of EUR 219,696, and
- EUR 731 of gains of the companies that were consolidated for the first time in 2013.

Total comprehensive income of the reporting period increased by EUR 71,591,943, with the increase consisting of:

- net profit for the year in the amount of EUR 77,047,208, attributable to the majority owner,
- net loss for the year in the amount of EUR -10,436,749, incurred by the minority owner,
- change in the fair value reserve of the controlling company in the amount or EUR 4,373,888 (detailed disclosure in the financial report of the controlling company),
- the controlling company's share in the change in the fair value reserve of subsidiaries in the amount of EUR 601,314 (mostly fair value of financial instruments for hedging against changeability of cash flows),
- loss arising from conversion of financial statements of companies in other countries in the amount of EUR -66,639, and
- minority owners' share in the fair value reserve of subsidiaries in the amount of EUR 72,921.

In the reporting period, individual items of the Group's equity changed in total amount of EUR 59,773,290, due to:

- the transfer of a part of the 2012 accumulated profit in the amount of EUR 21,477,091 to other revenue reserves, on the basis of the controlling company's General Meeting decision;
- the transfer of the 2013 net profit in the amount of EUR 38,269,584 among other reserves, based on the decision of the controlling company's Supervisory Board;
- with the company HSE Bulgaria being excluded from the consolidation process, negative exchange differences from previous years in the amount of EUR 26,615 were transferred from fair value reserve to retained earnings.

Accumulated profit is not determined at the Group level.

5.5.8.6 RELATED ENTITIES

TRANSACTIONS WITH ASSOCIATES

in EUR

	Sales in 2013	Purchases in 2013	Loans granted as at 31/12/2013	Other receivables as at 31/12/2013	Other liabilities as at 31/12/2013
Associates	453,618	2,315,257	331,677	243,004	1,189,302
Joint ventures	2,066,663	630,607		299,907	106,753
TOTAL	**2,520,281**	**2,945,864**	**331,677**	**542,911**	**1,296,055**

The columns of sales and purchases show the turnover of all transactions (excluded VAT), comprising financial revenue and expenses.

5.5.8.7 REMUNERATION

Remuneration of managers and employees who are not subject to the tariff part of the collective agreement comprises:

- gross compensation included in the income tax return statement,
- other allowances (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 2013 members of Management Boards, other employees who are not subject to the tariff part of the collective labour agreement, and members of the Group's Supervisory Boards did not participate in the net profits under resolutions adopted by General Meetings, nor were they approved any advances, loans or guarantees by group companies.

RECEIPTS

in EUR

	Salary	Other receipts	Bonuses	Cost reimbursement	Total
Members of the Management Board	1,246,524	67,735	47,973	28,690	1,390,922
Members of the Supervisory Board and the Audit Committee		305,619	2,786	4,977	313,382
Employees who are not subject to the tariff part of the collective agreement	4,188,556	530,140	125,607	75,832	4,920,135
TOTAL 2013	**5,435,080**	**903,494**	**176,366**	**109,499**	**6,624,439**

5.5.8.8 FINANCIAL INSTRUMENTS AND RISKS

This section refers to section 5.5.7.21 of the financial report as well as with the section on financial risks in the business report.

5.5.8.8.1 CREDIT RISK

Most of group companies sales the majority of their products to the controlling company, which settles its liabilities in due time. The controlling company is, therefore, the most exposed to the 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 75% 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.

LONG-TERM RECEIVABLES BY MATURITY

in EUR

	DUE DATE			
	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	UP TO 2 YEARS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION
Long-term financial receivables and loans to others	18,000	6,000		24,000
Long-term deposits to others	112,445	63,847		176,292
Long-term operating receivables due from associated companies	137,895	275,792		413,687
Long-term advances	27,000	9,147	82,318	118,465
Long-term operating receivables due from others	688,890	12,295	1,445	702,630
TOTAL AS AT 31/12/2012	**984,230**	**367,081**	**83,763**	**1,435,074**

in EUR

	DUE DATE			
	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	UP TO 2 YEARS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION
Long-term financial receivables and loans to others		24,000		24,000
Long-term deposits to others	41,053	94,419	27,627	163,099
Long-term operating receivables due from associated companies	149,387	137,895		287,282
Long-term receivables due from customers	73,956	5,448		79,404
Long-term advances	131,090			131,090
Long-term operating receivables due from others	667,309	11,859	1,627	680,795
TOTAL AS AT 31/12/2013	**1,062,795**	**273,621**	**29,254**	**1,365,670**

SHORT-TERM RECEIVABLES BY MATURITY DATE

in EUR

	DUE DATE						
	NOT YET DUE	OVERDUE UP TO 3 MONTHS (90 days)	OVERDUE FROM 3 TO 6 MONTHS (from 91 days to 180 days)	OVERDUE FROM 6 TO 9 MONTHS (from 181 days to 270 days)	OVERDUE FROM 9 TO 12 MONTHS (from 271 days to 360 days)	OVERDUE MORE THAN ONE YEAR (more than 361 days)	TOTAL
Short-term operating receivables due from the Group companies	360						360
Short-term operating receivables due from associated companies	223,613						223,613
Short-term operating receivables due from customers	163,730,331	10,957,154	419,539	46,610	1,109,739	3,056,531	179,319,904
Short-term advances	9,747,522	18,142	4,409,175				14,174,839
Short-term operating receivables due from government and other institutions	53,684,871	163,952					53,848,823
Short-term operating receivables due from others	7,081,630					0	7,081,630
Short-term financial receivables and loans to associates			452,529				452,529
Short-term financial receivables and loans to others	54,605		200,000		75,876		330,481
Short-term deposits to others	48,919	6,037			349,362		404,318
TOTAL AS AT 31/12/2012	**234,571,851**	**11,145,285**	**5,481,243**	**46,610**	**1,534,977**	**3,056,531**	**255,836,497**

in EUR

	DUE DATE						
	NOT YET DUE	OVERDUE UP TO 3 MONTHS (90 days)	OVERDUE FROM 3 TO 6 MONTHS (from 91 days to 180 days)	OVERDUE FROM 6 TO 9 MONTHS (from 181 days to 270 days)	OVERDUE FROM 9 TO 12 MONTHS (from 271 days to 360 days)	OVERDUE MORE THAN ONE YEAR (more than 361 days)	TOTAL
Short-term operating receivables due from the Group companies	0	0	0	0	0	0	0
Short-term operating receivables due from associated companies	239,080	9,278					248,358
Short-term operating receivables due from joint ventures	299,907						299,907
Short-term operating receivables due from customers	147,466,041	11,519,149	2,703,300	2,354,023	36,793	3,497,087	167,576,393
Short-term advances	6,669,594	9,561	234	85		4,416,020	11,095,494
Short-term operating receivables due from government and other institutions	36,527,344	113					36,527,457
Short-term operating receivables due from others	1,502,299	34,501		140		19,336	1,556,276
Short-term financial receivables and loans to associates	331,677						331,677
Short-term financial receivables and loans to others	60,060	29	270	981			61,340
Short-term deposits to others	33,133,608	6,657	13,168	1,733			33,155,166
TOTAL AS AT 31/12/2013	**226,229,610**	**11,579,288**	**2,716,972**	**2,356,962**	**36,793**	**7,932,443**	**250,852,068**

More than 70% of receivables with maturity of up to 3 months have already been settled in 2014.

CHANGES IN ALLOWANCES FOR SHORT-TERM FINANCIAL RECEIVABLES AND LOANS

in EUR

	2013	2012
Recovered written-off receivables	0	(449,655)
Formation of value adjustments for receivables	0	449,655
As at 31 Dec.	**0**	**0**

CHANGES IN ALLOWANCES FOR SHORT-TERM OPERATING RECEIVABLES

in EUR

	2013	2012
As at 1 Jan.	**7,309,076**	**2,736,960**
Recovered written-off receivables	(268,233)	(353,318)
Allowances for receivables	1,191,688	5,052,808
Final write-off of receivables	(184,631)	(127,374)
As at 31 Dec.	**8,047,900**	**7,309,076**

At the end of 2013, the Group has a total of EUR 8,047,900 of doubtful short-term operating receivables.

In 2013, the Group received payments of doubtful and disputable short-term operating receivables in total amount of EUR 268,233.

The allowances for short-term operating receivables in 2013 mainly refer to receivables of the group companies from construction companies and total EUR 1,191,688.

5.5.8.8.2 LIQUIDITY RISK

Due to financial and economic crisis as well as unfavourable position of the HSE Group, the management of liquidity risks is of utmost importance, which is why we are even more careful in managing liquidity risk with emphasis on intensifying an effective cash flow planning, which enables timely prediction of possible liquidity surpluses and deficits and their optimal management. The Group's liquidity risk was estimated as being adequately managed in 2013.

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 HSE 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 group 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.

Especially the first 2013 quarter was extremely demanding for the Group in terms of liquidity risk management, due to delayed drawing of long-term loans approved to the company TEŠ by the financial institutions EIB and EBRD for financing the construction of 600 MW replacement Unit 6 at TEŠ. Delays in obtaining the government guarantee for long-term loans from EIB in the amount of EUR 440,000,000 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, before the company was able to draw the long-term loans from EIB and EBRD. Since in line with provisions of the contracts with the two banks TEŠ cannot obtain additional short-term loans on financial markets, it was forced to bridge financing of the replacement Unit 6 project through borrowing within the scope the HSE Group cash management and with proper assets in 2012 and in the first quarter of 2013. As the Group does not possess a sufficient amount of available funds to provide bridge financing for the replacement 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. The amount of short-term revolving loans the controlling company HSE granted to the company TEŠ for the purpose of bridge financing of the replacement Unit 6 project totalled as much as EUR 335,600,000, comprising proper assets of the company HSE, assets of the HSE Group companies and short-term loans from commercial banks.

With drawing of the long-term loans from EIB and EBRD in the amount of EUR 440,000,000 and EUR 117,500,00, respectively, in March 2013 TEŠ repaid short-term bridge loans to the controlling company HSE. Consequently, the company HSE settled short-term revolving loans received within the HSE Group cash management and short-term loans from commercial banks, taken out for bridge financing of TEŠ. This released the liquidity crunch both for HSE and the HSE Group.

In line with RIP 5, in 2013 the company HSE ensured full amount for the capital increase planned within the scope the replacement Unit 6 financing, in the amount of EUR 118,374,601. Due to issues concerning state aid for additional recapitalisation of TEŠ, HSE settled the TEŠ's liabilities to the supplier for replacement Unit 6 at TEŠ at the end of 2013 by assuming EUR 10,207,923 of TEŠ's debt, in order to prevent economic loss. With debt transfer, funds for the replacement Unit 6 at TEŠ project were provided also in the first half of 2014. Within the scope of independent review of RIP 6, PIT test will be carried out, which will help to clarify the state aid issues in terms of TEŠ recapitalisation. Further steps regarding the possibility of TEŠ recapitalisation will be defined after the review of RIP 6 by the Government of the Republic of Slovenia.

Liquidity was an important issue in 2013 also for the company PV. The company is facing a liquidity deficit, which is on the short run solved through postponement of payments to suppliers and through the HSE Group cash management. However, PV will have to promptly provide realistic and feasible actions which will ensure its long-term operation. At beginning of 2014, the General Meeting decision was adopted, demanding that the HSE management, within the framework of its powers and with help from external professional institution and in cooperation with the PV management and SB, provide a realistic and feasible Operational and Financial Restructuring Plan of the PV Group (OFRP), which will define also all necessary actions to meet contractual commitments under Annex 1 Annex 1 of the Long-term Contract for the Purchase of Coal, Lease of Capacity and Purchase of Electricity.

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

LONG-TERM LIABILITIES BY MATURITY

in EUR

	DUE DATE			
	UP TO 2 YEARS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION	FROM 3 TO 5 YEARS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION	OVER 5 YEARS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION	TOTAL
Long-term financial liabilities to banks	26,233,841	98,117,484	254,115,174	378,466,499
Other long-term financial liabilities	5,302,641			5,302,641
Long-term operating liabilities to suppliers	1,777,218			1,777,218
Long-term operating liabilities from advances			5,758	5,758
Other long-term operating liabilities	200,000		240,039	440,039
TOTAL AS AT 31/12/2012	**33,513,700**	**98,117,484**	**254,360,971**	**385,992,155**

in EUR

	DUE DATE			
	UP TO 2 YEARS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION	FROM 3 TO 5 YEARS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION	OVER 5 YEARS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION	TOTAL
Long-term financial liabilities to banks	68,551,166	184,595,790	637,699,887	890,846,843
Other long-term financial liabilities	2,199,609	1,182,507		3,382,116
Long-term operating liabilities to suppliers	119,219			119,219
Long-term operating liabilities from advances			9,209	9,209
Other long-term operating liabilities			202,718	202,718
TOTAL AS AT 31/12/2013	**70,869,994**	**185,778,297**	**637,911,814**	**894,560,105**

At the end of the year, the Group discloses short-term liabilities, mostly of the companies TEŠ and PV and the PV Group.

SHORT-TERM OPERATING AND FINANCIAL LIABILITIES BY MATURITY

in EUR

	DUE DATE						
	NOT YET DUE	OVERDUE UP TO 3 MONTHS (90 days)	OVERDUE FROM 3 TO 6 MONTHS (from 91 days to 180 days)	OVERDUE FROM 6 TO 9 MONTHS (from 181 days to 270 days)	OVERDUE FROM 9 TO 12 MONTHS (from 271 days to 360 days)	OVERDUE MORE THAN ONE YEAR (more than 361 days)	TOTAL
Short-term operating liabilities to associated companies	900,973	288,329					1,189,302
Short-term operating liabilities to joint ventures	106,753						106,753
Short-term operating liabilities to suppliers	149,734,635	28,908,531	1,048,014	190,724	16,014	321,297	180,219,215
Short-term operating liabilities from advances	177,156	2,474	4,878			1,907	186,415
Short-term operating liabilities to employees	11,676,832	0					11,676,832
Short-term operating liabilities to government and other institutions	28,386,120	342,248					28,728,368
Other short-term operating liabilities	3,685,468	377,431					4,062,899
Short-term financial liabilities to banks	69,638,726	0	0	0	766,380		70,405,106
Other short-term financial liabilities	250,332				7,828		258,160
TOTAL AS AT 31/12/2013	**264,556,995**	**29,919,013**	**1,052,893**	**190,723**	**790,222**	**323,204**	**296,833,050**

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 registered in SE Europe. With regard to the fact that operations of subsidiaries based in SE Europe represent a smaller segment of operations in comparison with total HSE Group operations, the exposure to currency risk is thus minimum.

Since other currencies are used in smaller extent, the Group does not perform sensitivity analysis 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 items in the consolidated financial statements:

EXCHANGE RATES

Country	Currency designation	Closing exchange rate in EUR for 2013	Closing exchange rate in EUR for 2012
Bosnia and Herzegovina	BAM	1.9558	1.9558
Bulgaria	BGN	1.9558	1.9558
Croatia	HRK	7.6265	7.5575
Hungary	HUF	297.0400	292.3000
Macedonia	MKD	61.9360	61.4870
Romania	RON	4.4710	4.4445
Serbia	RSD	114.1400	113.3900

FOREIGN EXCHANGE RISK

in EUR

	EUR	HUF	Other currencies	Total
Long-term financial receivables and loans	200,292	0	0	200,292
Long-term operating receivables	1,035,983	0	198,799	1,234,782
Short-term financial receivables and loans	1,140,034	0	47,294	1,187,328
Short-term operating receivables	247,015,845	0	324,248	247,340,093
Long-term financial liabilities	(383,769,140)	0	0	(383,769,140)
Long-term operating liabilities	(2,223,015)	0	0	(2,223,015)
Short-term financial liabilities	(224,986,772)	0	0	(224,986,772)
Short-term operating liabilities	(426,710,571)	(441)	(1,128,622)	(427,839,634)
NET EXPOSURE OF THE STATEMENT OF FINANCIAL POSITION 31/12/2012	**(788,297,344)**	**(441)**	**(558,281)**	**(788,856,066)**

in EUR

	EUR	HUF	Other currencies	Total
Long-term financial receivables and loans	187,099	0	0	187,099
Long-term operating receivables	996,222	0	182,349	1,178,571
Short-term financial receivables and loans	33,501,317	0	46,866	33,548,183
Short-term operating receivables	208,949,875	0	306,110	209,255,985
Long-term financial liabilities	(894,228,959)	0	0	(894,228,959)
Long-term operating liabilities	(331,146)	0	0	(331,146)
Short-term financial liabilities	(70,663,235)	0	(31)	(70,663,266)
Short-term operating liabilities	(225,061,824)	(883,912)	(224,049)	(226,169,785)
NET EXPOSURE OF THE STATEMENT OF FINANCIAL POSITION 31/12/2013	**(946,650,651)**	**(883,912)**	**311,245**	**(947,223,318)**

CONTRACTS CONCLUDED FOR CURRENCY SWAPS BY MATURITY

in EUR

	31/12/2013	31/12/2012
Contracts concluded for currency swaps by maturity - up to 12 months	971,717	4,900,045
TOTAL	**971,717**	**4,900,045**

5.5.8.8.4 INTEREST RATE RISK

The HSE 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 hedging long-term loans portfolio against interest rate risk by dispersing the loans taken-out at 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.

Group companies continuously monitor their interest rate risk and report on its management regularly. Additionally, the Group continuously follows developments on the money market, changes in interest rates and values of interest rate hedging contracts.

CONTRACTS CONCLUDED FOR INTEREST RATE SWAPS BY MATURITY

in EUR

	31/12/2013	31/12/2012
from 1 to 5 years	69,185,795	75,578,598
TOTAL	**69,185,795**	**75,578,598**

INTEREST RATE SWAP EFFECT

in EUR

	2013	2012
Unrealised loss from effective deals	-3,330,071	-5,250,667
Realised loss from effective deals	-1,906,489	-1,401,710
TOTAL	**-5,236,560**	**-6,652,377**

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. Due to low interest rate for the EIB loan, we used the lowest rate possible, i.e. 0.01%, as a decreased interest rate for this loan, since a decrease by 50 b.p. would result in a negative interest rate. Consequently, the final result is different with +/- 50 b.p. change in interest rate.

FINANCIAL INSTRUMENTS FEATURING A VARIABLE INTEREST RATE

in EUR

FINANCIAL INSTRUMENTS	Net profit/loss 2013		Net profit/loss 2012	
	Increase by 50 bp	Decrease by 50 bp	Increase by 50 bp	Decrease by 50 bp
Financial instruments at variable interest rate	**(1,493,794)**	**1,462,338**	**(1,543,408)**	**1,543,408**
Financial assets	28,518	(28,518)	23,982	(23,982)
Financial liabilities	(1,522,312)	1,490,856	(1,567,390)	1,567,390

5.5.8.8.5 PRICE RISK

The Group is exposed to risk arising from the amount of the selling price of electricity in relation to the cost price of electricity production in thermal power plants. The Group is materially involved in the replacement Unit 6 at TEŠ investment, due to which a risk arises that prices of electricity and CO_2 emission coupons, and price and quantity of coal projected in the investment programme, will not be achieved. Risks are managed with monitoring of developments on the electricity and CO_2 emission coupons markets and regulatory changes, with appropriate strategy for long-term sale of electricity from our own production and with the purchase of CO_2 emission coupons for covering own production. In this way, the company can sell the TPP- and HPP-produced electricity separately and for several years in advance, where the sales of TPP electricity coincide with the CO_2 emission coupons purchase, by which the company hedges the difference in price, i.e. trading results.

The risk of changes in the sales price of coal was managed through increasing the PV Group revenue from non-core activities and through streamlining and optimisation of the PV Group's operations. A realistic and feasible plan of financial and operational restructuring of the PV Group is being developed, which will clearly define all the necessary activities to meet contractual commitments arising from the Long-term Contract for the Purchase of Coal, Lease of Capacity and Purchase of Electricity, and the aim of which is to assess the realistic selling price of coal within acceptable operations of the entire PV Group, taking into account optimisation and streamlining of business processes of the PV Group, divestment of non-core assets of the Group, disposal of subsidiaries that are not directly related to the core activity of the coal industry, etc.

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 2013, the ratio was higher in relation to the end of 2012, as a result of increased long-term debt of the Group due to drawing of the long-term loans from EIB (EUR 440 million) and EBRD (EUR 117.5 million) for financing the replacement unit 6 at TEŠ investment. 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.

CAPITAL MANAGEMENT

in EUR

	31/12/2013	31/12/2012
Long-term financial liabilities	894,228,959	383,769,140
Short-term financial liabilities	70,663,266	224,986,772
Total financial liabilities	**964,892,225**	**608,755,912**
Equity	1,546,787,072	1,473,462,757
FINANCIAL LIABILITIES/CAPITAL	**0.62**	**0.41**
Net financial liability	889,707,902	601,960,715
NET DEBT/EQUITY	**0.58**	**0.41**

5.5.8.9 FAIR VALUES

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

CARRYING AMOUNTS AND FAIR VALUES OF FINANCIAL INSTRUMENTS

in EUR

FINANCIAL INSTRUMENTS	31/12/2013		31/12/2012	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative financial assets at fair value	**1,091,637**	**1,091,637**	**2,664,113**	**2,664,113**
Available-for-sale financial assets	1,070,328	1,070,328	2,641,047	2,641,047
Derivatives (assets)	21,309	21,309	23,066	23,066
Non-derivative financial assets at amortised cost	**319,354,164**	**319,354,164**	**256,757,692**	**256,757,692**
Financial receivables	33,735,282	33,735,282	1,387,620	1,387,620
Operating receivables	210,434,559	210,434,559	248,574,875	248,574,875
Cash	75,184,323	75,184,323	6,795,197	6,795,197
Total	**320,445,801**	**320,445,801**	**259,421,805**	**259,421,805**
Non-derivative financial liabilities at fair value	**3,330,071**	**3,330,071**	**5,322,962**	**5,322,962**
Derivatives (liabilities)	3,330,071	3,330,071	5,322,962	5,322,962
Non-derivative financial liabilities at amortised cost	**1,188,063,084**	**1,188,063,084**	**1,033,495,599**	**1,033,495,599**
Bank borrowings	961,251,949	961,251,949	603,342,580	603,342,580
Other financial liabilities	310,205	310,205	90,370	90,370
Operating liabilities	226,500,930	226,500,930	430,062,649	430,062,649
Total	**1,191,393,155**	**1,191,393,155**	**1,038,818,561**	**1,038,818,561**

FINANCIAL ASSETS CARRIED AT FAIR VALUE BY HIERARCHY

in EUR

	31/12/2013	31/12/2012
Financial assets at first-level fair value	625,799	542,718
Financial assets at second-level fair value	21,309	1,007,994
Financial assets at third-level fair value	444,529	2,267,976
TOTAL	**1,091,637**	**3,818,688**

5.5.8.10 EVENTS AFTER THE REPORTING DATE

The events do not affect the consolidated financial statement for 2013. There have been no other events that could affect the discussed financial statements or notes thereto.

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07/ Abbreviations

ACER	European Agency for Cooperation of Energy Regulators
AUKN	Capital Assets Management Agency of the Republic of Slovenia
BDP	Gross domestic product
BU	Business unit
CAO	Common Auction Office
CASC	Capacity Allocating Service Company
CPHE	Cogeneration of heat and electricity
DEM	Dravske elektrarne Maribor d.o.o.
DOBP	Documentation of obtaining building permit
DP	Development plan
DRP	Development and research project
DRSC	Slovenian Roads Agency
DUTB	Bank Assets Management Company
EBIT	Earnings before interest and taxes
EBITDA	Earnings before interest taxes debt and assets
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECB	European Central Bank
ECS	Energy Concept of Slovenia
EE	Electricity
EEU	Efficient energy use
EFET	Standard electricity trading contract
EIB	European Investment Bank
EIR	Environmental Impact Report
ELES	Elektro – Slovenija d.o.o.
ENDUR	Computer programme for electricity trading
ER	Environmental report
ERP	Enterprise resource planning
ESC	Economic and Social Council
EU	European Union
EUR	Euro
EZ	Energy Act
FFC	Family-friendly company

GEN	Gen Energija d.o.o.
GG	Greenhouse gases
HESS	Hidroelektrarne na spodnji Savi d.o.o.
HPP	Hydropower pant
HSE	Holding Slovenske elektrarne d.o.o.
HSE BE	HSE Balkan Energy d.o.o.
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
IFRS	International Financial Reporting Standards
IS	Information system
ISO	International Organization for Standardization
IT	Information technology
JWC	HSE Group Joint Workers' Council
MF	Ministry of Finance
MTE	Mai technology equipment
MW	Megawatt
MWh	Megawatt hour
NDEP	National Development Energy Plan
NEK OR NPP	Krško Nuclear Power Plant
NEP	National Energy Programme
OFRP	Operational and Financial Restructuring Plan
NKBM	Nova Kreditna banka Maribor d.d.
NLB	Nova Ljubljanska banka d.d.
NSP	National Spatial Plan
ODOS	Electronic document system
OG	Official Gazette
OHSAS	Occupational health and safety management system
OS	Occupational safety
OSH	Occupational safety and health
PR	Protection reley
PSP	Pumped-storage power plant
PT	Project task
PV	Premogovnik Velenje d.d.
RES	Renewable energy sources
RMC	Risk Management Committee
ROA	Return on assets

ROE	Return on equity
RS	Republic of Slovenia
SB	Supervisory Board
SCADA	Supervisory control and data acquisition
SDH	Slovenian Sovereign Holding
SE	South-East
SEL	Savske elektrarne Ljubljana d.o.o.
SENG	Soške elektrarne Nova Gorica d.o.o.
SFP	Statement of financial position
sHPP	Small HPP
SIC	Standing Interpretations Committee
SOD	Slovene Restitution Fund
SODO	Electricity distribution system operator
SORS	Statistical Office of the Republic of Slovenia
SPP	Solar power plant
SRC	Scientific research centre
SRESA	Srednjesavske elektrarne d.o.o
SUVI	System of managing information security
TC	Telecommunications
TEB	Termoelektrarna Brestanica d.o.o.
TEŠ	Termoelektrarna Šoštanj d.o.o.
TET	Termoelektrarna Trbovlje d.o.o.
TJ	Terajoule
TP	Technological platform
TPP	Thermal power plant
TSO	System operator of transmission networks
TWH	Terawatt hour
UMAR	Slovenian Institute of Macroeconomic Analysis and Development
UPIS	Management information system
USD	US dollar
UVK	Competition Protection Office
VAT	Value added tax
ZFPPIPP	Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act
ZGD	Companies Act
ZGO	Construction Act
ZJNVETPS	Public Procurement in Water Management, Energy, Transport and Postal Services Act
ZPKEPS	Governing the Conditions of the Concession for the Exploitation of Energy Potential of the Lower Sava River 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

ZRFR	Association of Accountants, Treasurers and Auditors of Slovenia
ZSDH	Slovenian Sovereign Holding Act
ZSDU	Worker Participation in Management Act
ZUPEVIP	Act on Spatial Planning of Energy Infrastructure
ZUPUDPP	Act regarding the siting of spatial arrangements of national significance in physical space

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